



2018 ANNUAL REPORT

株洲中车时代电气股份有限公司

ZHUZHOU 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				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Revenue	15,657,900	15,143,709	14,657,820	14,800,035	12,676,197
Operating profit	2,942,893	2,816,361	2,971,620	3,270,376	2,485,808
Total profit	2,967,131	2,874,309	3,320,250	3,456,495	2,754,914
Net profit	2,650,535	2,562,210	2,902,686	2,978,237	2,392,009
Net profit attributable to Shareholders of the Parent	2,612,488	2,523,471	2,893,142	2,965,278	2,394,818
Non-controlling interests	38,047	38,739	9,544	12,959	(2,809)
Basic earnings per share (RMB Yuan/share)	RMB2.22	RMB2.15	RMB2.46	RMB2.52	RMB2.04

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

	As at 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Total assets	29,034,522	26,649,648	23,735,276	22,932,182	16,924,904
Total liabilities	8,911,008	8,593,083	7,664,369	8,914,713	5,754,138
Net assets	20,123,514	18,056,565	16,070,907	14,017,469	11,170,766



Chairman's Report

Dear Shareholders,

I am pleased to present the annual report of the Company for the year ended 31 December 2018. 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 2018 amounted to RMB15,657.9 million (2017: RMB15,143.7 million), representing an increase of 3.4% year-on-year. Net profit attributable to Shareholders of the Parent amounted to RMB2,612.5 million (2017: RMB2,523.5 million), representing an increase of 3.5% year-on-year. Basic earnings per share amounted to RMB2.22 (2017: RMB2.15), representing an increase of 3.3% year-on-year.

The Board considered and approved the profit distribution plan for 2018 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

Railway development is the prerequisite of a country's transport capability. In 2018, fixed-asset investment in China's railway remained at the high level as evidenced by the commencement of operation of the Guangzhou-Shenzhen-Hong Kong High Speed Rail as well as the roll-out of the "Eight Vertical and Eight Horizontal" high speed railway network. The Group focused on its core strategic goal to launch the "Three-year Action Plan (2018-2020)" in full swing, thereby achieving progress amid stability.

In respect of the traction systems for locomotives, the Company has secured its foothold in the market with power head EMUs delivered in batches and put into operation; and actively promoted new products such as big data and expert diagnosis systems, passing no-voltage sectors by electronic switching as well as automatic driving systems for locomotives.

In respect of the traction systems for electric multiple units, the Company delivered China's standard electric multiple units with a speed of 350km/h in batches and the prototype of China's standard electric multiple units with a speed of 250km/h was loaded and achieved smooth running.

In respect of the urban rail transit, newly secured orders throughout the year hit another record high with market share of traction system products topping the industry; and several batch orders were secured for the permanent magnet traction system.

In respect of railway engineering machinery, the Company struck a balance among delivery of products, R&D of new products and marketing promotion and secured a batch order for rapid rail change cars and multi-platform railcars. The Company completed business integration and established a joint venture with CRRC Taiyuan.

In respect of signal & communication products, transit signal system "went out of Hunan" for the first time and self-owned ATP was first installed and utilized in the China's standard electric multiple units with a speed of 250km/h.

In respect of parts and components, press pack IGBT and IGBT module for automobiles secured bulk sales and IGCT landed a batch order.

In respect of new industries, products of Shanghai SMD were launched and domestic market was steadily expanded. The Company delivered electric drive system for EVs in batches and established a joint venture with German Hofer.

Chairman's Report



In the past year, the Company optimised its corporate operation management system through the IPD system and comprehensive budget management. Therefore, it can be more focused on realising its strategic objectives, responsibilities of various processes have been more clearly defined, and our management mode has become more refined and detailed.

Outlook

In 2019, China Railway Corporation will continue to deepen its reform and focus on bolstering the nation's weakness in railway infrastructure. Thus, we expect a steady increase in railway investment. The Group will further implement the "three-year action plan", build a management system that adapts to the current competition situation, adhere to the development strategy of concentric diversification, seek robust growth in the rail transit business and general competition businesses, and make a breakthrough in the top five incremental industries, thereby building a more stable development structure.

In respect of traction systems for locomotives and electric multiple units: the Company is fully committed to guaranteeing the batch delivery of power head EMUs and the China's standard electric multiple unit products with a speed of 250km/h. It will aggressively explore the inter-city market, new railway markets and overseas market.

In respect of urban rail transit, the Company will adhere to the philosophy of "operating cities" and develop tailored strategies based on the characteristics of different cities. It aims to lead the development in this industry and market through permanent magnet technology and facilitate breakthrough in relevant industries.

In respect of railway engineering machinery, the Company will concentrate on technology innovation, market exploration and quality control, with a view to enhancing efforts in promotion and bulk supply capacity of new products.

In respect of signal & communication products, the Company will focus on developing CBTC systems for urban rail transit in major cities and strengthen its market presence. It will continue to seek expansion in the national railway market and consolidate the position of LKJ and ATP in the market.

In respect of parts and components, the Company will strive to increase the market share of its IGBT products and promote batch application of the SiC module.

In respect of new industries, the Company will strive to boost the marine engineering business by coordinating resources at home and abroad and make greater efforts to expand in the domestic market. It aims to complete the construction of independent factories for electric drive systems for EVs and enhance its delivery capacity.

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
26 March 2019

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

	2018 (RMB million)	2017 (RMB million)
Locomotives	2,397.3	2,692.1
Electric Multiple Units	3,715.7	3,438.0
Metropolitan rail transportation equipment	3,149.5	2,579.4
Railway maintenance machineries related products	3,176.7	3,041.1
Signal & communication products	788.7	652.6
Key electric system and component products	1,690.6	1,763.8
Marine engineering products and others	739.4	976.7
Total revenue	15,657.9	15,143.7

The Group's revenue increased by RMB514.2 million or 3.4% from RMB15,143.7 million for the year ended 31 December 2017 to RMB15,657.9 million for the year ended 31 December 2018.

In 2018, the Group's revenue was mainly derived from metropolitan rail transportation equipment and Electric Multiple Units. Of which, metropolitan rail transportation equipment recorded higher growth than other products, representing an increase of RMB570.1 million as compared to last year, which was mainly due to the delivery of Wuhan Metro Line 7, Zhengzhou Metro Line 5 and other products. This was followed by Electric Multiple Units, which increased by RMB277.7 million from last year, mainly due to product delivery of the China standard electric multiple units.

COST OF SALES

The Group's cost of sales increased by 2.7% from RMB9,529.0 million for the year ended 31 December 2017 to RMB9,790.2 million for the year ended 31 December 2018. 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 4.5% from RMB5,614.7 million for the year ended 31 December 2017 to RMB5,867.7 million for the year ended 31 December 2018. The Group's gross profit margin increased from 37.1% for the year ended 31 December 2017 to 37.5% for the year ended 31 December 2018. The increase in gross profit margin was mainly due to the change of product sales mix.

SELLING EXPENSES

Selling expenses of the Group increased by 40.5% from RMB820.0 million for the year ended 31 December 2017 to RMB1,152.5 million for the year ended 31 December 2018. The increase in selling expenses was mainly due to the increase in product provisions as compared to last year.

Management Discussion and Analysis

ADMINISTRATIVE EXPENSES

The Group's administrative expenses increased by 14.8% from RMB680.0 million for the year ended 31 December 2017 to RMB780.6 million for the year ended 31 December 2018. The increase in administrative expenses was due to the increase in fixed management costs of the Group in 2018.

RESEARCH AND DEVELOPMENT EXPENSES

The Group's research and development expenses increased by 6.3% from RMB1,357.3 million for the year ended 31 December 2017 to RMB1,443.0 million for the year ended 31 December 2018. The increase in research and development expenses was due to the increase in investment in research and development of the Group in 2018.

FINANCE COSTS

The Group's finance costs increased by RMB7.2 million from negative RMB31.8 million for the year ended 31 December 2017 to negative RMB24.6 million for the year ended 31 December 2018. The increase in finance costs was mainly due to the decrease in exchange gains from exchange rate fluctuations of the Group in 2018.

ASSET IMPAIRMENT LOSSES

The Group's asset impairment losses decreased by RMB237.7 million from RMB133.7 million for the year ended 31 December 2017 to negative RMB104.0 million for the year ended 31 December 2018. The decrease in asset impairment losses was mainly due to the decrease in provision for inventory depreciation as compared to last year and the inclusion of bad debt losses on receivables into credit impairment losses in accordance with relevant requirements of the Enterprise Accounting Standards.

CREDIT IMPAIRMENT LOSSES

The Group's credit impairment losses for the year ended 31 December 2018 were RMB5.2 million, which represented the Group's provision for bad debts for receivables with signs of impairment.

OTHER INCOME

The Group's other income increased by RMB124.9 million from RMB253.4 million for the year ended 31 December 2017 to RMB378.3 million for the year ended 31 December 2018. The increase in other income was mainly due to the increase in refunds of technology project fund.

INVESTMENT INCOME

The Group's investment income increased by RMB41.5 million from RMB38.1 million for the year ended 31 December 2017 to RMB79.6 million for the year ended 31 December 2018. The increase in investment income was mainly due to the increase in gains from the Group's bank wealth management products in 2018.

Management Discussion and Analysis

GAINS (LOSSES) ON FAIR VALUE CHANGES

The Group did not incur gains or losses on fair value changes in 2018 while those in 2017 were RMB6.1 million.

GAINS (LOSSES) ON DISPOSAL OF ASSETS

The Group's gains (losses) on disposal of assets increased by RMB2.7 million from loss on disposal of assets of RMB1.3 million for the year ended 31 December 2017 to gain on disposal of assets of RMB1.4 million for the year ended 31 December 2018.

NON-OPERATING INCOME

The Group's non-operating income decreased by RMB55.4 million from RMB81.7 million for the year ended 31 December 2017 to RMB26.3 million for the year ended 31 December 2018.

NON-OPERATING EXPENSES

The Group's non-operating expenses decreased by RMB21.7 million from RMB23.8 million for the year ended 31 December 2017 to RMB2.1 million for the year ended 31 December 2018.

TOTAL PROFIT

The Group's total profit increased by 3.2% from RMB2,874.3 million for the year ended 31 December 2017 to RMB2,967.1 million for the year ended 31 December 2018. The increase in total profit was mainly due to the increase in revenue of the Group in 2018. The Group's sales profit margins for the years ended 31 December 2017 and 31 December 2018 were 19.0% and 18.9% respectively.

INCOME TAX EXPENSE

The Group's income tax expense increased by 1.4% from RMB312.1 million for the year ended 31 December 2017 to RMB316.6 million for the year ended 31 December 2018.

The Company, Times Electronics, Ningbo Times, Shenyang Times, Qingdao Electric, ZNERCC 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 they were entitled 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 2017 and 31 December 2018 were 10.9% and 10.7% respectively.

Management Discussion and Analysis

NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT

Net profit attributable to Shareholders of the Parent increased by 3.5% from RMB2,523.5 million for the year ended 31 December 2017 to RMB2,612.5 million for the year ended 31 December 2018. The increase in the net profit attributable to Shareholders of the Parent was mainly due to the increase in revenue of the Group in 2018.

NON-CONTROLLING INTERESTS

Non-controlling interests decreased by RMB0.7 million from RMB38.7 million for the year ended 31 December 2017 to RMB38.0 million for the year ended 31 December 2018. The decrease in non-controlling interests was mainly due to the decrease in net profit from the Group's non-wholly owned subsidiaries as compared to last year.

EARNINGS PER SHARE

Earnings per share increased by RMB0.07 from RMB2.15 for the year ended 31 December 2017 to RMB2.22 for the year ended 31 December 2018.

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 increase in cash and cash equivalents of the Group amounted to RMB958.8 million for the current year.

Net cash inflows from operating activities

The Group's net cash inflow from operating activities increased by RMB2,289.4 million from RMB1,469.2 million for the year ended 31 December 2017 to RMB3,758.6 million for the year ended 31 December 2018, which was mainly due to the increase in the cash received from sale of goods or rendering of services by the Group as compared to last year.

Net cash outflows from investing activities

For the year ended 31 December 2018, the Group's net cash outflow from investing activities was approximately RMB2,350.4 million, which principally includes the cash received from disposal or returns of investments of RMB10,700.0 million, the cash paid for acquisition of investments of RMB12,458.8 million, and the cash paid for acquisition of fixed assets, intangible assets and other long-term assets of RMB671.4 million.

Net cash outflows from financing activities

For the year ended 31 December 2018, the Group's net cash outflow from financing activities was approximately RMB451.6 million. The cash outflow item in financing activities was mainly the amount of RMB553.4 million of cash paid for distribution of dividend or profits and for interest expenses.

Management Discussion and Analysis

LIQUIDITY

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

COMMITMENTS

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

	31 December 2018 <i>(RMB million)</i>	31 December 2017 <i>(RMB million)</i>
Contracted but not provided for		
Capital commitments	385.5	186.5
Investments in subsidiaries	27.5	–
Total	413.0	186.5

INDEBTEDNESS

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

	31 December 2018 <i>(RMB million)</i>	31 December 2017 <i>(RMB million)</i>
Short-term borrowings	168.2	202.4
Long-term borrowings (inclusive of amounts due within one year)	237.3	102.0
Total	405.5	304.4

The Group's borrowings were mainly fixed rate loans.

Maturity analysis:

	31 December 2018 <i>(RMB million)</i>	31 December 2017 <i>(RMB million)</i>
Due within 1 year	173.1	205.0
Due within 1 to 2 years	5.1	6.7
Due within 2 to 5 years	154.6	15.0
Due over 5 years	72.7	77.7
	405.5	304.4

Management Discussion and Analysis

INDEBTEDNESS (continued)

As at 31 December 2018, the annual interest rates for loans above were 2.15%-4.92% (31 December 2017: 0-4.92%).

Pursuant to the relevant borrowing agreements, the loans amounting to RMB139.3 million on 31 December 2018 (31 December 2017: RMB204.1 million) were entitled to priority to be repaid with certain assets if the Group is incapable of repayment. The carrying amount of such assets as at 31 December 2018 and 31 December 2017 were RMB247.6 million and RMB332.5 million respectively.

PLEDGE

As at 31 December 2018, no fixed assets (31 December 2017: nil) was pledged to secure general banking facilities granted to the Group.

As at 31 December 2018, the Group pledged no land use rights (31 December 2017: 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 2018 and in 2017.

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 the net amount of financial liabilities at fair value through profit or loss, all borrowings, bills payable and trade payables, employee benefits payable, other taxes payable excluding income tax payable, other payables and long-term payables, less cash and cash equivalents. Capital includes equity attributable to Shareholders of the Parent. The Group's gearing ratio was 15.2% as at 31 December 2017 and 11.7% as at 31 December 2018.

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.

CANCELLATION OF SUBSIDIARIES

In May 2018, Times Equipment, a wholly-owned subsidiary of the Company, was merged by the Company. The related industrial and administrative registration is finished on 15 May 2018.

Management Discussion and Analysis

NON-CONTROLLING SHAREHOLDERS INCREASE CAPITAL AND LOSE CONTROL

The Company originally held an equity of 51% of Wenzhou Electric and had control over it. In May 2018, as approved by the extraordinary general meeting of Wenzhou Electric, Wenzhou Electric, a subsidiary originally included in the Group's consolidation scope, completed capital increase, the original minority shareholders added investments by means of cash and re-elected the board of directors. The Company no longer has control over Wenzhou Electric. According to the new joint venture agreement, Wenzhou Electric has become the Company's joint venture and subsequently accounted under equity method. The change of industrial and commercial registration was completed on 24 May 2018. Since then, the Group will no longer include Wenzhou Electric in the consolidation scope. At the date of loss of control over Wenzhou Electric, the balance of cash and cash equivalents was RMB30.7 million, the value of residual stock right was RMB15.8 million, which is subsequently accounted under equity method.

POST BALANCE SHEET EVENTS

On 26 March 2019, the 8th meeting of the fifth session of the Board of the Company approved the profit distribution plan for 2018 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.

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. 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).

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 December 2018, 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.

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 and the UK Pound sterling. 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.

Policy Risk

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

Management Discussion and Analysis

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 52, 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 has been a director, the general manager and deputy Party secretary of CRRC ZELRI from December 2015 to May 2018, and has been the chairman of the board of directors of Times New Materials from February 2016 to August 2018, 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 has been 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 56, 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 then 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 48, 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 52, an executive Director, a vice general manager and the secretary to the Board 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 and a vice general manager of the Company in June 2012. 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 55, 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 had 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 61, 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 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 and will be a non-executive director of the Securities and Futures Commission of Hong Kong (SFC) in May 2019 as announced by the Hong Kong government on March 2019. Mr. Chan has been an independent non-executive Director of the Company since September 2005.

Directors, Supervisors and Senior Management



Pao Ping Wing, aged 72, 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 48, 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 56, 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 42, 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. Since June 2015, Mr. Gao has been a director of Beijing Tsingsoft Technology Co., Ltd.* (北京清軟創新科技股份有限公司), a company (stock code: 833852) whose shares are traded on New OTC Market in China. Mr. Gao has been an independent non-executive Director of the Company since August 2018.

SUPERVISORS



Xiong Ruihua, aged 50, the Chairman of the Supervisory Committee and a supervisor. Mr. Xiong is a senior economist. Mr. Xiong joined CRRC ZELRI in 1993 and has held various positions as secretary of the Communist Youth League, deputy director, acting director, and director of the Audit Department of CRRC ZELRI. He served as the chief financial officer and the secretary of the board of Times New Materials from February 2004 to December 2007, deputy secretary of Party discipline inspection commission and director of the audit and supervision committee of CRRC ZELRI from December 2007 to November 2008, deputy secretary of Party discipline inspection commission of CRRC ZELRI from December 2008 to December 2009, deputy officer and director of the Audit and Risk Department of CSR from January 2010 to December 2011, Party secretary and deputy general manager of Times New Materials from January 2012 to November 2013 and the vice general manager and chief financial officer of CRRC ZELRI since December 2013. Mr. Xiong has been a director of Times New Materials since April 2014. Mr. Xiong graduated with a bachelor's degree in Accounting from Hunan University, and obtained his master's degree in Enterprise Management and Information Systems from Wuhan University in May 2009. Mr. Xiong has been the Chairman of the Supervisory Committee and a supervisor of the Company since June 2014.

Directors, Supervisors and Senior Management



Pang Yiming, aged 55, 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 has been the general manager of the printed circuit business department of the Company from January 2012 to July 2016. He has been 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 55, 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 65, an independent supervisor. Mr. Geng has been a teacher at the Department of Accounting of Renmin University of China since 1993 and is currently a professor and a doctoral supervisor. 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 48, an executive Director and the general manager. Biographical details of Mr. Liu are set out above.



Niu Jie, aged 51, 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 54, a vice general manager. Mr. Liu is an executive director of Ningbo Times and 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 49, 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 CRRZ 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 CRRZ 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 CRRZ ZELRI from December 2005 to December 2007, and director of administration office and director of secretary office of decision-making committee of CRRZ 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 has been the chief administration officer and the chairman of the labour union of the Company from January 2010 to January 2018, and 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 52, an executive Director, a vice general manager and the secretary to the Board. Biographical details of Mr. Yan are set out above.



Zhang Hua, aged 43, 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 CRRZ ZELRI in 1998 and served as accountant and accounting manager. She served as a director of financial assets department of CRRZ 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 51, a vice general manager. Mr. Yan is a director of Shanghai CRRR Rail Transit, Qingdao Electric, Wenzhou Electric, Lanzhou Times, Shiling and Zhuzhou Siemens. Mr. Yan is a senior engineer. He joined CRRR 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 CRRR 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 54, a vice general manager. Mr. Yu is the chairman of the board of directors of Guangzhou Times and CRRR Wabtec, and an executive director of Shenyang Times, Kuming Times and Chengdu Times and a director of Hangzhou Electric and Shanghai Shentong CRRR. Mr. Yu is a senior engineer. He joined CRRR 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 has been 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 42, 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 CRRR 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 CRRR 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 CRRR 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 44, a vice general manager. Mr. Zhang is the chairman of the board of directors of Baoji Times and Taiyuan Times and an executive director of Times Electronics. Mr. Zhang is a senior engineer. He joined CRRC ZELRI in August 1998 and has held 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 has been 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 has been 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 has been 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 41, 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 has been 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 43, a vice general manager. Mr. Liu is a senior engineer with professorship. Mr. Liu joined CRRC ZELRI in November 2002. He has held 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

COMPANY SECRETARY



Tang Tuong Hock, Gabriel, aged 66, 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 Shareholder value 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 2018, the Company has fully complied with all the code provisions of the CG Code, except for code provision A.6.7 as set out below.

Due to other important commitments, Mr. Zhang Xinning, a non-executive Director of the Company and Ms. Liu Chunru, an independent non-executive Director of the Company did not attend the annual general meeting for 2017 of the Company on 8 June 2018, which constituted a deviation from the requirement of code provision A.6.7.

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 Company's 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 general regulations and standards required by 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.

On 12 July 2018, (1) Mr. Li Donglin was redesignated as the Chairman of the Board, appointed as the chairman and a member of the strategy committee and the chairman and a member of the nomination committee of the Company and ceased to be the chairman of the risk control committee of the Company; (2) Mr. Yang Shouyi was appointed as the Vice Chairman of the Board, an executive Director, the chairman and a member of the risk control committee of the Company and a member of the strategy committee of the Company. Mr. Gao Feng was appointed as an independent non-executive Director, a member of each of the strategy committee and the audit committee of the Company from 17 August 2018.

On 25 March 2018, due to other personal commitment, Mr. Ouyang Minggao resigned as an independent non-executive Director, a member of the strategy committee and a member of the audit committee of the Company. On 12 July 2018, due to adjustment in work allocation, Mr. Ding Rongjun resigned as the Chairman of the Board, an executive Director, the chairman and a member of each of the strategy committee and the nomination committee of the Company.

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. The period of notice of termination of the service contracts given by either party shall not be less than three months.

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 of the Company 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 Meetings and Directors' Attendances at Board Meetings

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 meetings held during the reporting period.

Name	Title	Attendances at the Board meetings	Attendances at the general meetings
Li Donglin	Chairman of the Board and Executive Director	8/8	0/1
Yang Shouyi (Note 1)	Vice Chairman of the Board and Executive Director	5/5	0/0
Liu Ke'an	Executive Director	8/8	0/1
Yan Wu	Executive Director	8/8	1/1
Zhang Xinning (Note 2)	Non-Executive Director	8/8	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 (Note 2)	Independent non-Executive Director	8/8	0/1
Chen Xiaoming (Note 3)	Independent non-Executive Director	7/8	1/1
Gao Feng (Note 4)	Independent non-Executive Director	4/4	0/0
Ding Rongjun (Note 5)	Chairman of the Board and Executive Director	3/3	1/1
Ouyang Minggao (Note 6)	Independent non-Executive Director	0/0	0/0

Note 1: Mr. Yang Shouyi was appointed as the Vice Chairman of the Board and an executive Director of the Company on 12 July 2018.

Note 2: Due to other important commitments, Mr. Zhang Xinning, a non-executive Director and Ms. Liu Chunru, an independent non-executive Director, did not attend the annual general meeting for 2017 of the Company on 8 June 2018.

Note 3: Mr. Chen Xiaoming appointed Mr. Pao Ping Wing as his representative to attend the fourth meeting of the fifth session of the Board held on 26 March 2018.

Note 4: Mr. Gao Feng was appointed as an independent non-executive Director of the Company on 17 August 2018.

Note 5: Mr. Ding Rongjun resigned as the Chairman of the Board and the executive Director of the Company on 12 July 2018.

Note 6: Mr. Ouyang Minggao was appointed as an independent non-executive Director of the Company on 18 August 2017 and resigned as an independent non-executive Director of the Company on 25 March 2018.

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 who held office at the material time 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 2018 are as follows:

Executive Directors

Li Donglin	A, B, D, E
Yang Shouyi	B, D, E
Liu Ke'an	A, B, D, E
Yan Wu	A, B, D, E
Ding Rongjun	A, B, D

Non-Executive Directors

Zhang Xinning	A, B, D, E
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Independent non-Executive Directors

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

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

- A. Attending trainings on value assessment by directors in acquisition or disposal transactions 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
- E. Attending online trainings for directors of listed issuers in relation to the newly revised Listing Rules effective from 1 January 2019 launched by the Hong Kong Stock Exchange.

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 control 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.

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 all of the Shareholders.

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 domicile.

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 request the general manager to request, or through the general manager request, the Company's relevant department to provide him/her with any necessary information and explanation to enable him/her to make scientific, timely and prudent decisions. If any of the independent non-executive Directors considers necessary, an independent institution can be engaged to provide independent opinions to assist 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.

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. Mr. Li Donglin was appointed as the chairman of the strategy committee on 12 July 2018. Mr. Yang Shouyi was appointed as a member of the strategy committee on 12 July 2018. Mr. Gao Feng was appointed as a member of the strategy committee on 17 August 2018. Mr. Ouyang Minggao resigned as a member of the strategy committee on 25 March 2018. Mr. Ding Rongjun resigned as the chairman and a member of the strategy committee on 12 July 2018.

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 who held office at the material time. 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. Mr. Ouyang Minggao resigned as a member of the audit committee on 25 March 2018. Mr. Gao Feng was appointed as a member of the audit committee on 17 August 2018.

The main responsibilities of the audit committee are: to consider and supervise the financial reporting processes and internal control procedures of the Company, to exercise its authority to guide and supervise internal audits; and to make recommendations on the appointment 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 discussed issues concerning the Company's annual results, interim results, quarterly results, connected transactions, internal audit and internal monitoring 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 (Note 1)	3/4
Gao Feng (Note 2)	1/1
Ouyang Minggao (Note 3)	0/0

Note 1: Mr. Chen Xiaoming appointed Mr. Pao Ping Wing as his representative to attend the third meeting of the audit committee of the fifth session of the Board held on 25 March 2018.

Note 2: Mr. Gao Feng was appointed as a member of the audit committee on 17 August 2018.

Note 3: Mr. Ouyang Minggao was appointed as a member of the audit committee of the Company on 18 August 2017 and resigned as a member of the audit committee on 25 March 2018.

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



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. Mr. Yang Shouyi was appointed as the chairman and a member of the risk control committee on 12 July 2018. Mr. Li Donglin ceased to be the chairman and a member of the risk control committee from 12 July 2018.

The main responsibility of the risk control committee is to establish, 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 who held office at the material time. At such meeting, the committee mainly discussed issues concerning corporate governance report and internal control of the Company.

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 that the nomination committee and remuneration committee 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 the terms of the remuneration packages of individual Directors and senior management, and to make recommendations 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 2018, the remuneration of senior management fell within the following bands:

HKD1,000,000 or below	4
HKD1,000,001 – HKD2,000,000	11

Further details required to be disclosed in respect of the remuneration of Directors, supervisors, general manager and five highest paid employees under Appendix 16 to the Listing Rules are set out in Note X.5(11) 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 three meetings during the reporting period. Remuneration of the Directors and the senior management 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	3/3
Liu Chunru	3/3
Chen Xiaoming (Note)	2/3

Note: Mr. Chen Xiaoming appointed Mr. Pao Ping Wing as his representative to attend the second meeting of the remuneration committee of the fifth session of the Board held on 26 March 2018.

e. Nomination committee

The nomination and remuneration committee was separated and changed its name 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 and a member of the nomination committee on 12 July 2018. Mr. Ding Rongjun resigned as the chairman and a member of the nomination committee on 12 July 2018.

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 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.



Corporate Governance Report

III. BOARD OF DIRECTORS (continued)

5. Committees of the Board (continued)

e. Nomination committee (continued)

During the reporting period, the Company held four nomination committee meetings. Re-appointment of Directors, senior management, recommendation of candidates for Directors, 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:

Ding Rongjun (Note 1)	2/2
Li Donglin (Note 2)	1/1
Pao Ping Wing	4/4
Liu Chunru	4/4

Note 1: Mr. Ding Rongjun resigned as the chairman and a member of the nomination committee on 12 July 2018.

Note 2: Mr. Li Donglin was appointed as the chairman and a member of the nomination committee on 12 July 2018.

f. Corporate governance functions

The Board is responsible for the following corporate governance functions:

- i. to draw up and review the Company's corporate governance policy and practices and make recommendations;
- ii. to review and monitor the training and professional development on an ongoing basis of the Directors and senior management members;
- iii. to review and monitor the Company's policies and practices on compliance, laws and regulations;
- iv. to draw up, review and monitor any code of conduct and compliance manual, where appropriate, applicable to employees and Directors; and
- v. 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 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 writing. 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 exercises the following powers:

- (1) to preside at general meetings, and to convene and preside at Board meetings;
- (2) to supervise and check 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 have the following powers:

- (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 establish 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 and 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

With effect from the close of the annual general meeting of the Company held on 8 June 2018, Ernst & Young Hua Ming LLP ("Ernst & Young Hua Ming") retired as the auditor of the Company. On 8 June 2018, Deloitte Touche Tohmatsu Certified Public Accountants LLP ("Deloitte Touche Tohmatsu") was appointed as the auditor of the Company. For the year ended 31 December 2018, the services provided by Deloitte Touche Tohmatsu and the remuneration are as follows:

	For the year ended 31 December 2018 (RMB'000)
Service provided:	
Audit Service	3,070
Other Services	142



Corporate Governance Report

X. DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL REPORTS

The Directors confirm that they are responsible 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 2018.

The Directors also confirm 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 2018 as required under Rule 3.29 of the Listing Rules.

XII. CONSTITUTION

During the reporting period, in accordance with the requirements of the Notice on Inclusion of Matters Related to Party Construction of Central Enterprises in the Articles of Associations issued by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC and taking into account the actual situation of the Company, the Company made amendments to the Articles, which were passed by way of a special resolution at the 2017 annual general meeting of the Company held on 8 June 2018. For details, please refer to the circular of the Company dated 23 April 2018 and the amended Articles effective from 8 June 2018.

XIII. RISK MANAGEMENT AND INTERNAL CONTROL

The Board 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. The Company has a sound organization system of internal control and has established the audit and risk control department with internal audit functions. 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 and risk prevention and management, supervises and timely rectifies internal control deficiencies and effectively controls operating risks.

