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**中國中車股份有限公司**  
**CRRC CORPORATION LIMITED**

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*  
**(Stock Code: 1766)**

**2019 ANNUAL RESULTS ANNOUNCEMENT**

The board of directors of CRRC Corporation Limited (the “**Company**”) is pleased to announce the audited annual results of the Company and its subsidiaries for the year ended 31 December 2019. This announcement, containing the main text of the 2019 annual report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) in relation to information to accompany preliminary announcements of annual results. The 2019 annual report of the Company and its printed version will be published and delivered to the H shareholders of the Company and available for view on the websites of the Stock Exchange at <http://www.hkex.com.hk> and of the Company at <http://www.crrcgc.cc> on or before 30 April 2020.

By order of the Board  
**CRRC Corporation Limited**  
**Liu Hualong**  
*Chairman*

Beijing, the PRC  
30 March 2020

*As at the date of this announcement, the executive directors of the Company are Mr. Liu Hualong, Mr. Sun Yongcai and Mr. Lou Qiliang; and the independent non-executive directors are Mr. Li Guo'an, Mr. Wu Zhuo and Mr. Sun Patrick.*

# ○ IMPORTANT

- 1 The Board and the Supervisory Committee of the Company and its Directors, Supervisors and Senior Management warrant that there are no false representations, misleading statements contained in or material omissions from this annual report and they will assume joint and several legal liabilities for the truthfulness, accuracy and completeness of the contents disclosed herein.
- 2 This report has been considered and approved at the seventeenth meeting of the second session of the Board of the Company. All Directors attended the Board meeting.
- 3 Deloitte Touche Tohmatsu CPA LLP has issued standard unqualified audit report for the Company's financial statements prepared under the China Accounting Standards for Business Enterprises in accordance with PRC Auditing Standards.
- 4 Liu Hualong, the Chairman of the Company, Li Zheng, the Chief Financial Officer and Wang Jian, the head of the Accounting Department (person in charge of accounting affairs) warrant the truthfulness, accuracy and completeness of the financial statements in this annual report.
- 5 Statement for the risks involved in the forward-looking statements: this report contains forward-looking statements that involve future plans and development strategies which do not constitute a substantive commitment by the Company to investors. Investors should be aware of the investment risks.
- 6 The Company has proposed to distribute a cash dividend of RMB0.15 (tax inclusive) per share to all Shareholders based on the total share capital of the Company of 28,698,864,088 shares as at 31 December 2019.
- 7 Unless specified otherwise, the recording currency used in this report is Renminbi.
- 8 Major risk reminder: the major risk factors faced by the Company include strategic risks, market risks, product quality risks, exchange rate risks and industrial structure adjustment risks, which have been described in detail in this report. Please refer to the discussion and analysis on possible risks that the Company may face in its future development in "Report of Directors – B. Management Discussion and Analysis".
9. At the tenth meeting of the second session of the Board of the Company held on 29 April 2019, it was considered and approved that the Company prepare its financial statements required to be disclosed by the securities regulatory authority where the Company's shares are listed in accordance with the China Accounting Standards for Business Enterprises only for the financial year starting from 1 January 2019. Accordingly, the Company shall provide the same version of financial report prepared under the China Accounting Standards for Business Enterprises to all Shareholders, instead of separately providing a report prepared under the China Accounting Standards for Business Enterprises to holders of A Shares and a report prepared under the International Financial Reporting Standards to holders of H Shares.

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# RESULTS HIGHLIGHTS

Unit: RMB

Item	<b>From January to December 2019 Amount (RMB'000)</b>	From January to December 2018 Amount (RMB'000)	Growth rate %
Revenue	<b>229,010,833</b>	219,082,641	4.53
Net profit	<b>13,823,701</b>	12,998,507	6.35
Net profit attributable to shareholders of the Company	<b>11,794,929</b>	11,305,044	4.33
Basic earnings per share	<b>0.41</b>	0.39	5.13

Item	<b>31 December 2019 Amount (RMB'000)</b>	31 December 2018 Amount (RMB'000)	Growth rate %
Total assets	<b>383,572,485</b>	357,523,050	7.29
Total liabilities	<b>227,744,003</b>	207,838,423	8.13
Total equity	<b>158,828,482</b>	149,684,627	6.11
Including: equity attributable to shareholders of the Company	<b>135,893,631</b>	128,457,695	5.79
Shareholders' equity per share (RMB/share)	<b>4.74</b>	4.48	5.80

	<b>31 December 2019</b>	31 December 2018	DIFF
Gearing ratio	<b>58.59%</b>	58.13%	0.46%

# FINANCIAL SUMMARY

Item	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000 (restated)	RMB'000 (restated)	RMB'000 (restated)
Revenue	<b>229,010,833</b>	219,082,641	211,012,935	229,719,868	239,685,449
Operating costs	<b>176,149,897</b>	170,526,021	163,154,065	181,966,444	191,281,913
Taxes and levies	<b>1,938,170</b>	2,038,395	2,113,899	1,865,971	1,865,970
Selling expenses	<b>8,516,415</b>	7,745,841	7,218,095	7,250,165	7,953,771
Administrative expenses	<b>14,444,854</b>	13,430,881	13,945,916	12,375,421	12,635,370
Research and Development expenses	<b>12,017,162</b>	10,896,916	9,977,454	9,473,770	9,872,472
Financial expenses	<b>373,201</b>	1,279,396	1,253,364	1,003,028	1,411,473
Add: Other income	<b>1,274,943</b>	1,125,094	823,714	-	-
Investment income	<b>2,153,377</b>	2,053,926	2,694,308	1,613,096	800,780
Gains from changes in fair value	<b>233,737</b>	419,593	-330,511	123,004	-316
Assets impairment losses	<b>-1,549,953</b>	-1,407,475	-2,774,665	-2,358,034	-1,522,949
<b>Operating profit</b>	<b>15,822,704</b>	14,734,830	14,729,026	15,142,179	15,895,811
Non-operating income	<b>978,881</b>	987,581	1,018,331	1,995,252	2,119,485
Non-operating expenses	<b>193,260</b>	380,039	362,174	232,779	984,154
<b>Profit before tax</b>	<b>16,608,325</b>	15,342,372	15,385,183	16,904,652	17,031,142
Less: Income tax expenses	<b>2,784,624</b>	2,343,865	2,387,765	3,024,670	2,951,618
<b>Profit for the year</b>	<b>13,823,701</b>	12,998,507	12,997,418	13,879,982	14,079,524
<b>Earnings per share</b>					
Basic	<b>0.41</b>	0.39	0.38	0.41	0.43
Diluted	<b>0.40</b>	0.39	0.37	0.41	0.43
<b>Assets and liabilities</b>					
Total assets	<b>383,572,485</b>	357,523,050	375,206,468	338,350,133	311,792,404
Total liabilities	<b>224,744,003</b>	207,838,423	233,286,846	214,470,206	198,131,155
Total equity attributable to Shareholders of the Company	<b>135,893,631</b>	128,457,695	121,583,931	104,893,018	96,892,013
Total non-controlling interests	<b>22,934,851</b>	21,226,932	20,335,691	18,986,909	16,691,393
Total equity at the end of the period (shares)	<b>28,698,864,088</b>	28,698,864,088	28,698,864,088	27,288,758,333	27,288,758,333
<b>Net cash flows from operating activities</b>	<b>22,530,536</b>	18,869,344	16,184,344	14,989,962	14,971,797

# CHAIRMAN'S STATEMENT

## Dear shareholders,

The year 2019 was one of extreme difficulty for CRRC, with a mounting series of challenges and risks creating a complicated situation both within and outside China. Nevertheless, the Group continued to move forward and fight bravely, coping effectively with internal and external change, driving for comprehensive high-quality development, and making new achievements across a range of tasks.

During the year, through the efforts of the Board, the management and all employees, CRRC achieved its business goals, steadily improved the quality of its operation, and made breakthroughs in market expansion. The Group also obtained good results in scientific research and development, overcame obstacles in reform, and had fruitful achievements in brand-building. Growth in both operating revenue and net profit attributable to the parent company was recorded, which could not have been made without the strong support of our shareholders. On behalf of the Board, I would like to express my sincere gratitude to all investors.

The year 2019 marked the 70th anniversary of the founding of the PRC, and was therefore particularly significant to CRRC. The past seven decades have seen generations of CRRC employees work hard to build a proudly national brand. From "Jiefangxing" and "Dongfengxing" to "Hexiehao" and "Fuxinghao", the Group has been standing at the forefront of the times, as a sturdy pillar of a developing China, and has realised major leaps, from "locomotives from various countries" to the "prestigious business card of China", from local enterprise to multinational corporation, from unknown to well-known, from market follower to trend leader. CRRC's history is a microcosm of China's great achievements of the last 70 years and a model for central enterprises. CRRC is the world's leading rolling stock supplier with large scale, diverse product portfolio and first-class technologies ranking among the Global 500 companies and China Top 100 companies, with products exported to 105 countries and regions. It tops the list of the Fortune's "Most Acclaimed Chinese Companies", with its brand value ranked number one in the PRC machinery manufacturing industry. CRRC was selected as one of the 10 model brands at the annual "2019 Chinese Brand Great China Ceremony". Our "Fuxinghao" successfully debuted on the celebration of the 70th anniversary of the founding of the PRC, and as a prestigious business card of China, it has attracted world-wide attention.

In 2020, the Central Economic Working Conference indicated a need to focus on high-quality development. As the pacesetter for the high-end equipment manufacturing industry, CRRC shall take the responsibility of "building China into a country with a strong transportation network supported by equipment", adhering to new development concepts, accelerating the conversion from original to new kinetic energy and creating a high-quality development model for central enterprises.

The year 2020 will be decisive for China in building a moderately prosperous society in all aspects. For CRRC, it is crucial to achieving the goals of the 13th Five-Year plan and the strategic goal of "two builds, one develop" (雙打造一培育). "To ride the rising tide and sail with the wind", CRRC intends to follow the course of history, committing to meeting high-quality development requirements, creating a world-class enterprise, planning for stable growth and risk prevention, deepening reform, focusing on innovation, strengthening party building, and striving for excellence. At present, the prevention and control of the "novel coronavirus disease" in the world is at a critical period, and there are still uncertainties as to the impact of the outbreak on the global economy. CRRC will make concerted efforts to consider the situation, continue to make plans for the prevention and control of the novel coronavirus disease and operational development, and strive to ensure the orderly and stable operation and development of the Company, so as to fulfil its mission in contributing to the country, to give back to society and shareholders, and benefit employees through more solid development and better business results.

**Liu Hualong**  
March 2020

## A. BUSINESS OVERVIEW

### I. Main business, operation model and industry situation of the Company during the reporting period

CRRC is the world's largest and most diverse rolling stock supplier with advanced technology. The main scope of business includes: research and development, design, manufacturing, refurbishment, sales, leasing and technical services of railway locomotives, MUs, urban rail transit vehicles, engineering machinery, various electromechanical equipment, electronic equipment and components, as well as electronic devices and environmental protection equipment; information consultation; industry investment and management; asset management; import and export business.

#### (I) Main business

##### 1. Railway equipment business

The railway equipment business mainly includes: (1) locomotive business; (2) MUs and passenger carriage business; (3) freight wagon business; (4) track engineering machinery business.

Facing the global market, the Company stayed abreast of changes in the domestic and international railway transport market and trends in the development of technology with an aim to become a world-leading provider of systematic solutions for rail transportation equipment. The Company accelerated innovations in its technology, products and service models, and created a systematic, modular and standardized product platform and technology platform, with a view to continuously meeting the requirements for developing an advanced and widely-applicable railway system and for intelligent, environment-friendly and safe development. The Company furthered its strategic cooperation with State Railway Group to improve the quality and efficiency of development, accelerate its business integration and structure adjustment, deepen integration of locomotive manufacturing and maintenance, integrate its freight wagon business, develop an advanced refurbishment capacity, construct seven regional components centers, and promote its service transformation. The Company implemented the strategy of establishing a country with strong transportation network, Smart Beijing-Zhangjiakou MUs were put into operation, and the centralized power supply MUs at a speed of 160 km/hour were delivered on a commercial scale, new breakthroughs were made for the MU in long formation "Fuxinghao" at a speed of 250 km/hour, the 4,400 horsepower AC drive freight diesel locomotive and the express freight wagon at the speed of 160 km/hour. Besides, significant progress was made in high-speed maglev trains at the speed of 600 km/hour and variable gauge high-speed MUs at a speed of 400 km/hour, all these developments helped consolidate the status of the Company in the industry and the stable growth of the railway equipment business.

## 2. Urban rail transit vehicles and urban infrastructure business

The urban rail transit vehicles and urban infrastructure business mainly includes: (1) urban rail transit vehicles; (2) general contracting of urban rail transit vehicles projects; (3) general contracting of other projects.

Facing the global market, the Company expedited innovations in urban rail transportation equipment technology and products to increase its core competitiveness. The Company created a systematic, modular and standardized product platform and technology platform, constantly consolidated and expanded domestic and international markets with high-quality products and services. The Company actively sought strategic cooperation opportunity, gave full play to its comprehensive advantages in equipment manufacturing, business portfolio and integration of industry and financing, focused on intelligent transportation, connectivity and intelligent city construction, vigorously developed the operation, maintenance and overhaul markets, and continued to expand into the service area, general contracting of electromechanical area, and operation and maintenance area. The Company carried out PPP business according to the industry norm, strengthened project management and control, and drove the development of urban rail transit vehicles and related business. The Company accelerated the integration of resources, promoted the combination of manufacturing and service, and made dedicated efforts in maintenance services. Subway trains on Daxing Airport Line at a speed of 160 km/hour, China's first hydrogen hybrid tram and automatic subway train were officially put into operation. Smart rail trains were put into commercial operation, the examination for the design and implementation proposal for CRRC serialized standard subway train development project was completed and the contract for the Wuxi-Jiangyin Intercity Railway Construction PPP Project was signed. The Company developed steadily in its urban rail transit vehicles and urban infrastructure business.

## 3. New industry business

The new industry business mainly includes: (1) general mechanical and electrical business; (2) emerging industry business.

In the general mechanical and electrical business, the Company strived to improve technology platform and the construction of industrial chain, promoted upgrade in core business technologies of rail transportation equipment with the focus on mastering core technologies, breaking through key technologies and increasing core competitiveness, and expedited the specialized and scale development of key systems and important spare parts in the industrial, transportation and energy fields. As to the emerging industry, the Company adhered to the principles of "relevance and multi-dimensions, high-end positioning and industry-leading position", and strengthened resource allocation, gave full play to core technological advantages. With emphasis on strategic emerging businesses such as new materials, new energy, environmental protection water treatment equipment and digital industry, the Company focused on segmented markets, and strengthened exploration of new markets. The Company steadily promoted the construction of the "CRRC Industry Internet" platform, BOGE in Germany and SMD in the United Kingdom which were acquired by or merged with the Company overseas achieved satisfactory results in expanding the vehicle, vessel and marine industry businesses. The Company's new business has been growing stronger and further.



#### 4. Modern service business

The modern service business mainly includes: (1) financial business; (2) logistics and trading business; (3) other business.

By adhering to “integration of industry and financing, promoting industry with financing”, the Company strengthened risk control, standardized the construction of financial service platform, investment and financing platform as well as financial lease platform, and accelerated the integrated development of the manufacturing industry and the service industry. The Company made continuous efforts in the industry and financing platform. With funds as carriers and innovation in development models, the function of the physical business was increasingly highlighted. The Company developed its modern logistics service by expanding the scope of centralized procurement, continuously promoting the development of the “CRRC Procurement (中車購)” e-commerce platform and the intelligent logistics in CRRC’s industrial chain, establishing the CRRC e-commerce bidding platform for recycled materials and promoting the extensive application of intelligent logistics in CRRC’s industrial chain, thus achieving the healthy development of modern service business.

#### 5. International business

The Company implemented its international strategy vigorously by seizing the development opportunities arising from the “Belt and Road Initiative” and “going global” strategies. The Company actively expanded overseas markets and promoted the transformation of export products from mid- and low-end to mid- and high-end. Through innovation in operating model and continuously promoting a form of “product + technology + service + capital + management” portfolio output, the Company actively carried out third-party market cooperation and won bids for projects such as Columbia metro, Mexico light-rail, and Portugal metro etc. The Company continued to promote the localization in manufacturing of overseas bases by increasing the allocation of overseas resources and deepening the implementation of the “five-locals model” of the localization in production, purchase, labor, maintenance and management. Upon the establishment of two overseas research and development centers in Italy and Austria, the Company had 17 overseas research and development centers in total, further contributing to the integration of research and development resources and the enhancement of market development ability.

## (II) Major products

Product structure	Main product functions
MUs	Mainly include various electric multiple units and diesel multiple units at the speed of 200 km/hour and below, 200-250 km/hour, 300-350 km/hour and above, which are mainly used to provide main line railway and inter-city railway passenger transport services. On the basis of “import, digestion, absorption and re-innovation”, the MU products represented by “Fuxinghao” have independent intellectual property rights.
Locomotives	Mainly include various DC driving and AC driving electric locomotives and diesel locomotives with the largest traction power of 12,000 KW and the highest speed of 200 km/hour, which are mainly used to provide passenger and goods transport services in main line railway. The Company’s locomotive products have independent intellectual property rights.
Passenger carriages	Mainly include seater car, sleeping car, dining car, luggage van, generator car, special vehicles, plateau cars and double-deck railway passenger carriages at the speed of 120-160 km/hour, which are mainly used to provide passenger transport services in main line railway. The Company’s passenger carriages have independent intellectual property rights.
Freight wagons	Mainly include various railway gondola trucks, box wagon, flatcar, tank truck, hopper car and other special goods transport trucks, which are mainly used to transport goods for main line railway and industrial and mining enterprises. The Company’s freight wagons have independent intellectual property rights.
Urban rail transit vehicles	Mainly include subway vehicles, light-rail vehicles, urban (commuting) vehicles, monorail vehicles, maglev train, tramcar, rubber-tyred vehicles, etc., which are mainly used to provide commuter and passenger transport services between cities and suburbs. The Company’s urban rail transit vehicles have independent intellectual property rights.
General electrical and mechanical equipment	Mainly include traction electric driving and network control system, diesel engine, braking system, cooling and heat transfer system, train operation and control system, passenger information system, power supply system, gear assembly, etc., which are mainly used to complement with MUs, locomotives, urban rail transit vehicles, tracking engineering machinery products in main line railway and inter-city railway, and part of them are provided to third party customers as spare parts. All of the aforesaid products of the Company have independent intellectual property rights.

### (III) Operation model

Main operation model: the Company independently completes the manufacturing, repair, research and development, and production and delivery of rolling stock equipment relying on our own technology, craftsmanship, production capability and production qualification.

1. Production model: as the value of the product of rolling stock manufacturing industry per unit is comparatively high, its production model is to “limit production to sales”, meaning that the arrangement of production is based on purchase order contracts obtained from customers. Not only does this model avoid excess inventory of finished products, it also satisfies the needs of customers by arranging for production according to the particular order.
2. Purchasing model: a combination of centralized procurement and decentralized procurement is commonly used. For centralized procurement, it mainly adopts the “unified management, two-level concentration” management model in which purchase applications for bulk materials and key components are collected from all subsidiaries of the Company to form a centralized procurement plan for conduction of centralized supplier management assessment, purchase price management, procurement bidding management as well as centralized ordering and centralized settlement by the Company. For other materials, etc., the subsidiaries shall formulate procurement plans according to production requirements, and select appropriate suppliers and sign supply contracts through centralized organization of bidding and other methods to achieve centralized procurement. Whether it will be done by the Company or its subsidiaries, a centralized procurement shall be completed on the “CRRC Procurement” e-commerce procurement platform to realize open, transparent and traceable management of CRRC’s procurement business to ensure timely supply of raw materials for production and reduce procurement costs.
3. Sales model: take advantage of industry technologies to build and improve technology platforms and product platforms for a variety of rail transit equipment in response to user needs, and, for the purpose of providing safe, reliable and affordable products and services, actively participate in open tender or negotiated tender of users inside and outside China, sign supply contracts through bidding and rigorous business negotiations to form orders to guarantee quality and quantity and production on schedule and finally achieve sales.
4. Distribution of the industrial chain: the Company has a number of rolling stock equipment manufacturing bases and research bases at an international advanced level. The Company has formed a complete nationwide industrial chain and production system with the main machinery companies of high-speed MUs, locomotives, urban rail transit vehicles, passenger carriages and freight wagons as its core and supporting companies as its backbone.
5. Distribution of the value chain: the product value of the Company mainly lies in the value chain distribution system of the comprehensive rolling stock equipment with the production of high-speed MUs, high-power locomotives, urban rail transit vehicles, passenger carriages and freight wagons as well as the manufacturing and repairing of related supporting products as core value and supplemented with financial products, financial-related products and financial lease products.

6. Research and development model: the Company has two-level research and development management model of “centralizing research and development of technology, jointly developing products and building and sharing capability” in place.