The Company continues to strengthen its risk management systems and further enhances its risk control capability by deeply developing comprehensive risk management. At present, the Company has a relatively sound risk management system. Through the integration and optimization of management systems, the Company has strengthened the risk control capability and effectively controlled the risk points across various businesses. On this basis, the Company implements annual risk assessment, the Company has developed its rolling risk database by formulating risk assessment plans, collecting and identifying risk information and organizing review by five professional risk management groups, it has also organized the risk management plans and conducted risk response and tracking, thereby developing a constant mechanism for risk management.

Corporate Governance Report

XIII. RISK MANAGEMENT AND INTERNAL CONTROL (continued)

The Company has a stable and reliable internal monitoring system in place. During the reporting period, the Company put great emphasis on the constant internal control of various businesses and fully implemented rectification of internal control deficiencies in prior years; focused on supervision of research and development, manufacture, procurement, sales, finance management, strategy management, after-sale service and other operations and persistently made use of various control measures, including control on separation of incompatible posts, authorization approval, property protection, budget control, operation analysis and performance appraisal, to maintain risk control within tolerable bounds. The Company has had no material monitoring failure during the year with annual internal monitoring evaluation to ensure the effective operation and appropriate implementation of internal monitoring systems. The Company has effective procedures in relation to financial reporting and compliance with requirements of the Listing Rules.

The risk management and internal monitoring systems of the Company are effective and sufficient to allow the continuing protection and improvement of the Company's internal control activities and ensure the Company's ability to withstand changes in internal business and external environment from financial, operational, compliance and risk control perspectives, so as to safeguard the Company's asset and interests of Shareholders.

XIV. SHAREHOLDERS' RIGHTS

1. Convening extraordinary general meetings

In accordance with the Articles and the rules of procedures of general meetings, Shareholder(s) who 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 to the extent such information is publicly available. Any relevant questions shall be first directed to the company secretary at the Company's principal place of business in Hong Kong or the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

3. Putting proposals to general meetings

Shareholder(s) who 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 1 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.



Corporate Governance Report

XV. INVESTOR RELATIONS

The Company places great emphasis on communication with investors and has established 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 2018.

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 MODEL AND DIRECTION OF STRATEGY

In line with the strategy of "efficient organisation and global operation", the Company has made continuous efforts to consolidate its rail transit business and develop new non-rail businesses innovatively. Adhering to the market-oriented principle of development and focusing on the top five priorities of "internationalisation, diversification, high-end orientation, digitalization and coordination", the Company implemented the "three-year action plan", striving to expand its businesses scale continuously, create sustainable value for the Shareholders, realise all the goals of the 13th five-year plan and achieve sustainable development for the Company.

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

1. Leveraging our platform advantages to consolidate our core business status of rail transit

By leveraging the platform advantages it has in the railway industry, the Company aims to take its overhaul and maintenance business to a new level and explore new kinds of markets with a view to achieving business growth; establish advantages in the urban railway industry by integrating R&D, market operation and brand services, coordinate internal and external resources and adjust its market competition strategy so that we can offer comprehensive solutions to our customers; enhance the synergy of "systems + overall units + service" in the business of railway engineering machinery, accelerate the research on key technologies relating to overall units and systems, develop new types of vehicles and enrich the product mix of railway engineering machinery, so as to achieve future business growth.

2. Further expanding businesses and making a breakthrough in the five incremental industries

In the field of signal & communication products, the Company will further consolidate our position in the market of trunk railways and plot a strategy for developing major markets of urban rail signal products, thereby bringing about a transformation of our signal and communication business. For the semiconductor business, the Company aims to rapidly enhance its development capabilities and boost market share and proportion of overseas sales. For the business of drive for EVs, it strives to foster and improve its batch delivery capability, strengthen strategic cooperation, quickly occupy a favorable position in the industry, and develop products and technologies that can meet market demands. It aims to become a key player in the niche market of industrial converters by cultivating differentiated competition strengths, developing alternatives to high-end benchmark products and enhancing overall capabilities for low-cost operation management. It also aims to gain core competitive edge in the sensors market, grasp the trend of intellectualization, build overall competitive strengths in apparatus and systems, and seize the opportunities in the development of automotive industry, thereby laying a solid foundation for further growth.



Directors' Report

3. Enhancing multi-dimension synergy and boosting development in the international arena

Targeting major markets in the world, the Company will accelerate its pace of internationalisation, build an overseas platform, implement a differentiated competitive strategy for different industries and regions, and strengthen its capability of coordinating resources from around the world, so as to make a breakthrough in the overseas market. It aims to enhance synergy between the marine engineering equipment business in the UK and that in the PRC, make special efforts to improve internal operation efficiency and cost control, strengthen the establishment of the engineering R&D management system, and promote the upgrading of core product technologies and the progress of key projects to meet evolving market needs.

RESULTS AND DIVIDENDS

Results of the Group for the year ended 31 December 2018, prepared in accordance with the PRC Accounting Standards, are set out on page 66 to page 257 of this annual report.

The Company has profit attributable to Shareholders (before proposed final dividend) of RMB10,568.4 million as at 31 December 2018, 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 20 June 2019.

In order to determine the entitlements of Shareholders to attend the forthcoming annual general meeting to be held on 20 June 2019, the register of members of the Company will be closed from 21 May 2019 to 20 June 2019 (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 20 May 2019.

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 26 June 2019 to 1 July 2019 (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 25 June 2019.

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 2018 annual general meeting to be held on 20 June 2019). If approved, the final dividends are expected to be distributed on or about 6 August 2019 to Shareholders whose names are registered on the register of members on 1 July 2019.

Directors' Report



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.10 to the financial statements.

Short-term borrowings

Details of the Group's short-term borrowings as at 31 December 2018 are set out in Note V.18 to the financial statements.

Long-term borrowings

Details of the Group's long-term borrowings as at 31 December 2018 are set out in Note V.26 to the financial statements.

Share capital

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

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:

- (a) the closing price of the H shares of the Company on the Stock Exchange on the date of grant;
- (b) 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
- (c) 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.

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 2018, the Company's profit distributable to the Shareholders calculated in accordance with relevant regulations amounted to approximately RMB10,568.4 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 52.3% 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 20.5% 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 17.9% 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 4.6% 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..

CRRC Yangtze Co., Ltd. is one of the five largest suppliers of the Group. CRRC owned 100% interest in CRRC Yangtze 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 (redesignated as the Chairman of the Board on 12 July 2018)
- Yang Shouyi – Vice Chairman of the Board (appointed as the Vice Chairman of the Board and an executive Director of the Company on 12 July 2018)
- Liu Ke'an
- Yan Wu
- Ding Rongjun – Chairman of the Board (resigned as the Chairman of the Board and an executive Director on 12 July 2018)

Non-executive Director

Zhang Xinning

Independent Non-executive Directors

Chan Kam Wing, Clement
Pao Ping Wing
Liu Chunru
Chen Xiaoming
Gao Feng (appointed on 17 August 2018)
Ouyang Minggao (appointed on 18 August 2017, resigned on 25 March 2018)

Supervisors

- Xiong Ruihua – Chairman of the Supervisory Committee
- Pang Yiming – employee representative supervisor
- Zhou Guifa – employee representative supervisor
- Geng Jianxin – independent supervisor

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 is the Chairman of the Supervisory Committee, 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 13 to page 18 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. Li Donglin was redesignated as the Chairman of the Board on 12 July 2018.

Mr. Yang Shouyi was appointed as the Vice Chairman of the Board and an executive Director on 12 July 2018.

Mr. Gao Feng was appointed as an independent non-executive Director on 17 August 2018.

Mr. Ding Rongjun resigned as the Chairman of the Board and an executive Director on 12 July 2018.

Mr. Ouyang Minggao was appointed as an independent non-executive Director on 18 August 2017 and resigned as an independent non-executive Director on 25 March 2018.

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 13 to page 23 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' Report

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

During the year and as at 31 December 2018, none of the Directors or supervisors had a material interest, whether directly or indirectly, in any 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 2018, 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.

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

During the year and as at 31 December 2018, none of the Directors, supervisors and the general manager 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 Securities and Futures Ordinance (the "SFO")), required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or any interests or short positions 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 2018, the Group had 7,905 full-time employees (including overseas subsidiaries), and the total amount of remuneration (including salaries and allowances) for employees in 2018 was approximately RMB1,991.5 million.

Directors' Report



EMPLOYEES AND REMUNERATION POLICY (continued)

During the reporting period, the Company planned and organized trainings including Trainings on Outstanding Leadership, Training for Core Technology Staff, Training for Back-up Management Staff, Study on Implementation of Strategies and Cultivation of International Talents. The Company 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, which were well received. The Company held the first micro course competition with a total of 205 micro courses launched, covering professional quality, common skills, professional management and operating skills. The intelligent study platform went online successfully, which realizes online study, online test, and the informatisation of training resources and business management, facilitates the assessment and tracking of training results, thus further standardizing the training management procedures and enhancing the training management efficiency.

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 paragraph headed "Share appreciation rights scheme" above.

STRUCTURE OF SHARE CAPITAL

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

Shareholder	Type	As at 31 December 2018	
		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%
CRCE	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: 6,673,600 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 2018 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%
CRRC Group (Note 2)	6,673,600 (Long position)	Interest in controlled entity	–	1.22%	0.57%
	608,966,468 (Long position)	Interest in controlled entity	96.95%	–	51.81%
	6,673,600 (Long position)	Interest in controlled entity	–	1.22%	0.57%
Schroders Plc	53,080,273 (Long position)	Investment manager	–	9.70%	4.52%
Citigroup Inc.	42,512,519 (Long position)	Interest in controlled entity	–	7.76%	3.62%
	739,200 (Short position)	Interest in controlled entity	–	0.14%	0.06%
	35,193,179 (Lending pool shares – Long position)	Approved lending agent	–	6.43%	2.99%
Pandanus Associates Inc. (Note 3)	40,512,500 (Long position)	Interest in controlled entity	–	7.40%	3.45%
Pandanus Partners L.P. (Note 3)	40,512,500 (Long position)	Interest in controlled entity	–	7.40%	3.45%
FIL Limited (Note 3)	40,512,500 (Long position)	Interest in controlled entity	–	7.40%	3.45%
BlackRock, Inc.	29,294,996 (Long position)	Interest in controlled entity	–	5.35%	2.49%
	9,023,900 (Short position)	Interest in controlled entity	–	1.65%	0.77%

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 6,673,600 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 51.43% 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 40,512,500 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 40,512,500 shares held through FIL Limited.
 - (c) The corporate substantial Shareholder notice filed by FIL Limited indicated that FIL Limited is interested in 40,512,500 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 2018, 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 RMB2,093.2 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 RMB6,703.8 million, and both were within the aggregate annual caps of continuing connected transactions for the financial year ended 31 December 2018 approved by independent Shareholders at the annual general meeting held on 23 June 2016.

The Financial Services Framework Agreement with CRRC Finance

On 29 December 2017, the Company and CRRC Finance entered into the 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 2017 to 30 December 2018. Please refer to the Company's announcement dated 29 December 2017 for details, which included information on the connected relationship between the Company and the counterparty to the aforesaid agreement.

The CRRC Financial Services Framework Agreement expired on 30 December 2018. On 28 December 2018, the Company and CRRC Finance entered into the 2018-19 CRRC Financial Services Framework Agreement (together with the 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 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.

For the year ended 31 December 2018, the maximum daily amount of the Group's deposits with CRRC Finance under the Financial Services Framework Agreements was RMB695 million, which was within the respective maximum daily caps of continuing connected transaction for the financial year ended 31 December 2018 provided for by the Financial Services Framework Agreements. For the year ended 31 December 2018, 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.



CONTINUING CONNECTED TRANSACTIONS (continued)

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.

For the year ended 31 December 2018, 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 RMB0.1 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 RMB8.5 million, and both were within the relevant aggregate annual caps of continuing connected transactions for the financial year ended 31 December 2018 provided for in the 2017-19 Qingdao Mutual Supply Agreement.

Mutual Supply Agreement with China Railway

As at the date of this report, the Company owns 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")) owns 14.2% equity interest in Baoji Times. As China Railway Baoji Machinery is a substantial Shareholder of Baoji Times, which is a subsidiary of the Company, China Railway Baoji Machinery and its associates (including China Railway) are connected persons of the Company at the subsidiary level under the Listing Rules.

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.

For the year ended 31 December 2018, 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 RMB16.2 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 RMB65.8 million, which did not exceed the relevant annual aggregate caps for the continuing connected transactions for the financial year ended 31 December 2018 as agreed in the 2017-19 China Railway Mutual Supply Agreement.

Directors' Report



CONTINUING CONNECTED TRANSACTIONS (continued)

Property Leasing Framework Agreement with CRR

On 17 August 2018, the Company and CRR (together with its subsidiaries (excluding the Group) and their respective associates, collectively, the "CRR Corporation Group") entered into the Property Leasing Framework Agreement, pursuant to which, the Company and CRR 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 2018, the rent and related fees paid by the CRR Corporation Group to the Group under the Property Leasing Framework Agreement was RMB9.2 million and the rent and related fees paid by the Group to the CRR Corporation Group under the Property Leasing Framework Agreement was RMB9.2 million, which did not exceed the relevant annual aggregate caps for the continuing connected transactions for the financial year ended 31 December 2018 as agreed in the Property Leasing Framework Agreement.

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.

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:

- (1) were entered into in the ordinary and usual course of business of the Group;
- (2) 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;
- (3) 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
- (4) did not exceed the caps of continuing connected transactions for the financial year ended 31 December 2018 provided for by the continuing connected transactions agreements above.



Directors' Report

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.

CONNECTED TRANSACTIONS

On 30 October 2018, 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 entered into the JV Agreement for the establishment of a joint venture company, Guoxin Technology in Zhuzhou, Hunan Province, the PRC with a registered capital of RMB500 million, of which the Company holds 25% equity interests with initial contribution of RMB25 million and total contribution of RMB125 million. Please refer to the announcement of the Company dated 30 October 2018 for details, which included information on the connected relationship between the Company and the counterparties to the aforesaid agreement.

On 13 December 2018, Baoji Times and CRRC Taiyuan entered into the JV Agreement for the establishment of Taiyuan Times in Taiyuan City, Shanxi Province, the PRC with a registered capital of RMB50 million, of which 55% (being RMB27.5 million) and 45% (being RMB22.5 million) would be contributed by Baoji Times and CRRC Taiyuan in cash respectively. Please refer to the announcement of the Company dated 14 December 2018 for details, which included information on the connected relationship between the Company and the counterparty to the aforesaid agreement.

MECHANISM FOR PROTECTING NON-CONTROLLING INTERESTS

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

- (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) 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.

Directors' Report



MECHANISM FOR PROTECTING NON-CONTROLLING INTERESTS (continued)

- (v) Subject to (i) 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.
- (vi) 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.

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 that 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:

- (1) 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;
- (2) 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;
- (3) 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;
- (4) 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;
- (5) 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.



Directors' Report

NON-COMPETITION AND INDEMNITY DEEDS (continued)

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 2018, 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 2018. 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 2018, 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.

POST BALANCE SHEET EVENTS

On 26 March 2019, the 8th meeting of the fifth session of the Board of the Company approved the profit distribution plan for 2018 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.

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 Canadian dollar 0.65 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. 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).

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%.

Directors' Report



TAXATION (continued)

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 (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) (Cai Shui [2014] No. 81), 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.

The proposed dividend to be distributed is subject to the approval of the shareholders at the annual general meeting to be held on 20 June 2019. 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 2018, 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.



Directors' Report

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 environmental-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 enterprise and one of the Credit Enterprises of Environmental Protection, 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 2019 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 worked out the compliance procedures to ensure observance of 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 abided by relevant applicable 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 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.

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 “Employees and remuneration policy”.

The Group recognises the importance of maintaining good cooperative relationship with business partners to achieve mutual development goals. It has always strived to cooperate with customers and suppliers to create and share value to achieve mutual promotion and co-win results. In the course of corporate operation, the Company pays close attention to various stakeholders such as the customers, suppliers and government and communication with them smoothly through green service centers, dedicated account managers, customer satisfaction survey and business activities in various areas, with a view to fully understands, collects and analyses their concerns and makes responses positively based on the actual circumstances, so as to enhance product quality, take into full account of their demands and promote outstanding services on an ongoing basis. During the reporting period, there are no material disputes between the Group and stakeholders such as its customers and suppliers.

Directors' Report



SOCIAL RESPONSIBILITY REPORT

The social responsibility report containing information on the Company's performance of its responsibilities on the environment and the society in 2018 will be published and will also be posted on the websites of the Company and the HKExnews website on or before 30 May 2019.

AUDITOR

The financial statements for the year have been audited by Deloitte Touche Tohmatsu.

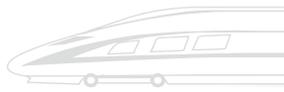
With effect from the close of the annual general meeting of the Company held on 8 June 2018, Ernst & Young Hua Ming retired as the auditor of the Company. Thereafter, on 8 June 2018, Deloitte Touche Tohmatsu was appointed as the new auditor of the Company. For details of the above change of the auditors, please refer to the announcement of the Company dated 26 March 2018.

By order of the Board

Li Donglin

Chairman of the Board

Zhuzhou, Hunan, PRC
26 March 2019



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 three 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 2017 working report of the Supervisory Committee, the 2017 financial report, the 2017 annual report, the 2018 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 2018, 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 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 2018 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 transactions were on the principles of openness, fairness and justness and were entered into in the interests of the Group and the Shareholders as a whole. After its review, the Supervisory Committee considers that the Group's transactions in 2018 were in compliance with the relevant laws and regulations of the PRC and is not aware of any impairment to the Company's and Shareholders' interest by means of connected transactions, and the total value of the continuing connected transactions was within the 2018 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 2018. 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 2018, 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. (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 the various reports and resolutions submitted by the Board for consideration at the general meetings. The Board had seriously carried out the resolutions of the general meeting.

Xiong Ruihua

Chairman of the Supervisory Committee

Zhuzhou, Hunan, PRC

26 March 2019



Auditors' Report

Deloitte.
德勤

De Shi Bao (Shen) Zi (19) No.P01758

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

1. OPINION

We have audited the financial statements of Zhuzhou CRRC Times Electric Limited ("CRRC Times Electric"), which comprise the consolidated and Company's statement of financial position as at 31 December 2018, and the consolidated and Company's statement of profit or loss, the consolidated and Company's statement of cash flow, the consolidated and Company's statement of change in equity for the year then ended, and the notes to the financial statements.

In our opinion, the accompanying financial statements of the Group are prepared and present fairly, in all material respects, the consolidated and Company's financial position as of 31 December 2018, 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 Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' 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 of the current year. 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)

(1) Measurement of Expected credit losses of Trade Receivables and Contract Assets

Description of Matter

As disclosed in Note V.3 (2) and Note V.7 to the financial statements, as at 31 December 2018, the gross carrying amount of trade receivables and contract assets of CRRC Times Electric were RMB6,753,802,633 and RMB222,360,099 respectively, and the provisions for expected credit losses trade receivables and contract assets were RMB267,838,040 and RMB5,173,409, respectively. As disclosed in Note III. 9.2 to the financial statements, CRRC Times Electric adopts the expected credit losses model to recognise provisions for expected credit losses, and measures provisions for losses of all the trade receivables and contract assets at the full lifetime amounts of expected credit losses. The measurement of expected credit losses involves significant management judgements and assumptions, 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 Response

1. Test and evaluate the effectiveness of the design, implementation and operation of internal control related to the provisions for expected credit losses;
2. Understand and evaluate whether the management of CRRC Times Electric grouped the credit risk portfolios of trade receivables and contract assets in a reasonable manner;
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. Review whether the management of CRRC Times Electric estimates the cash flows available in the future based on trade receivables and contract assets with different credit risks and review the rationality on sample basis;

(2) Impairment of Goodwill

Description of Matter

As disclosed in Note V. 14 to the financial statements, as at 31 December 2018, the net goodwill of CRRC Times Electric was 475,530,053. The CRRC Times Electric acquired Specialist Machine Developments (SMD) Limited 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 for impairment of goodwill of RMB128 million was made in 2016. As disclosed in Note III. 4.2 and Note III. 17 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)

(2) Impairment of Goodwill (continued)

Audit Response

1. Test and evaluate the effectiveness of the design, implementation and operation of 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.

4. OTHER INFORMATION

Management of CRRC Times Electric is responsible for other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditors' report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management of CRRC Times Electric is responsible for the preparation of the financial statements that give a true and fair view in accordance with Accounting Standards for Business Enterprises, and for such internal control as management determine 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 have 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. AUDITORS' 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 China Standards on Auditing, 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. AUDITORS' 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 the current year 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 CPA LLP

Chinese Certified Public Accountant: Yang Haijiao
(Engagement partner)

Chinese Certified Public Accountant: Ma Renjie

Shanghai, China

26 March 2019

Consolidated Statement of Financial Position

At 31 December 2018
Renminbi Yuan

ASSETS	NOTE V	31 December 2018	31 December 2017
Current Assets			
Cash and bank balances	1	4,394,379,150	3,807,870,646
Held-for-trading financial asset	2	1,603,855,068	N/A
Bills receivable and trade receivables	3	9,994,405,463	11,234,254,663
Prepayments	4	416,359,549	351,818,771
Other receivables	5	106,146,467	175,057,776
Inventories	6	3,114,014,551	3,498,039,948
Contract assets	7	193,098,466	N/A
Other current assets	8	3,760,247,589	2,545,606,214
Total Current Assets		23,582,506,303	21,612,648,018
Non-current Assets			
Long-term receivables	3	–	68,963,685
Long-term equity investments	9	464,017,479	270,226,834
Available-for-sale financial asset		N/A	900,000
Other equity instrument investment		900,000	N/A
Fixed assets	10	2,741,545,604	2,718,043,237
Construction in progress	11	275,081,681	236,723,437
Intangible assets	12	675,608,905	698,630,503
Development expenditure	13	188,436,535	113,520,722
Goodwill	14	475,530,053	454,291,856
Long-term deferred expenses	15	31,924,398	12,396,018
Deferred tax assets	16	397,748,652	372,796,918
Other non-current assets	17	201,222,966	90,507,247
Total Non-current assets		5,452,016,273	5,037,000,457
Total Assets		29,034,522,576	26,649,648,475

Notes to Financial Statements are components of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2018
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTE V	31 December 2018	31 December 2017
Current Liabilities			
Short-term borrowings	18	168,246,814	202,427,360
Bills payable and trade payables	19	5,534,578,308	5,454,698,714
Advances from customers	20	6,736,890	856,636,427
Contract liabilities	21	649,337,643	N/A
Employee benefits payable	22	135,840,963	47,223,201
Taxes payable	23	257,189,215	214,197,481
Other payables	24	669,071,995	556,316,992
Current portion of non-current liabilities	25	415,893,707	291,790,393
Total Current Liabilities		7,836,895,535	7,623,290,568
Non-current Liabilities			
Long-term borrowings	26	232,329,655	99,427,028
Long-term payables	27	41,525,173	119,375,682
Provisions	28	373,890,995	334,208,148
Deferred income	29	348,057,962	346,645,279
Deferred tax liabilities	16	54,475,133	70,136,010
Other non-current liabilities		23,833,959	-
Total Non-current Liabilities		1,074,112,877	969,792,147
Total Liabilities		8,911,008,412	8,593,082,715
Shareholders' equity			
Share capital	30	1,175,476,637	1,175,476,637
Capital reserve	31	3,369,786,541	3,369,786,541
Other comprehensive income	32	(138,081,853)	(116,467,835)
Special reserve	33	12,070,105	13,569,337
Surplus reserve	34	1,801,776,624	1,598,210,193
Retained earnings	35	13,603,735,926	11,723,779,095
Total equity attributable to shareholders' of the parent		19,824,763,980	17,764,353,968
Non-controlling interests		298,750,184	292,211,792
TOTAL SHAREHOLDERS' EQUITY		20,123,514,164	18,056,565,760
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		29,034,522,576	26,649,648,475

Notes to Financial Statements are components of these financial statements.

The financial statements are signed by the following persons:

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 2018
Renminbi Yuan

	NOTES V	2018	2017
Revenue	36	15,657,900,734	15,143,709,348
Less: Costs of sales	36	9,790,246,866	9,529,039,880
Tax and surcharges	37	131,432,864	135,571,886
Selling expenses		1,152,534,673	819,993,645
Administrative expenses	38	780,580,804	679,968,765
Research and development expenses		1,442,970,390	1,357,311,597
Finance costs	39	(24,595,640)	(31,837,191)
Including: Interest expenses	39	7,582,970	2,653,634
Interest income	39	40,238,077	28,084,118
Asset impairment losses	40	(104,020,818)	133,654,692
Credit impairment losses	41	5,210,008	N/A
Add: Other income	42	378,292,979	253,400,019
Investment income	43	79,646,243	38,101,235
Including: Share of profits and losses of associates and Joint Ventures	43	(5,211,103)	16,295,389
Gains on fair value changes	44	–	6,135,766
Gains/(losses) on disposal of non-current assets	45	1,412,378	(1,281,674)
Operating profit		2,942,893,187	2,816,361,420
Add: Non-operating income	46	26,314,703	81,740,199
Less: Non-operating expenses	47	2,076,961	23,792,958
Total profit		2,967,130,929	2,874,308,661
Less: Income tax expense	49	316,595,714	312,098,646
Net profit		2,650,535,215	2,562,210,015
(i) Net profit classified by business continuity:			
1. Net profit from continuing operations		2,650,535,215	2,562,210,015
2. Net profit from discontinued operations		–	–
(ii) Net profit classified by ownership:			
1. Net profit attributable to non-controlling interests		38,047,466	38,738,930
2. Net profit attributable to shareholders of the Parent		2,612,487,749	2,523,471,085

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 2018
Renminbi Yuan

	NOTES V	2018	2017
Other comprehensive income, net of tax	32		
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 losses on financial assets at fair value through other comprehensive income		(6,557,139)	—
2. Exchange fluctuation reserve		(1,672,879)	(26,830,287)
Other comprehensive income attributable to non-controlling interests, net of tax		(568,776)	(206,869)
Total comprehensive income:		<u>2,641,736,421</u>	<u>2,535,172,859</u>
Including:			
Total comprehensive income attributable to shareholders of the Parent		<u>2,604,257,731</u>	<u>2,496,640,798</u>
Total comprehensive income attributable to non-controlling interests		<u>37,478,690</u>	<u>38,532,061</u>
Earnings per share (Yuan/Share)			
Basic earnings per share	50	<u>2.22</u>	<u>2.15</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 2018
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 III. 28)	-	-	(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 (Note VI. 1)	-	-	-	-	9,347,986	(9,347,986)	-	-	-
2. Loss control of a subsidiary (Note VI. 2)	-	-	-	-	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. Paid during the year	-	-	-	(32,112,471)	-	-	(32,112,471)	(781,123)	(32,893,594)
IV. 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

	Attributable to shareholders of parent company							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 2016	1,175,476,637	3,382,700,430	(89,637,548)	11,211,581	1,416,051,748	9,911,430,942	15,807,233,790	263,673,351	16,070,907,141
II. Movements during the period									
(i) Total comprehensive income	-	-	(26,830,287)	-	-	2,523,471,085	2,496,640,798	38,532,061	2,535,172,859
(ii) Capital contribution and withdrawal by shareholders									
1. Increase by acquisition of non-controlling interests	-	(2,557,589)	-	-	-	-	(2,557,589)	(2,315,911)	(4,873,500)
2. Business combination involving entities under common control	-	(10,356,300)	-	-	-	-	(10,356,300)	-	(10,356,300)
(iii) Profit appropriation									
1. Transfer to surplus reserve	-	-	-	-	182,158,445	(182,158,445)	-	-	-
2. Dividends distribution	-	-	-	-	-	(528,964,487)	(528,964,487)	(8,122,206)	(537,086,693)
(iv) Special reserve									
1. Accrued during the year	-	-	-	38,656,517	-	-	38,656,517	1,970,891	40,627,408
2. Paid during the year	-	-	-	(36,298,761)	-	-	(36,298,761)	(1,526,394)	(37,825,155)
III. 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

Notes to Financial Statements are components of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 2018
Renminbi Yuan

	NOTES	2018	2017
I. Cash Flows from Operating Activities:			
Cash received from sale of goods or rendering of services		16,223,603,972	13,256,515,993
Refunds of taxes		416,864,094	220,860,773
Cash received relating to operating activities		452,038,791	296,923,794
Sub-total of cash inflows from operating activities		17,092,506,857	13,774,300,560
Cash paid for goods and services		8,373,569,524	7,257,712,475
Cash paid to and on behalf of employees		1,902,947,836	1,647,809,665
Cash paid for all types of taxes		1,168,922,927	1,533,647,181
Cash paid relating to other operating activities		1,888,503,368	1,865,943,619
Sub-total of cash outflows from operating activities		13,333,943,655	12,305,112,940
Net Cash Flow from Operating Activities	V. 51	3,758,563,202	1,469,187,620
II. Cash Flows from Investing Activities:			
Cash received from disposal or returns of investments		10,700,000,000	4,380,703,729
Cash received from returns on investments		83,406,115	49,833,579
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		27,156,675	1,001,654
Cash received relating to other investing activities		–	58,326,000
Sub-total of cash inflows from investing activities		10,810,562,790	4,489,864,962
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		671,420,301	433,764,130
Cash paid for acquisition of investments		12,458,801,622	4,645,000,000
Cash payments to acquire non-controlling shareholders' share		–	4,873,500
Net cash paid for the disposal of a subsidiary	VI. 2	30,699,682	–
Net cash payments to acquire subsidiaries		–	10,356,300
Sub-total of cash outflows from investing activities		13,160,921,605	5,093,993,930
Net Cash Flow from Investing Activities		(2,350,358,815)	(604,128,968)

Notes to Financial Statements are components of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 2018
Renminbi Yuan

	NOTES	2018	2017
III. Cash Flows from Financing Activities:			
Cash received from borrowings		<u>223,768,384</u>	<u>204,346,721</u>
Sub-total of cash inflows from financing activities		<u>223,768,384</u>	<u>204,346,721</u>
Cash repayments of borrowings		121,970,154	167,797,412
Cash paid for distribution of dividends or profits and for interest expenses		<u>553,430,174</u>	<u>540,628,968</u>
Sub-total of cash outflows from financing activities		<u>675,400,328</u>	<u>708,426,380</u>
Net Cash Flow from Financing Activities		<u>(451,631,944)</u>	<u>(504,079,659)</u>
IV. Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents		2,245,833	(4,631,321)
V. Net Increase in Cash and Cash Equivalents		958,818,276	356,347,672
Add: Cash and cash equivalents at beginning of period		<u>3,422,194,522</u>	<u>3,065,846,850</u>
VI. Cash and cash equivalents at end of period	V. 51	<u>4,381,012,798</u>	<u>3,422,194,522</u>

Notes to Financial Statements are components of these financial statements.