#### (IV) Industry status

The Outline for Building China’s Strength in Transportation states that by 2035, a modern and comprehensive transportation system will have been basically formed, a “national 123 transportation circle” (one-hour commute in urban areas, two-hour travel between the cities of a conurbation, and three-hour reachability of major cities nationwide) and a “global 123 fast movement of goods circle” (one-day domestic delivery, two-day delivery to neighboring countries, and three-day delivery to global major cities) will have been basically established, the transportation technology innovation system will have been basically built with the installation of advanced and safe transportation key equipment, and the international competitiveness and influence of transportation will have been significantly improved. The Outline proposes that transportation equipment should be advanced and applicable, sound and controllable. The research and development of new types of conveyances should be strengthened, and major breakthroughs in 30,000-ton heavy-duty trains and high-speed wheel-rail freight trains at a speed of 250 km/hour should be achieved. The Outline also promotes new energy, clean energy, intelligent, lightweight, environmentally friendly transportation equipment and complete sets of technical equipment, and to widely use emerging equipment and facilities such as intelligent high-speed railways, etc. The State’s Medium- to Long-Term Railway Network Plan proposes to improve the ordinary-speed railway network, build high-speed railway network, construct integrated transport hubs and build a modern integrated transport system. By 2025, total length of the railway network will reach about 175,000 kilometers, of which about 38,000 kilometers will be covered by high-speed rail, the planning and construction for major projects such as the Sichuan-Tibet Railway will have been started. As at the end of 2019, there was an aggregate of 40 cities in mainland China (excluding Hong Kong, Macau and Taiwan) commencing the urban rail transit operation lines with a distance of 6,730.27 km, among which, in 2019, there was a total of 968.77 km of newly added operating distance, which created a historical high. Urban rail transit construction planning in altogether 63 cities was approved, including new construction plans and adjustment of 687.45 km in length. Proposals for regional development strategies such as the Beijing-Tianjin-Hebei coordinated development, the integrated development of the Yangtze River Delta, and the Guangdong-Hong Kong-Macao Greater Bay Area development are expected to vigorously promote the construction of rail transit in urban agglomerations and metropolitan areas. As an important part of high-end equipment manufacturing, rolling stock equipment is one of the strategic emerging industries that the country encourages to be the focus of development, and will continue to offer major development opportunities for a long period of time.

As the world’s largest and most diverse rolling stock supplier with advanced technology, CRRC has consecutively ranked first in the world in terms of sales volume of rolling stock equipment for years. CRRC actively implemented the strategy of a strong transportation country, actively adapted to the ever-changing market environment, captured market opportunities, and accelerated structural reform, as well as transformation and upgrades. CRRC made well-targeted efforts in market expansion, international operation, technical innovation and synergic development, etc., further consolidating its position in the rolling stock equipment industry.

#### (V) Production capacity

CRRC earnestly implements supply-side structural reforms and strictly controls the increase of traditional product capacity. As at the end of 2019, CRRC's annual production capacity of major products was 547 new MUs, 1,530 new locomotives, 2,300 new passenger carriages, 51,500 new freight wagons and 11,840 urban rail transit vehicles (including subway vehicles, tramcars, monorail vehicles and medium and low-speed maglev trains) of general assembly. In future, CRRC will continue to seriously implement supply-side structural reform, strictly control the capacity of new MUs, locomotives, passenger carriages, freight wagons and urban rail transit vehicles of general assembly, by adhering to the goal of "internationalization, structural adjustment, capacity optimization", actively respond to the growth of refurbishment business of MUs, urban rail transit vehicles and high-power AC driving locomotives, vigorously promote the integration of maintenance and manufacturing of MUs, urban rail transit vehicles and locomotives and facilitate resource sharing of maintenance and new manufactures so as to further increase the utilization rate of new manufacturing capacity of MUs, urban rail transit vehicles and locomotives.

### II. Significant changes of the Company's major assets during the reporting period

For details, please refer to the relevant content under the "Report of Directors – B. Management Discussion and Analysis – II. Major operation results during the reporting period - (II) Analysis of the structure and changes of major assets and liabilities of the Company during the reporting period".

### III. Analysis of the core competitiveness during the reporting period

Great concern and importance are attached to the rolling stock equipment industry by the leaders of the CPC and the state, high-speed train has become a golden business card in the "going global" of high-end equipment of our country. With the strategic objective of "two builds, one develop (雙打造一培育)", CRRC fully grasped opportunities and new challenges, adhered to innovation-driven operation, strengthened its transformation and upgrades and enhanced its operational management. In 2019, CRRC ranked 359th in the Fortune Global 500 companies, with brand value over RMB100 billion, and ranked first of the annual top ten model brands at the "2019 Chinese Brand Great China Ceremony".

## 1. Adhering to innovation-driven development and further improving innovation ability

CRRC regards innovation as the prime motivation for the Company's high-quality development, and adheres to the technological innovation approach of "setting clear ambition to persistently forge ahead, consolidating fundamentals to foster our spirit", and continuously improves its independent innovation capabilities. In 2019, the Company continued to carry out the reformation of the scientific and technological system, optimized the top-level design, reformed the management of project establishment, organized the "7218" key projects<sup>1</sup> and projects of strengthening the weak areas, improved the construction of the "CRRC Q" quality system and quality control, and the innovation ability was steadily improved. The Company improved the construction process of technological innovation system, strengthened the product research and development system of subsidiaries having research advantages. The technical research system led by the CRRC Industrial Institute and the National High-Speed Train Technological Innovation Center was strengthened, the evaluation system for technological innovation was enhanced, and a technology evaluation and trading platform was gradually established, technological supporting service platform was enhanced and innovation factors were stimulated. In 2019, the Company was awarded with three National Technology Invention Awards (Second Class), one National Science and Technology Progress Award (Second Class), 21 Railway Science and Technology Awards, among which were two Special Prizes and three First Prizes. MUs technology innovation team of "Fuxinghao" series was selected as one of the 10 outstanding central enterprises by the SASAC. The Company won two gold prizes, one silver prize and seven excellence awards for patents, ranking the first among the central enterprises in terms of the cumulative number of gold prizes awarded. The Company formulated and revised 12 international standards, among which, it was the lead in three occasions. The technological innovation ability and effectiveness of innovation of the Company have been steadily improved.

## 2. Adhering to coordinated development and optimizing the allocation of resources

The Group optimized its business layout and resource allocation in accordance with core business, pillar business, supporting business, platform business and nurturing business; promoted internal professional reorganization; accelerated the integration of manufacturing and refurbishment for locomotives and the reorganization of freight wagon business; carried out the integration of urban rail transit vehicle business with mechanical and electrical business; established a number of rolling stock equipment technology platforms and production platforms at an international advanced level; developed and improved a complete nationwide industrial chain and production system with the main machinery companies as its core and supporting companies as its backbone. The Group strengthened its overseas resource allocation: 17 overseas research and development centers located in Europe, the Americas and South Africa made great progress with increasing international cooperation. The development plan for the connection with countries of target markets has been moved forward, new breakthroughs have been made in the local manufacturing in overseas production bases. Resources were gathered to nurture and establish pillar business and supporting businesses, and made further room for development. In regard to wind power equipment with mature and complete industrial chain, there were continual new breakthroughs in wind turbines, and its wind power blade stably ranked among top three in the country in terms of market share; the polymer composites business has established its leadership in the industry with advanced technology; there were continual breakthroughs in its core technology for sewage treatment equipment in urban and rural areas with a stable growth in its general contracting of sewage treatment.

<sup>1</sup> "7218" key projects: refers to the projects undertaken or organized by CRRC which is in the leading position, including seven national advanced rail transit key projects, two core national technology research projects, serialized research and test projects for subway trains with Chinese standards, and eight projects of strengthening CRRC's weak areas.

### 3. Adhering to sharing development and continually enhancing international competitiveness

Seizing the opportunities arising from the “Belt and Road Initiative” and “going global” strategies, the Company has made efforts to implement its international operation strategy. All kinds of railway transportation equipment have been exported to 105 countries and regions across the world. With the expansion in its export product portfolio of “product + technology + service”, the Company entered into contracts with Australia in relation to purchase of double-decker passenger carriages and with Uzbekistan in relation to electric locomotive projects etc. Overseas business model was changed from single product to a multiple export portfolio of “product, capital, technology, management and service”. The Company changed its concept from product “going global” to capacity “going inside” and brand “going high-end”. The Malaysian manufacturing centre of the Company, as highlight of the ASEAN economic and trade cooperation and the model base among all “Belt and Road Initiative” projects, provided product maintenance services for railway transportation equipment. The launch of “Sirius” MUs in the Czech Republic marked the first Chinese MU entering the European Union. The Company actively carried out its strategic cooperation, developed third-party market cooperation to form synergy effect of brand cooperation, and renewed cooperation agreements with Thales and others. With its “go abroad jointly” initiative, the Company promoted the design, manufacture and after-sales maintenance of high-speed rail vehicles in Jakarta-Bandung high-speed rail in Indonesia with high standards, and promoted the golden business card of high-speed train. CRRC’s global influence and international recognition have been increased significantly.

## B. MANAGEMENT DISCUSSION AND ANALYSIS

### I. Discussion and analysis of operation

In 2019, with the business situation showing a significant rise in risks and challenges, the Company focused on the “13568” business work idea<sup>2</sup>, worked together and forged ahead amidst difficulties, and responded effectively to changes in the internal and external environment, and made new achievements in various areas of activity.

#### (I) Continuing to work for steady growth and operating quality steadily improved

The Company adhered to setting high-target, strengthened operational management and control, carried out in-depth “1+13” quality promotion and efficiency improvement activities<sup>3</sup>, and strove to resolve various profit reduction factors to achieve revenue and profit growth. The profitability of the main manufacturing operation reached a historic high. The Company’s subsidiaries and headquarters’ departments forged ahead in overcoming the difficulties, and achieved unique work results in various fields.

#### (II) Continuing to work hard on market expansion and breakthroughs achieved in five major businesses

The Company recognized that the market is of paramount importance, and therefore devoted great effort in market development. The core business continued to be consolidated, its key business achieved positive results, the supporting businesses also made breakthroughs. Remarkable growth was noted in nurturing business, its platform business continued to grow, and international business forged ahead in overcoming the difficulties.

#### (III) Continuing to work hard on reform to break obstacles

The Company deepened the reformation of top management structure, and formed a “1 + 20” guiding principle system with “integrity, system, synergy and manageability” as main features. The proposal of building first-class enterprise was formulated and implemented. With the aim to build a worldwide first-class model enterprise, the Company set clearly defined drawings, roadmaps and construction plans and made progress in its eight major projects. The reform of the “double-hundred enterprises” was in good progress, and the Company also speeded up the implementation of mixed ownership reform.

<sup>2</sup> “13568” business work idea: “1” represents the main line, with comprehensive budget management as the main line; “3” represents three themes: synergy, strengthening weakness and improving quality; “5” represents the establishment of five mechanisms, i.e. mechanisms of strategic control, resource synergy, risk control, joint construction and sharing, and incentives and constraints; “6” represents the establishment of six systems, i.e. systems of integration of comprehensive budget management, integration of technology innovation, integration of information management, integration of global talent training, integration of international control, and integration of supervision and assessment; “8” represents eight priorities, i.e. to give priority to stabilizing growth, strengthening management, improving ability, preventing risks, cultivating driving forces, prioritizing innovation, promoting quality, and building brand.

<sup>3</sup> “1+13” quality promotion and efficiency improvement activities: represents CRRC’s in-depth activities for promoting quality and improving efficiency under the theme of “strengthening basic quality and promoting quality steadily” in 2019, where “1” represents the main line of activities to implement comprehensive budget management and complete annual business goals, “13” represents the 13 key special tasks including loss-making corporate governance, reduction of management costs, and active promotion of international operations.



## (IV) Continuing to tighten risk control measures and risk prevention effectively promoted

Unswervingly fighting on three major battles, the Company undertook special measures on pollution control, engaged itself in targeted poverty alleviation, paid close attention to risk prevention and solution, such that its risk management and control system was gradually strengthened. The Company insisted on managing the enterprises in accordance with law and operating in compliance with rules, and constantly enhanced the construction of rule of law. For the business of CRRC, quality and safety were never compromised, especially the smooth operation of high-speed train and the safety of its passengers, which provided a solid foundation in safeguarding the social stability, safety and operation for celebrating the 70th anniversary of the founding of New China, and was highly praised by the society.

## (V) Continuing to work on improving quality and profitability effectively improved

Adhered to the main line of comprehensive budget management, the Company prepared budgets scientifically and strengthened budget limitations; fully benchmarked world-class companies in the industry; established “six types” of quality promotion indicators to improve business management continuously; continued to adhere to strategic orientation; controlled the pace of investment reasonably; gained solid progress in lean management; and implemented measures for quality upgrade and efficiency enhancement.

## II. Major operation results during the reporting period

In 2019, the Company achieved revenue of RMB229.011 billion, representing a year-on-year increase of 4.53%; net profit attributable to shareholders of the Company was RMB11.795 billion, representing a year-on-year increase of 4.33%. As at the end of December 2019, the consolidated total assets of the Company increased by 7.29% to RMB383.572 billion; the net assets attributable to shareholders of the Company increased by 5.79% to RMB135.894 billion. The gearing ratio was 58.59%, representing an increase of 0.46% as compared with that at the beginning of the year.

### (I) Analysis of main business

#### 1. Analysis of changes in relevant items in income statement and cash flow statement

	Amount for the current period (RMB'000)	Amount for the same period of the previous year (RMB'000)	Change (%)
Revenue	229,010,833	219,082,641	4.53
Operating costs	176,149,897	170,526,021	3.30
Selling expenses	8,516,415	7,745,841	9.95
Administrative expenses	14,444,854	13,430,881	7.55
Research and Development expenses	12,017,162	10,896,916	10.28
Financial expenses	373,201	1,279,396	-70.83
Net cash flow from operating activities	22,530,536	18,869,344	19.40
Net cash flow from investment activities	-4,568,868	-4,333,324	5.44
Net cash flow from financing activities	-12,693,137	-31,964,065	-60.29

## 2. Analysis of revenue and cost

Revenue increased by 4.53% as compared to the same period of the previous year, mainly due to the increase in revenue from railway equipment, urban rail transit vehicles and urban infrastructure and new industry business of the Company during the current period.

Operating costs increased by 3.30% as compared to the same period of the previous year, mainly due to different structure of railway products during the current period. The increase in operating costs was slightly lower than the increase in revenue.

### (1) Information on main business by industry, product and region

#### Main business by industry

Unit:'000 Currency: RMB

By industry	Revenue	Operating costs	Gross profit margin (%)	Increase/ decrease in revenue from last year (%)	Increase/ decrease in operating costs from last year (%)	Increase/ decrease in gross profit margin from last year (%)
Railway transportation equipment and their extent industries	229,010,833	176,149,897	23.08	4.53	3.30	Increased by 0.92%

#### Main business by product

Unit:'000 Currency: RMB

By product	Revenue	Operating costs	Gross profit margin (%)	Increase/ decrease in revenue from last year (%)	Increase/ decrease in operating costs from last year (%)	Increase/ decrease in gross profit margin from last year (%)
Railway equipment	123,190,246	92,375,873	25.01	2.17	2.38	Decreased by 0.16%
Urban rail transit vehicles and urban infrastructure	43,935,184	36,184,603	17.64	26.39	25.75	Increased by 0.42%
New industry	53,573,065	40,893,005	23.67	7.79	4.33	Increased by 2.54%
Modern service	8,312,338	6,696,416	19.44	-40.84	-45.68	Increased by 7.18%
Total	229,010,833	176,149,897	23.08	4.53	3.30	Increased by 0.92%

## Main business by region

Unit: '000 Currency: RMB

By region	Revenue	Increase/ decrease in revenue from last year (%)
Mainland China	209,144,275	4.72
Other countries or regions	19,866,558	2.58

## Explanation of main business by industry, by product and by region

Revenue from the railway equipment business increased by 2.17% as compared to the same period of the previous year, mainly due to the increase in the revenue from passenger carriages during the current period. Operating costs increased by 2.38% as compared to the same period of the previous year, mainly due to the increase in revenue. Due to the difference in product structure, the increase in operating costs was slightly greater than the increase in revenue.

Revenue from urban rail transit vehicles and urban infrastructure business increased by 26.39% as compared to the same period of the previous year, mainly due to the increase in the revenue from urban rail transit vehicles during the current period. Operating costs increased by 25.75% as compared to the same period of the previous year, mainly due to the increase in revenue. Due to the difference in product type, the increase in operating costs was slightly lower than the increase in revenue.

Revenue from the new industry business increased by 7.79% as compared to the same period of the previous year, mainly due to the increase from wind power business. Operating costs increased by 4.33% as compared to the same period of the previous year, mainly due to the increase in revenue. Due to the difference in product type, the increase in operating costs was slightly lower than the increase in revenue.

Revenue from the modern service business decreased by 40.84% as compared to the same period of the previous year, mainly due to the reduction of size of logistics trade business during the current period. Operating costs decreased by 45.68% as compared to the same period of the previous year, mainly due to the decrease in revenue.

Revenue of the Company increased by 4.53% as compared to the same period of the previous year, and revenue from railway equipment business, urban rail transit vehicles and urban infrastructure business, new industry business and modern service business accounted for 53.79%, 19.18%, 23.39% and 3.64%, respectively, of total revenue. In particular, revenue generated by the locomotive business of the railway equipment business was RMB23.063 billion; revenue generated by the passenger carriage business was RMB15.328 billion; revenue generated by the MUs business was RMB64.157 billion; revenue generated by the freight wagon business was RMB20.642 billion. Revenue generated by the urban rail subways of the urban rail transit vehicles and urban infrastructure business was RMB40.093 billion. The Company sold 932 locomotives, 1,691 passenger carriages, 2,167 MUs, 48,762 freight wagons and 7,452 urban rail subways.

During the reporting period, the Company's revenue from Mainland China increased by 4.72%. Revenue from other countries or regions increased by 2.58%, mainly due to the increase in the delivery volume of products during the current period in accordance with the overseas order delivery cycle.

During the reporting period, the Company generated revenue in about 76 countries or regions, of which revenue in Europe was RMB8.196 billion, accounting for 41.25% of overseas revenue. The main products were auto parts and deep-sea robots. Revenue in Asia (including Hong Kong, Macau and Taiwan) was RMB5.151 billion, accounting for 25.93% of overseas revenue. The main products were urban rail subways and high-end parts and components. Oceania's revenue was RMB2.745 billion, accounting for 13.82% of overseas revenue, mainly for freight wagons, double-decker passenger carriages, urban rail subways etc. Revenue in Africa was RMB1.943 billion, accounting for 9.78% of overseas revenue, mainly for locomotives and freight wagons etc. Revenue in other regions such as America was RMB1.832 billion, accounting for 9.22% of overseas revenue. The main products are urban rail transit vehicles, freight wagons and high-end parts and components etc.

## (2) Analysis of cost

Unit:'000 Currency: RMB

By industry	Cost of main business by industry				
	Amount for the current period	Proportion in total cost for the current period (%)	Amount for the same period of the previous year	Proportion in total cost for the same period of the previous year (%)	Proportion of change of amount for the current period as compared to amount for the same period of the previous year (%)
Railway transportation equipment and their extent industries	176,149,897	100.00	170,526,021	100.00	3.30

By item	Cost of main business by item				
	Amount for the current period	Proportion in total cost for the current period (%)	Amount for the same period of the previous year	Proportion in total cost for the same period of the previous year (%)	Proportion of change of amount for the current period as compared to amount for the same period of the previous year (%)
Direct materials	148,016,134	84.03	142,925,987	83.81	3.56
Direct labour costs	9,570,738	5.43	9,610,647	5.64	-0.42
Manufacturing costs	12,007,245	6.82	11,854,697	6.95	1.29
Others	6,555,780	3.72	6,134,690	3.60	6.86
Total	176,149,897	100.00	170,526,021	100.00	3.30

Other descriptions on cost analysis

During the reporting period, the costs increased with the revenue. The Company mainly relied on the manufacturing industry, where direct materials accounted for majority of the costs, and the change of the proportion in total costs was mainly due to the influence of product structure.

**(3) Information on major suppliers and customers**

In 2019, the procurement by the Company from its top 5 suppliers amounted to RMB11.116 billion, accounting for 7.51% of the total amount of procurement for the year, of which procurement from related parties was RMB0, representing 0% of total procurement for the period.

In 2019, the sales of the Company to its top 5 customers amounted to RMB135.764 billion, accounting for 59.28% of the total sales of the Company for the year, of which sales from related parties was RMB2.714 billion, representing 1.18% of total sales for the period.

The relatively high customers concentration is primarily attributable to State Railway Group being the largest customer of the Company, which accounted for 50.79% of the total sales of the Company for the year.

Taizhou Taizhong Rail Transit Co., Ltd. (台州台中軌道交通有限公司) (“**Taizhong Rail**”) is one of the top five customers of the Company. CRRC GROUP (the controlling shareholder of the Company), Construction and Investment Company (a wholly-owned subsidiary of CRRC GROUP) and City Investment Fund Management Company (CRRC GROUP indirectly holds 50% of its equity interests) holds 0.12%, 1.18%, and 78% of the equity interests in Taizhong Rail, respectively. Apart from this, none of the Directors of the Company or their close associates or any shareholder holding more than 5% of the shares of the Company has any interest in the aforementioned suppliers or customers.