Statement of Financial Position

At 31 December 2018
Renminbi Yuan

ASSETS	NOTES XIV	31 December 2018	31 December 2017
Current Assets			
Cash and bank balances	1	2,936,730,165	2,276,673,151
Held-for-trading financial assets		1,603,855,068	N/A
Bills receivable and trade receivables	2	8,199,166,051	9,320,781,542
Prepayments	3	282,958,818	183,989,167
Other receivables	4	751,166,080	834,340,860
Inventories	5	2,510,499,939	2,401,079,829
Contract assets	6	45,175,377	N/A
Other current assets	7	3,394,096,373	2,508,380,711
Total Current Assets		<u>19,723,647,871</u>	<u>17,525,245,260</u>
Non-current Assets			
Long-term receivables		525,720,000	864,788,432
Long-term equity investments	8	2,563,803,259	2,158,766,014
Available-for-sale financial asset		N/A	900,000
Other equity instrument investment		900,000	N/A
Fixed assets	9	2,120,859,247	2,056,467,640
Construction in progress	10	226,499,333	224,692,797
Intangible assets	11	352,739,525	323,717,194
Development expenditure		129,125,712	101,842,110
Deferred tax assets	12	235,464,180	219,995,460
Other Non-current Assets		183,669,244	84,298,876
Total Non-current assets		<u>6,338,780,500</u>	<u>6,035,468,523</u>
Total Assets		<u>26,062,428,371</u>	<u>23,560,713,783</u>

Notes to Financial Statements are components of these financial statements.

Statement of Financial Position

At 31 December 2018
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES XIV	31 December 2018	31 December 2017
Current Liabilities			
Short-term borrowings		26,028,600	–
Bills payable and trade payables	13	5,418,833,508	4,420,376,755
Advances from customers	14	6,725,990	698,256,990
Contract liabilities	15	501,793,016	N/A
Employee benefits payable		109,277,398	29,937,159
Taxes payable	16	92,293,294	73,665,299
Other payables	17	555,091,881	545,982,785
Current portion of non-current liabilities	18、19、20	339,148,635	225,648,508
Total Current Liabilities		7,049,192,322	5,993,867,496
Non-current Liabilities			
Long-term borrowings	18	92,688,000	97,688,000
Long-term payables		41,525,173	119,375,682
Provisions	19	347,943,046	311,799,564
Deferred income	20	327,228,558	319,712,424
Other non-current liabilities		23,833,959	–
Total Non-current Liabilities		833,218,736	848,575,670
Total Liabilities		7,882,411,058	6,842,443,166
SHAREHOLDERS' EQUITY			
Share capital		1,175,476,637	1,175,476,637
Capital reserve		3,371,446,430	3,370,007,584
Other comprehensive income		(14,428,445)	–
Special reserve		3,893,678	6,225,988
Surplus reserve		1,801,776,624	1,598,210,193
Retained earnings		11,841,852,389	10,568,350,215
TOTAL SHAREHOLDERS' EQUITY		18,180,017,313	16,718,270,617
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		26,062,428,371	23,560,713,783

Notes to Financial Statements are components of these financial statements.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 2018
Renminbi Yuan

	NOTES XIV	2018	2017
Revenue	21	11,028,921,673	10,946,703,188
Less: Costs of sales	21	8,282,802,518	7,846,271,613
Tax and surcharges	22	59,056,668	71,640,999
Selling expenses		819,929,473	529,173,224
Administrative expenses		432,679,696	412,556,578
Research and development expenses		874,261,275	798,437,037
Finance costs	23	(60,009,429)	(1,137,992)
Including: Interest expenses	23	1,734,347	–
Interest income	23	42,312,068	58,927,549
Asset impairment losses	24	(110,057,149)	(10,317,857)
Credit impairment losses	25	12,644,393	N/A
Add: Other income	26	88,615,631	75,814,732
Investment income	27	1,210,659,257	572,597,204
Including: Share of profits and losses of associates and Joint Ventures	27	6,119,008	71,026,277
Gains on fair value changes		–	6,135,766
Gains/(losses) on disposal of non-current assets	28	1,797,647	(972,993)
Operating profit		2,018,686,763	1,953,654,295
Add: Non-operating income	29	3,528,671	50,968,046
Less: Non-operating expenses	30	27,871	4,056,510
Total profit		2,022,187,563	2,000,565,831
Less: Income tax expense	31	80,295,183	178,981,382
Net profit		<u>1,941,892,380</u>	<u>1,821,584,449</u>
(i) Net profits classified by business continuity			
1. Net profit from continuing operations		<u>1,941,892,380</u>	1,821,584,449
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 losses on financial assets at fair value through other comprehensive income		(6,500,524)	–
2. Exchange fluctuation reserve		(56,921)	–
Other comprehensive income, net of tax		(6,557,445)	–
Total comprehensive income		<u>1,935,334,935</u>	<u>1,821,584,449</u>

Notes to Financial Statements are components of these financial statements.

Statement of Changes in Equity

For the year ended 2018
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. 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 (Note VI. 1)	-	1,438,846	-	-	9,347,986	54,514,330	65,301,162
2. Loss control of a subsidiary (Note VI. 2)	-	-	-	-	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. Paid during the year	-	-	-	(25,462,325)	-	-	(25,462,325)
IV. 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

	Share capital	Capital reserve	Special reserve	Surplus reserve	Retained earnings	Total Shareholders' Equity
I. At 31 December 2016	1,175,476,637	3,375,442,574	6,781,144	1,416,051,748	9,457,888,698	15,431,640,801
II. Movements during the year						
(i) Total comprehensive income	-	-	-	-	1,821,584,449	1,821,584,449
(ii) Capital contribution and withdrawal by shareholders						
1. Business combination involving enterprises under common control	-	(5,434,990)	-	-	-	(5,434,990)
(iii) Profit appropriation						
1. Transfer to surplus reserve	-	-	-	182,158,445	(182,158,445)	-
2. Dividends distribution	-	-	-	-	(528,964,487)	(528,964,487)
(iv) Special reserve						
1. Accrued during the year	-	-	25,785,844	-	-	25,785,844
2. Paid during the year	-	-	(26,341,000)	-	-	(26,341,000)
III. 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

Note: Impact arising from the adoption of the new financial instrument standards.

Notes to Financial Statements are components of these financial statements.



Statement of Cash Flows

For the year ended 2018
Renminbi Yuan

	NOTES XIV	2018	2017
I. Cash Flows from Operating Activities:			
Cash received from sale of goods or rendering of services		11,830,960,709	9,666,274,710
Refunds of taxes		92,985,127	80,511,918
Cash received relating to other operating activities		225,880,764	340,061,253
Sub-total of cash inflows from operating activities		12,149,826,600	10,086,847,881
Cash paid for goods and services		7,392,022,804	6,390,253,334
Cash paid to and on behalf of employees		986,402,699	859,088,845
Cash paid for all types of taxes		478,472,712	846,747,395
Cash paid relating to other operating activities		1,026,981,551	1,028,502,375
Sub-total of cash outflows from operating activities		9,883,879,766	9,124,591,949
Net Cash Flow from Operating Activities	32	2,265,946,834	962,255,932
II. Cash Flows from Investing Activities:			
Cash received from disposal or returns of investments		10,704,841,877	4,350,000,000
Cash received from returns on investment		1,100,952,715	515,358,660
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		8,097,719	1,525,460
Cash received relating to other investing activities		414,621,745	57,150,000
Sub-total of cash inflows from investing activities		12,228,514,056	4,924,034,120
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		494,213,707	345,283,255
Cash paid for acquisition of investments		12,405,000,000	4,660,000,000
Cash payments to acquire non-controlling shareholders' share		–	4,873,500
Net cash payments to acquire subsidiaries		–	10,356,300
Cash paid relating to other investing activities		230,000,000	350,000,000
Sub-total of cash outflows from investing activities		13,129,213,707	5,370,513,055
Net Cash Flow from Investing Activities		(900,699,651)	(446,478,935)

Notes to Financial Statements are components of these financial statements.

Statement of Cash Flows

For the year ended 2018
Renminbi Yuan



	NOTES XIV	2018	2017
III. Cash Flows from Financing Activities:			
Cash received from borrowings		26,028,600	–
Sub-total of cash inflows from financing activities		26,028,600	–
Cash repayments of borrowings		2,500,000	–
Cash paid for distribution of dividends or profits and for interest expenses		531,432,850	530,437,902
Sub-total of cash outflows from financing activities		533,932,850	530,437,902
Net Cash Flow from Financing Activities		(507,904,250)	(530,437,902)
IV. Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents		2,674,027	(3,704,238)
V. Net Increase in Cash and Cash Equivalents		860,016,960	(18,365,143)
Add: Cash and cash equivalents at beginning of period		2,064,146,853	2,082,511,996
VI. Cash and cash equivalents at end of period	32	2,924,163,813	2,064,146,853

Notes to Financial Statements are components of these financial statements.



Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

I. GENERAL

Zhuzhou CRRCTimes 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 CRRCTimes 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)), CRRCTimes Changzhou Industrial Management Co., Ltd. (中車常州實業管理有限公司) (formerly named CRRCTimes Changzhou Qishuyan Locomotive & Rolling Stock Works (中車集團常州戚墅堰機車車輛廠)), CRRCTimes Zhuzhou Locomotive Co., Ltd. (formerly named CSR Zhuzhou Electric Locomotive Co., Ltd. (南車株洲電力機車有限公司)), CRRCTimes 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 CRRCTimes 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 2018, the Company had issued an aggregate of 1,175,476,637 shares as share capital, as detailed in Note V. 30.

As at 31 December 2018, the Group’s parent and ultimate holding company are CRRCTimes Zhuzhou Institute Co., Ltd. (中車株洲電力機車研究所有限公司) and CRRCTimes 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 financial statements were approved by the board of directors of the Company on 26 March 2019. According to the Articles of Association of the company, the financial statements will be submitted to the general meeting for consideration.

Notes to the financial statements

For the year ended 31 December 2018
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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. 14 – Revenue (“New Standards of Revenue”) as well as the Accounting Standards for Business Enterprises No.22 – Recognition and Measurement of Financial Instruments, the Accounting Standards for Business Enterprises No.23 – Transfer of Financial Assets, the Accounting Standards for Business Enterprises No.24 – Hedging Accounting and the Accounting Standards for Business Enterprises No.37 – Presentation of Financial Instruments (“New Standards of Financial Instruments”) amended by the Ministry of Finance (“MoF”) in 2017 since 1 January 2018. The impact of the changes in relevant accounting policies are referred to Note III. 28.

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.



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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.

Going concern

The Group assessed its ability to continue as a going concern for the 12 months from 31 December 2018 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.

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 ASBE, and present truly and completely, the Company’s and consolidated financial position as of 31 December 2018, and the Company’s and consolidated results of operations, changes in shareholders’ equity and cash flows for the year then 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 2018
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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 (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 acquiree. 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 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 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.

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; 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.



Notes to the financial statements

For the year ended 31 December 2018
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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

5. Consolidated financial statements (continued)

In preparation of the consolidated financial statement, 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. The effect of all intra-group transactions are eliminated on consolidation.

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 to 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. Other comprehensive income associated with investment in the former subsidiary is reclassified to investment income in the period in which control is lost.

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.

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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 Ventures 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 Ventures.

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 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

8. Foreign currency transactions and foreign currency translation

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 ruling 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 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 of 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 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 was created 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 2018
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 or fair value through profit or loss.

If contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, 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 2018
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 fair value through other comprehensive income ("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; 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 fair value through profit and loss and those designated as at fair value through profit or loss 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.

- (1) Financial assets that are unqualified for the classification as at amortized cost and at fair value through other comprehensive income are classified as at fair value through profit or loss.
- (2) 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.

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 fair value through other comprehensive income. 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:

- (1) The obtaining of relevant financial assets is mainly for the purpose of sale in the near future;
- (2) 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.
- (3) 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 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

9.1 Classification and measurement of financial assets (continued)

9.1.1 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:

- (1) 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.
- (2) 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 fair value through other comprehensive income (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.

9.1.3 Financial assets designated as at fair value through other comprehensive income (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.



Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

9.1 Classification and measurement of financial assets (continued)

9.1.4 Financial assets classified as at fair value through profit and loss (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 at amortized and at FVOCI, lease receivables, contract assets, trade receivables and lending commitment based on expected credit losses ("ECL").

The Group measures loss provision based on the amount equal to the lifetime ECL for all the contractual assets 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.

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.

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

9.2 Impairment of financial instruments (continued)

9.2.1 Credit risk (continued)

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.



Notes to the financial statements

For the year ended 31 December 2018
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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 estimated 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 on a collectively basis using a provision matrix. 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.

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.

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

9.2 Impairment of financial instruments (continued)

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 comprises 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:

- (1) 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.
- (2) 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.

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 entirety. The consideration received from transfer of assets is recognised as a liability upon receipt.



Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

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 fair value through profit or loss ("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:

- (1) The objective to undertake the relevant financial liabilities is mainly for the repurchase in the near future.
- (2) The relevant financial assets 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.
- (3) 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 combines financial liability with embedded derivatives.

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.

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

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)

9.4.1.2 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 asset that is subsequently measured at amortized cost, the Group shall recalculate the carrying amount of the financial asset and shall recognised related gains or losses in profit or loss. The carrying amount of the financial asset 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 which the issuer 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 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.

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.



Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

9.7 Derivative instrument and embedded derivatives

The derivative instruments of the Group include forward exchange contract. 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 embed 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.

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.

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

10. 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.

11. 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.

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.



Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

12. 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.

12.1 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.

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

12. Long-term equity investments (continued)

12.2 Subsequent measurement and recognition of profit and loss

12.2.1 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.

12.2.2 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 time of acquisition, 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.



Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

12. Long-term equity investments (continued)

12.3. 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 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

13. 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 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.

14. 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.

15. 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 are 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 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

15. 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; and
- (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.

16. 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.

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

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Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

16. 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 are 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 lives.

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 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

17. Impairment of assets

The Group determines the impairment of assets of goodwill, long-term equity investment, fixed assets, construction in progress, 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 recognised an impairment loss 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, recognised 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 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

18. Long-term deferred expenses

Long-term deferred 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

19. 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.

19.1 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.

19.2 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.

19.3 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.

20. Provisions

Except for contingent consideration transferred and contingent liabilities assumed in business combinations 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 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

21. 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. 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 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

21. 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 fulfill 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 asset are specified in Note III. 9. 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 which 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 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

22. 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 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 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.

23. 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

For the year ended 31 December 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

23. Income tax (continued)

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

- (1) where the taxable temporary differences is not arisen from the transaction which is not a business combination; and 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 carryforward 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 meet the conditions 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 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

24. Leases

A finance lease is a lease that transfers in substance all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

24.1 In the case of the lessee of an operating lease

Lease payments under an operating lease are recognised by a lessee on the straight-line basis over the lease term, and either included in the cost of the related asset or charged to profit or loss of the current period. Contingent rents are charged to profit or loss in the period in which they actually arise.

24.2 In the case of the lessor of an operating lease

Rent income under an operating lease is recognised by a lessor on the straight-line basis over the lease term, through profit or loss. Contingent rents are charged to profit or loss in the period in which they actually arise.

25. Production safety expenses

Production safety expenses accrued 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.

26. 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 would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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.

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

26. Fair value measurement (continued)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization at every balance sheet date.

27. 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 year 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.

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:

27.1 Provision for expected credit losses of contract assets

The group recognises impairment provision for financial instruments measured at amortized cost, financial instruments at fair value through other comprehensive income and contract assets 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 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 2018, the Group has reevaluated 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.



Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

27. 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)

27.2 Provision for impairment of inventories

According to the accounting policy for inventories, the Group adopts the lower of cost and net realizable value to measure inventories, and recognises provision for impairment of inventories on the condition that the cost of them is higher than the net realizable 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 realizable 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.

27.3 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.

27.4 Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the balance sheet date. Intangible assets with indefinite useful lives are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Where 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.

27.5 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 together with future tax planning strategies.

27.6 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 translates it into the present value by selecting an appropriate discount rate to recognise provision for warranties.

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

28. Changes in significant accounting policies

28.1 Standards for Revenue

The Group has adopted "Accounting Standards for Business Enterprises No.14 – Revenue" ("new standards for revenue") revised by the MOF in 2017 since 1 January 2018. The pre-revision standards referred to as ("original standards for revenue"). The new standards for revenue have introduced the 5-step method for recognition and measurement of revenue and added more instructions on specific transactions (or events). See Note III.21 for the accounting policies for recognition and measurement of revenue. The new standards for revenue require the entity to adjust the retained earnings at the beginning of initial adoption (i.e. 1 January 2018) of the new standards for the cumulative affected figures and amounts of other relative items in the financial statements, and not to adjust information in comparable period. At the adoption of new standards for revenue, the Group solely adjusts the cumulative affected figures in contract not yet been completed at the initial adoption date of the new revenue standard at the beginning of the year. For changes in contract incurred before the beginning of adoption of new standards for revenue, the Group will make simplified treatment, namely, the Group will identify the fulfilled and unfulfilled performance obligations, determine transaction price and allocate the transaction price between the fulfilled and unfulfilled performance obligations according to the final arrangement of contract changes.

(1) Besides provision of more widen disclosures of revenue transactions, impacts from the adoption of new standards for revenue on relevant items of statement of financial position at the beginning of the current year are as follows:

Items	31 December 2017	Reclassification	Remeasurement	1 January 2018
Current assets:				
Trade receivables	6,248,888,609	(133,785,053)	–	6,115,103,556
Contract assets	N/A	250,274,369	–	250,274,369
Inventories	3,498,039,948	(116,489,316)		3,381,550,632
Non-current liabilities:				
Long-term receivables	68,963,685	(68,963,685)	–	–
Other non-current assets	90,507,247	68,963,685		159,470,932
Current liabilities:				
Advances from customers	856,636,427	(856,636,427)	–	–
Contract liabilities	N/A	856,636,427	–	856,636,427

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

28. Changes in significant accounting policies (continued)

28.1 Standards for Revenue (continued)

(2) Impacts from the adoption of the new standard for revenue on the relevant Items of the current financial statements are as follows:

Balance sheet

Items	Effected amount
Current assets:	
Trade receivables	(173,637,167)
Contract assets	173,637,167
Non-current liabilities:	
Long-term receivables	(24,088,224)
Other non-current assets	24,088,224
Contract liabilities:	
Contract liabilities	649,337,643
Advances from customers	(649,337,643)

28.2 Standards for Financial Instruments

From 1 January 2018, the Group implemented the Accounting Standard for Business Enterprises No. 22 – Financial Instrument: Recognition and Measurement, Accounting Standard for Business Enterprises No. 23 – Transfer of Financial Assets, Accounting Standard for Business Enterprises No. 24 – Hedging Accounting and Accounting Standard for Business Enterprises No. 37 – Financial Instrument: Presentation (hereinafter referred to as “new standards for financial instrument”, and the standards for financial instrument before modification are referred to as “original standards for financial instrument” modified by the MoF.

For classification and measurement of financial assets, the new standards for financial instrument require that the financial assets should be classified into three categories: “financial assets measured at amortized cost”, “financial assets at fair value through other comprehensive income (“FVTOCI”)” and “financial assets at fair value through profit or loss (“FVTPL”)” based on characteristics of contractual cash flows and business models for the enterprise to manage these assets. The original categories including loans and receivables, held-to-maturity investments and available-for-sale financial assets have been cancelled. Investments in equity instrument are generally categorized into financial assets at FVTPL. The enterprise is also allowed to designate the non-tradable equity instruments as financial assets at FVTOCI, but such designation is non-cancellable, and the cumulative amounts of changes in fair value previously recognised in other comprehensive income shall not be carried forward in profit or loss for the period at disposal of the financial assets.

For impairment of financial assets, the new standards for financial instrument on impairment are applicable to financial assets measured at amortized cost and at FVTOCI, lease receivables, contract assets, etc. The new standards for financial instrument require adoption of expected credit losses model to replace the original credit-impaired model. The new impairment model requires adoption of three-phase model, where credit loss allowance is made based on expected credit losses within 12 months or during the whole life according to whether the credit risks of relevant items have been significantly increased since initial recognition. If the trade receivables, contract assets and lease receivables have simplified method, it is allowed to recognise impairment allowance for the expected credit losses during the whole life.

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

28. Changes in significant accounting policies (continued)

28.2 Standards for Financial Instruments (continued)

If the recognition and measurement of financial instrument before 1 January 2018 is inconsistent with the new standards for financial instrument, the Group will make connection and adjustment as required by the new standards. In case of inconsistency between the comparative figures in financial statements in prior period and requirements of the new standards, the Group will not make adjustment. The shortfall between the original carrying amount of the financial instrument and the new carrying amount at the adoption date of the new standards shall be recognised in retained earnings or other comprehensive income at 1 January 2018. Effects on adoption of new standards for financial instrument at 1 January 2018 are as follows:

Summary of impacts from initial implementation of new standards for financial instrument since 1 January 2018

Items	Carrying amount under previous standards 31 December 2017	Total impacts from adoption of new standards for revenue	Impacts from new standards for financial instruments				Carrying amount under new standards for financial instruments 1 January 2018
			Reclassification		Remeasurement		
			Transfer from financial assets previously classified as loans and receivables (Note 1)	Transfer from financial assets previously classified as available for sale (Note 2)	Transfer from financial assets previously classified as at fair value through profit or loss (Note 3)	Change from measurement at amortised cost to measurement at fair value (Note 1)	
Held-for-trading financial assets	N/A	-	-	-	1,350,000,000	-	1,350,000,000
Bills receivable and trade receivables	11,234,254,663	(133,785,053)	(916,717,563)	-	-	-	10,183,752,047
Contract assets	N/A	133,785,053	-	-	-	-	133,785,053
Available-for-sale financial asset	900,000	-	-	(900,000)	-	-	-
Other current assets	2,545,606,214	-	916,717,563	-	(1,350,000,000)	(15,904,000)	2,096,419,777
Other equity instruments investment	N/A	-	-	900,000	-	-	900,000
Deferred tax assets	372,796,918	-	-	-	-	2,387,000	375,183,918
Other comprehensive income	(116,467,835)	-	-	-	-	(13,384,000)	(129,851,835)
Retained earnings	11,723,779,095	-	-	-	-	-	11,723,779,095
Non-controlling interests	292,211,792	-	-	-	-	(133,000)	292,078,792



Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

28. Changes in significant accounting policies (continued)

28.2 Standards for Financial Instruments (continued)

Summary of impacts from initial implementation of new standards for financial instrument since 1 January 2018 (continued)

Note 1: Transfer from financial assets previously classified as loans and receivables

In managing the liquidity, the Group discounts or endorses part of the bills receivable and trade receivables before their maturity, and derecognises the discounted or endorsed bills receivable and trade receivables if the Group has transferred substantially all the risks and rewards to relevant counterparty. The Group manages such bills receivable and trade receivables using the business model of which the objective is to receive the contractual cash flow but also to sell such financial assets. At 1 January 2018, bills receivable and trade receivables amounting to RMB794,097,847 and RMB122,619,716 respectively are reclassified at fair value through other comprehensive income and included in other current assets. The previous measurement of bills receivable and trade receivables at amortized cost was changed to fair value measurement, resulting in decrease of RMB15,904,000 in the carrying amount of other current assets, decrease of RMB13,384,000 in other comprehensive income, increase of RMB2,387,000 in deferred tax assets and decrease of RMB133,000 in non-controlling interest.

Note 2: Transfer from financial assets previously classified as available for sale

Transfer from Available-for-sale financial assets to other equity instruments investment

As at 1 January 2018, available-for-sale financial asset of RMB900,000, which is non-trading equity instrument investment, was reclassified to financial assets designated at fair value through other comprehensive income and included in other equity instrument investment. Such available-for-sale financial asset is equity instruments investment that is not quoted in active market and of which the fair value can't be measured reliably, and was measured at cost in prior period according to previous standards and reclassified to other equity instrument investments under the new standards. Measuring such equity investment at fair value at 1 January 2018 has no significant impact on the carrying amount of the other equity instrument.

Note 3: Transfer from financial assets previously classified as at fair value through profit or loss

As at 1 January 2018, other current assets of RMB1,350,000,000 represent guaranteed floating income financial products which used to be classified as financial assets at fair value through profit or loss in prior period according to the previous financial instrument standards, and are reclassified as financial assets at fair value through profit or loss to held-for-trading financial assets under the new financial instrument standards.

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

28. Changes in significant accounting policies (continued)

28.2 Standards for Financial Instruments (continued)

At 1 January 2018, the summary of effect of the Group's initial implementation of aforesaid new standards on revenue recognition and financial statements on the Group's assets, liabilities and shareholders' equity is as follows:

Items	31 December 2017	Impacts from adoption of New Revenue Standards	Impacts from adoption of New Financial Standards	1 January 2018
Held-for-trading financial assets	N/A	–	1,350,000,000	1,350,000,000
Bills receivable and trade receivables	11,234,254,663	(133,785,053)	(916,717,563)	10,183,752,047
Inventories	3,498,039,948	(116,489,316)	–	3,381,550,632
Contract assets	N/A	250,274,369	–	250,274,369
Other current assets	2,545,606,214	–	(449,186,437)	2,096,419,777
Available-for-sale financial assets	900,000	–	(900,000)	N/A
Other equity instruments investment	N/A	–	900,000	900,000
Long-term receivables	68,963,685	(68,963,685)	–	–
Other non-current assets	90,507,247	68,963,685	–	159,470,932
Deferred tax assets	372,796,918	–	2,387,000	375,183,918
Total amounts of impact on assets	26,649,648,475	–	(13,517,000)	26,663,165,475
Advances from customers	856,636,427	(856,636,427)	–	–
Contract liabilities	N/A	856,636,427	–	856,636,427
Deferred tax liabilities	70,136,010	–	–	70,136,010
Total amounts of impact on liabilities	8,593,082,715	–	–	8,593,082,715
Other comprehensive income	(116,467,835)	–	(13,384,000)	(129,851,835)
Retained earnings	11,723,779,095	–	–	11,723,779,095
Total shareholders' equity attributable to parent company	17,764,353,968	–	(13,384,000)	17,750,969,968
Minority interests	292,211,792	–	(133,000)	292,078,792
Total amounts of impact on shareholders' equity	18,056,565,760	–	(13,517,000)	18,043,048,760



Notes to the financial statements

For the year ended 31 December 2018
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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

28. Changes in significant accounting policies (continued)

28.3 Presentation of financial statements

The Group started adopting the Notice of the Revised Format of 2018 Financial Statements for General Business Enterprise (Cai Kuai (2018) No. 15, hereinafter referred to as the "Cai Kuai No.15 Document") released by the MoF on 15 June 2018 since the preparation of financial statements for the year of 2018. Cai Kuai No.15 Document revised the presenting accounts in the Statement of financial position and Statement of profit or loss, added line items of "Bills Receivable and Trade Receivables", "Bills Payable and Trade Payables" and "Research and Development Expenses", revised the presenting contents of the line items of "Other Receivables", "Fixed Assets", "Construction in Progress", "Other Payables", "Long-term Payables" and "Administrative Expenses", removed part of the line items, added line items of "Including: Interest Expenses" and "Interest Income" under "Finance Costs", and adjusted the presenting location of some accounts in the income statement. For the changes of the above items, the Company has adjusted comparable data for the prior year.

Notes to the financial statements

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Renminbi Yuan

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.

Other major categories of taxes and respective tax rates of the Company and its PRC subsidiaries in the current year are set out below:

Value-added tax (“VAT”, Note)	–	Output VAT is calculated by applying applicable rate to the taxable sales, less deductible input VAT of the current period.
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%.

2. Tax benefits and official approval

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

Pursuant to the provisions of Article 28 of 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 Center of Converters Co., Ltd. (“ZNERCC”), Hunan CRRC Times Signal Communication Co., Ltd. (“Times Signal & Communication”), Shenyang CRRC Times Transportation Equipment Co., Ltd. (“Shenyang Times”), and Qingdao CRRC Electric Equipment Co., Ltd. (“Qingdao Electric”) were accredited as high-tech enterprises, in which the Company, Times Electronics, Ningbo Times, ZNERCC and Times Signal & Communication held the qualification valid for 3 years (from 2017 to 2019), and Shenyang Times and Qingdao Electric held the qualification valid for 3 years (from 2016 to 2018). The Company and the above subsidiaries are subject to income tax at the rate of 15% (2017: 15%) in 2018.

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 subsidiaries of the Company, including Baoji CRRC Times Engineering Machinery Co., Ltd. (“Baoji Times”) enjoyed the preferential tax at the rate of 15% and held the qualification valid for 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.



Notes to the financial statements

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V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and bank balances

	31 December 2018	31 December 2017
Cash	61,065	31,278
Cash in bank	4,380,951,733	3,639,081,061
Other cash and bank balances	<u>13,366,352</u>	<u>168,758,307</u>
	<u>4,394,379,150</u>	<u>3,807,870,646</u>

As at 31 December 2018, the cash and bank balances of RMB13,366,352 (31 December 2017: RMB71,086,352) of the Group are restricted as security deposits for issuance of bank letters of guarantee.

As at 31 December 2018, the Group has no cash and bank balances as security deposits for issuance of bank acceptance bills (31 December 2017: RMB97,671,955).

As at 31 December 2018, the cash and bank balances deposited overseas by the Group were equivalent to RMB148,472,651 (31 December 2017: equivalent to RMB154,503,088).

Interest income earned on current deposits is calculated by using the current deposit interest rate. The deposit periods for short-term deposits vary from 1 day to 3 months depending on the cash requirements of the Group and earn interest at the respective deposit rates.

2. Held-for-trading financial assets

	31 December 2018
Bank financial products	1,203,855,068
Structural deposits	<u>400,000,000</u>
	<u>1,603,855,068</u>

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

Notes to the financial statements

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

3. Bills receivable and trade receivables

	31 December 2018	31 December 2017
Bills receivable	3,508,440,870	4,985,366,054
Trade receivables	<u>6,485,964,593</u>	<u>6,248,888,609</u>
	<u>9,994,405,463</u>	<u>11,234,254,663</u>

(1) Bills receivable

	31 December 2018	31 December 2017
Commercial acceptance bills	3,084,493,236	3,735,058,967
Bank acceptance bills	<u>485,616,749</u>	<u>1,250,307,087</u>
	3,570,109,985	4,985,366,054
Less: provision for credit loss	<u>61,669,115</u>	<u>–</u>
	<u>3,508,440,870</u>	<u>4,985,366,054</u>

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.

Provision for credit loss of bills receivable:

	Opening balance	Provision	Closing balance
12-month expected credit losses	<u>–</u>	<u>61,669,115</u>	<u>61,669,115</u>



Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

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

3. Bills receivable and trade receivables (continued)

(1) Bills receivable (continued)

Five highest bills receivable are listed as follows:

	31 December 2018
CRRC Zhuzhou Locomotive Co., Ltd. Non-related party	1,249,690,890 813,400,000
CRRC Qingdao Sifang Co., Ltd. Non-related party	206,780,000 192,080,000
Guangzhou Locomotive Co., Ltd.	<u>161,700,000</u>
	<u><u>2,623,650,890</u></u>
	31 December 2017
CRRC Zhuzhou Locomotive Co., Ltd. Non-related party	1,428,158,866 1,174,884,184
Guangzhou Locomotive Co., Ltd.	469,508,548
CRRC Qingdao Sifang Co., Ltd. Non-related party	186,744,000 <u>169,639,710</u>
	<u><u>3,428,935,308</u></u>

(2) Trade receivables

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

The aging analysis of trade receivables is as follows:

	31 December 2018	31 December 2017
Within 6 months	5,769,340,250	5,323,934,152
6 months to 1 year	530,702,851	514,990,495
1 to 2 years	207,491,912	493,010,877
2 to 3 years	91,220,576	171,936,623
Over 3 years	<u>155,047,044</u>	<u>141,904,798</u>
	<u>6,753,802,633</u>	6,645,776,945
Less: Provision for credit loss/bad debt provision	<u>267,838,040</u>	<u>327,924,651</u>
	<u>6,485,964,593</u>	6,317,852,294
Less: Classified as long-term receivables	-	68,963,685
	<u><u>6,485,964,593</u></u>	<u><u>6,248,888,609</u></u>

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

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

3. Bills receivable and trade receivables (continued)

(2) Trade receivables (continued)

As a part of the Group's credit risk management, the Group evaluates the expected credit losses ("ECL") of trade receivables generated from the following four categories of customers by aging. The four categories of customers are involving a large quantity customers with the same risk characteristics respectively. Aging information can indicate repayment ability of the four categories of customers when trade receivables falls due.

As at 31 December 2018, the credit risk and ECL of the trade receivables of the four categories of customers are as follows:

	Expected average loss rate %	Gross carrying amount	Impairment provision	Carrying amount
Category I				
Credit losses has not occurred	0.82	2,191,142,580	17,893,572	2,173,249,008
Credit-impaired	4.08	116,884,894	4,772,931	112,111,963
Category II				
Credit losses has not occurred	0.84	1,895,148,841	15,905,439	1,879,243,402
Credit-impaired	15.37	37,478,405	5,758,861	31,719,544
Category III				
Credit losses has not occurred	0.63	1,602,209,952	10,171,656	1,592,038,296
Credit-impaired	10.15	10,095,604	1,025,109	9,070,495
Category IV				
Credit losses has not occurred	5.14	611,541,728	31,420,409	580,121,319
Credit-impaired	62.53	289,300,629	180,890,063	108,410,566
		<u>6,753,802,633</u>	<u>267,838,040</u>	<u>6,485,964,593</u>

Provision for credit loss/bad debt provision of trade receivables are as follows:

	Lifetime expected credit losses (credit losses has not occurred)	Lifetime expected credit losses (credit losses occured)	2018 Total
1 January 2018	80,308,610	247,616,041	327,924,651
Transferred-in of credit-impaired losses	(5,262,144)	5,262,144	–
Provision (Reversal)	311,099	(54,470,940)	(54,159,841)
Write-off	–	(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>



Notes to the financial statements

For the year ended 31 December 2018
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V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Bills receivable and trade receivables (continued)

(2) Trade receivables (continued)

Provision for credit loss/bad debt provision of trade receivables are as follows: (continued)

	2017
Opening balance	228,632,297
Provision in the current year	110,675,008
Reversal in the current year	(11,007,564)
Write-off in the current year	(389,381)
Exchange realignment	14,291
	<u>14,291</u>
Closing balance	<u>327,924,651</u>

As at 31 December 2018, five highest trade receivables are listed as follows:

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

As at 31 December 2017, five highest trade receivables (including long-term receivables) are listed as follows:

	31 December 2017
CRRC Qingdao Sifang Co., Ltd.	1,559,226,047
Non-related party	901,188,692
Non-related party	270,165,476
Non-related party	184,616,804
CRRC Dalian Co., Ltd.	156,799,924
	<u>156,799,924</u>
	<u>3,071,996,943</u>

Notes to the financial statements

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Renminbi Yuan

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

4. Prepayments

The aging analysis of prepayments is as follows:

	31 December 2018	31 December 2017
Within 1 year	355,694,833	327,843,576
1 to 2 years	43,375,562	16,626,498
2 to 3 years	12,054,717	4,104,451
Over 3 years	5,234,437	3,244,246
	416,359,549	351,818,771

Top five prepayments are listed as follows:

	31 December 2018
Non-related party	47,942,146
Non-related party	32,892,288
Non-related party	29,732,856
Non-related party	24,337,566
Non-related party	22,952,577
	157,857,433

	31 December 2017
Non-related party	45,357,549
Non-related party	33,108,035
Non-related party	29,053,058
Non-related party	19,158,820
Non-related party	15,764,000
	142,441,462



Notes to the financial statements

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Renminbi Yuan

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

5. Other receivables

The aging analysis of other receivables is as follows:

	31 December 2018	31 December 2017
Within 1 year	60,231,885	139,093,430
1 to 2 years	41,735,330	41,330,978
2 to 3 years	3,988,828	1,991,066
Over 3 years	2,827,177	2,832,989
	108,783,220	185,248,463
Less: Provision for credit loss/bad debt provision	2,636,753	10,190,687
	106,146,467	175,057,776

The movements of provision for credit loss/bad debt provision of other receivables are as follows:

	1 January 2018	Reversal	Write-off	31 December 2018
12-month expected credit losses	10,190,687	(7,472,675)	(81,259)	2,636,753
				2017
Opening balance				4,000,187
Provision in the current year				7,326,953
Reversal in the current year				(1,136,453)
Closing balance				10,190,687

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

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

5. Other receivables (continued)

Net value of other receivables by nature is as follows:

	31 December 2018	31 December 2017
Tender deposit	54,962,464	57,413,631
Deposit	23,636,694	24,690,822
VAT refund	–	40,265,926
Export rebate receivables	–	28,040,200
Others	<u>27,547,309</u>	<u>24,647,197</u>
	<u>106,146,467</u>	<u>175,057,776</u>

Five highest other receivables are listed as follows:

	31 December 2018
Non-related party	33,894,620
Non-related party	3,600,000
Non-related party	3,403,897
Non-related party	2,900,000
Non-related party	<u>2,400,000</u>
	<u>46,198,517</u>

	31 December 2017
Non-related party	40,265,926
Non-related party	33,894,620
Non-related party	13,152,450
Non-related party	8,510,000
Non-related party	<u>3,112,800</u>
	<u>98,935,796</u>



Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

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

6. Inventories

	31 December 2018		
	Gross carrying amount	Impairment provision	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
	3,243,240,066	129,225,515	3,114,014,551

	31 December 2017		
	Gross carrying amount	Impairment provision	Carrying amount
Raw materials	907,031,786	114,819,608	792,212,178
Semi-finished products	404,071,775	80,336,068	323,735,707
Work in progress	853,295,751	3,669,078	849,626,673
Finished goods	1,447,375,171	51,950,697	1,395,424,474
Assets under construction contract	116,489,316	–	116,489,316
Turnover materials	21,738,730	1,187,130	20,551,600
	3,750,002,529	251,962,581	3,498,039,948

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

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

6. Inventories (continued)

The movements of provision for impairment of inventories are listed as follows:

2018

	Opening balance	Provision	Reversal and write-off	Exchange realignment	Closing balance
Raw materials	114,819,608	14,127,039	(46,009,378)	(294,753)	82,642,516
Semi-finished products	80,336,068	3,302,110	(66,506,580)	–	17,131,598
Work in progress	3,669,078	10,528,960	(3,002,940)	(78,797)	11,116,301
Finished goods	51,950,697	1,884,665	(36,178,840)	(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>(152,631,007)</u>	<u>(431,339)</u>	<u>129,225,515</u>

2017

	Opening balance	Provision	Reversal and write-off	Exchange realignment	Closing balance
Raw materials	106,595,458	16,945,613	(9,492,995)	771,532	114,819,608
Semi-finished products	97,593,601	13,453,457	(30,710,990)	–	80,336,068
Work in progress	8,788,430	8,189,740	(13,807,956)	498,864	3,669,078
Finished goods	60,918,713	29,235,675	(43,060,912)	4,857,221	51,950,697
Turnover materials	1,097,297	139,133	(49,300)	–	1,187,130
	<u>274,993,499</u>	<u>67,963,618</u>	<u>(97,122,153)</u>	<u>6,127,617</u>	<u>251,962,581</u>



Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

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

7. Contract assets

(1) Details of contract assets

	31 December 2018		
	Gross carrying amount	Impairment provision	Carrying amount
Quality guarantee deposits	222,360,099	5,173,409	217,186,690
Less: Contract assets included in other non-current assets	24,937,877	849,653	24,088,224
	<u>197,422,222</u>	<u>4,323,756</u>	<u>193,098,466</u>

(2) Provision for credit losses of contract assets

	31 December 2018		
	Opening balance	Impairment provision	Closing balance
Lifetime expected credit losses (credit losses has not occurred)	–	5,173,409	5,173,409

As a part of the Group's credit risk management, the Group evaluates the expected credit losses ("ECL") of contract assets generated from the following four categories of customers by aging. The four categories of customers are involving a large quantity customers with the same risk characteristics respectively. Aging information can indicate repayment ability of the four categories of customers when contract assets falls due.

As at 31 December 2018, the credit risk and ECL of the contract assets of the four categories of customers are as follows:

	Expected average loss rate %	Gross carrying amount	Impairment provision	Carrying amount
Category I Credit losses has not occurred	0.82	77,116,272	628,498	76,487,774
Category II Credit losses has not occurred	0.84	26,290,445	219,525	26,070,920
Category III Credit losses has not occurred	0.63	39,531,486	247,072	39,284,414
Category IV Credit losses has not occurred	5.14	79,421,896	4,078,314	75,343,582
		<u>222,360,099</u>	<u>5,173,409</u>	<u>217,186,690</u>

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

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

8. Other current assets

	31 December 2018	31 December 2017
Bills receivable and trade receivables (Note 1)	1,030,920,086	–
Bank financial products (Note 2)	2,034,610,548	2,351,398,082
Structural deposits (Note 2)	600,000,000	–
Value-added tax retained	23,097,790	188,284,575
Other taxes retained	71,619,165	5,923,557
	3,760,247,589	2,545,606,214

Note 1: It refers to the Group's bank acceptance bills used for endorsement or discount RMB854,151,906, and for transferable trade receivables RMB176,768,180, no significant increase in credit risks due to low credit risk of the bank acceptance bills and no impairment in trade receivables. As at 31 December 2018, the financial assets are measured at fair value through other comprehensive income.

Note 2: 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 (31 December 2017: 2.30% to 5.10% 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 will expire in succession from 14 January 2019 to 29 June 2019.



Notes to the financial statements

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Renminbi Yuan

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

9. Long-term equity investments

31 December 2018

	Opening balance	Changes for the current year						Closing
		Investment	Impact of unrealised profits	Investment income recognised under equity method	Cash dividends announced	Exchange realignment	Other equity increase	
Non-listed investments								
Equity method								
Joint Ventures								
Zhuzhou Shiling Transportation Equipment Co., Ltd ("Shiling")	203,530,474	-	10,119,017	211,424	(5,500,000)	-	-	208,360,915
Wenzhou CRRC Electric Equipment Co., Ltd ("Wenzhou Electric") (Note 1)	-	-	-	204,724	-	-	15,578,394	15,783,118
Shanghai Shentong CRRC Rail Transit Operation Safety Engineering Technology Research Co., Ltd ("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>15,578,394</u>	<u>230,401,064</u>
Associates								
Wuxi CRRC Hofer Powertrain Co., Ltd ("CRRC Hofer") (Note 2)	-	153,801,622	-	(1,211,094)	-	2,715	-	152,593,243
Siemens Traction Equipment Ltd., Zhuzhou ("Zhuzhou Siemens")	47,640,792	-	-	(1,849,822)	-	-	-	45,790,970
Hunan Guoxin Semiconductor Technology Co., Ltd ("Guoxin Technology") (Note 3)	-	25,000,000	-	-	-	-	-	25,000,000
Hunan CRRC-Wabtec Rail Transit Technology Co., Ltd ("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>-</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>15,578,394</u>	<u>464,017,479</u>

Note 1: Refer Note VI. 2 for details.

Note 2: In October 2018, the Group and other two companies jointly established CRRC Hofer, in which the Group made contributions equivalent to RMB153,801,622, held 49% shares but did not have the control, which is accounted as investment of associates.

Note 3: In October 2018, the Group and other 7 companies including Chongqing Chang'an Automobile Co., Ltd. jointly established Guoxin Technology in which the Group contributed RMB25,000,000, held 25% shares but did not have the control, which is accounted as investment in associates.

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

9. Long-term equity investments (continued)

31 December 2017

	Changes for the current year						Closing balance
	Opening balance	Impact of unrealised profit	Investment income recognised under equity method	Cash dividends announced	Exchange realignment	Disposal of the year	
Non-listed investments							
Equity method							
Joint Ventures							
Shiling	158,267,061	54,859,734	15,403,679	(25,000,000)	-	-	203,530,474
SMD-BORD Limited	754,768	-	128,846	-	28,506	(912,120)	-
SMD Energy Limited	17	-	-	-	1	(18)	-
Shanghai Shentong CRRC	5,547,428	-	537,352	-	-	-	6,084,780
	<u>164,569,274</u>	<u>54,859,734</u>	<u>16,069,877</u>	<u>(25,000,000)</u>	<u>28,507</u>	<u>(912,138)</u>	<u>209,615,254</u>
Associates							
Zhuzhou Siemens	51,871,746	-	(557,331)	(3,673,623)	-	-	47,640,792
CRRC Wabtec	12,187,945	-	782,843	-	-	-	12,970,788
	<u>64,059,691</u>	<u>-</u>	<u>225,512</u>	<u>(3,673,623)</u>	<u>-</u>	<u>-</u>	<u>60,611,580</u>
	<u>228,628,965</u>	<u>54,859,734</u>	<u>16,295,389</u>	<u>(28,673,623)</u>	<u>28,507</u>	<u>(912,138)</u>	<u>270,226,834</u>



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

10. Fixed assets

31 December 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
Construction in progress	9,514,296	204,034,193	–	1,957,860	215,506,349
Sales and disposal	(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
Increase	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>
Net 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>

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

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

10. Fixed assets (continued)

31 December 2017

	Buildings	Machinery	Vehicles	Office facilities and others	Total
Cost					
Opening balance	1,750,413,278	2,093,175,289	43,116,698	282,365,516	4,169,070,781
Purchase	2,375,087	44,557,396	3,789,822	56,061,227	106,783,532
Construction in progress	4,763,352	81,589,145	–	1,136,909	87,489,406
Sales and disposal	(640,158)	(15,519,472)	(1,568,371)	(14,786,503)	(32,514,504)
Exchange realignment	2,824,669	11,665,687	(4,534)	280,324	14,766,146
Closing balance	<u>1,759,736,228</u>	<u>2,215,468,045</u>	<u>45,333,615</u>	<u>325,057,473</u>	<u>4,345,595,361</u>
Accumulated depreciation					
Opening balance	295,980,493	810,308,432	31,154,353	144,826,300	1,282,269,578
Increase	59,956,173	202,947,233	3,970,922	39,796,878	306,671,206
Write-off	(379,009)	(12,667,904)	(1,489,952)	(13,852,771)	(28,389,636)
Exchange realignment	344,171	6,865,473	(400)	134,422	7,343,666
Closing balance	<u>355,901,828</u>	<u>1,007,453,234</u>	<u>33,634,923</u>	<u>170,904,829</u>	<u>1,567,894,814</u>
Impairment provision					
Opening balance	10,513,264	50,193,568	–	792,018	61,498,850
Write-off	–	(1,759,577)	–	(81,963)	(1,841,540)
Closing balance	<u>10,513,264</u>	<u>48,433,991</u>	<u>–</u>	<u>710,055</u>	<u>59,657,310</u>
Net carrying amount					
Closing 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>
Opening balance	<u>1,443,919,521</u>	<u>1,232,673,289</u>	<u>11,962,345</u>	<u>136,747,198</u>	<u>2,825,302,353</u>



Notes to the financial statements

For the year ended 31 December 2018
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V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Fixed assets (continued)

Fixed assets held under operating lease are as follows:

	31 December 2018	31 December 2017
Buildings	42,645,749	53,688,021

As at 31 December 2018 and 31 December 2017, the Group had no fixed assets pledged to obtain bank borrowings. As at 31 December 2018, the carrying amount of fixed assets does not include title certificates that have not been obtained. (31 December 2017: RMB7,753,051)

11. Construction in progress

	31 December 2018	31 December 2017
Semiconductor key lab construction project	144,742,066	131,826,777
Innovation experiment platform construction project	29,894,316	–
The revamping and expansion of high voltage IGBT chip module production line	16,625,106	451,165
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	7,157,711
Changsha laboratory of CSL3 Signal system-engineering verification system	7,070,696	–
Changsha laboratory of CSL4 Signal system-engineering verification system	5,146,569	–
Data centre computer room	4,821,690	–
Germany laboratory of CSL3 Signal system-engineering verification system	4,401,030	–
High temperature ion implantation equipment	–	13,404,421
PECVDS equipment	–	13,241,298
Low pressure chemical vapor deposition	–	7,105,167
Renovation of logistics warehouse for passenger cars electrical drive system	–	6,947,364
Power cycle tester of press pack IGBT	–	6,376,617
Auto silver sintering equipment	–	5,218,349
ICP etching machine	–	4,954,139
Power curve tracer and semi-automatic probe station	–	3,004,741
Others	30,928,563	37,035,688
	275,081,681	236,723,437

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

11. Construction in progress (continued)

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

	Budget	Opening balance	Increase	Transferred to fixed assets	Exchange realignment	Closing balance	Capital resource	Proportion of budget invested
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 LGBT 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%
Hangsha 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	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 vapor 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>		



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For the year ended 31 December 2018
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V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Construction in progress (continued)

The movements of construction in progress in 2017 are as follows:

	Budget	Opening balance	Increase	Transferred to fixed assets	Exchange realignment	Closing balance	Capital resource	Proportion of budget invested
Semiconductor key lab construction project	321,480,000	89,721,848	51,771,596	9,666,667	-	131,826,777	Government grant and self-raised	44%
High temperature ion implantation equipment	13,780,200	-	13,404,421	-	-	13,404,421	Self-raised	97%
PECVDS equipment	13,500,000	13,241,298	-	-	-	13,241,298	Government grant	98%
Laboratory Relocation and Expansion Project	13,138,000	1,844,408	5,313,303	-	-	7,157,711	Self-raised	54%
Low pressure chemical vapor deposition	11,372,775	-	7,105,167	-	-	7,105,167	Self-raised	62%
Renovation of logistics warehouse for passenger cars electrical drive system	28,980,000	5,176,540	3,305,867	1,535,043	-	6,947,364	Self-raised	29%
Power cycle tester of press pack IGBT	9,264,189	-	6,376,617	-	-	6,376,617	Self-raised	69%
Auto silver sintering equipment	5,929,748	-	5,218,349	-	-	5,218,349	Self-raised	88%
ICP etching machine	7,820,784	-	4,954,139	-	-	4,954,139	Self-raised	63%
Power curve tracer and semi-automatic probe station	4,893,776	-	3,004,741	-	-	3,004,741	Self-raised	61%
Semiconductor implantation equipment	32,000,000	27,814,367	3,159,293	30,973,660	-	-	Government grant	97%
Copper electroplating system	15,426,100	14,595,848	-	14,595,848	-	-	Self-raised	95%
Motor driver lab construction project	21,900,000	10,179,487	-	10,179,487	-	-	Government grant and self-raised	46%
Overhaul and inspection equipment for after-sale service department	7,140,595	7,140,595	-	7,140,595	-	-	Self-raised	100%
Others		22,014,533	28,733,190	13,398,106	137,236	37,486,853		
		<u>191,728,924</u>	<u>132,346,683</u>	<u>87,489,406</u>	<u>137,236</u>	<u>236,723,437</u>		

Note: The Group received special loan for semiconductor key lab construction project. The capitalized interest for the current year amounts to RMB667,413 (2017: the capitalized interest was RMB1,130,121). As at 31 December 2018, among the amounts of construction in progress, the accumulated capitalized interest amounts to RMB3,033,982 (As at 31 December 2017: the accumulated capitalized interest was RMB2,366,569).

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

12. Intangible assets

31 December 2018

	Land use right	Software licenses	Patents, licenses and technical know-how	Trademarks	Backlog orders and service contracts	Total
Cost						
Opening balance	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	228,873,766	155,956,632	726,361,052	121,466,800	52,924,818	1,285,583,068
Accumulated depreciation						
Opening balance	37,570,589	80,390,424	181,447,502	16,899,960	49,602,480	365,910,955
Increase	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	41,967,296	105,576,232	240,186,128	22,775,025	52,924,818	463,429,499
Impairment provision						
Closing balance and opening balance	-	506,859	146,037,805	-	-	146,544,664
Net Carrying amount						
Closing balance	186,906,470	49,873,541	340,137,119	98,691,775	-	675,608,905
Opening balance	191,405,663	38,719,976	358,545,386	106,008,840	3,950,638	698,630,503



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

12. Intangible assets (continued)

31 December 2017

	Land use right	Software licenses	Patents, licenses and technical know-how	Trademarks	Backlog orders and service contracts	Total
Cost						
Opening balance	228,354,688	109,297,698	559,427,161	119,131,600	51,907,340	1,068,118,487
Purchase	–	9,730,044	573,532	–	–	10,303,576
Transferred from development expenditure	–	–	117,776,278	–	–	117,776,278
Exchange realignment	621,564	589,517	8,253,722	3,777,200	1,645,778	14,887,781
Closing balance	228,976,252	119,617,259	686,030,693	122,908,800	53,553,118	1,211,086,122
Accumulated depreciation						
Opening balance	33,037,955	72,385,852	145,689,633	10,424,015	32,761,190	294,298,645
Increase	4,532,634	7,731,427	34,002,853	6,096,790	15,677,460	68,041,164
Exchange realignment	–	273,145	1,755,016	379,155	1,163,830	3,571,146
Closing balance	37,570,589	80,390,424	181,447,502	16,899,960	49,602,480	365,910,955
Impairment provision						
Opening balance	–	–	138,457,620	–	–	138,457,620
Provision	–	506,859	7,580,185	–	–	8,087,044
Closing balance	–	506,859	146,037,805	–	–	146,544,664
Net Carrying amount						
Closing balance	191,405,663	38,719,976	358,545,386	106,008,840	3,950,638	698,630,503
Opening balance	195,316,733	36,911,846	275,279,908	108,707,585	19,146,150	635,362,222

As at 31 December 2018 and 31 December 2017, the Group has 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.

Notes to the financial statements

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

13. Development expenditure

31 December 2018

	Opening balance	Internal development	Decrease		Closing balance
			Recognised as intangible assets	Recognised in profit or loss	
Research and development 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>

31 December 2017

	Opening balance	Internal development	Decrease		Closing balance
			Recognised as intangible assets	Recognised in profit or loss	
Research and development expense	–	1,357,311,597	–	1,357,311,597	–
Development expenditure	<u>75,271,984</u>	<u>156,025,016</u>	<u>117,776,278</u>	<u>–</u>	<u>113,520,722</u>
	<u>75,271,984</u>	<u>1,513,336,613</u>	<u>117,776,278</u>	<u>1,357,311,597</u>	<u>113,520,722</u>



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

14. Goodwill

31 December 2018

	Opening balance	Exchange realignment	Closing balance	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
Specialist Machine Developments (SMD) Limited ("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>

31 December 2017

	Opening balance	Exchange realignment	Closing balance	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	599,873,405	(33,869,662)	566,003,743	125,482,420	440,521,323
	<u>660,161,896</u>	<u>(33,869,662)</u>	<u>626,292,234</u>	<u>172,000,378</u>	<u>454,291,856</u>

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

14. Goodwill (continued)

The movements of impairment of goodwill are as follows:

31 December 2018

	Opening balance	Exchange realignment	Closing balance
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>

31 December 2017

	Opening balance	Exchange realignment	Closing balance
Dynex	46,517,958	–	46,517,958
SMD	128,469,740	(2,987,320)	125,482,420
	<u>174,987,698</u>	<u>(2,987,320)</u>	<u>172,000,378</u>

Goodwill obtained from acquisition of SMD has allocated to asset portfolio of marine engineering products for impairment test. Recoverable amount including asset portfolio of goodwill is determined based on present value of expected future cash flows of the asset portfolio, which is subject to cash flow prediction based on 5-year financial budget approved by the management and deduced using 14.5% (2017: 14.5%) of discount rate before tax and 2% (2017:2%) growth rate of cash flows after five years.



Notes to the financial statements

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

15. Long-term prepaid expenses

31 December 2018

	Opening balance	Increase	Amortized for the year	Closing balance
Lease improvement	<u>12,396,018</u>	<u>21,707,193</u>	<u>2,178,813</u>	<u>31,924,398</u>

31 December 2017

	Opening balance	Increase	Closing balance
Lease improvement	<u>–</u>	<u>12,396,018</u>	<u>12,396,018</u>

16. Deferred tax assets/liabilities

Deferred tax assets/liabilities recognised:

	31 December 2018		31 December 2017	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Provision for product quality warranties	671,641,771	100,903,542	554,613,997	83,409,256
Provision for impairment of assets	554,949,850	87,019,965	742,356,069	115,279,115
Government grant	457,600,893	68,977,426	415,450,616	62,722,728
Unrealised profits from internal transactions	517,058,735	77,558,810	385,382,733	57,807,410
Depreciation differences arising from tax laws and accounting	70,734,444	11,216,610	101,261,956	15,489,917
Deductible losses	137,386,548	27,144,943	112,088,584	24,155,062
Accrued expenses	60,322,294	9,129,159	76,229,800	11,434,470
Unpaid employee benefits accrued	67,791,131	10,186,263	–	–
Fair value through other comprehensive income	23,569,193	3,535,379	–	–
Others	<u>13,843,697</u>	<u>2,076,555</u>	<u>16,659,730</u>	<u>2,498,960</u>
	<u>2,574,898,556</u>	<u>397,748,652</u>	<u>2,404,043,485</u>	<u>372,796,918</u>

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For the year ended 31 December 2018
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V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. Deferred tax assets/liabilities (continued)

Recognised deferred tax assets/liabilities: (continued)

	31 December 2018		31 December 2017	
	Deductible temporary differences	Deferred tax liabilities	Deductible temporary differences	Deferred tax liabilities
Deferred tax liabilities				
Asset valuation appreciation	245,253,508	47,480,286	304,816,564	60,338,929
Depreciation differences arising from tax laws and accounting	26,395,649	6,994,847	36,970,117	9,797,081
	<u>271,649,157</u>	<u>54,475,133</u>	<u>341,786,681</u>	<u>70,136,010</u>

Deductible losses and deductible temporary differences of unrecognised deferred tax assets are as follows:

	31 December 2018	31 December 2017
Deductible temporary differences	82,492,955	150,917,332
Deductible losses	72,900,423	83,848,007
	<u>155,393,378</u>	<u>234,765,339</u>

Deductible losses of unrecognised deferred tax assets will expire in the following years:

	31 December 2018	31 December 2017
2018	–	14,826,885
2019	10,259,566	10,259,566
2020	480,208	480,208
2021	12,116,962	12,116,962
2022	11,913,401	16,951,654
Non-fixed period	38,130,286	29,212,732
	<u>72,900,423</u>	<u>83,848,007</u>



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

17. Other non-current assets

	31 December 2018	31 December 2017
Prepayments for acquisition of land use rights	42,831,600	42,831,600
Prepayments for construction in progress	–	165,804
Prepayments for purchase of machinery and equipment	134,303,142	47,509,843
Quality guarantee deposit	24,088,224	–
	<u>201,222,966</u>	<u>90,507,247</u>

18. Short-term borrowings

	31 December 2018	31 December 2017
Other borrowing (Note)	139,296,814	202,427,360
Trusted loan	28,950,000	–
	<u>168,246,814</u>	<u>202,427,360</u>

As at 31 December 2018, the annual interest rate of the above borrowings was ranging from 2.15%-3.50% (at 31 December 2017: 0-2.39%)

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

18. Short-term borrowings (continued)

Note: Pursuant to relevant borrowing agreement, the loans are entitled to priority to be repaid with certain assets if the Group is incapable of repayment. The carrying amounts of such assets as at 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
Cash and bank balances	18,548,506	57,441,860
Trade receivables	76,842,411	59,602,053
Other receivables	889,078	18,339,931
Prepayments	3,062,051	2,569,745
Inventories	27,718,697	57,010,163
Fixed assets	117,265,461	134,571,954
Construction in progress	3,271,707	2,999,931
	<u>247,597,911</u>	<u>332,535,637</u>

19. Bills payable and trade payables

	31 December 2018	31 December 2017
Bills payable	2,349,473,616	2,146,855,799
Trade payables	3,185,104,692	3,307,842,915
	<u>5,534,578,308</u>	<u>5,454,698,714</u>

Bills payable are set out as follows:

	31 December 2018	31 December 2017
Commercial acceptance bills	506,281,231	197,174,627
Bank acceptance bills	1,843,192,385	1,949,681,172
	<u>2,349,473,616</u>	<u>2,146,855,799</u>



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

19. Bills payable and trade payables (continued)

Trade payables are set out as follows:

The trade payables are non-interest-bearing and generally have an average payment term of 3 months.