Relationship with customers:

Since the product unit value was relatively high, our sales method mainly consisted of participating in tenders or tender negotiations, through bidding in tenders, communication and negotiation based on historical prices in determining the final price and secure orders. Our sales customers were mainly railway and urban rail transportation operators. Railway customers were divided into railway customers and non-railway customers. Railway customers refer to State Railway Group, which are the largest customers within the industry, and thus the Company has strong dependence on State Railway Group. Non-railway customers were mainly large-scale plants, mining groups and ports, etc., the demand of which shows a trend of a year-on-year increase. Such customers were fragmented and thus the Company was not over-reliant on them. Urban rail transit customers are rail transit operators in different cities and the number of operators has increased year by year. The customers are fragmented, and thus the Company was also not over-reliant on them. For the year ended 31 December 2019, approximately 59.28% of our products were sold to our five largest customers.

Relationship with suppliers:

Our principal raw materials and components were purchased through external procurements while some were supplied by internal production. We have established direct and stable supply channels with our major suppliers and external contracted production units. Since our suppliers were not highly concentrated, there was little risk of over-reliance on any single supplier. For the year ended 31 December 2019, approximately 7.51% of our products were manufactured by our five largest suppliers.

### 3. Expenses

Selling expenses increased by 9.95% as compared to the same period of the previous year, mainly due to the increase in provision for the product quality warranty.

Administrative expenses increased by 7.55% as compared to the same period of the previous year, mainly due to the increase in employee benefits.

Financial expenses decreased by 70.83% as compared to the same period of the previous year, mainly due to the decrease in interest expenses and exchange losses.

### 4. R&D Investment

Unit:'000 Currency: RMB

Expensed R&D investment for the current period	12,033,365
Capitalized R&D investment in the current period	231,267
Total R&D investment	12,264,632
Proportion of R&D investment in revenue (%)	5.36
Number of R&D personnel in the Company	34,842
Proportion of R&D personnel in the staff of the Company (%)	21.03
Proportion of the capitalized R&D investment (%)	1.89

In 2019, R&D expenses of the Company amounted to RMB12.265 billion, accounting for 5.36% of revenue. The Company started the implementation of 2 national key technology research projects, established a joint project promotion office, and explored the technology readiness assessment (TRL) management model. Besides, research on 11 special projects of the advanced rail transit of China was continued to perform, and the projects progressed smoothly. R&D on projects for new products, key systems and components of rail transit, such as locomotives, freight wagons and urban rail transit vehicles were progress steadily. Make every effort to promote forward-looking basic and common technology research and leapfrog innovation in new materials, smart products, and smart manufacturing. Actively promoted the work of "Dual Innovations", the "Super Copper" and "AI Behavior Analysis System" projects were awarded the first prize and the second prize of the "2018 Central Enterprises Stars Innovation and Creativity Contest", respectively.

### 5. Analysis of cash utilization during the reporting period

The net cash flow from operating activities was a net inflow of RMB22.531 billion, representing an increase of RMB3.661 billion as compared to the same period of the previous year, mainly due to the decrease in purchase of goods, cash paid for labor services as compared to the same period of the previous year during the reporting period.

The net cash flow from investing activities was a net outflow of RMB4.569 billion, representing an increase in net outflow of RMB0.236 billion as compared to the same period of the previous year, mainly due to the increase in cash payments for investments during the reporting period as compared to the same period of the previous year.

The net cash flow from financing activities was a net outflow of RMB12.693 billion, representing an decrease in net outflow of RMB19.271 billion as compared to the same period of the previous year. Such change was mainly due to the increase in cash receipts from borrowings and bonds issuing during the reporting period.

## (II) Explanation on significant changes in profit resulting from non-principal business

During the reporting period, the Company had no significant changes in profit resulting from any non-principal business.

## (III) Analysis of assets and liabilities

### 1. Assets and liabilities

Unit:'000 Currency: RMB

Name of item	Amount at the end of the period	Amount at the end of the period as a percentage of total assets (%)	Amount at the end of the previous period	Amount at the end of the previous period as a percentage of total assets (%)	Amount at the end of the period compared to amount at the end of the previous period (%)
Placements with banks and other financial institutions	139,524	0.04	-	-	-
Receivables at fair value through other comprehensive income	13,085,613	3.41	5,277,641	1.48	147.94
Other current assets	5,820,129	1.52	3,475,122	0.97	67.48
Loans and advances to customers	180,588	0.05	1,880,911	0.53	-90.40
Long-term receivables	10,518,918	2.74	7,809,013	2.18	34.70
Right-of-use assets	1,261,467	0.33	-	-	-
Goodwill	462,158	0.12	713,042	0.20	-35.19
Borrowings from the Central bank	222,317	0.06	-	-	-
Due to customers	5,577,269	1.45	2,795,282	0.78	99.52
Non-current liabilities due within one year	3,778,474	0.99	11,096,595	3.10	-65.95
Other current liabilities	4,015,089	1.05	6,155,925	1.72	-34.78
Long-term borrowings	2,589,644	0.68	880,011	0.25	194.27
Lease liabilities	960,501	0.25	-	-	-
Long-term payables	85,484	0.02	279,178	0.08	-69.38

Placement with banks and other financial institutions increased, mainly due to the increase of the Company's placements with other banks.

Receivables at fair value through other comprehensive income increased by 147.94%, mainly due to the increase in bills receivable at fair value through other comprehensive income of the Company.

Other current assets increased by 67.48%, mainly due to the increase of VAT to be deducted and prepaid.

Loans and advances to customers decreased by 90.40%, mainly due to the reclassification of the loans and advances to customers issued by the Finance Company to non-current liabilities due within one year.

Long-term receivables increased by 34.70%, mainly due to the increase of receivables arising from finance lease.

Right-of-use assets increased, mainly due to the new items arising from the adoption of new standards for lease.

Goodwill decreased by 35.19%, mainly due to the impairment of goodwill provided by overseas subsidiaries during the reporting period.

Borrowings from the Central bank increased, mainly due to the increase in borrowings of the Finance Company during the current period.

Due to customers increased by 99.52%, mainly due to the increase in the customer deposits of the Finance Company during the current period.

Non-current liabilities due within one year decreased by 65.95%, mainly due to the repayments of bond payables of the Company.

Other current liabilities decreased by 34.78%, mainly due to the decrease in short-term financing bonds of the Company.

Long-term borrowings increased by 194.27%, mainly due to the increase in long-term bank borrowings of the Company.

Lease liabilities increased, mainly due to the new items arising from the adoption of new standards for lease.

Long-term payables decreased by 69.38%, mainly due to the implementation of news standards for lease and adjustments to payables arising from finance lease to lease liabilities.

## **2. Material assets subject to restriction as of the end of the reporting period**

For details, please refer to "70. Assets with restriction of ownership" under "V. Notes of Consolidated Financial Statements" in "Financial Report".



**3. Information on financial assets and financial liabilities held in foreign currency**

	<b>Closing balance (RMB'000)</b>	Opening balance (RMB'000)
Foreign currency financial assets		
Cash and bank balances	<b>8,804,755</b>	6,996,100
Placements with banks and other financial institutions	<b>139,524</b>	–
Held-for-trading financial assets	<b>269,963</b>	227,307
Accounts receivable	<b>6,488,999</b>	4,258,418
Other receivables	<b>1,375,375</b>	103,094
Other current assets	<b>208,503</b>	205,896
Debt investments (inclusive of the portion due within one year)	<b>1,370,174</b>	2,520,932
Long-term receivables (inclusive of the portion due within one year)	<b>209,286</b>	467,704
<b>Total</b>	<b>18,866,579</b>	14,779,451

	<b>Closing balance (RMB'000)</b>	Opening balance (RMB'000)
Foreign currency financial liabilities		
Short-term borrowings	<b>4,071,758</b>	1,991,024
Accounts payable	<b>1,473,651</b>	245,945
Other payables	<b>3,784,741</b>	5,400,341
Long-term borrowings (inclusive of the portion due within one year)	<b>353,425</b>	1,441,303
Long-term payables (inclusive of the portion due within one year)	–	41,525
Bonds payable (convertible bonds – debt component (inclusive of the portion due within one year))	<b>2,445,097</b>	3,910,829
Other non-current liabilities (convertible bonds – embedded derivative component (inclusive of the portion due within one year))	<b>5,396</b>	271,899
<b>Total</b>	<b>12,134,068</b>	13,302,866

#### 4. Significant capital expenditure and capital commitment during the reporting period

##### (1) Significant capital expenditure

Item	From January to December 2019 Amount (RMB'000)	From January to December 2018 Amount (RMB'000)
Fixed assets	1,993,177	1,536,478
Construction in progress	6,280,460	6,749,736
Intangible assets	303,547	1,052,753
Development expenses	12,264,632	11,179,013
Total capital expenses	20,841,816	20,517,980

##### (2) Capital commitment

As at 31 December 2019, the capital commitments that the Group had contracted but not yet undertaken was RMB3,126 million, which will be used mainly for property, plant, equipment, land lease prepayment and other intangible assets.

#### 5. Detailed information on contingent liabilities of the Company

The Company has no significant contingent liabilities other than the guarantees provided by the Company as set out in the section headed "Significant Events - IV. Significant Contracts and Their Implementation" and those items as disclosed in Note XI, 2 to the consolidated financial statements of this annual report.

#### 6. Detailed information on mortgaged assets of the Company

Item	31 December 2019 Amount (RMB'000)
Cash and bank balances	5,759,431
Bills receivable	4,437,678
Accounts receivable	53,105
Receivables at fair value through other comprehensive income	629,385
Long-term receivables (inclusive of the proportion due within one year)	371,694
Fixed assets	134,440
Total	11,385,733

## 7. Borrowings, corporate bonds and notes

As at 31 December 2019, the Group had total borrowings, bonds and notes of approximately RMB19,135 million, as compared to the total amount of approximately RMB24,584 million as at 31 December 2018.

As at 31 December 2019, out of the total borrowings, bonds and notes of the Company, RMB13,667 million was denominated in Renminbi, RMB4,415 million was denominated in USD, and RMB809 million was denominated in Euro.

The Company's long-term interest-bearing borrowings, bonds and notes and short-term interest-bearing borrowings, bonds and notes as at 31 December 2019 were RMB7,124 million and RMB12,011 million, respectively.

As at 31 December 2019, the total bank and other borrowings of the Company with floating interest rates amounted to RMB5,535 million, as compared to RMB6,111 million as at 31 December 2018.

	<b>31 December 2019 Amount (RMB'000)</b>	31 December 2018 Amount (RMB'000)
Within one year (starting date and ending date inclusive)	<b>12,010,821</b>	20,203,943
One to two years	<b>5,032,596</b>	250,523
Two to five years	<b>1,790,992</b>	3,940,022
Over five years	<b>300,873</b>	189,466
<b>Total</b>	<b>19,135,282</b>	24,583,954

As at 31 December 2019, the total borrowings, bonds and notes of the Company amounted to approximately RMB19,135 million, representing a decrease of 22.16% from RMB24,584 million as at 31 December 2018, mainly due to the decrease in bonds payable.