	31 December 2018	31 December 2017
Within 3 months	2,523,831,740	2,445,247,153
3 months to 1 year	368,016,509	674,707,694
1 to 2 years	162,739,683	138,390,479
2 to 3 years	74,371,824	70,260,336
Over 3 years	97,670,109	98,612,935
	3,226,629,865	3,427,218,597
Less: Classified as long-term payables (Note V. 27)	41,525,173	119,375,682
	3,185,104,692	3,307,842,915

20. Advances from customers

	31 December 2018	31 December 2017
Within 1 year	6,505,530	740,213,075
1 to 2 years	216,717	101,036,211
2 to 3 years	775	2,527,864
Over 3 years	13,868	12,859,277
	6,736,890	856,636,427

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

21. Contract liabilities

	31 December 2018
Within 1 year	503,931,074
1 to 2 years	128,621,384
2 to 3 years	9,975,907
Over 3 years	6,809,278
	<u>649,337,643</u>

22. Employee benefits payable

31 December 2018

	Opening balance	Increase	Decrease	Exchange realignment	Closing balance
Short-term benefits	45,919,263	1,759,915,033	1,676,101,140	57,853	129,791,009
Benefits after demission (Defined contribution plan)	<u>1,303,938</u>	<u>231,574,162</u>	<u>226,846,696</u>	<u>18,550</u>	<u>6,049,954</u>
	<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>

31 December 2017

	Opening balance	Increase	Decrease	Exchange realignment	Closing balance
Short-term benefits	36,204,711	1,501,949,554	1,492,262,786	27,784	45,919,263
Benefits after demission (Defined contribution plan)	<u>945,476</u>	<u>187,296,220</u>	<u>186,939,664</u>	<u>1,906</u>	<u>1,303,938</u>
	<u>37,150,187</u>	<u>1,689,245,774</u>	<u>1,679,202,450</u>	<u>29,690</u>	<u>47,223,201</u>



Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

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

22. Employee benefits payable (continued)

Details of short-term benefits are as follows:

31 December 2018

	Opening balance	Increase	Decrease	Exchange realignment	Closing balance
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>

31 December 2017

	Opening balance	Increase	Decrease	Exchange realignment	Closing balance
Salaries, bonuses, allowances and subsidies	1,778,619	1,186,081,619	1,185,699,259	19,012	2,179,991
Staff welfare	–	63,788,543	63,737,137	603	52,009
Social Insurance	278,680	100,352,490	100,137,186	–	493,984
Including: Basic medical insurance	148,922	54,441,102	54,337,048	–	252,976
Supplementary medical insurance	300	28,732,338	28,671,928	–	60,710
Work injury insurance	75,734	12,773,899	12,729,925	–	119,708
Maternity insurance	53,724	4,405,151	4,398,285	–	60,590
Housing fund	13,675	90,715,138	90,652,872	–	75,941
Union fund and employee education fund	29,846,413	37,664,583	26,385,103	–	41,125,893
Others	4,287,324	23,347,181	25,651,229	8,169	1,991,445
	<u>36,204,711</u>	<u>1,501,949,554</u>	<u>1,492,262,786</u>	<u>27,784</u>	<u>45,919,263</u>

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

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

22. Employee benefits payable (continued)

Details of defined contribution plan are as follows:

31 December 2018

	Opening balance	Increase	Decrease	Exchange realignment	Closing balance
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>

31 December 2017

	Opening balance	Increase	Decrease	Exchange realignment	Closing balance
Basic pension insurance	821,681	138,863,643	138,565,013	1,906	1,122,217
Unemployment insurance	116,377	4,877,119	4,884,432	-	109,064
Annuity	7,418	43,555,458	43,490,219	-	72,657
	<u>945,476</u>	<u>187,296,220</u>	<u>186,939,664</u>	<u>1,906</u>	<u>1,303,938</u>

23. Taxes payable

	31 December 2018	31 December 2017
Corporate income tax	40,102,635	97,335,446
Value-added tax	119,280,489	62,516,744
City maintenance and construction and educational surcharges	20,716,486	9,529,046
Individual income tax	68,469,801	38,963,752
Others	8,619,804	5,852,493
	<u>257,189,215</u>	<u>214,197,481</u>



Notes to the financial statements

For the year ended 31 December 2018
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V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. Other payables

(1) The analysis of other payables by nature is as follows:

	31 December 2018	31 December 2017
Dividends payable	2,860,000	2,860,000
Interests payable	674,302	829,611
Other payables	<u>665,537,693</u>	<u>552,627,381</u>
	<u><u>669,071,995</u></u>	<u><u>556,316,992</u></u>

Dividends payable

	31 December 2018	31 December 2017
Investors		
CRRC Qingdao Sifang Co., Ltd.	1,976,000	1,976,000
Qingdao Hongda Schnell Science & Technology Co., Ltd.	<u>884,000</u>	<u>884,000</u>
	<u><u>2,860,000</u></u>	<u><u>2,860,000</u></u>

Other payables

	31 December 2018	31 December 2017
Deposits and pledges	302,372,983	216,557,458
Amounts due to related to related companies	234,040,018	275,514,023
Recovery of factoring (Note)	114,701,804	-
Withholding social insurance	12,815,466	7,937,311
Others	<u>1,607,422</u>	<u>52,618,589</u>
	<u><u>665,537,693</u></u>	<u><u>552,627,381</u></u>

Note: 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 risks and rewards. On 28 December 2018, the Group 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 2018
Renminbi Yuan

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

24. Other payables (continued)

(2) The aging analysis of other payables are as follows:

	31 December 2018	31 December 2017
Within 1 year	377,539,668	245,253,534
1 to 2 years	70,083,440	128,751,441
2 to 3 years	65,397,029	20,036,954
Over 3 years	156,051,858	162,275,063
	<u>669,071,995</u>	<u>556,316,992</u>

25. Current portion of non-current liabilities

	31 December 2018	31 December 2017
Long-term borrowings due within one year (Note V. 26)	5,000,000	2,579,207
Provisions due within one year (Note V. 28)	297,750,776	220,405,849
Deferred income due within one year (Note V. 29)	113,142,931	68,805,337
	<u>415,893,707</u>	<u>291,790,393</u>



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

25. Current portion of non-current liabilities (continued)

Long-term borrowings due within one year are as follows:

	31 December 2018	31 December 2017
Trusted loans	5,000,000	2,500,000
Mortgage loans	–	79,207
	<u>5,000,000</u>	<u>2,579,207</u>

26. Long-term borrowings

	31 December 2018	31 December 2017
Trusted loans	237,329,655	100,188,000
Mortgage loans	–	79,207
Other loans (Note V. 18)	–	1,739,028
	<u>237,329,655</u>	<u>102,006,235</u>
Less: Long-term borrowings due within one year (Note V. 25)	<u>5,000,000</u>	<u>2,579,207</u>
	<u>232,329,655</u>	<u>99,427,028</u>

Maturity analysis:

	31 December 2018	31 December 2017
Due within 1 year	5,000,000	2,579,207
Due within 1 to 2 years	5,056,915	6,739,028
Due within 2 to 5 years	154,584,740	15,000,000
Due more than 5 years	72,688,000	77,688,000
	<u>237,329,655</u>	<u>102,006,235</u>

As at 31 December 2018, the annual interest rate of the above borrowings was 2.30% – 4.92% (31 December 2017: 0-4.92%).

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

27. Long-term payables

Maturity analysis:

	31 December 2018	31 December 2017
1 to 2 years	24,354,272	83,575,825
Over 2 years	17,170,901	35,799,857
	<u>41,525,173</u>	<u>119,375,682</u>

28. Provisions

31 December 2018

	Opening balance	Increase	Decrease	Exchange realignment	Closing balance
Provision for product quality warranties	554,613,997	<u>711,912,824</u>	<u>594,869,516</u>	<u>(15,534)</u>	671,641,771
Less: Provision due within one year (Note V. 25)	<u>220,405,849</u>				<u>297,750,776</u>
	<u>334,208,148</u>				<u>373,890,995</u>

31 December 2017

	Opening balance	Increase	Decrease	Exchange realignment	Closing balance
Provision for product quality warranties	602,284,995	<u>403,479,611</u>	<u>451,376,620</u>	<u>226,011</u>	554,613,997
Less: Provision due within one year (Note V. 25)	<u>262,822,271</u>				<u>220,405,849</u>
	<u>339,462,724</u>				<u>334,208,148</u>



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

29. Deferred income

	31 December 2018	31 December 2017
Government grant related to assets	272,403,248	261,188,671
Government grant related to incomes	188,797,645	154,261,945
	461,200,893	415,450,616
Less: Classified as current liabilities (Note V. 25)	113,142,931	68,805,337
Government grant classified as non-current liabilities	348,057,962	346,645,279

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

29. Deferred income (continued)

Liabilities relevant to government grants as at 31 December 2018 are listed as follows:

	Opening balance	Increases	Recognised as other income/ non-operating income	Closing balance	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
	415,450,616	168,873,196	(123,122,919)	461,200,893	



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

29. Deferred income (continued)

Liabilities relevant to government grants as at 31 December 2017 are listed as follows:

	Opening balance	Increases	Recognised as non-operating income	Other changes	Closing balance	Related to asset/income
(Power electronics) integrated manufacturing technology R&D and industrialization of SiC based power electronic devices	68,604,000	5,150,000	–	(217,800)	73,536,200	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 MW golden sun demonstration project	43,566,667	–	(10,891,667)	–	32,675,000	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	19,523,554	–	(454,918)	–	19,068,636	asset
SiC-based power electronic devices lab & fab construction project (SiC base industrial construction project fund)	17,000,000	–	–	–	17,000,000	asset
Research on key technologies of high speed maglev transportation	–	15,800,000	–	–	15,800,000	income
R&D, industrialization of 6-inch SiC wafer and application in high power IGBT	10,000,000	2,000,000	–	–	12,000,000	asset
Basic construction compensation	8,793,760	–	(206,912)	–	8,586,848	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	5,200,000	–	(400,000)	–	4,800,000	asset
Photovoltaic power generation comprehensive test system construction project	6,491,667	–	(1,900,000)	–	4,591,667	asset
Industrialization of 200KM EMU AC drive & network control system and ATP control device	6,491,667	–	(1,900,000)	–	4,591,667	asset
Test platforms of power electronics devices & electric drive systems	23,872,083	–	(250,000)	(22,434,583)	1,187,500	asset
Manufacturing equipment and complete process of large-scale integrated circuit	14,540,000	–	(14,540,000)	–	–	income
Others	61,718,993	34,079,245	(6,167,640)	(1,357,500)	88,273,098	asset/income
	<u>369,142,391</u>	<u>107,029,245</u>	<u>(36,711,137)</u>	<u>(24,009,883)</u>	<u>415,450,616</u>	

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

30. Share capital

	31 December 2018 & 31 December 2017	
	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>

31. Capital reserve

2018

	31 December 2018 & 31 December 2017
Share premium	3,352,123,130
Others	17,663,411
	<u>3,369,786,541</u>

2017

	Opening balance	Decrease in the year	Closing balance
Share premium	3,352,123,130	–	3,352,123,130
Others	30,577,300	(12,913,889)	17,663,411
	<u>3,382,700,430</u>	<u>(12,913,889)</u>	<u>3,369,786,541</u>



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

32. Other comprehensive income

2018

	31 December 2017	Changes in accounting policies	1 January 2018
Changes in fair value of financial assets	–	(13,384,000)	(13,384,000)
Exchange realignment	(116,467,835)	–	(116,467,835)
	<u>(116,467,835)</u>	<u>(13,384,000)</u>	<u>(129,851,835)</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 minority interests 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>

2017

	31 December 2016	Amount incurred for current year before tax	Less: Income tax expense	Attributable to Shareholder of the parent company after tax	Attributable to minority interests after tax	31 December 2017
Exchange realignment	(89,637,548)	(27,037,156)	–	(26,830,287)	(206,869)	(116,467,835)

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

33. Special reserve

2018

	Opening balance	Increase in the year	Decrease in the year	Closing balance
Safety production fee	<u>13,569,337</u>	<u>30,613,239</u>	<u>32,112,471</u>	<u>12,070,105</u>

2017

	Opening balance	Increase in the year	Decrease in the year	Closing balance
Safety production fee	<u>11,211,581</u>	<u>38,656,517</u>	<u>36,298,761</u>	<u>13,569,337</u>

34. Surplus reserve

2018

	Opening balance	Increase in the year			Closing balance
		Consolidation of wholly-owned subsidiaries (Note 1)	Loss of control due to the capital increase by minority shareholders (Note 2)	Appropriation to statutory surplus reserve (Note 3)	
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>

2017

	Opening balance	Increase in the year	Closing balance
Statutory surplus reserve	<u>1,416,051,748</u>	<u>182,158,445</u>	<u>1,598,210,193</u>

Note 1: 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. Refer to VI. 1 for details.

Note 2: 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. Refer to VI. 2 for details.

Note 3: 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.



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

35. Retained earnings

	2018	2017
Retained earnings at the beginning of the year	11,723,779,095	9,911,430,942
Add: Net profit attributable to shareholders of the Parent	2,612,487,749	2,523,471,085
Less: Appropriation to statutory surplus reserve (Note V. 34)	194,189,238	182,158,445
Cash dividends paid (Note 1)	528,964,487	528,964,487
Consolidation of wholly-owned subsidiary (Note V. 34)	9,347,986	-
Loss of control due to the capital increase by minority shareholders (Note V. 34)	29,207	-
	<u>13,603,735,926</u>	<u>11,723,779,095</u>
Retained earnings at the end of the year	<u>13,603,735,926</u>	<u>11,723,779,095</u>

Note: The 2017 scheme of profit distribution proposal of the Company has been reviewed and approved in the 2017 Annual General Meeting held on 8 June 2018, 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 26 March 2019, 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, of sales there will be no liability of the Company, therefore, the cash dividends distribution is not reflected in the current financial statements.

36. Revenue and costs

(1) Revenue is stated as follows:

	2018	2017
Revenue from principal operations	15,577,537,986	14,822,101,106
Other operating income	80,362,748	321,608,242
	<u>15,657,900,734</u>	<u>15,143,709,348</u>

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

36. Revenue and costs of sales (continued)

(2) Details of revenue is listed as follows:

	2018	2017
Revenue from sale of goods and materials	13,816,482,670	13,416,370,913
Maintenance income	1,300,295,748	1,111,686,560
Revenue from construction contracts	419,580,079	522,412,395
Technical service income	95,614,948	61,199,656
Lease income	13,272,962	14,121,997
Other operating income	12,654,327	17,917,827
	<u>15,657,900,734</u>	<u>15,143,709,348</u>

(3) Significant performance obligations:

Sales of goods and materials

The Group principally engages in sales of on-board electric system and components. The Group recognises revenue at the timing that the customer obtains control over the goods. The Group mainly adopts land transportation and recognises 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 recognised as contract liabilities in the consolidated financial statements. The sales course of electric equipment has no significant financing component and right of return existed.

Maintenance income

The Group's repair and maintenance business is to repair and maintain on-board electric system and components. The Group recognises revenue using input method based on performance progress during performance 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 recognises 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 recognised 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.



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For the year ended 31 December 2018
Renminbi Yuan

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

36. Revenue and costs of sales (continued)

(4) Cost of sales is stated as follows:

	2018	2017
Cost of sales from principal operations	9,760,772,450	9,286,289,287
Other operating cost	29,474,416	242,750,593
	<u>9,790,246,866</u>	<u>9,529,039,880</u>

37. Taxes and surcharges

	2018	2017
City maintenance and construction surtax	55,474,722	56,984,580
Education surcharges	40,138,735	41,143,106
Others	35,819,407	37,444,200
	<u>131,432,864</u>	<u>135,571,886</u>

38. Administrative expenses

In 2018, the administrative expenses include the auditors' remuneration of RMB3,069,811 (2017: RMB4,485,000).

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

39. Finance costs

	2018	2017
Interest expenses	8,250,383	3,783,755
Less: Capitalised interests	667,413	1,130,121
Interest income	(40,238,077)	(28,084,118)
Exchange losses/profits	431,380	(12,211,401)
Service charges of financial institutions	9,152,080	10,493,331
Others	(1,523,993)	(4,688,637)
	<u>(24,595,640)</u>	<u>(31,837,191)</u>

40. Asset impairment losses

	2018	2017
Impairment losses of inventories	(104,020,818)	19,709,704
Bad debt losses	–	105,857,944
Impairment losses of intangible assets	–	8,087,044
	<u>(104,020,818)</u>	<u>133,654,692</u>

41. Credit impairment losses

	2018
Credit impairment losses of bills receivable	61,669,115
Credit impairment losses of trade receivables	(54,159,841)
Credit impairment losses of other receivables	(7,472,675)
Credit impairment losses of contract assets	4,323,756
Credit impairment losses of other non-current assets	849,653
	<u>5,210,008</u>

42. Other income

	2018	2017
Refunds of VAT	255,572,840	253,400,019
Technology project fund	93,193,255	–
Government rewards	29,526,884	–
	<u>378,292,979</u>	<u>253,400,019</u>



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

43. Investment income

	2018	2017
Income from non-listed investments:		
Long-term equity investments income (losses) under the equity method	(5,211,103)	16,295,389
Bank financial product and structural deposit income	84,973,649	21,653,836
Gains (losses) from forward foreign exchange contracts	(116,303)	152,010
	<u>79,646,243</u>	<u>38,101,235</u>

44. Gains on fair value changes

	2018	2017
Derivative finance instrument		
Forward foreign exchange contracts		
– Gains and losses on fair value changes	–	6,135,766
	<u>–</u>	<u>6,135,766</u>

45. Gains/(losses) on disposal of non-current asset

	2018	2017
Gains on disposal of non-current assets	1,800,039	199,996
Losses on disposal of non-current assets	(387,661)	(1,481,670)
	<u>1,412,378</u>	<u>(1,281,674)</u>

46. Non-operating income

	2018	2017
Unsettled payment	7,680,633	6,656,359
Penalty income and default compensation income	4,244,448	3,239,083
Income from insurance claims	2,902,805	462,612
Government grant	402,780	58,067,626
Others	11,084,037	13,314,519
	<u>26,314,703</u>	<u>81,740,199</u>

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

47. Non-operating expenses

	2018	2017
Penalty expenses	813,412	2,470,943
Default compensation	406,656	19,849,305
Losses from assets retirement	338,871	768,188
Others	518,022	704,522
	2,076,961	23,792,958

48. 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:

	2018	2017
Consumption of raw materials and semi-finished products	7,417,000,773	8,111,381,989
Inventory movements of finished goods and work in progress	441,480,222	(109,278,661)
Staff costs	1,991,489,195	1,689,245,774
Depreciation of fixed assets	319,532,096	306,671,206
Amortization of intangible assets	99,488,686	68,041,164
Amortization of long-term prepaid expenses	2,178,813	–
Provision for product quality warranties	711,912,824	403,479,611
Research and development expenses	1,442,970,390	1,357,311,597

49. Income tax expense

	2018	2017
Current income tax expense		
– Mainland China	348,348,417	388,984,085
– Other countries and regions	2,426,817	7,177,636
	350,775,234	396,161,721
Deferred tax expenses	(34,179,520)	(84,063,075)
	316,595,714	312,098,646



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

49. Income tax expense (continued)

The reconciliation from total profit to income tax expense is as follows:

	2018	2017
Total profit	<u>2,967,130,929</u>	<u>2,874,308,661</u>
Income tax expense at statutory tax rate of 25% (Note)	741,782,732	718,577,165
Effect of different income tax rates for overseas entities	1,990,897	3,294,070
Effect of preferential tax rate applicable to the Company and its certain subsidiaries	(340,133,570)	(322,184,703)
Profits and losses attributable to associates and Joint Ventures	(718,020)	(2,424,981)
Income not subject to tax	(2,332,903)	(3,514,189)
Income tax benefits on research and development expenditure	(90,399,586)	(58,210,734)
Expenses not deductible for tax	12,877,354	11,695,031
Deductible temporary differences not recognised and deductible losses	3,272,060	32,401,562
Utilization of deductible temporary differences not recognised in the prior years and deductible losses	(12,112,032)	(879,392)
Profits unrealised within the Group	-	(57,807,410)
Others	<u>2,368,782</u>	<u>(8,847,773)</u>
Tax expenses at the Group's effective tax rate	<u>316,595,714</u>	<u>312,098,646</u>

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

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

50. 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:

	2018	2017
Earnings		
Net profit for the period attributable to ordinary shareholders of the Company	<u>2,612,487,749</u>	<u>2,523,471,085</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>2.22</u>	<u>2.15</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.

51. Supplementary information to statement of cash flows

(1) Supplementary information to statement of cash flows

	2018	2017
Reconciliation of Net Profit to Cash Flow from Operating Activities:		
Net profit	2,650,535,215	2,562,210,015
Add: Asset impairment losses	(104,020,818)	133,654,692
Credit impairment losses	5,210,008	–
Depreciation of fixed assets	319,532,096	306,671,206
Amortization of intangible assets	99,488,686	68,041,164
Increase (Decrease) in provision of special reserve	(1,187,806)	2,802,253
Amortization of long-term prepaid expenses	2,178,813	–
Losses (Gains) on disposal of fixed assets, intangible assets and other long-term assets	(1,412,378)	1,281,674
Finance costs	7,582,970	2,653,634
Investment income	(79,646,243)	(38,101,235)
Gains on fair value changes	–	(6,135,766)
Increase in deferred tax assets	(24,951,734)	(71,576,995)
Decrease in deferred tax liabilities	(15,660,877)	(8,439,057)
Decrease (Increase) in inventories	506,762,463	(283,093,839)
Decrease (Increase) in receivables under operating activities	160,831,640	(2,042,764,921)
Increase in payables under operating activities	233,321,167	841,984,795
Net cash flow from operating activities	<u>3,758,563,202</u>	<u>1,469,187,620</u>



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

51. Supplementary information to statement of cash flows (continued)

(1) Supplementary information to statement of cash flows (continued)

Movement in cash and cash equivalents:

	2018	2017
Closing balance of cash	4,381,012,798	3,422,194,522
Less: Opening balance of cash	3,422,194,522	3,065,846,850
Net increase in cash and cash equivalents	958,818,276	356,347,672

(2) Cash and cash equivalents

	31 December 2018	31 December 2017
Cash		
Including: Cash on hand	61,065	31,278
Bank deposits on demand	4,345,951,733	3,240,682,932
Term deposits	35,000,000	181,480,312
Closing balance of cash and cash equivalents	4,381,012,798	3,422,194,522

52. Assets with restrictions on title

	31 December 2018	31 December 2017
Cash and bank balances	13,366,352	168,758,307

As at 31 December 2018, the cash and bank balances of RMB13,366,352 (31 December 2017: RMB71,086,352) is used as security deposits by the Group for letters of guarantee from bank.

As at 31 December 2018, the Group has no cash and bank balances used as security deposits for issuance of acceptance notes (31 December 2017: RMB97,671,955).

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VI. CHANGES IN SCOPE OF CONSOLIDATION

1. The cancellation of subsidiaries

In May 2018, the Company merged Times Equipment, a wholly-owned subsidiary of the Company, The related industrial and commercial registration is finished on 15 May 2018.

2. Loss control of a subsidiary

The Group originally held an equity of 51% of Wenzhou Electric and have control over it. In May 2018, as approved by the interim general meeting of shareholders of Wenzhou Electric, Wenzhou Electric, a subsidiary originally included in the Group's consolidation scope, completed capital increase, the original minority shareholders added investments by means of cash and re-elects the board of directors. The Company has no longer control over Wenzhou Electric. According to the new Joint Ventures agreement, Wenzhou Electric has become the Company's Joint Ventures and subsequently accounted under equity method. The change of industrial and commercial registration was completed on 24 May 2018. Since then, the Group will no longer include Wenzhou Electric in the consolidation scope. At the date of loss of control right over Wenzhou Electric, the balance of cash and cash equivalents is RMB30,699,682, the fair value of residual stock right is RMB15,783,118, which is subsequently accounted under equity method.

3. New subsidiaries

In December 2018, the subsidiary company Baoji CRRC Times Engineering Machinery Co., Ltd. ("Baoji Times") and CRRC Times Taiyuan Locomotive and Rolling Stock Co., Ltd. jointly established the subsidiary Taiyuan Zhongche Time Track Construction Machinery Co., Ltd. ("Taiyuan Times") with a registered capital of RMB50 million. As the Group owns 55% of its shares and holds more than half of the voting seats on the board of directors, the Group has control over the Taiyuan era.

4. Business combination involving enterprises under common control

In August 2007, the Company obtained 68% of the equity of Shanghai CNR Yongdian Electronic Technology Co., Ltd. ("Shanghai Yongdian") by cash of RMB10,356,300. Shanghai Yongdian is the shareholding subsidiary of CRRC Jinzheng Investment Co., Ltd., a wholly-owned subsidiary of the Company's ultimate holding party CRRC Group Co., Ltd. Since both parties are under the non-temporary control of the same ultimate holding party prior and subsequent to the combination, such combination is the business combination involving enterprises under common control. According to the equity transfer agreement, the delivery of 68% shares transferred to the Company by CRRC Jinzheng Investment Co., Ltd. was completed on 2 August 2017. Upon that time, the Company has completed the business combination involving enterprises under common control against Shanghai Yongdian and the combination date is 2 August 2017. Meanwhile, at the combination date, the Company acquired 32% of the equity of Shanghai Yongdian from minority shareholders at a consideration of RMB4,873,500. Upon the completion of the transactions aforesaid, the Company holds 100% equity in Shanghai Yongdian.



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VII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

Particulars of subsidiaries of the Company are as follows:

Name of companies	Place of registration/ Principal place of business	Registered capital	Nature of business	Proportion of shareholding		Proportion of votes
				Direct	Indirect	
Subsidiaries newly established or invested						
Ningbo CRRC Times Transducer Technology Co., Ltd. ("Ningbo Times")	Ningbo, Zhejiang	RMB148,826,200	Manufacturing	100%	–	100%
Zhuzhou Times Electronic Technology Co., Ltd. ("Times Electronics")	Zhuzhou, Hunan	RMB80,000,000	Manufacturing	100%	–	100%
Shenyang CRRC Times Transportation Technology Co., Ltd. ("Shenyang Times")	Shenyang, Liaoning	RMB56,000,000	Manufacturing	100%	–	100%
Baoji Times	Baoji, Shanxi	RMB281,655,300	Manufacturing	85.8%	–	85.8%
Taiyuan Times	Taiyuan, Shanxi	RMB50,000,000	Manufacturing	–	55%	55%
Kunming CRRC Times Electronic Equipment Co., Ltd. ("Kunming Electric")	Kunming, Yunnan	RMB55,000,000	Manufacturing	100%	–	100%
Hangzhou CRRC Times Electric Equipment Co., Ltd. ("Hangzhou Electric")	Hangzhou, Zhejiang	RMB75,000,000	Manufacturing	60%	–	60%
Guangzhou CRRC Times Electric Technology Co., Ltd. ("Guangzhou Times")	Guangzhou, Guangdong	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 Electric Equipment Co., Ltd. ("Ningbo Electric")	Ningbo, Zhejiang	RMB10,000,000	Manufacturing	100%	–	100%
Chengdu CRRC Times Electric Technology Co., Ltd. ("Chengdu Electric")	Chengdu, Sichuan	RMB30,000,000	Manufacturing	100%	–	100%
Qingdao CRRC Electric Equipment Co., Ltd. ("Qingdao Electric")	Qingdao, Shandong	RMB100,000,000	Manufacturing	45%	–	45%
Shanghai CRRC Rail Transit Technology Co., Ltd. ("Shanghai CRRC Rail Transit")	Shanghai	RMB50,000,000	Manufacturing	51%	–	51%
Zhuzhou CRRC Times Software Technology Co., Ltd. ("Times Software")	Zhuzhou, Hunan	RMB100,000,000	Software service	100%	–	100%
Hunan CRRC Times Signal & Communication Co., Ltd. ("Times Signal & Communication")	Changsha, Hunan	RMB229,000,000	Manufacturing	100%	–	100%
Lanzhou CRRC Times Rail Transit Technology Co., Ltd. ("Lanzhou Times")	Lanzhou, Gansu	RMB50,000,000	Manufacturing	51%	–	51%
Specialist Machine Developments (Shanghai) Co., Ltd. ("Shanghai SMD")	Shanghai	RMB30,000,000	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%

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VII. INTERESTS IN OTHER ENTITIES (continued)

1. Interests in subsidiaries (continued)

Name of companies	Place of registration/ Principal place of business	Registered capital	Nature of business	Proportion of shareholding		Proportion of votes
				Direct	Indirect	
By business combination not involving entities under common control						
Dynex	Canada	CAD37,096,192	Investment holding	75%	–	75%
Dynex Semiconductor Limited ("Dynex Semiconductor")	United Kingdom	GBP15,000,000	Manufacturing	–	75%	75%
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	SGD 1	Manufacturing	–	100%	100%
SMD do Brasil Ltd.	Brazil	BRL 100	Trading	–	100%	100%
By business combination involving entities under common control						
Zhuzhou National Engineering Research Centre of Converters Co., Ltd. ("ZNERCC")	Zhuzhou, Hunan	RMB273,000,000	Manufacturing	100%	–	100%
Shanghai CNR Yongdian Electronic Technology Co., Ltd. ("Shanghai Yongdian")	Shanghai	RMB60,000,000	Manufacturing	100%	–	100%



Notes to the financial statements

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VII. INTERESTS IN OTHER ENTITIES (continued)

1. Interests in subsidiaries (continued)

Subsidiaries with significant non-controlling interests are as follows:

2018

	Proportion in non-controlling interest	Profits attributable to non-controlling shareholders	Dividends paid to non-controlling shareholders	Accumulated non-controlling interests
Baoji Times	<u>14.2%</u>	<u>23,503,261</u>	<u>(12,780,000)</u>	<u>91,120,080</u>

2017

	Proportion in non-controlling interest	Profits attributable to non-controlling shareholders	Dividends paid to non-controlling shareholders	Accumulated non-controlling interests
Baoji Times	<u>14.2%</u>	<u>24,956,709</u>	<u>(3,152,206)</u>	<u>80,163,568</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
31 December 2018	
Current assets	<u>2,431,437,237</u>
Non-current assets	<u>185,098,077</u>
Total assets	<u>2,616,535,314</u>
Current liabilities	<u>1,974,716,524</u>
Non-current liabilities	<u>128,083</u>
Total liabilities	<u>1,974,844,607</u>
2018	
Revenue	<u>2,720,223,956</u>
Net profit	<u>165,515,922</u>
Total comprehensive income	<u>164,863,279</u>
Net cash flows from operating activities	<u>33,540,140</u>

Notes to the financial statements

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VII. INTERESTS IN OTHER ENTITIES (continued)

1. Interests in subsidiaries (continued)

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: (continued)

	Baoji Times
31 December 2017	
Current assets	2,645,897,298
Non-current assets	<u>165,873,529</u>
Total assets	<u>2,811,770,827</u>
Current liabilities	2,242,238,660
Non-current liabilities	<u>5,000,000</u>
Total liabilities	<u>2,247,238,660</u>
2017	
Revenue	2,633,544,021
Net profit	175,751,471
Total comprehensive income	<u>175,751,471</u>
Net cash flows from operating activities	<u><u>(26,482,696)</u></u>



Notes to the financial statements

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VII. INTERESTS IN OTHER ENTITIES (continued)

2. Interests in Joint Ventures and associates

	Incorporation place/ 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
Shanghai Shentong CRRC	Shanghai	R&D and technical Service industry	RMB10,000,000	50%	–	Equity method
Wenzhou Electric	Wenzhou, Zhejiang	Manufacturing	RMB30,600,000	50%	–	Equity method
Associates						
Zhuzhou Siemens	Zhuzhou, Hunan	Manufacturing	RMB128,989,000	30%	–	Equity method
CRRC Wabtec	Changsha, Hunan	Manufacturing	RMB32,500,000	50%	–	Equity method
Guoxin Technology	Zhuzhou, Hunan	Manufacturing	RMB500,000,000	25%	–	Equity method
CRRC Hofer	Jiangsu, Wuxi	Manufacturing	EUR40,000,000	–	49%	Equity method

Shiling as an important Joint Ventures of the Group, is one of the suppliers of the fitting equipment products of CRH of the Group.