## 8. Cash flow

As at 31 December 2019, the cash and cash equivalents owned by the Group amounted to approximately RMB35,820 million, of which RMB27,063 million was denominated in Renminbi; RMB2,850 million was denominated in USD; and RMB1,621 million was denominated in Euro.

## (IV) Analysis of industrial and operational information

Please refer to “Report of Directors — A. Business Overview” and “Report of Directors — B. Management Discussion and Analysis — I. Operation discussion and analysis” for relevant information.

### Industrial and operational information analysis of railway transportation equipment manufacturing industry

#### 1. Orders of the Company during the reporting period

Unit: hundred million Currency: RMB

Item	New order amount	Existing order amount
Market orders	2,923	2,571
Overseas orders	481	878

The Company recognises revenue when a performance obligation under the contract is satisfied, i.e. when control of the underlying goods or services is transferred to the customer, based on the portion of the transaction price allocated to the performance of obligation. If one of the following criteria is met and the performance obligation shall be performed during a period, revenue is recognized by the Company over time by reference to the performance progress: (1) the customer simultaneously receives and consumes the economic benefits provided by the Company’s performance as the Company performs; (2) the customer has the control over the goods being constructed by the Company during the performance period; or (3) the goods produced by the Company during the performance period has an alternative use, and the Company has the right to receive payment for performance completed during the contract period to date. Otherwise, revenue is recognised at a point in time when the customer obtains control of the relevant goods or service.

## 2. Profit during the reporting period

For details, please refer to “Management Discussion and Analysis-II. Major operation results during the reporting period-(I) Analysis of main business-2. Analysis of revenue and cost-(1) Information on main business by industry, product and region”.

## 3. Businesses accounting for over 10% of the Company’s main business income during the reporting period

Item	Sales volume of complete units
Newly created railway equipment vehicles business (vehicles/set)	53,844
Railway equipment repair and refitting business (vehicles/set)	74,014
Newly created urban rail subway vehicles business (vehicles/set)	7,452
<b>Total</b>	<b>135,310</b>

During the reporting period, revenue from the newly created railway equipment vehicles business of the Company amounted to RMB84.895 billion, accounting for 37.07% of the revenue. Revenue from the railway equipment repair and refitting business of the Company amounted to RMB38.158 billion, accounting for 16.66% of the revenue. Revenue from the newly created urban rail subway vehicles of the Company amounted to RMB39.115 billion, accounting for 17.08% of the revenue.

## 4. Repair and refitting business during the reporting period

Unit: hundred million Currency: RMB

Item	Railway transportation equipment manufacturing operating income
Repair and refitting business of railway equipment vehicles	381.58

**Maintenance Standard of the Company's Major Products**

Product	Maintenance Standard
MUs	According to the "Regulations on the Operation and Maintenance of Railway MUs" (《鐵路動車組運用維修規程》) issued by State Railway Group, the MUs are maintained mainly according to the operating mileage cycle and secondarily the time period (whichever comes first). The MUs maintenance process is divided into 5 levels, of which the first and second levels are applicable to daily operation maintenance, while the third, fourth and fifth levels are advanced refurbishment. The MUs that have run 1.2 million kilometers or 3 years are applicable to Level 3 maintenance, those have run 2.4 million kilometers or 6 years are applicable to Level 4 maintenance, and those have run 4.8 million kilometers or 12 years are applicable to Level 5 maintenance.
Locomotives	According to the "Notice on the Release of the Repair Program and Maintenance System Reform Plan for CRH AC Drive Locomotives" (《關於公佈和諧型交流傳動機車修程修制改革方案的通知》) issued by State Railway Group, the CRH AC drive locomotive has six levels of maintenance on the repair program, namely C1 to C6 maintenance, among which Levels C1-C4 are segment-level maintenance, and Levels C5 and C6 are advanced maintenance. The C5 maintenance refers to electric locomotives that have run 1.0 x (1 ± 10%) million kilometers and no more than 6 years, and diesel locomotives that have run 0.9 x (1 ± 10%) million kilometers and no more than 5 years. The C6 maintenance refers to electric locomotives that have run 2.0 x (1 ± 10%) million kilometers and no more than 12 years and diesel locomotive that have run 1.8 x (1 ± 10%) million kilometers and no more than 10 years.
Passenger carriages	According to the "Regulations on the Operation and Maintenance of Railway Passenger Carriages" (《鐵路客車運用維修規程》) issued by State Railway Group, the daily operation maintenance and regular repair of passenger carriages are carried out mainly according to the operating mileage cycle and secondarily the time period (whichever comes first). The regular maintenance of passenger carriages is divided into 5 levels, namely A1 to A5 maintenance, of which A1 to A3 are minor and segment-level maintenance, and A4 and A5 are plant maintenance. A4 maintenance applies to the passenger carriage that has run 2.4 million kilometers or 8 years since it was produced (or last A5 maintenance). A5 maintenance applies to the passenger carriage that has run 4.8 million kilometers or 8 years since last A4 maintenance.

## Maintenance Standard of the Company's Major Products

Product	Maintenance Standard
Freight wagons	According to the "Regulations on the Plant Maintenance of Railway Freight Wagons" (《鐵路貨車廠修規程》) and other documents promulgated by State Railway Group, the management of the freight wagon is divided into segment-level maintenance and plant maintenance. The segment-level maintenance of railway freight wagons is carried out according to the vehicle operation time. A segment-level maintenance cycle could be 1 year, 1.5 years or 2 years. The plant maintenance is generally carried out according to the vehicle operation time (plant maintenance cycles). Depending on the vehicle model, the plant maintenance cycles range from 5 to 9 years, and several segment-level maintenances are arranged between two plant maintenances.
Urban rail transit vehicles	According to the vehicle repair program and maintenance cycle for urban rail transit vehicles provided in the "State Standard of the People's Republic of China (GB50157-2013): Code for the Design of Metro" (《中華人民共和國國家標準 (GB50157-2013): 地鐵設計規範》), the maintenance of urban rail transit vehicles can be classified as general overhaul, intermediate maintenance and periodical maintenance. The general overhaul applies to vehicles that have run 1.2 million kilometers or 10 years, the intermediate maintenance applies to vehicles that have run 0.6 million kilometers or 5 years, and the periodical maintenance applies to vehicles that have run 0.15 million kilometers or 1.25 years.

## (V) Analysis of investment

### 1. Overall analysis of external equity investment

As at the end of the reporting period, the Company's long-term equity investment was RMB15.571 million, representing an increase of RMB1,805 million or 13.11% as compared to the beginning of the year. It was mainly because there was additional investment in joint ventures and associated enterprises of RMB1.180 billion. In addition, the long-term equity investment increased RMB0.485 billion resulting from the change of subsidiaries to joint ventures or associated enterprises. For details, please refer to Note V.16 Long-term equity investments to the financial statements set out in this annual report.

#### (1) Significant equity investment

There was no significant equity investment during the reporting period.

#### (2) Significant non-equity investment

There was no significant non-equity investment during the reporting period.

#### (3) Financial assets measured at fair value

Unit:'000 Currency: RMB

Item	Opening balance	Gains/losses from changes in fair value during the current period	Aggregate changes in fair value included in equity	Provision for impairment loss during the current period	Other changes (increase)/decrease during the current period	Closing balance
1. Held-for-trading financial assets	7,246,736	69,272	-	-	1,864,608	9,180,616
Including: derivative financial assets	2,515	35	-	-	-	2,550
Including: corporate wealth management products	6,352,380	4,438	-	-	1,647,023	8,003,841
Including: equity instrument investment	891,841	64,799	-	-	217,585	1,174,225
2. Other equity instrument investment	2,252,423	-	-107,981	-	510,160	2,654,602
Including: listed equity instrument investment	1,370,906	-	-91,868	-	119,112	1,398,150
Including: non-listed equity instrument investment	881,517	-	-16,113	-	391,048	1,256,452
3. Receivables at fair value through other comprehensive income	5,277,641	-	-138,846	-7,035	7,953,853	13,085,613
Including: Accounts receivable	1,044,101	-	18,791	-7,035	535,049	1,590,906
Including: bills receivable	4,233,540	-	-157,637	-	7,418,804	11,494,707
4. Other non-current financial instruments	598,551	8,175	-	-	10,129	616,855
Including: preference share and perpetual bond	598,551	8,175	-	-	10,129	616,855
<b>Subtotal of financial assets</b>	<b>15,375,351</b>	<b>77,447</b>	<b>-246,827</b>	<b>-7,035</b>	<b>10,338,750</b>	<b>25,537,686</b>



## (VI) Significant sale of assets and equity

There were no significant assets and equity sales during the reporting period.

## (VII) Analysis of major companies controlled or invested in by the Company

Company name	Product and scope of main business	Registered capital	Total assets at the end of the period	Net assets at the end of the period attributable to the shareholders of the Company	Net profit from January to December 2019 attributable to the shareholders of the Company	Revenue from January to December 2019	Operating Profit from January to December 2019
CRRC Changchun	Design, manufacturing, repair, sale and lease of railway passenger carriages, MUs, urban rail transit vehicles and the accessories thereof, as well as related technical services and technical consultancy etc.	5,807,947	58,901,747	18,744,927	2,626,020	36,010,080	2,892,417
CRRC Sifang	R&D and manufacturing of railway MUs, passenger carriages and urban rail transit vehicles; and repair services for railway MUs and high-end passenger carriages etc.	4,071,272	58,717,341	16,057,370	2,557,432	45,808,539	2,998,582
CRRC Tangshan	Manufacturing of railway transportation equipment; sale and lease of railway vehicles, electric MUs, diesel MUs, maglev trains, special vehicles, test vehicles, urban rail transit vehicles and accessories thereof; and technical consulting services etc.	3,990,000	27,665,079	11,269,122	1,313,594	18,050,031	1,506,524
CRRC Zhuzhou	R&D and manufacturing of railway electric locomotives, MUs and urban rail transit vehicles etc.	4,858,336	29,053,203	9,170,674	1,165,587	23,061,494	1,347,148
CRRC ZELRI	Research and manufacturing on electric drive and control technologies related to rail transit and relevant electrical equipment; and research and development and manufacturing of railway locomotives and accessories thereof etc.	8,340,710	58,672,048	17,764,047	1,110,464	30,180,368	2,774,156

## (VIII) Structured entities controlled by the Company

There were no structured entities under the control of the Company during the reporting period.