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VII. INTERESTS IN OTHER ENTITIES (continued)

2. Interests in Joint Ventures and associates (continued)

The table below demonstrates the key financial information of a significant Joint Ventures Shiling, which is adjusted according to accounting differences and adjusted to the carrying amount of current financial statements:

	31 December 2018	31 December 2017
Current assets	417,867,139	538,964,601
Including: Cash and bank balances	281,281,951	357,220,394
Non-current assets	55,227,543	57,056,595
Total assets	473,094,682	596,021,196
Current liabilities	50,763,978	165,943,755
Non-current liabilities	-	-
Total liabilities	50,763,978	165,943,755
Net assets	422,330,704	430,077,441
Net assets portion based on shareholding	208,360,915	215,038,721
Less: Unrealised profit of downstream trading	-	10,119,017
Carrying amount of investment	208,360,915	203,530,474

	2018	2017
Revenue	146,838,798	942,604,119
Income tax expense	266,358	17,559,720
Net profit	422,847	30,807,358
Total comprehensive income	422,847	30,807,358
Dividends received (Note)	5,500,000	25,000,000

Note: In 2018, dividends of RMB5,500,000 were distributed by Shiling to the Company (2017: RMB25,000,000, such dividends receivable have offset the Company's trade payables to Shiling). Such dividends receivable have been recovered in 2018.

The table below demonstrates the financial information of Joint Ventures and associates that are individually insignificant to the Group:

	2018	2017
Total carrying amount of investment	255,656,564	66,696,360
Total amounts based on shareholding		
Net profit (loss)	(5,422,527)	891,710
Total comprehensive income	(5,419,812)	920,217



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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 end of the reporting period are as follows:

31 December 2018

Financial assets

	Financial assets at amortization cost	Financial assets at fair value through profit and 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 and trade receivables	9,994,405,463	–	–	9,994,405,463
Other receivables	106,146,467	–	–	106,146,467
Other current assets	2,634,610,548	–	1,030,920,086	3,665,530,634
Other investment in equity instrument	–	–	900,000	900,000
	<u>17,149,002,927</u>	<u>1,603,855,068</u>	<u>1,031,820,086</u>	<u>19,784,678,081</u>

Financial liabilities

	Other financial liabilities
Short-term borrowings	168,246,814
Bills payable and trade payables	5,534,578,308
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>

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VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

1. Classification of financial instruments (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

31 December 2017

Financial assets

	Loans and receivables	Available-for-sale financial assets	Total
Cash and bank balances	3,807,870,646	–	3,807,870,646
Trade receivables and bills receivable	11,234,254,663	–	11,234,254,663
Other receivables	175,057,776	–	175,057,776
Other current assets	2,351,398,082	–	2,351,398,082
Available-for-sale financial assets	–	900,000	900,000
Long-term receivables	68,963,685	–	68,963,685
	<u>17,637,544,852</u>	<u>900,000</u>	<u>17,638,444,852</u>

Financial liabilities

	Other financial liabilities
Short-term borrowings	202,427,360
Trade payables and Bills payable	5,454,698,714
Other payables	556,316,992
Long-term borrowings (including long-term borrowings due within one year)	102,006,235
Long-term payables	119,375,682
	<u>6,434,824,983</u>

Transferred financial assets that are not derecognised in their entirety

As at 31 December 2018, the Group endorsed specific bank acceptance bills or commercial acceptance bills with a carrying amount of RMB128,819,890 (31 December 2017: RMB197,323,488) 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 recognise the full carrying amounts of the settled trade payables.



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VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

1. Classification of financial instruments (continued)

Transferred financial assets that are derecognised in their entirety with continuing involvement

As at 31 December 2018, the Group endorsed specific bank acceptance bills with a carrying amount of RMB237,129,183 (31 December 2017: RMB348,296,635) to certain of its suppliers in order to settle the trade payables. At 31 December 2018, 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 2018, the Group has not recognised any gain or loss on the date of transfer of the specific bank acceptance bills. The endorsement has been made evenly throughout the year.

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 and trade receivables, other receivables, contract assets and other current assets, bills payable and trade payables, other payables, borrowings and long-term payables and 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 currency contracts, aiming at managing the exchange rate risk from the operation of the Group. During the entire year, 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 recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which mainly comprise cash and bank balances, other receivables and other current assets, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

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VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

2. Financial instruments and their risks (continued)

Credit risk (continued)

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 recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. As at 31 December 2018, the Group had certain concentrations of credit risk as 16.5% (31 December 2017: 23.5%) and 37.5% (31 December 2017: 46.2%) 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 confirmation, basis for determining the financial impairment of financial assets, the method of using financial instruments to assessing 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 difference 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 2018, the group's assessment methods and major assumptions have not changed.

Credit risk exposures of the Group's financial assets and other items are detailed as follows:

	12-month ECL	Lifetime ECL (Non-credit- impaired)	Lifetime ECL (Credit-impaired)	Carrying amount 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	854,151,906	176,768,180	–	1,030,920,086



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VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

2. Financial instruments and their risks (continued)

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.

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 2018

	Within 1 year	1-2 years	Over 2 years	Total	Carrying amount
Short-term borrowings	170,808,318	–	–	170,808,318	168,246,814
Bills payable and trade payables	5,534,578,308	–	–	5,534,578,308	5,534,578,308
Other payables	669,071,995	–	–	669,071,995	669,071,995
Long-term borrowings (including long-term borrowings due within one 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)

Liquidity risk (continued)

As at 31 December 2017

	Within 1 year	1-2 years	Over 2 years	Total	Carrying amount
Short-term borrowings	206,378,284	–	–	206,378,284	202,427,360
Bills payable and trade payables	5,454,698,714	–	–	5,454,698,714	5,454,698,714
Other payables	556,316,992	–	–	556,316,992	556,316,992
Long-term borrowings (including long-term borrowings due within one year)	3,737,934	7,794,059	99,859,934	111,391,927	111,319,128
Long-term payables	–	83,575,825	35,799,857	119,375,682	119,375,682
	<u>6,221,131,924</u>	<u>91,369,884</u>	<u>135,659,791</u>	<u>6,448,161,599</u>	<u>6,444,137,876</u>

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 Japanese Yen, US Dollar and GBP, etc. The fluctuation of these foreign currencies against RMB will have an impact on the Group's operating results. As at 31 December 2018, the Group's assets and liabilities dominated in foreign currencies are as follows:



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VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

2. Financial instruments and their risks (continued)

Market risk (continued)

Currency risk (continued)

	Total assets	Total liabilities
JPY	2,520,212	41,856,951
USD	59,098,088	8,765,569
GBP	80,673,800	20,942,340

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates of JPY, US dollar and GBP, with all other variables held constant, of the Group's total profit. As the carrying amounts of financial instruments denominated in other currencies are not significant, their sensitivity analysis are omitted here.

As at 31 December 2018

	Increase/ (decrease) in basis points	Increase/ (decrease) in net profit	Increase/ (decrease) in other comprehensive income after tax	Increase/ (decrease) in shareholders' equity
JPY				
RMB strengthens against JPY	+10%	3,343,623	–	3,343,623
RMB weakens against JPY	-10%	(3,343,623)	–	(3,343,623)
USD				
RMB strengthens against USD	+10%	(4,278,264)	(2,419,744)	(6,698,009)
RMB weakens against USD	-10%	4,278,264	2,419,744	6,698,009
GBP				
RMB strengthens against GBP	+10%	(5,077,174)	11,095,479	6,018,305
RMB weakens against GBP	-10%	5,077,174	(11,095,479)	(6,018,305)

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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 2017

	Increase/ (decrease) in Basis points	Increase/ (decrease) in net profit	Increase/ (decrease) in other comprehensive income after tax	Increase/ (decrease) in shareholders' equity
JPY				
RMB strengthens against JPY	+10%	19,559,503	–	19,559,503
RMB weakens against JPY	-10%	(19,559,503)	–	(19,559,503)
USD				
RMB strengthens against USD	+10%	(7,794,700)	(626,399)	(8,421,099)
RMB weakens against USD	-10%	7,794,700	626,399	8,421,099
GBP				
RMB strengthens against GBP	+10%	(33,448)	10,945,150	10,911,702
RMB weakens against GBP	-10%	33,448	(10,945,150)	(10,911,702)
EUR				
RMB strengthens against EUR	+10%	(2,251,807)	(742,115)	(2,993,922)
RMB weakens against EUR	-10%	2,251,807	742,115	2,993,922



Notes to the financial statements

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VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

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 2018 and 2017.

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, 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 2018	31 December 2017
Short-term borrowings	168,246,814	202,427,360
Bills payable and trade payables	5,534,578,308	5,454,698,714
Employee benefits payable	135,840,963	47,223,201
Taxes payable (excluding income tax payable)	217,086,580	116,862,035
Other payables	669,071,995	556,316,992
Long-term borrowings (including due within one year)	237,329,655	102,006,235
Long-term payables	41,525,173	119,375,682
Less: Cash and cash equivalents	<u>4,381,012,798</u>	<u>3,422,194,522</u>
Net liabilities	2,622,666,690	3,176,715,697
Equity attributable to the shareholders	<u>19,824,763,980</u>	<u>17,764,353,968</u>
Capital and net debt	<u>22,451,030,670</u>	<u>20,941,069,665</u>
Gearing ratio	<u>11.68%</u>	<u>15.17%</u>

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IX. DISCLOSURE OF FAIR VALUE

1. Assets measured at fair value

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				
– Other current assets	–	1,030,920,086	–	1,030,920,086
– Other investment in equity instrument	–	–	900,000	900,000

31 December 2017

	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	–	1,350,000,000	–	1,350,000,000

Notes to the financial statements

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IX. DISCLOSURE OF FAIR VALUE (continued)

2. Liabilities disclosed at fair value

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

31 December 2017

	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 receivables	–	–	68,963,685	68,963,685
Long-term borrowings	–	99,427,028	–	99,427,028
Long-term payables	–	–	119,375,682	119,375,682

3. Fair value evaluation

Management has assessed the fair values of cash and bank balances, bills receivable and trade receivables, other receivables, other current assets, short-term borrowings, bills payable and 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 reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The 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 receivables, 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 2018 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 Institute)	Zhuzhou, Hunan	Manufacturing	8,340,710,000	50.16%	50.16%

The controlling shareholder of the parent company is CRRC Corporation Limited.

The ultimate holding party of the Company is CRRC Group, which is an enterprise directly under the central government directly administered by the State-owned Assets Supervision and Administration Commission of the State Council.

2. Subsidiaries

For details of the subsidiaries of the Company, please refer to Note VII. 1 Interest in subsidiaries.

Investment in subsidiaries

	31 December 2018	31 December 2017
Unlisted shares measured at cost	2,214,008,296	1,850,168,453
Shares listed in Canada measured at cost	216,539,728	216,539,728
	2,430,548,024	2,066,708,181
Decline in value	(178,169,001)	(178,169,001)
	2,252,379,023	1,888,539,180
Market value of listed shares	103,431,221	96,771,876

3. Joint Ventures and Associates

For details of the Joint Ventures and associates of the Company, please refer to Note VII. 2 Interests in Joint Ventures and associates.



Notes to the financial statements

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

4. Other related parties

Name of the companies

(1) Related party relationships: Corporation controlled by the ultimate holding party excluding Zhuzhou Institute

CRRCC Zhuzhou Locomotive Co., Ltd.
Ningbo Jiangbei Gofront Herong Electric Co., Ltd.
CRRCC Datong Locomotive Co., Ltd.
Beijing CRRCC CED Railway Electric Tech. Co., Ltd.
CRRCC Dalian Co., Ltd.
CRRCC Qishuyan Co., Ltd.
CRRCC Erqi Co., Ltd.
CRRCC Ziyang Co., Ltd.
CRRCC Changchun Railway Vehicles Co., Ltd.
CRRCC Qingdao Sifang Co., Ltd.
Qingdao CRRCC Sifang Sales Co., Ltd.
CRRCC Chengdu Co., Ltd.
CRRCC Tangshan Co., Ltd.
CRRCC Nanjing Puzhen Co., Ltd.
Nanjing CRRCC Puzhen Rapid Transit Vehicles Co., Ltd.
CRRCC Guangdong Co., Ltd.
CRRCC Hangzhou Co., Ltd.
CRRCC Sifang Co., Ltd.
Bombardier Sifang (Qingdao) Transportation Ltd.
Shijiazhuang King Transportation Equipment Co., Ltd.
CRRCC Taiyuan Co., Ltd.
CRRCC Yongji Electric Co., Ltd.
Xi'an CRRCC Yongdian Electric Co., Ltd.
CRRCC Zhuzhou Electric Co., Ltd.
Australia CRRCC Changke Rail Transit Equipment Co., Ltd.
Shanghai Alstom Transport Co., Ltd.
Chengdu CRRCC Sifang Railway Co., Ltd.
CRRCC Luoyang Co., Ltd.
Quanzhou CRRCC Tangshan Railway Vehicle Co., Ltd.
Ziyang CRRCC Electric Locomotive Co., Ltd.
CRRCC Qishuyan Institute Co., Ltd.
Hunan CRRCC Environmental Engineering Co., Ltd.
CRRCC Finance Co., Ltd.
CRRCC Xi'an Co., Ltd.
Meishan CRRCC Brake Technology Co., Ltd.
Meishan CRRCC Fastener Science & Technology Co., Ltd.
CRRCC Yangtze Tongling Co., Ltd.
CRRCC Qingdao Sifang Rolling Stock Research Institute Co., Ltd.
CRRCC Changzhou Tech-mark Industrial Co., Ltd.
Changzhou Ruitai Engineering Machinery Co., Ltd.
Kungming CRRCC Rail Transit Equipment Co., Ltd.
CRRCC Massachusetts Co., Ltd.
Chengdu CRRCC Electric Co., Ltd.

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

4. Other related parties (continued)

Name of the companies

(1) Related party relationships: Corporation controlled by the ultimate holding party excluding Zhuzhou Institute (continued)

Wuhan CRRC Changke Railway Vehicles Co., Ltd.
Nanjing CRRC Puzhen Haitai Brake Equipment Co., Ltd.
CRRC Ziyang Transmission Co., Ltd.
CRRC Dalian Locomotive Research Institute Co., Ltd.
CRRC Logistics Co., Ltd.
Qingdao KAMAX Buffer Equipment Co., Ltd.
Qingdao Sri Technology Co., Ltd.
CRRC Yangtze Co., Ltd.
Changchun CRRC Railway Vehicles Co., Ltd.
Tianjin CRRC Sifang Co., Ltd.
CRRC Tianjin JL Equipment Co., Ltd.
Guangzhou CRRC Junfa Electrical Co. Ltd.
CRRC Dalian Electric Traction Research and Development Center Co., Ltd.
Zhejiang CRRC Electric Vehicles Co., Ltd.
Qingdao CRRC Sifang Logistics Co., Ltd.
Foshan CRRC Sifang Railway Vehicles Co., Ltd.
Wuhan CRRC Sifang Maintenance Center Co., Ltd.
Wuhan CRRC ZELC Rail Transit Equipment Co., Ltd.
Shijiazhuang CRRC Railway Vehicles Equipment Co., Ltd.
CRRC Shandong Co., Ltd.
CRRC Xi'an YongeJieTong Electric Co., Ltd.
CRRC Investment & Leasing Co., Ltd.
CRRC Transnet Rail (PTY) LTD
Chongqing CRRC Construction Engrg Co., Ltd.
CRRC Industry Research Institute Co., Ltd.
Hunan CRRC Times Electric Vehicle Co., Ltd.
CRRC Qiqihar Rolling Stock Co., Ltd.
CRRC (Hongkong) Co., Ltd.
Cangzhou CRRC Zhuzhou Track Equipment Co., Ltd.
Dalian CRRC Ruitong Technology Development Co., Ltd.
Henan CRRC Heavy Equipment Co., Ltd.
Suzhou CRRC Rail Vehicle Co., Ltd.
Wuxi CRRC Times Intelligent Equipment Co., Ltd.
Lanzhou CRRC Locomotive Co., Ltd.
Chongqing CRRC Changke Rail Vehicle Co., Ltd.
Zhuzhou CRRC Logistics Co., Ltd.
Shandong CRRC Huateng Environmental Protection Technology Co., Ltd.
Chongqing CRRC Sifang Technology Co., Ltd.
CRRC Environmental Technology Co., Ltd.
CRRC Zhuzhou Electric Locomotive Industrial Management Co., Ltd.
CRRC Guiyang Vehicle Co., Ltd.
Zhengzhou CRRC Sifang Co., Ltd.
Zhuzhou Jiufang Braking Equipment Co., Ltd.



Notes to the financial statements

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

4. Other related parties (continued)

Name of the companies

(2) Related party relationships: Associate of the ultimate holding group

Guangzhou Locomotive Co., Ltd.
Beijing Beijiufang Science and Trade Co., Ltd.

(3) Related party relationships: Joint Ventures of the ultimate holding group

Shentong CSR (Shanghai) Railway Vehicles Maintenance Co., Ltd
Shentong CNR (Shanghai) Railway Vehicles Maintenance Co., Ltd.
Changzhou Ruiyang Transmission Technology Co., Ltd.
Zhuzhou Jiufang Casting Co., Ltd.

(4) Related party relationships: Corporation controlled by the parent company

Zhuzhou CRRC Times Publishing Co., Ltd.
Shanghai CRRC Hange Shipping and Marine Engineering Co., Ltd.
Xiangyang CRRC Electric Machinery Co., Ltd.
Zhuzhou CRRC Electromechanical Technology Co., Ltd.
Hunan CRRC Special Electric Equipment Co., Ltd.
Zhuzhou Times New Material Technology Co., Ltd.
CRCC Zhuzhou Traction Electrical Equipment Test & Certification Co., Ltd.
Xiangyang China Railway Hongji Engineering Co., Ltd.
CRRC Beijing Heavy Industry and Mechanics Co., Ltd.
Zhuzhou Times Electric Insulation Co., Ltd.
CRRC-AVC Thermal Technologies (Zhuzhou) Co., Ltd.
Qingdao CRRC Huaxuan Water Co., Ltd.
Zhuzhou Times Rubber and Plastics Components Development Co., Ltd.

(5) Related party relationships: Associate of the parent company

Zhuzhou Electric Vehicle Co., Ltd.

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

5. Major transactions between the Group and its related parties

(1) Sales of goods to related parties

	2018	2017
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	5,691,821,668	5,486,730,287
Corporation controlled by the parent company	134,377,163	175,921,854
Associate of the ultimate holding group	56,967,450	9,292,071
Joint Ventures of the Company	44,230,985	525,138,343
Parent company	37,749,448	21,410,343
Associates of the company	7,917,311	465,592
Joint Ventures of the ultimate holding group	2,623,125	496,698
	<u>5,975,687,150</u>	<u>6,219,455,188</u>

(2) Purchases of goods from related parties

	2018	2017
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	1,280,919,554	969,402,501
Corporation controlled by the parent company	565,903,001	525,320,471
Joint Venturers of the Company	54,595,691	652,859,077
Associates of the Company	48,633,775	59,038,920
Joint Ventures of the ultimate holding group	24,167,827	32,704,730
Parent company	4,716,781	174,859
	<u>1,978,936,629</u>	<u>2,239,500,558</u>



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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

	2018	2017
Corporation controlled by the parent company	1,765,344	1,565,354
Parent company	438,849	317,023
Associates of the Company	19,766	14,490
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	–	39,095
	<u>2,223,959</u>	<u>1,935,962</u>

(4) Purchases of electricity from related parties

	2018	2017
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	493,820	74,611
Corporation controlled by the parent company	174,120	–
	<u>667,940</u>	<u>74,611</u>

(5) Related party leases

As lessor

	2018	2017
Corporation controlled by the parent company	5,491,909	4,167,990
Parent company	3,539,936	1,408,992
Associates of the Company	454,854	–
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	125,948	792,268
	<u>9,612,647</u>	<u>6,369,250</u>

Notes to the financial statements

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

5. Major transactions between the Group and its related parties (continued)

(5) Related party leases (continued)

As lessee

	2018	2017
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	4,218,564	240,000
Parent company	2,679,175	2,093,215
Associate of the parent company group	1,241,013	401,673
Corporation controlled by the parent company	1,029,084	—
	<u>9,167,836</u>	<u>2,734,888</u>

(6) Technical service income from related parties

	2018	2017
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	13,182,519	6,122,389
Corporation controlled by the parent company	2,898,361	3,895,738
Parent company	1,323,617	15,505,713
Joint Ventures of the ultimate holding group	6,790	—
Shareholders of the parent company	—	1,370,747
Joint Venturers of the Company	—	943,396
	<u>17,411,287</u>	<u>27,837,983</u>

(7) Maintenance services provided to related parties

	2018	2017
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	696,897,274	597,114,858
Associate of the ultimate holding group	63,745,286	93,607,422
Joint Ventures of the ultimate holding group	—	373,846
Corporation controlled by the parent company	—	46
	<u>760,642,560</u>	<u>691,096,172</u>



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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

5. Major transactions between the Group and its related parties (continued)

(8) Technical service fees paid to related parties

	2018	2017
Parent company	209,509,000	257,867,660
Corporation controlled by the parent company	7,220,101	4,376,996
Joint Ventures of the Company	215,000	–
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	110,000	12,800,384
	217,054,101	275,045,040

(9) Interest income from cash and bank balances

	2018	2017
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	5,070,209	4,137,132

(10) Interests expenses to borrowings

	2018	2017
Shareholders of the parent company	1,096,009	1,130,121

(11) Remuneration of key management

	2018	2017
Remuneration of key management	16,241,685	13,072,751

The terms of the above sales and purchase transactions, providing and accepting technical services, lending and lease transactions with related parties were agreed by both parties.

Notes to the financial statements

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

5. Major transactions between the Group and its related parties (continued)

(12) 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	2019
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	848,677,390
Purchases of goods from related parties	2019
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	312,604,793
Joint Ventures of the ultimate holding group	12,186,545
Joint Ventures of the Company	2,927,894
Corporation controlled by the parent company	569,049
Associates of the Company	42,077
	328,330,358

6. Amounts due from and due to related parties

	31 December 2018	31 December 2017
Trade receivables (including long-term trade receivables):		
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	1,713,360,225	2,336,948,688
Joint Ventures of the Company	86,485,618	79,511,007
Corporation controlled by the parent company	34,824,038	53,650,068
Parent company	28,542,033	13,134,471
Associates of the Company	9,734,640	–
Associate of the ultimate holding group	3,812,175	19,766,532
Joint Ventures of the ultimate holding group	3,050,701	455,424
	1,879,809,430	2,503,466,190



Notes to the financial statements

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

6. Amounts due from and due to related parties (continued)

	31 December 2018	31 December 2017
Bills receivable:		
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	1,720,527,780	2,014,822,608
Associate of the ultimate holding group	165,000,000	469,508,548
Corporation controlled by the parent company	–	93,316,160
Parent company	–	4,000,000
	<u>1,885,527,780</u>	<u>2,581,647,316</u>

	31 December 2018	31 December 2017
Prepayments:		
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	1,750,027	1,447,267
Parent company	145,020	–
Corporation controlled by the parent company	–	11,310,236
	<u>1,895,047</u>	<u>12,757,503</u>

	31 December 2018	31 December 2017
Other receivables:		
Parent company	1,081,500	146,197
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	602,880	518,000
Associates of the Company	117,915	324,073
Corporation controlled by the parent company	2,727	49,416
	<u>1,805,022</u>	<u>1,037,686</u>

Notes to the financial statements

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

6. Amounts due from and due to related parties (continued)

	31 December 2018
Contract assets:	
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	22,943,899
Associate of the ultimate holding group	300,000
Corporation controlled by the parent company	267,508
Joint Ventures of the ultimate holding group	8,361
	<u>23,519,768</u>

	31 December 2018	31 December 2017
Other current assets:		
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	231,900,436	-
Parent company	30,882,117	-
Corporation controlled by the parent company	368,635	-
	<u>263,151,188</u>	<u>-</u>

	31 December 2018	31 December 2017
Other non-current assets:		
Corporation controlled by the parent company	8,669,283	-
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	8,143,384	-
	<u>16,812,667</u>	<u>-</u>

As at 31 December 2018, the Company's deposit with CRR Finance Co., Ltd. is amounted to RMB687,881,170 (31 December 2017: RMB684,147,228).



Notes to the financial statements

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Renminbi Yuan

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

6. Amounts due from and due to related parties (continued)

As at 29 December 2017, the Company entered into a Financial Service Framework Agreement with CRRC Finance Co., Ltd. which was effective from 31 December 2017 to 30 December 2018. Pursuant to Financial Services Framework Agreement, the maximum daily deposit balance with CRRC Finance Co., Ltd. is no more than RMB700,000,000. The interest rate is no less than the higher of 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 28 December 2018, the Company and CRRC Finance Co., Ltd. entered into the framework agreement on financial services (the above framework agreement on financial services signed on 29 December was terminated). In accordance with the agreement, from 31 December 2018 to 30 December 2019, the maximum amount of total deposits per day in the CRRC Finance Co., Ltd. is no more than RMB700,000,000 and the deposit rate is no less than the higher of the benchmark interest rate issued by the People's Bank of China for similar type of deposits, the interest rate at which other major commercial banks of China should pay for comparable deposits and the interest rate at which CRRC Finance Co., Ltd. should pay for comparable deposits to other member companies of CRRC.

	31 December 2018	31 December 2017
Trade payables:		
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	177,352,045	424,615,188
Corporation controlled by the parent company	49,929,507	97,639,255
Joint Ventures of the Company	12,694,065	15,238,023
Joint Ventures of the ultimate holding group	11,463,618	36,191,552
Parent company	8,354,231	171,525
Associates of the Company	55,000	9,430,000
	<u>259,848,466</u>	<u>583,285,543</u>

	31 December 2018	31 December 2017
Bills payable:		
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	245,700,000	191,876,333
Corporation controlled by the parent company	145,437,553	178,394,630
Joint Ventures of the ultimate holding group	21,060,000	-
Joint Ventures of the Company	5,940,000	10,000,000
	<u>418,137,553</u>	<u>380,270,963</u>

Notes to the financial statements

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

6. Amounts due from and due to related parties (continued)

	31 December 2018	31 December 2017
Advances from customers:		
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	–	13,489,678
Corporation controlled by the parent company	–	40,564
Associate of the ultimate holding group	–	63,790
	<u>–</u>	<u>13,594,032</u>

	31 December 2018
Contract liabilities:	
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	<u>163,252,072</u>

	31 December 2018	31 December 2017
Interests payable:		
Shareholders of the parent company	–	66,603

	31 December 2018	31 December 2017
Dividends payable:		
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	<u>1,976,000</u>	<u>1,976,000</u>

	31 December 2018	31 December 2017
Other payables:		
Parent company	220,709,990	267,561,892
Corporation controlled by the parent company	13,018,412	3,153,278
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	311,616	2,098,853
The ultimate holding party	–	2,700,000
	<u>234,040,018</u>	<u>275,514,023</u>



Notes to the financial statements

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

6. Amounts due from and due to related parties (continued)

	31 December 2018	31 December 2017
Current portion of non-current liabilities		
Corporations controlled by the parent company	<u>5,000,000</u>	<u>2,500,000</u>
Long-term borrowings:		
Shareholders of the parent company	<u>92,688,000</u>	<u>97,688,000</u>

In 2018, the related party transactions about providing and purchasing goods and services of RMB6,712,954,687 (2017: RMB6,411,842,012) and RMB2,102,382,040 (2017: RMB1,802,647,601) respectively between the Group and the parent company and corporations controlled by the parent company, the ultimate holding party and corporations controlled by the ultimate holding party, Joint Ventures of the ultimate holding group as well as associates with above 30% share held by the ultimate holding party and the parent company 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 28 March 2016 by the Company and CRRC Group Co., Ltd. (together with its affiliated companies but excluding the Group).

In 2018, the related party transactions about providing and purchasing goods and services of RMB8,531,885 (2017: RMB48,827,977) and RMB139,755 (2017: RMB2,325,694) 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 (together with its affiliated companies).

Since China Railway Baoji Machinery Co., Ltd. (the "CRBM", a wholly-owned shareholding company of China Railway Group Limited (the "CREC")) is a main shareholder of the Group's subsidiary Baoji Times, in 2018, the transactions about providing and purchasing goods and services of RMB65,826,635 and RMB16,212,587 respectively between the Group and CREC (together with its affiliated companies) 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 (together with its affiliated companies).

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 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 trading amounts is subject to the provisions of the trading terms. Non-trading amounts have no fixed repayment periods.