## (IX) Use of proceeds

### 1. A shares

As approved by the “Reply in relation to the Approval of CRRC Corporation Limited for Non-public Issuance of Shares” (CSRC Permit No. [2016] 3203) by CSRC, the Company non-publicly issued 1,410,105,755 ordinary shares (A shares) to specific objects at an issue price of RMB8.51 per share in January 2017 with total proceeds of RMB12.000 billion. After deducting cost of issue of RMB66 million, the net proceeds were RMB11.934 billion. As at 31 December 2019, the Company had utilized RMB11.934 billion of the proceeds from the non-public issuance of the A shares. The specific usage is as follows: (1) RMB6 billion was applied to repay interest-bearing liabilities; and (2) RMB5.934 billion was applied to replenish working capital, which are in line with the use of proceeds as disclosed previously. As at 31 December 2019, the interest generated by the proceeds deposited in the bank amounted to RMB870,000 in total (the bank handling fee of RMB10,000 has been deducted). The Company has actually used the above interest to permanently replenish working capital. As at 31 December 2019, all the proceeds have been used up, and the special account used for deposit of proceeds have been cancelled.

### 2. H shares

As approved by the “Reply in relation to the Approval of China CNR Corporation Limited to Issue Overseas Listed Foreign Shares” (CSRC Permit No. [2014] 404) issued by CSRC, CNR issued through its public offering 1,939,724,000 (including over-allotment) overseas listed foreign shares (H shares) in May 2014 and the proceeds raised totaled HKD10.028 billion. As at 31 December 2019, the proceeds of H shares used by the Company in aggregate were approximately HKD10.060 billion, the actual use is as follows: to increase capital contribution of approximately HKD6.640 billion into subsidiaries, to replenish its working capital and repay bank loans of approximately HKD3.157 billion, to finance the product research and development expense of approximately HKD60 million and to pay issuance costs of approximately HKD203 million, which are in line with use of proceeds disclosed previously. As of 31 December 2019, interest of bank deposits received for the proceeds from issuance of H shares amounted to HKD115 million in total and the proceeds not yet used by the Company raised through issuance of H shares, plus interests thereon accrued, amounted to HKD83 million. It is expected that the proceeds of HKD83 million will be used to finance the product research and development expense and replenish the working capital by 2021, which is in line with the use of proceeds as disclosed previously.

On 5 February 2016, the Company issued H Share convertible bonds in an aggregate amount of US\$600 million. The net proceeds of such issuance were approximately US\$595.80 million. On 5 February 2019, the holders of H Share convertible bonds redeemed the convertible bonds with an aggregate principal amount of US\$240,000,000 pursuant to the terms and conditions of the convertible bonds. As at 31 December 2019, the net proceeds amounted to US\$355.80 million. As at 31 December 2019, the Company used approximately US\$355.80 million of such proceeds for the following purposes: (1) approximately US\$92.62 million for the repayment of bank loans, (2) approximately US\$56.00 million for equity investment, and (3) approximately US\$207.18 million for the business operation needs of CRRC Hong Kong Capital Management Co., Ltd., a wholly-owned subsidiary of the Company, which was in line with the use of proceeds disclosed previously. As at 31 December 2019, the Company received a deposit interest of approximately US\$12.62 million in respect of the proceeds from the issuance of the H Share convertible bonds, all of which are used for the business operation needs of CRRC Hong Kong Capital Management Co., Ltd., a wholly-owned subsidiary of the Company. All of the proceeds have been used up. Please refer to the section headed “Significant Events-VI. Information on the Convertible Corporate Bonds” in this annual report for details of the Company’s H Share convertible bonds.

### III. Discussion and analysis on the Company's future development

#### (I) Landscape and trend of the industry

##### 1. Macro policy

From the international perspective, the political and economic landscape of the world is complicated and complex, the global order is undergoing a new round of development, change and adjustment, which has impacted the international operation of enterprises in general. China insists on expanding the open policy, implements the "Belt and Road Initiative", actively participates in global economic governance, so as to build up the development foundation for boosting the growth of the world economy and deepening regional cooperation, facilitates better connection among regions, and provides ample room for high-end equipment to be sold in international market. From the domestic perspective, China's economy has maintained a stable and positive fundamental condition, its economic development has maintained a medium to high growth rate, the supply-side structural reforms has continued to deepen, and new momentum such as innovation-driven growth has become the main driving force for economic growth. As a showcase of high-end equipment manufacturing industry, CRRC should emphasize on improving development quality and efficiency, and take reform, innovation and integration as the driving force, to deepen its supply-side structural reform, accelerate innovation, expedite the implementation of the "going global" strategy, achieve high-quality development and secure well condition and good development opportunities.

##### 2. Industry policy

Internationally, with the increasingly intensified reform of the rail transit industry and the restructuring and integration of global industry giants, the industry competition landscape has changed profoundly and the competition has become increasingly fierce. Domestically, the rail transit equipment market, construction of main line railways, and railway operation rights have been fully liberalized, and foreign investment thresholds have been further reduced. Numerous new entrants of the industry and state-owned enterprises rushed into the rail transit industry, resulting in an increasingly fierce market competition. At the same time, with the continuous reform of railway passenger transport and freight transportation, modern integrated transportation system undergoing rapid construction, demand for urban rail transit vehicles has been diversified, users have higher requirements for the applicability, safety, reliability and comfort of rail transit equipment products. As the world's leading and most diverse rolling stock supplier with first-class technologies, CRRC should be market-oriented and customer-centric to optimize business structure, establish and improve the service system with full life cycle, accelerate the transformation of "manufacturing + service", provide customers with more valuable products and services, and make contributions to build China into a country with strong transportation network leveraging on "CRRC Wisdom" and "CRRC Power".

### 3. Industrial investment planning

In respect of international market, due to lack of robust driving forces for global economy, international rail transit equipment market experienced slow growth. In 2020, the capacity of the global railway vehicles market reached US\$147.5 billion. In domestic market, according to the “Medium- and Long-term Railway Network Plan”, operation mileage of railway and high-speed rail will increase from 121,000 km and 19,000 km in 2015 to 175,000 km and 38,000 km in 2025. In order to build a safe, convenient, efficient, green and economical modern and comprehensive transportation system, in 2019, the CPC Central Committee and the State Council issued the “Outline for Building China’s Strength in Transportation”, which states that by 2035, a “national 123 transportation circle” and a “global 123 fast movement of goods circle”, will have basically taken shape, and by the middle of this century, PRC will construct a country with strong transportation network that is to the satisfaction of the people, having full protection and ranking top in the world. In 2020, investments of railway fixed assets nationwide will continue to maintain its strength and scale, ensuring over 4,000 km of new railway lines will be put into operation, of which 2,000 km were high-speed railway lines. State Railway Group will accelerate the construction of major Sichuan-Tibet railway projects, work hard to complete the freight increment target, accelerate the implementation of the passenger quality improvement plan and the “Fuxinghao” brand strategy, to promote the high-quality development of railway equipment business.

According to the Statistical Communique of the People’s Republic of China on the 2019 National Economic and Social Development, and data from official websites of National Railway Administration of China and State Railway Group, in 2019, fixed asset investment of railway nationwide amounted to RMB802.9 billion, of which RMB751.1 billion was contributed by National Railway Administration of China; 8,489 km of new railway lines has been put into operation, of which 5,474 km were high-speed railway lines. By the end of 2019, the national railway mileage in operation exceeded 139,000 km, of which high-speed rail mileage exceeded 35,000 km. The volume of passenger and freight transportation continued to growth. In 2019, the total number of passengers transported by railways across the country reached 3.66 billion, representing a year-on-year increase of 8.4%; total volume of cargos delivered by railways nationwide was 4.39 billion tons, representing a year-on-year increase of 7.2%. Of which, passenger delivery volumes by State Railway Group reached 3.58 billion, representing a year-on-year increase of 7.9%, of which 2.29 billion were transported by MUs, representing a year-on-year increase of 14.1%. The total volume of cargos delivered by railways nationwide was 3.44 billion tons, representing a year-on-year increase of 7.8%.

According to the statistical bulletin published by the China Association of Metros in January 2020, as at the end of 2019, there was an aggregate of 40 cities in mainland China (excluding Hong Kong, Macau and Taiwan) commencing the urban rail transit operation lines with a distance of 6,730.27 km. Among which, in 2019, there were five cities, namely Wenzhou, Jinan, Changzhou, Xuzhou, Hohhot, that commenced urban rail transit vehicles operation. Besides, there were 27 cities added new lines (sections), there were a total of 968.77 km of newly added operating distance, which created a historical high. In 2019, the National Development and Reform Commission approved a new round of urban rail transit construction planning in 3 cities, i.e., Zhengzhou, Xi’an, and Chengdu and the adjustment to the Second Phase of the Construction Plan of the Urban Railway Transport Project in Beijing, a total of 687.45 km of project line length involved with a total investment of RMB464.79 billion.

CRRC continuously keeps abreast of the international and domestic political and economic situation and dynamics, and industry development trends, to study and make judgement on the market demand. The Company will meet the existing market demand based on the model of “limit production to sales” to ensure the timely delivery and safe operation of major products. By sticking to supply-side structural reform and capturing the strategic opportunities of the “Belt and Road Initiative”, construction of national railway network and urban rail transit, adjustment of transportation structure, the Company will continuously strengthen innovation-driven, rationalize allocation of resources, optimize product structure, and make innovations in business model to provide more intelligent, efficient, environmentally friendly and reliable rail transit equipment and systematic solutions with full life cycle, and achieve the win-win results with stakeholders.

## (II) Development strategies of the Company

The strategic planning for the “13th Five-Year” period: the Company will adhere to new development concepts, adhere to making progress while maintaining stability, adhere to the problem-orientated approach, fulfill the requirements of high-quality development, and with reformation, innovation, integration as the dynamics, take the path of internationalization, diversification, high-end development, digitalization and coordination, coordinate the efforts to maintain stable growth, make structural adjustments, increase dynamics, improve quality, control risks and strengthen party building, continue to enhance endogenous power and development ability, so as to achieve higher quality, more efficient and more sustainable development and lay a solid foundation for realizing the strategic goal of “two builds, one develop(雙打造一培育)”.

### 1. Railway equipment business

The Company will implement the strategy of country with strong transportation network, take the mission of equipment support, with becoming a world-class provider of systematic solutions for rail transportation equipment as the goal, strengthen the research of basic, prospective, common and key technologies, so as to form the driving force of the leadership of supporting technologies and continuous innovation of products, as well as building a systematic, modular and standardized product technology platform. Efforts will be made to consolidate our leading position in the industry and our strengths, actively adapt to changes in the domestic and international transport market and technological trends, accelerate the railway passenger and freight transport technology, product and service model innovation, and actively respond to the challenges of new technologies, new industry, new business forms and new business modes, so as to provide strong equipment support for building safe, convenient, economic, efficient, green and intelligent transportation system. The Company will strengthen the research on China’s railway market-oriented reform and seize opportunities such as “road to railway” and the three-year action plan for freight increment, promote manufacturing + service transformation, endeavour to support the transformation and upgrade of rail transport enterprises and the construction of an integrated transportation system. The Company will serve the national strategies, such as the “Belt and Road Initiative”, “international capacity cooperation” and “going global”, and establish a global business collaboration platform to promote the transition from providing a single product to providing a complete set of solutions for products, technologies and services, improve the quality of “going global” and expedite the “going inside” pace.