Notes to the financial statements

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XI. COMMITMENTS AND CONTINGENCIES

1. Commitments

	31 December 2018	31 December 2017
Contracted but not provided for		
Capital commitments	385,505,762	186,529,276
Investments in subsidiaries	27,500,000	—
Total	413,005,762	186,529,276

2. Contingencies

The Group had no contingencies which should be disclosed.

XII. POST BALANCE SHEET EVENTS

Excluding the dividend distribution plan of the board of directors disclosed in the Note V. 35 retained earnings, the Group is also required to make disclosures for the following events subsequent to the balance sheet date:

Acquisition of all the shares of Dynex Power Inc. (“Dynex Power Inc.”) issued and issued abroad

On 18 January 2019, the Company signed an arrangement plan (the “Plan”) with Dynex. According to the Plan and the Canada Business Corporations Act, the Company acquired all the ordinary shares of Dynex issued and issued abroad which are not held by the Company at a cash consideration of CAD 0.65 per share. The total consideration is CAD 13.1 million. The Plan was completed on 15 March 2019, and Dynex has become the wholly-owned subsidiary of the Company. Shares of Dynex were delisted from Growth Enterprise Market of Toronto Stock Exchange by the end of trading on 19 March 2019 (Canadian time)

XIII. OTHER SIGNIFICANT EVENTS

1. Segment report

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.

Other information

Products and services information

Revenue from external customers

	2018	2017
Railway transportation equipment and relevant products and services	15,657,900,734	15,143,709,348



Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIII. OTHER SIGNIFICANT EVENTS (continued)

1. Segment report (continued)

Other information (continued)

Geographical information

Revenue from external customers

	2018	2017
Mainland China	14,883,638,444	14,368,634,988
Other countries and regions	774,262,290	775,074,360
	<u>15,657,900,734</u>	<u>15,143,709,348</u>

Revenue from external customers is analysed by geographic locations where the customers are located.

Total non-current assets

	31 December 2018	31 December 2017
Mainland China	3,934,996,092	3,650,462,635
Other countries and regions	1,094,283,306	943,877,219
Total	<u>5,029,279,398</u>	<u>4,594,339,854</u>

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 2018, the Group's operating revenue (which accounted for more than 10% of the Group's total revenue) of RMB6,589,612,036 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) (2017: RMB6,316,362,697 from a single customer).

Notes to the financial statements

For the year ended 31 December 2018
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XIII. OTHER SIGNIFICANT EVENTS (continued)

2. Operating lease

As lessor

According to the lease contracts entered into with lessees, the minimum lease receivables under irrevocable leases are as follows:

	31 December 2018	31 December 2017
Within 1 year, inclusive	8,738,559	6,434,244
1 to 2 years, inclusive	10,046,661	4,452,327
2 to 3 years, inclusive	4,250,160	3,989,788
Over 3 years	11,880,000	11,747,732
Total	34,915,380	26,624,091

As 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	31 December 2017
Within 1 year, inclusive	25,955,539	21,904,367
1 to 2 years, inclusive	10,876,655	9,796,020
2 to 3 years, inclusive	10,565,182	6,539,143
Over 3 years	28,845,170	23,282,875
Total	76,242,546	61,522,405



Notes to the financial statements

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XIII. OTHER SIGNIFICANT EVENTS (continued)

3. Other financial information

(1) Net current assets and total assets less current liabilities

	31 December 2018		31 December 2017	
	Group	Company	Group	Company
Net current assets	15,745,610,768	12,674,455,549	13,989,357,450	11,531,377,764
Total assets less current liabilities	21,197,627,041	19,013,236,049	19,026,357,907	17,566,846,287

(2) Contributions paid to pension plans

	2018	2017
Contributions paid to pension plans	184,954,052	182,419,101

As at 31 December 2018 and 2017, 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:

	2018	2017
Fees	986,683	923,173
Other emoluments:		
Salaries, allowances and benefits in kind	1,783,302	1,637,124
Performance related bonuses	2,144,009	1,807,830
Pension scheme contributions	320,512	238,281
	4,247,823	3,683,235
Total	5,234,506	4,606,408

Notes to the financial statements

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XIII. OTHER SIGNIFICANT EVENTS (continued)

3. Other financial information (continued)

(3) Remuneration of directors, supervisors and chief executive (continued)

Remuneration of directors, supervisors and chief executive for the current year is disclosed as follows:

2018

	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 (Note 3)	-	-	-	-	-
	-	-	-	-	-
Independent non-executive directors					
Chen Jinrong	283,530	-	-	-	283,530
Pu Bingrong	283,530	-	-	-	283,530
Liu Chunru	103,768	-	-	-	103,768
Chen Xiaoming (Note 5)	103,768	-	-	-	103,768
Ouyang Minggao (Note 6)	29,262	-	-	-	29,262
Gao Feng (Note 7)	44,698	-	-	-	44,698
	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
	986,683	1,783,302	2,144,009	320,512	5,234,506

Notes to the financial statements

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XIII. OTHER SIGNIFICANT EVENTS (continued)

3. Other financial information (continued)

(3) Remuneration of directors, supervisors and chief executive (continued)

Remuneration of directors, supervisors and chief executive for the current year is disclosed as follows:

2017

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
Executive directors					
Ding Rongjun (Note 1)	–	–	–	–	–
Li Donglin (Note 1)	–	–	–	–	–
Liu Ke'an	–	522,500	769,740	55,268	1,347,508
Yan Wu	–	374,848	392,448	51,654	818,950
	<u>–</u>	<u>897,348</u>	<u>1,162,188</u>	<u>106,922</u>	<u>2,166,458</u>
Non-executive directors					
Zhang Xinning (Note 3)	–	–	–	–	–
Ma Yunkun (Note 4)	56,208	–	–	–	56,208
	<u>56,208</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>56,208</u>
Independent non-executive directors					
Chen Jinrong	278,571	–	–	–	278,571
Pu Bingrong	278,571	–	–	–	278,571
Liu Chunru	92,857	–	–	–	92,857
Chen Xiaoming (Note 5)	63,198	–	–	–	63,198
Ouyang Minggao (Note 6)	26,751	–	–	–	26,751
	<u>739,948</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>739,948</u>
Supervisors					
Xiong Ruihua	–	–	–	–	–
Pang Yiming	–	310,964	214,077	58,859	583,900
Zhou Guifa	34,160	428,812	431,565	72,500	967,037
Geng Jianxin	92,857	–	–	–	92,857
	<u>127,017</u>	<u>739,776</u>	<u>645,642</u>	<u>131,359</u>	<u>1,643,794</u>
	<u>923,173</u>	<u>1,637,124</u>	<u>1,807,830</u>	<u>238,281</u>	<u>4,606,408</u>

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XIII. OTHER SIGNIFICANT EVENTS (continued)

3. Other financial information (continued)

(3) Remuneration of directors, supervisors and chief executive (continued)

Note 1: At 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: At 12 July 2018, Yang Shouyi was appointed as vice chairman and executive director of the Company.

Note 3: At 18 August 2017, Zhang Xinning was appointed as non-executive director of the Company.

Note 4: At 10 July 2017, Ma Yunkun resigned from non-executive director of the Company.

Note 5: At 28 March 2017, Chen Xiaoming was appointed as independent non-executive director of the Company.

Note 6: At 18 August 2017, Ouyang Gaoming was appointed as independent non-executive director of the Company and resigned at 25 March 2018.

Note 7: At 17 August 2018, Gao Feng was appointed as independent non-executive director of the Company.

Five highest paid employees of the Group are listed as follow:

	2018	2017
Directors, supervisors and chief executive officers	1	1
Non-directors and non-supervisors employee	4	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:

	2018	2017
Salaries allowances and benefits in kind	7,162,568	5,128,789
Performance related bonuses	927,824	585,548
Pension scheme contributions	156,161	275,522
	<u>8,246,553</u>	<u>5,989,859</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:

	2018	2017
HKD1,000,001 to 2,000,000	1	3
HKD2,000,001 to 3,000,000	2	1
HKD3,000,001 to 4,000,000	1	–
HKD4,000,001 to 5,000,000	–	–
	<u>4</u>	<u>4</u>



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XIII. OTHER SIGNIFICANT EVENTS (continued)

3. Other financial information (continued)

(3) Remuneration of directors, supervisors and chief executive (continued)

In 2018, Ding Rongjun, Li Donglin, Yang Shouyi, Liu Ke'an, Yan Wu, Zhang Xinning and Xiong Ruihua and Pang Yiming waived after-tax allowance amounting to RMB104,000, RMB78,000, RMB78,000, RMB65,000, RMB65,000, RMB78,000 and 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, and no emoluments were paid by the Group to any director, supervisor, chief executive and any non-director and nonsupervisory 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 2018	31 December 2017
Bank deposits	2,924,163,813	2,264,146,853
Other cash and bank balances	<u>12,566,352</u>	<u>12,526,298</u>
	<u>2,936,730,165</u>	<u>2,276,673,151</u>

As at 31 December 2018, the cash and bank balances of RMB12,566,352 (31 December 2017: RMB12,526,298) of the Company are restricted as security deposits for issuance of bank letters of guarantee.

As at 31 December 2018, the cash and bank balances deposited overseas by the Company were equivalent to RMB41,060,956 (31 December 2017: nil).

Interest income earned on current deposits is calculated by using the current deposit interest rate. The deposit periods for short-term deposits vary from 1 day to 3 months depending on the cash requirements of the Company and earn interest at the respective deposit rates. As at 31 December 2018, there was no unpledged fixed deposit with terms over 3 months by the Company.

Notes to the financial statements

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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

2. Bills receivable and trade receivables

	31 December 2018	31 December 2017
Bills receivable	3,240,144,076	4,234,190,968
Trade receivables	4,959,021,975	5,086,590,574
	<u>8,199,166,051</u>	<u>9,320,781,542</u>

(1) Bills receivable

	31 December 2018	31 December 2017
Commercial acceptance bills	3,152,699,454	3,536,632,791
Bank acceptance bills	148,832,238	697,558,177
	<u>3,301,531,692</u>	4,234,190,968
Less: Provision for credit losses	61,387,616	—
	<u>3,240,144,076</u>	<u>4,234,190,968</u>

Provision for credit loss of bills receivable:

	Opening balance	Provisions	Closing balance
12-month expected credit losses	—	61,387,616	61,387,616

Five highest bills receivable are listed as follows:

	31 December 2018
CRRC Zhuzhou Locomotive Co., Ltd.	1,239,957,804
Non-related party	813,400,000
Non-related party	192,080,000
CRRC Qingdao Sifang Co., Ltd.	167,580,000
Guangzhou Locomotive Co., Ltd	161,700,000
	<u>2,574,717,804</u>



Notes to the financial statements

For the year ended 31 December 2018
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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

2. Bills receivable and trade receivables (continued)

(1) Bills receivable (continued)

Five highest bills receivable are listed as follows: (continued)

	31 December 2017
CRRC Zhuzhou Locomotive Co., Ltd.	1,426,957,866
Non-related party	1,163,884,184
Guangzhou Locomotive Co., Ltd	469,508,548
CRRC Qingdao Sifang Co., Ltd.	179,000,000
CRRC Qishuyan Co., Ltd.	104,068,822
	<u>3,343,419,420</u>

(2) Trade receivables

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

The aging analysis of trade receivables is as follows:

	31 December 2018	31 December 2017
Within 6 months	4,378,300,687	4,482,494,405
6 months to 1 year	321,343,339	334,575,052
1 to 2 years	294,297,963	322,119,712
2 to 3 years	44,980,487	32,519,094
Over 3 years	1,287,670	30,975,265
	<u>5,040,210,146</u>	5,202,683,528
Less: Provision for credit loss/ Provision for bad debts	81,188,171	112,281,522
	<u>4,959,021,975</u>	5,090,402,006
Less: Classified as long-term receivables	-	3,811,432
	<u>4,959,021,975</u>	<u>5,086,590,574</u>

As part of the Company's credit risk management, the Company assesses the expected credit losses of trade receivables arising from the following four categories of customers by aging. All of the four categories of customers involve large number of customers with similar risk characteristics. The aging information can reflect the solvency of the four categories of customers when trade receivables expire.

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

2. Bills receivable and trade receivables (continued)

(2) Trade receivables (continued)

As at 31 December 2018, the credit risk and ECL of the trade receivables of the four categories of customers are as follows:

	Expected average loss rate %	Carrying amount	Provision for losses	Closing balance
Category I				
Credit impairment not occurred	0.50	2,961,102,997	14,724,398	2,946,378,599
Credit impairment incurred	2.27	258,096,473	5,863,183	252,233,290
Category II				
Credit impairment not occurred	0.84	1,433,103,965	12,027,629	1,421,076,336
Credit impairment incurred	15.37	36,200,582	5,562,514	30,638,068
Category III				
Credit impairment not occurred	0.63	92,483,808	587,135	91,896,673
Credit impairment incurred	10.15	4,902,598	497,810	4,404,788
Category IV				
Credit impairment not occurred	5.43	212,953,255	11,552,860	201,400,395
Credit impairment incurred	73.42	41,366,468	30,372,642	10,993,826
		<u>5,040,210,146</u>	<u>81,188,171</u>	<u>4,959,021,975</u>

Provision for credit loss/bad debt provision of trade receivables is as follows:

	Lifetime expected credit losses (credit losses has not occurred)	Lifetime expected credit losses (credit losses occurred)	2018 Total
1 January 2018	53,507,773	58,773,749	112,281,522
Transferred to incurred credit losses	(2,997,491)	2,997,491	-
Provision (Reversal)	(14,145,440)	(29,617,162)	(43,762,602)
Write-off	-	(3,359)	(3,359)
Increases as a result of merger by absorption (Note)	<u>2,527,180</u>	<u>10,145,430</u>	<u>12,672,610</u>
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 Company which led to the increase in bad debt.



Notes to the financial statements

For the year ended 31 December 2018
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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

2. Bills receivable and trade receivables (continued)

(2) Trade receivables (continued)

	2017
Opening balance	116,295,954
Provision in the current year	4,694,585
Reversal in the current year	(8,520,350)
Write-off in the current year	<u>(188,667)</u>
Closing balance	<u><u>112,281,522</u></u>

Five highest trade receivables are listed as follows:

	31 December 2018
CRRC Qingdao Sifang Co., Ltd.	1,088,024,902
Times Signal & Communication	322,587,217
Non-related party	317,597,549
Baoji Times	291,232,232
ZNERCC	271,237,611
	<u><u>2,290,679,511</u></u>

Five highest trade receivables (including long-term receivables) are listed as follows:

	31 December 2017
CRRC Qingdao Sifang Co., Ltd.	1,508,482,056
Times Signal & Communication	348,074,590
Non-related party	270,165,476
ZNERCC	204,415,599
Non-related party	<u>184,616,804</u>
	<u><u>2,515,754,525</u></u>

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

3. Prepayments

The aging analysis of prepayments is as follows:

	31 December 2018	31 December 2017
Within 1 year	241,793,147	176,629,998
1 to 2 years	35,279,821	6,443,261
2 to 3 years	3,397,225	655,924
Over 3 years	2,488,625	259,984
	282,958,818	183,989,167

Five highest prepayments are listed as follows:

	31 December 2018
Non-related party	47,942,146
Non-related party	32,892,288
Non-related party	29,732,856
Non-related party	18,581,421
Non-related party	17,973,792
	147,122,503

	31 December 2017
Non-related party	33,108,035
Non-related party	29,053,058
Non-related party	19,158,820
Dynex	15,849,892
Non-related party	13,342,293
	110,512,098



Notes to the financial statements

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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

4. Other receivables

The aging analysis of other receivables is as follows:

	31 December 2018	31 December 2017
Within 1 year	644,376,456	801,042,467
1 to 2 years	83,443,222	39,505,546
2 to 3 years	23,611,574	1,075,908
Over 3 years	1,636,778	1,150,212
	753,068,030	842,774,133
Less: Provision for credit loss/bad debts provision of other receivables	1,901,950	8,433,273
	751,166,080	834,340,860

The Company's credit risk exposures of other trade receivables have not significantly increased since initial recognition.

The movements of provision for credit loss/bad debt provision of other receivables are as follows:

	1 January 2018	Reversal	31 December 2018
12-month expected credit losses	8,433,273	(6,531,323)	1,901,950
			2017
Opening balance			2,603,152
Provisions			6,966,574
Reversal			(1,136,453)
Closing balance			8,433,273

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

4. Other receivables (continued)

Net value of other receivables by nature is as follows:

	31 December 2018	31 December 2017
Dividends receivable	120,760,000	18,740,000
Interests receivable	39,836,613	33,741,275
Trade receivables due from subsidiaries	520,840,336	711,144,457
Tender deposit	44,200,248	37,677,571
Deposit	20,008,386	16,203,299
Others	5,520,497	16,834,258
	<u>751,166,080</u>	<u>834,340,860</u>

Dividends receivable:

	31 December 2018	31 December 2017
Baoji Times	77,220,000	–
Ningbo Times	38,200,000	14,400,000
Ningbo Electric	3,000,000	2,000,000
Qingdao Electric	2,340,000	2,340,000
	<u>120,760,000</u>	<u>18,740,000</u>



Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

4. Other receivables (continued)

Five highest other receivables (including dividends receivable and interest receivable) are listed as follows:

	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>

	31 December 2017
Baoji Times	363,291,287
Ningbo Electric	99,600,000
Times Signal & Communication	97,386,620
HK Electric	78,954,155
Ningbo Times	69,182,562
	<u>708,414,624</u>

Notes to the financial statements

For the year ended 31 December 2018
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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

5. Inventories

	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>

	31 December 2017		
	Gross carrying amount	Impairment provision	Carrying amount
Raw materials	552,878,931	77,434,053	475,444,878
Semi-finished products	374,261,366	71,548,958	302,712,408
Work in progress	114,532,570	–	114,532,570
Finished goods	1,517,489,810	29,557,995	1,487,931,815
Turnover materials	21,641,909	1,183,751	20,458,158
	<u>2,580,804,586</u>	<u>179,724,757</u>	<u>2,401,079,829</u>

The movements of provision for impairment of inventories are listed as follows:

2018

	Opening balance	Provision	Reversal and write-off	Closing balance
Raw materials	77,434,053	3,413,127	(31,790,612)	49,056,568
Semi-finished products	71,548,958	903,292	(58,303,644)	14,148,606
Finished goods	29,557,995	590,983	(23,783,983)	6,364,995
Turnover materials	1,183,751	482,519	(929,903)	736,367
	<u>179,724,757</u>	<u>5,389,921</u>	<u>(114,808,142)</u>	<u>70,306,536</u>



Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

5. Inventories (continued)

The movements of provision for impairment of inventories are listed as follows: (continued)

2017

	Opening balance	Provision	Reversal and write-off	Closing balance
Raw materials	77,576,991	1,350,689	(1,493,627)	77,434,053
Semi-finished products	96,363,071	5,557,284	(30,371,397)	71,548,958
Finished goods	17,011,554	20,492,487	(7,946,046)	29,557,995
Turnover materials	1,095,354	137,697	(49,300)	1,183,751
	<u>192,046,970</u>	<u>27,538,157</u>	<u>(39,860,370)</u>	<u>179,724,757</u>

6. Contract assets

(1) Details of contract assets

	31 December 2018		
	Carrying amount	Provision for losses	Book value
Quality guarantee deposits	70,695,989	1,550,702	69,145,287
Less: contract assets recorded to 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>

(2) Provision for credit losses of contract assets

	31 December 2018		
	Opening balance	Provision	Closing balance
Lifetime expected credit losses (credit losses has not occurred)	<u>—</u>	<u>1,550,702</u>	<u>1,550,702</u>

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

7. Other current assets

	31 December 2018	31 December 2017
Bills receivable and trade receivables (Note 1)	701,851,222	–
Bank financial products (Note 2)	2,034,610,548	2,351,398,082
Structural deposits (Note 2)	600,000,000	–
Value-added tax retained	7,591,869	156,980,131
Other taxes retained	50,042,734	2,498
	3,394,096,373	2,508,380,711

Note 1: It refers to the Company's bank acceptance bills used for endorsement or discount RMB569,695,731, and for transferable trade receivables RMB132,155,491, with no significant increase in credit risks due to low credit risk of the bank acceptance bills and no impairment in trade receivables. As at 31 December 2018, the financial assets are measured at fair value through other comprehensive income.

Note 2: As at 31 December 2018, the annual yield rate of fixed income bank financial products and structural deposits by the Company is from 2.20%-4.50% (31 December 2017: 2.30% to 5.10%). These bank financial products and structural deposits of which counterparties are all banks with high credit ratings will expire in succession from 14 January 2019 to 29 June 2019 in succession.

8. Long-term equity investments

	31 December 2018	31 December 2017
Long-term equity investments using equity method	311,424,236	270,226,834
Long-term equity investments using cost method	2,430,548,024	2,066,708,181
	2,741,972,260	2,336,935,015
Less: Provision for impairment of long-term equity investments	178,169,001	178,169,001
	2,563,803,259	2,158,766,014

Changes in long-term equity investments impairment are as follows:

	2018	2017
Closing and opening balance	178,169,001	178,169,001



Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

8. Long-term equity investments (continued)

Long-term equity investments using equity method 2018

	Opening balance	Changes for the current year					Closing balance
		Investment	Impact of unrealized profits	Investment income recognised under equity method	Cash dividends announced	Other equity increase (Note VI. 2)	
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
	<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
	<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>
	<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 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

8. Long-term equity investments (continued)

Long-term equity investments using equity method (continued)

2017

	Changes for the current year				
	Opening balance	Impact of unrealized profits	Investment income and loss recognised under equity method	Cash dividends announced	Closing balance
Non-listed investments					
Equity method					
Joint Ventures					
Shiling	158,267,061	54,859,734	15,403,679	(25,000,000)	203,530,474
Shanghai Shentong CRRC	<u>5,547,428</u>	<u>—</u>	<u>537,352</u>	<u>—</u>	<u>6,084,780</u>
	<u>163,814,489</u>	<u>54,859,734</u>	<u>15,941,031</u>	<u>(25,000,000)</u>	<u>209,615,254</u>
Associates					
Zhuzhou Siemens	51,871,746	—	(557,331)	(3,673,623)	47,640,792
CRRC Wabtec	<u>12,187,945</u>	<u>—</u>	<u>782,843</u>	<u>—</u>	<u>12,970,788</u>
	<u>64,059,691</u>	<u>—</u>	<u>225,512</u>	<u>(3,673,623)</u>	<u>60,611,580</u>
	<u><u>227,874,180</u></u>	<u><u>54,859,734</u></u>	<u><u>16,166,543</u></u>	<u><u>(28,673,623)</u></u>	<u><u>270,226,834</u></u>



Notes to the financial statements

For the year ended 31 December 2018
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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

8. Long-term equity investments (continued)

Long-term equity investments using cost method 2018

	Opening balance current year	Changes for the balance	Closing
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 (Note VI. 1)	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 (Note 1)	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 (Note VI. 2)	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 (Note 2)	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
	1,888,539,180	363,839,843	2,252,379,023

Note 1: As at October 2018, the Company conducted the debt-to-equity swap to its subsidiary HK Electric to transfer its debts of HKD430,000,000 to its capital.

Note 2: In June 2018, the Company made a capital increment of RMB100,000,000 in cash to its wholly-owned subsidiary Times Signal & Communication.

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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

8. Long-term equity investments (continued)

Long-term equity investments using cost method (continued)

2017

	Opening balance current year	Changes for the balance	Closing
Non-listed investments			
Times Electronics	182,977,618	–	182,977,618
Ningbo Times	133,507,255	–	133,507,255
Beijing CRRC Rail Transit Intelligent Control Technology Co., Ltd	29,000,000	(29,000,000)	–
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	–	352,308,400
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	100,000,000	29,000,000	129,000,000
Lanzhou Times	25,500,000	–	25,500,000
ZNERCC	280,654,981	–	280,654,981
Shanghai SMD	–	30,000,000	30,000,000
Chengdu Electric	–	30,000,000	30,000,000
Shanghai Yongdian	–	9,794,810	9,794,810
	<u>1,780,373,643</u>	<u>69,794,810</u>	<u>1,850,168,453</u>
Listed investments			
Dynex	<u>216,539,728</u>	–	<u>216,539,728</u>
	<u>1,996,913,371</u>	<u>69,794,810</u>	<u>2,066,708,181</u>
Less: Provision for impairment of long-term equity investments	<u>178,169,001</u>	–	<u>178,169,001</u>
	<u><u>1,818,744,370</u></u>	<u><u>69,794,810</u></u>	<u><u>1,888,539,180</u></u>



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For the year ended 31 December 2018
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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

9. Fixed assets

2018

	Buildings	Machinery	Vehicles	Office facilities and others	Total
Cost					
Opening balance	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
Construction in progress transferred	9,514,296	203,283,504	–	1,957,860	214,755,660
Sale and disposal	–	(24,756,611)	(1,623,101)	(8,282,788)	(34,662,500)
Closing balance	<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					
Opening balance	233,770,055	742,571,349	19,737,832	115,184,744	1,111,263,980
Increase	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)
Closing balance	<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					
Opening balance	10,513,264	47,804,752	–	703,720	59,021,736
Write-off	–	(1,524,883)	–	(6,968)	(1,531,851)
Closing balance	<u>10,513,264</u>	<u>46,279,869</u>	<u>–</u>	<u>696,752</u>	<u>57,489,885</u>
Net carrying amount					
Closing balance	<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>
Opening balance	<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>

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

9. Fixed assets (continued)

2017

	Buildings	Machinery	Vehicles	Office facilities and others	Total
Cost					
Opening balance	1,234,653,235	1,644,523,315	26,093,146	209,467,207	3,114,736,903
Purchase	–	27,487,379	3,274,530	26,196,901	56,958,810
Construction in progress transferred	4,763,352	79,008,299	–	1,136,908	84,908,559
Sale and disposal	–	(13,816,970)	(1,447,243)	(14,586,703)	(29,850,916)
Closing balance	<u>1,239,416,587</u>	<u>1,737,202,023</u>	<u>27,920,433</u>	<u>222,214,313</u>	<u>3,226,753,356</u>
Accumulated depreciation					
Opening balance	193,021,220	596,767,249	18,879,146	102,896,918	911,564,533
Increase	40,748,835	156,902,515	2,233,567	25,403,490	225,288,407
Write-off	–	(11,098,415)	(1,374,881)	(13,115,664)	(25,588,960)
Closing balance	<u>233,770,055</u>	<u>742,571,349</u>	<u>19,737,832</u>	<u>115,184,744</u>	<u>1,111,263,980</u>
Impairment provision					
Opening balance	10,513,264	49,564,330	–	707,645	60,785,239
Write-off	–	(1,759,578)	–	(3,925)	(1,763,503)
Closing balance	<u>10,513,264</u>	<u>47,804,752</u>	<u>–</u>	<u>703,720</u>	<u>59,021,736</u>
Net carrying amount					
Closing balance	<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>
Opening balance	<u>1,031,118,751</u>	<u>998,191,736</u>	<u>7,214,000</u>	<u>105,862,644</u>	<u>2,142,387,131</u>

Fixed assets held under operating lease are as follows:

	2018	2017
Buildings	<u>40,066,397</u>	<u>52,026,209</u>



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Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

10. Construction in progress

	31 December 2018	31 December 2017
Semiconductor key lab construction project	144,742,066	131,826,777
Innovation experiment platform construction project	29,894,316	–
The revamping and expansion of high voltage IGBT chip module production line	16,625,106	451,165
Development of electrical drive system for passenger cars and tester of industrialized power drive	10,062,925	–
Data centre	4,821,690	–
High temperature ion implantation equipment	–	13,404,421
PECVD equipment	–	13,241,298
Low pressure chemical vapor deposition	–	7,105,167
Renovation of logistics warehouse for passenger cars	–	6,947,364
Power cycle tester of press pack IGBT	–	6,376,617
Auto silver sintering equipment	–	5,218,349
ICP etching machine	–	4,954,139
Transistor tester and electrical monitoring probe station	–	3,004,741
Others	20,353,230	32,162,759
	226,499,333	224,692,797

Notes to the financial statements

For the year ended 31 December 2018
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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

10. Construction in progress (continued)

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

	Budget	Opening balance	Increase	Transferred to fixed assets	Closing balance	Capital resource	Proportion of budget invested
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 of high voltage IGBT chip and low voltage 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	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%
PECVD 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		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>		



Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

10. Construction in progress (continued)

The movements of construction in progress in 2017 are as follows:

	Budget	Opening balance	Increase	Transferred to fixed assets	Closing balance	Capital resource	Proportion of budget invested
Semiconductor key lab construction project	321,480,000	89,721,848	51,771,596	9,666,667	131,826,777	Government grant and self-raised	44%
High temperature ion implantation equipment	13,780,200	–	13,404,421	–	13,404,421	Self-raised	97%
PECVDS equipment	13,500,000	13,241,298	–	–	13,241,298	Government grant	98%
Low pressure chemical vapour deposition	11,372,775	–	7,105,167	–	7,105,167	Self-raised	62%
Renovation of logistics warehouse for passenger cars electrical drive system	28,980,000	5,176,540	3,305,867	1,535,043	6,947,364	Self-raised	29%
Power cycle tester of press pack IGBT	9,264,189	–	6,376,617	–	6,376,617	Self-raised	69%
Auto silver sintering equipment	5,929,748	–	5,218,349	–	5,218,349	Self-raised	88%
ICP etching machine	7,820,784	–	4,954,139	–	4,954,139	Self-raised	63%
Power curve tracer and semi-automatic probe station	4,893,776	–	3,004,741	–	3,004,741	Self-raised	61%
Semiconductor implantation equipment	32,000,000	27,814,367	3,159,293	30,973,660	–	Government grant	97%
Copper electroplating system	15,426,100	14,595,848	–	14,595,848	–	Self-raised	95%
Motor driver lab construction project	21,900,000	10,179,487	–	10,179,487	–	Government grant and self-raised	46%
Overhaul and inspection equipment for after-sale service department	7,140,595	7,140,595	–	7,140,595	–	Self-raised	100%
Others		19,460,332	23,970,851	10,817,259	32,613,924		
		<u>187,330,315</u>	<u>122,271,041</u>	<u>84,908,559</u>	<u>224,692,797</u>		

The Group's special loans are mainly used for the construction of semiconductor key lab construction project. The capitalized interest amounts to RMB667,413 (2017: the interest capitalized was RMB1,130,121). As at 31 December 2018, in the balance of construction in progress, the accumulated capitalized interest amounts to RMB3,033,982 (As at 31 December 2017, the accumulated interest capitalized was RMB2,366,569).

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Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

11. Intangible assets

31 December 2018

	Land use rights	Software licenses	Patents, licenses and technical know-how	Total
Cost				
Opening balance	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
Closing balance	110,469,384	116,753,444	471,376,134	698,598,962
Accumulated depreciation				
Opening balance	17,970,150	73,085,620	73,977,212	165,032,982
Increase	2,205,239	7,251,267	39,742,329	49,198,835
Closing balance	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				
Closing balance	90,293,995	36,416,557	226,028,973	352,739,525
Opening balance	92,499,234	25,906,316	205,311,644	323,717,194

Note: The intangible assets are those transferred from Zhuzhou CRRC Times Equipment Technology Co., Ltd., the Company's wholly-owned subsidiary, owing to the merging by the Company in May 2018.



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Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

11. Intangible assets (continued)

31 December 2017

	Land use right	Software licenses	Patents, licenses and technical know-how	Total
Cost				
Opening balance	110,469,384	91,576,885	302,384,455	504,430,724
Purchase	–	7,415,051	23,947,721	31,362,772
Transferred from development expenditure	–	–	84,584,300	84,584,300
Closing balance	<u>110,469,384</u>	<u>98,991,936</u>	<u>410,916,476</u>	<u>620,377,796</u>
Accumulated depreciation				
Opening balance	15,773,027	67,711,651	54,385,170	137,869,848
Increase	<u>2,197,123</u>	<u>5,373,969</u>	<u>19,592,042</u>	<u>27,163,134</u>
Closing balance	<u>17,970,150</u>	<u>73,085,620</u>	<u>73,977,212</u>	<u>165,032,982</u>
Impairment provision				
Closing and opening balance	–	–	131,627,620	131,627,620
Net carrying amount				
Closing balance	<u>92,499,234</u>	<u>25,906,316</u>	<u>205,311,644</u>	<u>323,717,194</u>
Opening balance	<u>94,696,357</u>	<u>23,865,234</u>	<u>116,371,665</u>	<u>234,933,256</u>

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

12. Deferred tax assets

	31 December 2018		31 December 2017	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Provision for product quality warranties	580,564,102	87,084,615	480,116,087	72,017,413
Provision for impairment of assets	349,849,645	52,477,447	448,648,836	67,297,325
Government grant	428,756,137	64,313,421	374,544,409	56,181,661
Depreciation differences arising from tax laws and accounting	61,122,287	9,168,343	89,573,053	13,435,958
Accrued expenses	51,079,518	7,661,926	73,754,018	11,063,103
Employee benefits accrued but unpaid	67,638,145	10,145,722	–	–
Fair value through other comprehensive income	16,907,675	2,536,151	–	–
Others	13,843,697	2,076,555	–	–
	1,569,761,206	235,464,180	1,466,636,403	219,995,460

13. Bills payable and trade payables

	31 December 2018	31 December 2017
Bills payable	1,344,764,455	1,018,795,897
Trade payables	4,074,069,053	3,401,580,858
	5,418,833,508	4,420,376,755



Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

13. Bills payable and trade payables (continued)

Bills payable are set out as follows:

	31 December 2018	31 December 2017
Bank acceptance bills	931,169,455	821,621,270
Commercial acceptance bills	413,595,000	197,174,627
	<u>1,344,764,455</u>	<u>1,018,795,897</u>

Trade payables are set out as follows:

The trade payables are non-interest-bearing and generally have an average payment term of 3 months.

	31 December 2018	31 December 2017
Within 3 months	2,579,406,156	2,249,293,956
3 months to 1 year	1,193,042,623	1,055,943,048
1 to 2 years	164,331,051	74,784,828
2 to 3 years	80,424,894	56,194,543
Over 3 years	98,389,502	84,740,165
	<u>4,115,594,226</u>	<u>3,520,956,540</u>
Less: Classified as long-term payables	41,525,173	119,375,682
	<u>4,074,069,053</u>	<u>3,401,580,858</u>

14. Advances from customers

	31 December 2018	31 December 2017
Within 1 year	6,494,630	596,066,225
1 to 2 years	216,717	91,680,298
2 to 3 years	775	793,838
Over 3 years	13,868	9,716,629
	<u>6,725,990</u>	<u>698,256,990</u>

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

15. Contract liabilities

	31 December 2018
Within 1 year	360,354,410
1 to 2 years	123,768,446
2 to 3 years	13,022,838
Over 3 years	4,647,322
	<u>501,793,016</u>

16. Taxes payable

	31 December 2018	31 December 2017
Corporate income tax	4,607,440	45,673,614
Value-added tax	27,948,610	1,224,487
City maintenance and construction and education surcharge	7,384,819	320,790
Individual income tax	50,523,807	26,171,672
Others	1,828,618	274,736
	<u>92,293,294</u>	<u>73,665,299</u>



Notes to the financial statements

For the year ended 31 December 2018
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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

17. Other payables

(1) The aging of other payables by nature is as follows:

	31 December 2018	31 December 2017
Interest payable	–	66,603
Other payables	<u>555,091,881</u>	<u>545,916,182</u>
	<u>555,091,881</u>	<u>545,982,785</u>

Other payables

	31 December 2018	31 December 2017
Deposits and pledges	218,537,792	272,664,911
Amounts due to related companies	220,709,990	220,709,990
Recovery of factoring (Note)	114,701,804	–
Others	<u>1,142,295</u>	<u>52,541,281</u>
	<u>555,091,881</u>	<u>545,916,182</u>

Note: On 27 December 2018, the Company and China Construction Bank Zhuzhou Branch ("CCB") entered into a transfer contract 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 28 December 2018, the Group received from the original debtor of the trade receivables, which were presented as other payables.

(2) Aging analysis of other payables is as follows:

	31 December 2018	31 December 2017
Within 1 year	286,968,417	242,460,633
1 to 2 years	63,762,151	126,562,952
2 to 3 years	60,933,192	12,910,187
Over 3 years	<u>143,428,121</u>	<u>164,049,013</u>
	<u>555,091,881</u>	<u>545,982,785</u>

Notes to the financial statements

For the year ended 31 December 2018
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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

18. Long-term borrowings

	31 December 2018	31 December 2017
Credit loans	97,688,000	100,188,000
Less: Long-term borrowings due within one year	<u>5,000,000</u>	<u>2,500,000</u>
	<u>92,688,000</u>	<u>97,688,000</u>

Maturity analysis:

	31 December 2018	31 December 2017
Due within 1 year	5,000,000	2,500,000
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>72,688,000</u>	<u>77,688,000</u>
	<u>97,688,000</u>	<u>100,188,000</u>

As at 31 December 2018, the annual interest rate of the above borrowings was 1.08% (31 December 2017: 1.08%).

19. Provisions

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: Provision due within one year	<u>168,316,523</u>			<u>232,621,056</u>
	<u>311,799,564</u>			<u>347,943,046</u>



Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

19. Provisions (continued)

31 December 2017

	Opening balance	Increase	Decrease	Closing balance
Provision for product quality warranties	562,240,833	<u>324,528,732</u>	<u>406,653,478</u>	480,116,087
Less: Provision due within one year	<u>235,516,065</u>			<u>168,316,523</u>
	<u>326,724,768</u>			<u>311,799,564</u>

20. Deferred income

	31 December 2018	31 December 2017
Government grant related to assets	251,390,390	235,470,463
Government grant related to incomes	177,365,747	<u>139,073,946</u>
	428,756,137	374,544,409
Less: Classified as current liabilities	101,527,579	<u>54,831,985</u>
Government grant classified as current liabilities	327,228,558	<u>319,712,424</u>

Notes to the financial statements

For the year ended 31 December 2018
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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

20. Deferred income (continued)

Liabilities relevant to government grants as at 31 December 2018 are listed as follows:

	Opening balance	Increases	Recognised as other income	Closing balance	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 IGBT chip and low voltage module production line	50,000,000	-	-	50,000,000	Assets
Construction of R&D trial-manufacture center of IGBT for electric vehicles	50,000,000	-	-	50,000,000	Assets
8-inch IGBT intelligent manufacturing and digital factory construction project	-	42,000,000	-	42,000,000	Assets
Research on key technologies of high speed maglev transportation	15,800,000	23,870,000	-	39,670,000	Income
SiC wafer and application in high power IGBT	12,000,000	-	(4,067,495)	7,932,505	Assets
R&D, industrialization of 6-inch SiC wafer and application in high power IGBT	23,340,000	-	-	23,340,000	Assets
8 MW golden sun demonstration project	32,675,000	-	(10,891,667)	21,783,333	Assets
Maotangao staff dorm building construction project	19,068,636	-	(454,918)	18,613,718	Assets
SiC-based power electronic devices lab & fab construction project (SiC base industrial construction project fund)	17,000,000	-	-	17,000,000	Assets
R&D, industrialization of 6-inch Construction of intelligent manufacturing works for core components of rolling stock (Manufacturing center)	5,000,000	-	-	5,000,000	Assets
Hunan governmental earmark on the development of mobile internet industry in 2016	5,000,000	-	-	5,000,000	Assets
(Power electronics) research for power electronic devices & built for production line	4,800,000	-	(400,000)	4,400,000	Assets
Photovoltaic power generation comprehensive test system construction project	4,591,667	-	(1,900,000)	2,691,667	Assets
Industrialization of 200KM EMU AC drive & network control system and ATP control device	4,591,667	-	(1,900,000)	2,691,667	Assets
Test platforms of power electronics devices & electric drive systems	1,187,500	-	(250,000)	937,500	Assets
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 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

20. Deferred income (continued)

Liabilities relevant to government grants as at 31 December 2017 are listed as follows:

	Opening balance	Increases	Recognised as other income	Other changes	Closing balance	Related to asset/income
(Power electronics) integrated manufacturing technology R&D and industrialization of devices	68,604,000	5,150,000	-	(217,800)	73,536,200	Income
The revamping of high voltage IGBT chip and low voltage module production line	50,000,000	-	-	-	50,000,000	Assets
Construction of R&D trial-manufacture center of IGBT for electric vehicles	-	50,000,000	-	-	50,000,000	Assets
8 MW golden sun demonstration project	43,566,667	-	(10,891,667)	-	32,675,000	Assets
Industrial foundation fortification project-production of IGBT module for alternative fuel automobiles	23,340,000	-	-	-	23,340,000	Assets
Maotangao staff dorm building construction project	19,523,554	-	(454,918)	-	19,068,636	Assets
SiC-based power electronic devices lab & fab construction project (SiC base industrial construction project fund)	17,000,000	-	-	-	17,000,000	Assets
Research on key technologies of high speed maglev transportation	-	15,800,000	-	-	15,800,000	Income
R&D, industrialization of 6-inch SiC wafer and application in high power IGBT	10,000,000	2,000,000	-	-	12,000,000	Assets
Construction of intelligent manufacturing works for core components of rolling stock (Manufacturing center)	5,000,000	-	-	-	5,000,000	Assets
Hunan governmental earmark on the development of mobile internet industry in 2016	5,000,000	-	-	-	5,000,000	Assets
(Power electronics) research for power electronic devices & built for production line	5,200,000	-	(400,000)	-	4,800,000	Assets
Photovoltaic power generation comprehensive test system construction project	6,491,667	-	(1,900,000)	-	4,591,667	Assets
Industrialization of 200KM EMU AC drive & network control system and ATP control device	6,491,667	-	(1,900,000)	-	4,591,667	Assets
Test platforms of power electronics devices & electric drive systems	23,872,083	-	(250,000)	(22,434,583)	1,187,500	Assets
Manufacturing equipment and complete process of large-scale integrated circuit	14,540,000	-	(14,540,000)	-	-	Income
Others	30,159,593	32,703,246	(5,551,600)	(1,357,500)	55,953,739	Assets/Income
	<u>328,789,231</u>	<u>105,653,246</u>	<u>(35,888,185)</u>	<u>(24,009,883)</u>	<u>374,544,409</u>	

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

21. Revenue and cost of sales

	2018	2017
Revenue from principal operations	10,595,097,345	10,552,930,413
Other operating income	433,824,328	393,772,775
	<u>11,028,921,673</u>	<u>10,946,703,188</u>

Cost of sales is stated as follows:

	2018	2017
Cost of sales from principal operations	7,892,495,670	7,499,760,653
Other operating cost	390,306,848	346,510,960
	<u>8,282,802,518</u>	<u>7,846,271,613</u>

Details of revenue are listed as follows:

	2018	2017
Revenue from sale of goods and raw materials	10,152,931,738	10,011,356,634
Maintenance income	820,849,216	860,292,621
Technical service income	35,300,052	31,575,617
Lease income	9,074,004	13,289,728
Others	10,766,663	30,188,588
	<u>11,028,921,673</u>	<u>10,946,703,188</u>



Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

22. Tax and surcharges

	2018	2017
City maintenance and construction surtax	21,375,523	28,402,189
Educational surcharges	15,268,231	20,287,278
Others	22,412,914	22,951,532
	<u>59,056,668</u>	<u>71,640,999</u>

23. Finance costs

	2018	2017
Interest expenses	2,401,760	1,130,121
Less: Capitalised interests	(667,413)	(1,130,121)
Interest income	(42,312,068)	(58,927,549)
Exchange losses	(25,459,013)	52,067,028
Service charges of financial institutions	5,219,127	5,360,640
Others	808,178	361,889
	<u>(60,009,429)</u>	<u>(1,137,992)</u>

24. Asset impairment losses

	2018	2017
Bad debt losses	-	2,004,356
Impairment losses of inventories	(110,057,149)	(12,322,213)
	<u>(110,057,149)</u>	<u>(10,317,857)</u>

25. Credit impairment losses

	2018
Credit impairment losses of bills receivable	61,387,616
Credit impairment losses of trade receivables	(43,762,602)
Credit impairment losses of other receivables	(6,531,323)
Credit impairment losses of contract assets	742,944
Credit impairment losses of other non-current assets	849,653
	<u>12,644,393</u>

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

26. Other income

	2018	2017
Technology project fund	72,470,786	–
Government awards	16,144,845	–
Refunds of VAT	–	75,814,732
	<u>88,615,631</u>	<u>75,814,732</u>

27. Investment income

	2018	2017
Income from non-listed investments:		
Long-term equity investments income under the cost method	1,119,566,600	479,765,081
Long-term equity investments income under the equity method	6,119,008	71,026,277
Forward foreign exchange contracts income	–	152,010
Bank financial products income	84,973,649	21,653,836
	<u>1,210,659,257</u>	<u>572,597,204</u>

28. Gains/(losses) on disposal of non-current assets

	2018	2017
Gains on disposal of non-current assets	1,800,039	190,071
Losses on disposal of non-current assets	(2,392)	(1,163,064)
	<u>1,797,647</u>	<u>(972,993)</u>



Notes to the financial statements

For the year ended 31 December 2018
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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

29. Non-operating income

	2018	2017
Government grant	–	44,090,227
Penalty income and default compensation income	23,920	1,948,745
Others	3,504,751	4,929,074
	<u>3,528,671</u>	<u>50,968,046</u>

30. Non-operating expenses

	2018	2017
Losses on penalties and compensation	–	3,865,159
Others	27,871	191,351
	<u>27,871</u>	<u>4,056,510</u>

31. Income tax expense

	2018	2017
Current income tax expense		
– Mainland China	87,402,570	170,640,473
– Other countries and regions	1,928,544	–
Deferred tax expenses	(9,035,931)	8,340,909
	<u>80,295,183</u>	<u>178,981,382</u>

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

31. Income tax expense (continued)

	2018	2017
Total profit	<u>2,022,187,563</u>	<u>2,000,565,831</u>
Income tax expense at statutory tax rate of 25%	505,546,891	500,141,458
Effect of preferential tax rate applicable to the Company	(201,091,786)	(200,056,583)
Profits and losses attributable to associates and Joint Ventures	(917,851)	(2,424,981)
Income not subject to tax	(167,934,990)	(71,964,762)
Income tax benefits on research and development expenditure	(59,012,636)	(35,929,667)
Expenses not deductible for tax	3,705,555	2,246,434
Deductible temporary differences not recognised	–	(6,607,863)
Others	–	(6,422,654)
Tax expenses at the Company's effective tax rate	<u>80,295,183</u>	<u>178,981,382</u>

32. Supplementary information to statement of cash flows

(1) Supplementary information to statement of cash flows

	2018	2017
Reconciliation of Net Profit to Cash Flow from Operating Activities:		
Net profit	1,941,892,380	1,821,584,449
Add: Asset impairment losses	(110,057,149)	(10,317,857)
Credit impairment losses	12,644,393	–
Depreciation of fixed assets	249,683,513	225,288,407
Amortization of intangible assets	49,198,835	27,163,134
Decrease in provision of special reserve	(3,910,737)	(555,156)
Losses (gains) on disposal of fixed assets, intangible assets and other long-term assets	(1,797,647)	972,993
Gains on fair value changes	–	(6,135,766)
Finance costs	1,734,347	–
Investment income	(1,210,659,257)	(572,597,204)
Decrease (increase) in deferred tax assets	(15,468,720)	8,340,909
Decrease (increase) in inventories	73,315,274	(264,061,788)
Decrease (increase) in receivables under operating activities	606,406,721	(992,974,032)
Increase in payables under operating activities	672,964,881	725,547,843
Net cash flow from operating activities	<u>2,265,946,834</u>	<u>962,255,932</u>



Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

32. Supplementary information to statement of cash flows (continued)

(1) Supplementary information to statement of cash flows (continued)

Movement in cash and cash equivalents:

	2018	2017
Closing balance of cash	2,924,163,813	2,064,146,853
Less: Opening balance of cash	2,064,146,853	2,082,511,996
Net increase (decrease) of cash and cash equivalents	<u>860,016,960</u>	<u>(18,365,143)</u>

(2) Cash and cash equivalents

	31 December 2018	31 December 2017
Cash		
Including: Bank deposits on demand	2,924,163,813	1,964,146,853
Fixed deposits	—	100,000,000
Closing balance of cash and cash equivalents	<u>2,924,163,813</u>	<u>2,064,146,853</u>

33. Major transactions between the Company and its related parties

(1) Sales of goods to related parties

	2018	2017
Subsidiaries	1,133,825,028	1,248,910,319
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	5,159,270,968	4,973,039,215
Associate of the ultimate holding group	55,992,454	4,094,207
Corporation controlled by the parent company	48,164,081	42,474,906
Joint Ventures of the Company	44,230,985	525,136,052
Associates of the Company	7,917,311	465,592
Parent company	6,237,892	3,490,509
Joint Ventures of the ultimate holding group	2,623,125	8,835
	<u>6,458,261,844</u>	<u>6,797,619,635</u>

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

33. Major transactions between the Company and its related parties (continued)

(2) Purchases of goods from related parties

	2018	2017
Subsidiaries	2,428,092,825	2,235,055,491
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	744,929,122	583,385,014
Corporation controlled by the parent company	458,577,465	387,613,913
Joint Ventures of the Company	54,595,691	652,859,077
Associates of the Company	48,633,775	59,038,920
Joint Ventures of the ultimate holding group	24,167,827	32,704,730
Parent company	4,716,781	174,859
	3,763,713,486	3,950,832,004

(3) Sales of electricity to related parties

	2018	2017
Subsidiaries	136,145	13,064,061
Corporation controlled by the parent company	1,765,344	1,565,354
Parent company	438,849	317,023
Associates of the Company	19,766	14,490
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	–	39,095
	2,360,104	15,000,023

(4) Purchases of electricity from related parties

	2018	2017
Subsidiaries	224,735	148,592
Corporation controlled by the parent company	174,120	–
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	131,541	74,611
	530,396	223,203



Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

33. Major transactions between the Company and its related parties (continued)

(5) Purchases of fixed assets from related parties

	2018	2017
Subsidiaries	<u>21,989,356</u>	<u>16,072,411</u>

(6) Purchases of intangible assets from related parties

	2018	2017
Subsidiaries	<u>17,352,339</u>	<u>23,947,720</u>

(7) Related party leases

As lessor

	2018	2017
Subsidiaries	2,682,684	2,559,027
Corporation controlled by the parent company	5,491,909	4,167,990
Parent company	3,539,936	1,408,992
Associates of the Company	454,854	–
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	<u>82,705</u>	<u>–</u>
	<u>12,252,088</u>	<u>8,136,009</u>

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

33. Major transactions between the Company and its related parties (continued)

(7) Related party leases (continued)

As lessee

	2018	2017
Subsidiaries	402,668	–
Parent company	2,031,888	2,093,215
Associates of the parent company	1,241,013	401,673
Corporation controlled by the parent company	1,029,084	–
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	377,480	–
	5,082,133	2,494,888

(8) Technical service income from related parties

	2018	2017
Subsidiaries	–	424,528
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	12,333,462	4,754,465
Corporation controlled by the parent company	2,898,361	3,895,738
Parent company	1,323,617	1,354,770
Joint Ventures of the ultimate holding group	6,790	–
Shareholders of the parent company	–	1,370,747
Joint Ventures of the Company	–	943,396
	16,562,230	12,743,644

(9) Maintenance services provided to related parties

	2018	2017
Subsidiaries	113,949,365	2,110,309
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	696,897,274	596,817,192
Associate of the ultimate holding group	63,745,286	93,607,422
Corporation controlled by the parent company	–	46
	874,591,925	692,534,969



Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

33. Major transactions between the Company and its related parties (continued)

(10) Technical service fees paid to related parties

	2018	2017
Subsidiaries	16,473,585	100,307,592
Parent company	209,509,000	257,867,660
Corporation controlled by the parent company	7,220,101	4,376,996
Joint Ventures of the Company	215,000	—
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	110,000	—
	<u>233,527,686</u>	<u>362,552,248</u>

(11) Fund lending to related parties

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 2018
	<u>230,000,000</u>			

2017

	Lent amount	Interest rate	Start date	Expiry date
Subsidiaries	200,000,000	4.35%	28 March 2017	28 March 2018
Subsidiaries	150,000,000	4.35%	23 August 2017	23 August 2018
Subsidiaries	50,000,000	4.35%	28 September 2017	28 September 2018
	<u>400,000,000</u>			

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

33. Major transactions between the Company and its related parties (continued)

(12) Interest income from cash and bank balances and borrowings

	2018	2017
Subsidiaries	29,565,371	40,824,995
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	5,013,352	4,129,418
	<u>34,578,723</u>	<u>44,954,413</u>

(13) Interest expense to borrowings

	2018	2017
Subsidiaries	48,826	–
Shareholders of the parent company	1,096,009	1,130,121
	<u>1,144,835</u>	<u>1,130,121</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.



Notes to the financial statements

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Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

33. Major transactions between the Company and its related parties (continued)

(14) Guarantee provided to related parties

The guaranteed amounts below are maximum amounts provided to related parties by the Company.

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	175,240,000	5 November 2018	5 November 2021	No
	<u>599,241,800</u>			

2017

	Guaranteed amount	Start date	Expiry date	Completed or not
Subsidiaries	231,964,100	26 October 2017	26 October 2018	No
Subsidiaries	100,459,947	18 April 2017	18 April 2018	No
Subsidiaries	93,439,060	24 October 2017	24 October 2018	No
Subsidiaries	65,000,000	11 December 2017	29 December 2018	No
Subsidiaries	40,000,000	24 May 2017	1 March 2018	No
	<u>530,863,107</u>			

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

34. Amounts due from and due to related parties

	31 December 2018	31 December 2017
Trade receivables (including long-term trade receivables):		
Subsidiaries	1,306,634,604	1,893,116,517
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	1,607,806,231	2,145,932,170
Joint Ventures of the Company	86,485,618	79,511,007
Corporation controlled by the parent company	10,037,991	8,559,324
Associates of the Company	9,734,640	–
Parent company	6,572,409	3,535,266
Associate of the ultimate holding group	3,349,712	16,617,867
Joint Ventures of the ultimate holding group	3,050,701	62,112
	<u>3,033,671,906</u>	<u>4,147,334,263</u>

	31 December 2018	31 December 2017
Bills receivable:		
Subsidiaries	14,800,000	42,845,600
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	1,602,753,540	1,919,691,597
Associate of the ultimate holding group	165,000,000	469,508,548
Corporation controlled by the parent company	–	200,000
	<u>1,782,553,540</u>	<u>2,432,245,745</u>

	31 December 2018	31 December 2017
Prepayments:		
Subsidiaries	9,174,339	28,456,029
Parent company	145,020	–
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	–	120,433
	<u>9,319,359</u>	<u>28,576,462</u>



Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

34. Amounts due from and due to related parties (continued)

	31 December 2018	31 December 2017
Dividends receivable:		
Subsidiaries	<u>120,760,000</u>	<u>18,740,000</u>
Interests receivable:		
Subsidiaries	<u>39,836,613</u>	<u>33,741,275</u>
Other receivables:		
Subsidiaries	520,840,336	711,144,457
Parent company	1,081,500	106,884
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	600,000	450,950
Associates of the Company	117,915	324,073
Corporation controlled by the parent company	<u>2,727</u>	<u>49,415</u>
	<u>522,642,478</u>	<u>712,075,779</u>
Contract assets:		31 December 2018
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute		<u>20,980,325</u>
Corporation controlled by the parent company		<u>54,000</u>
		<u>21,034,325</u>

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

34. Amounts due from and due to related parties (continued)

	31 December 2018	31 December 2017
Other current assets:		
Subsidiaries	5,204,467	–
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	177,512,032	–
Parent company	7,518,476	–
Corporation controlled by the parent company	291,513	–
	<u>190,526,488</u>	<u>–</u>

	31 December 2018	31 December 2017
Other non-current assets:		
Subsidiaries	1,100,000	–
Corporation controlled by the parent company	8,669,283	–
Corporation controlled by the ultimate holding party	8,051,584	–
	<u>17,820,867</u>	<u>–</u>

	31 December 2018	31 December 2017
Cash and bank deposits:		
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute (Note)	587,824,924	673,385,383
	<u>587,824,924</u>	<u>673,385,383</u>

Note: As at 31 December 2018, the Company's current deposit with CRRC Finance Co., Ltd. is amounted to RMB587,824,924 (31 December 2017: RMB673,385,383).

As at 29 December 2017, the Company entered into a Financial Service Framework Agreement with CRRC Finance Co., Ltd. which was effective from 31 December 2017 to 30 December 2018. Pursuant to Financial Services Framework Agreement, the maximum daily deposit balance with CRRC Finance Co., Ltd. is no more than RMB700,000,000. The interest rate is no less than the higher of 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 28 December 2018, the Company and CRRC Finance Co., Ltd. entered into the framework agreement on financial services (the above framework agreement on financial services signed on 29 December was terminated). In accordance with the agreement, from 31 December 2018 to 30 December 2019, the maximum amount of total deposits per day in the CRRC Finance Co., Ltd. is no more than RMB700,000,000 and the deposit rate is no less than the higher of the benchmark interest rate issued by the People's Bank of China for similar type of deposits, the interest rate at which other major commercial banks of China should pay for comparable deposits and the interest rate at which CRRC Finance Co., Ltd. should pay for comparable deposits to other member companies of CRRC.



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For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

34. Amounts due from and due to related parties (continued)

	31 December 2018	31 December 2017
Trade payables:		
Subsidiaries	2,253,886,313	1,630,139,211
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	126,633,842	276,322,961
Corporation controlled by the parent company	39,026,331	75,039,406
Joint Ventures of the Company	12,694,065	15,238,023
Joint Ventures of the ultimate holding group	11,463,618	36,191,552
Parent company	8,354,231	171,525
Associates of the Company	55,000	9,430,000
	<u>2,452,113,400</u>	<u>2,042,532,678</u>

	31 December 2018	31 December 2017
Bills payable:		
Subsidiaries	521,061	–
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	236,950,000	107,673,413
Corporation controlled by the parent company	107,819,510	92,000,000
Joint Ventures of the ultimate holding group	21,060,000	–
Joint Ventures of the Company	5,940,000	10,000,000
	<u>372,290,571</u>	<u>209,673,413</u>

Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

34. Amounts due from and due to related parties (continued)

	31 December 2018	31 December 2017
Advances from customers:		
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	–	3,878,247
Corporation controlled by the parent company	–	40,564
Associate of the ultimate holding group	–	63,790
	<u>–</u>	<u>3,982,601</u>

	31 December 2018
Contract liabilities:	
Subsidiaries	5,370,000
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	<u>107,304,834</u>
	<u>112,674,834</u>

	31 December 2018	31 December 2017
Interests payable:		
Shareholders of the parent company	–	66,603

	31 December 2018	31 December 2017
Other payables:		
Subsidiaries	15,365,543	96,175,360
Parent company	220,709,990	265,675,100
Corporation controlled by the parent company	13,018,412	2,610,137
Corporation controlled by the ultimate holding party excluding Zhuzhou Institute	<u>250,000</u>	<u>1,390,000</u>
	<u>249,343,945</u>	<u>365,850,597</u>



Notes to the financial statements

For the year ended 31 December 2018
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

34. Amounts due from and due to related parties (continued)

	31 December 2018	31 December 2017
Non-current liabilities due within 1 year:		
Shareholders of the parent company	<u>5,000,000</u>	<u>2,500,000</u>
Long-term borrowings:		
Shareholders of the parent company	<u>92,688,000</u>	<u>97,688,000</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 85.8% 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
“CRCC”	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)
“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



Glossary

“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
“SMD Group”	SMD and its subsidiaries
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisory Committee”	the supervisory committee of the Company
“the year” or “the reporting period”	the financial year ended 31 December 2018

Glossary



“Taiyuan Times”	太原中車時代軌道工程機械有限公司 (Taiyuan CRRCTimes 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 CRRCTaiyuan, respectively
“Times Australia”	CRRCTimes Electric Australia Pty. Ltd., a company established under the law of Australia and a wholly-owned subsidiary of the Company
“Times Brasil”	CRRCTimes 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 CRRCTimes 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 CRRCZELRI
“Times Semiconductor”	株洲中車時代半導體有限公司 (Zhuzhou CRRCTimes 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 CRRCTimes 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 CRRCTimes Software Technology Co., Ltd.), a wholly-owned subsidiary of the Company
“Times USA”	CRRCTimes 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 CRRCZELRI in which CRRCZELRI holds 55% of its equity interests
“Wenzhou Electric”	溫州中車電氣設備有限公司 (Wenzhou CRRCElectric Equipment Co., Ltd.), a limited liability company established under the laws of the PRC, and is held as to 50% by the Company



Glossary

“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.crrczic.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	Minter Ellison 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
ZHUSHOU CRRC TIMES ELECTRIC CO., LTD.