### 2. Urban rail transit vehicle and urban infrastructure business

The Company will grasp opportunities from new urbanization, actively respond to the challenge of an open market, expedite the development and innovations in urban rail vehicles, and continue to upgrade product structure, enhance the abilities of full life cycle service and systematic solution, and constantly lead the domestic market and continuously expand the international market with its high quality products and services. The Company will standardize the development of PPP and BOT business of urban rail at home and abroad, give a full play to its comprehensive advantages in equipment manufacturing, business portfolio and the combination of industry and finance, strengthen strategic cooperation and leverage social resources, accelerate the formation of its general contracting capability for mechanical and electrical integration focusing on key systems and components such as vehicle and traction electric drive, brake, signal, etc, develop its general contracting capability for urban infrastructure construction projects with the focus on project management and its general contracting capability for operation services with the characteristics of “CRRC” and continue to strengthen the urban rail transit vehicle and urban infrastructure business.

### 3. New industry business

By implementing new development concepts, taking strategic emerging industries, especially high-end equipment manufacturing industry as the main direction, the Company will leverage the core capacities of rolling stock equipment to vigorously develop the related multi-businesses, such as new energy, new materials, ecological environmental protection and industrial Internet business, cultivate and develop new momentum of growth, and create a new engine for the industry. With a focus on mechanical and electrical products, such as key systems and important parts, the Company will create the supporting businesses with strong core technologies and wide range of applications, focus on the upstream and downstream of the technology chain and industry chain, intelligent and digital business, make the cultivation business with good growth and strong leadership, accelerate the cultivation of a business cluster in which we have outstanding core ability, leading industry position, endeavour to become a leader in the international and domestic industries. The Company will focus on the key tasks including constructing a green and smart city, building a beautiful ecological environment, developing high-end high-tech industries, and building a fast and efficient transportation network in Xiong'an New Area, actively promote high-tech business to enter into Xiong'an and serve Xiong'an.

### 4. Modern service business

According to the requirements of "strengthening real economy", the Company will adhere to the "integration of industry and finance and enhancing production with financing", strengthen overall planning and coordination, focus on risk control, standardize and build the financial service platform, investment and financing platform and financial leasing platform, boost the integrated development of manufacturing industry and service industry, and promote the rapid development of the core businesses of rail transportation. The Company will explore "Internet +" service, expedite the construction of supply chain service platform, develop intelligent logistics, expand supply chain trading and promote the standardized development of modern logistics service business.

### 5. International business

The Company will strengthen plans from the top, formulate the special development plan and implementation scheme for the market development of the countries along the "Belt and Road Initiative", take an active part in the construction of the "Belt and Road Initiative", and create a new pattern for opening up and development of "going global". According to the idea that the complete equipment drives components, manufacturing industry drives service industry, general contracting drives industry chain and rail transit equipment drives non-rail transit equipment, the Company will expand overseas markets, strengthen the plans from the top of offshore presence, increase the resource investment and integration on international businesses, set up international business platform companies, build a global, centralized, coordinated marketing and regional management system, strengthen the construction of overseas R&D centres, strengthen brand development and promotion, strive to play a role in industry organization and standard system, enhance industry influence and voice, and enhance international competitiveness. In accordance with the concept of "light assets, emphasis on efficiency and sustainable development", the Company will carry out Greenfield investment, strategic mergers and acquisitions, joint-venture operation, promote the total-factor business mode of "product + technology + service + capital + management", promote the five-local model, and speed up the transformation from domestic to international market, from "going global" to "going inside" and from a domestic enterprise to a multinational company.

### (III) Operation plans

2019 was a critical year for the successful realization of the strategic goals of the “13th Five-Year” plan. The Company took creating “synergy, strengthening weakness and improving quality” as its central theme for business, focused on the “13568” business work idea, followed the requirement of CRRC high-quality development and fully pushed forward the goal of “two builds, one develop (雙打造一培育)”, which determined CRRC’s 2019 business plan. Facing the complicated internal and external situations, the Company strove to overcome unfavorable factors, actively responded to changes in the internal and external environment, and followed the good tradition of CRRC, such that through joint efforts, the Company achieved growth in both revenue and net profit attributable to the parent company. The railway transportation equipment business steadily ranked first in the industry among the world.

In 2020, in view of the macro-economic situation, the Company set its primary business target to ensure the stable growth of operating results in 2020. The Company will stick to the three themes of “reformation, innovation and synergy creation”, establish mechanisms of “new creation, base strengthening and digitalization”, construct six platforms of “resource synergy, product sharing, collaborative breakthroughs, leading business, expanding markets, and production-financing interaction”; implement nine major actions of “improving quality and efficiency, strategic guidance, technology engine, deepening reform, market exploitation, business collaboration, capability enhancement, project rectification, and brand building”, with comprehensive budget management as the main line, lean management as the support, and for the purpose of improving quality and efficiency, strengthen operation control, improve management standard, achieve high-quality development, and strive to create the world’s first-class showcase enterprise. At present, the novel coronavirus disease is spreading around the world. It will have a certain impact on the production and operation of CRRC in the short run. CRRC will actively respond to it and endeavor to do its best to reduce the impact of the outbreak of the novel coronavirus disease.

### (IV) Potential risks

#### 1. Strategic risks

Currently, the domestic railway transportation reform continues to deepen. The reform of the corporate system of the State Railway Group and other railway bureaus has been completed. The structural changes in customer demand for railway equipment have accelerated, and the scope and proportion of autonomous maintenance of railway equipment have continued to expand. With the gradual refinement of the division of labor in society and the continuous improvement of the technical standards of rail transit equipment, user demands are changing from a single rolling stock to the integration of full-cycle services; the bidding method has gradually changed from a single rolling stock procurement to a general contracting and PPP model, and the value structure of the rail transportation industry chain has changed: new materials, new technologies and new processes are used for rail transportation equipment, and there is even more urgent need for development in the direction of systematic, light weight, high-speed reloading and green intelligence. These changes may lead to a lot of uncertainties in the market environment and room for development, which will bring risks to the Company’s strategic and operational goals.

Response measures: timely collect information of industrial policy or industrial planning which is in relation to the Company’s operation; conduct proper studies on policy and trend and positively deal with possible changes in policies and industrial planning; strengthen internal management; improve operation and management standards of the Company; reduce operating costs; endeavour to improve operational efficiency and enhance ability to mitigate policy risks.

## 2. Market risks

At present, the domestic rail transit equipment market and operation rights in main line railway and railway construction have been fully liberalized. The willingness for society to invest in the rail transit equipment sector has increased significantly. State-owned, private, and foreign-funded enterprises have entered the rail transportation field one after another, cross-border competition has become the norm, and competition within the industry has become more intense. The rapid development of new technologies and new business forms, railway passenger and freight transportation is constantly optimized when the market, service, and innovation are concerned, and market demand may undergo structural adjustment. The global railway transportation industry is undergoing deep integration, the industry giants are accelerating their reshuffle and frequently conducting reorganization and integration, the market competition is intensifying. The rising international trade protectionism intensifying international competition within the industry, and increasing uncertainty and uncontrollable factors in the international market. Factors such as trade friction between China and the US, long-arm jurisdiction may lead the increasing costs of Company and make it more difficult to obtain orders, and the Company's "internationalization" strategy will face more challenges. At the same time, the novel coronavirus disease may have periodical impact on the Company's production organization, parts and materials supply, and product delivery cycle.

Response measures: Proactively communicate with major clients; collect information relating to domestic economy, politics and the industry timely; conduct proper studies of market trends; by adhering to innovation-driven, extending the industrial chain, and providing industrial value-added services, optimize the industrial structure of the Company and expand new business models. Make good planning from the top management, strengthen the research and practice of worldwide corporate governance structure, multinational management control models and management of cross-border operation; establish business platform, continue to implement the "five-local model", accelerate the five-in-one international operation, rely on core export companies and platform companies, fully increase the breadth and depth of overseas market development, and improve the global industrial network; strengthen organizational mobilization, commission our emergency response plans, invest in resources to fully respond to the epidemic, perform well in communicating with upstream and downstream customers, all these contribute to reduce the adverse impact on the Company's operations.

## 3. Product quality risks

In the railway market, a "trinity" safety guarantee mechanism covering related personnel, materials and technologies have been earnestly constructed by major clients to ensure railway safety, thus posing higher standards for the safety and reliability of rail transportation product quality and constituted more challenges for the Company's constantly improving product lineage and continuous deepening of technological innovation.

Response measures: Formulate plans and carry out top-level design of technological innovation; adhere to leading technology to ensure the safety of industrial development; persist in quality first, continue to consolidate the management foundation, strengthen source control and after-sales service, and ensure the safety and stable operation of railway equipment.



#### 4. Foreign exchange risks

With the accelerated pace of internationalization of the Company, product exports, overseas investments, mergers and acquisitions and other activities will further increase, which may trigger various risks due to exchange rate fluctuations. For example, in light of fluctuating international financial environment, the movement of exchange rate is difficult to predict, and the Company may suffer exchange losses; and since some overseas product items are settled in non-major currencies, and it is difficult to hedge against exchange risks; uncertain foreign exchange collection time makes it more difficult in the adoption of hedging.

Response measures: The Company will closely follow the exchange rate movement, strengthen the awareness of relevant personnel of risk prevention, establish an exchange rate risk prevention mechanism, adopt different currency transactions and so on, and financial hedging instruments will be used to deal with exchange rate risks.

#### 5. Industrial structure adjustment risks

Due to historical reasons, parts of the sectors in the rail transportation business of the Company have overcapacity problems and are facing industrial structure adjustment. A number of factors including connectivity to the industry, industry base, technological conditions and resource sufficiency posed various difficulties and risks for the industrial structure transformation of the Company.

Responding measures: The Company has established a special institution to research on the reform plan in the rail transportation sector. According to the principle of adopting different strategies for different sectors and through methods including business restructuring, capacity shrinking, inspire the dynamisms of the Company, gradually build a structure of resource sharing and a win-win mutual development, and continue to optimize the deployment of rail transportation resources, thus achieving the maximization of resource efficiency and interests of the Company.

## IV. Proposal for profit distribution or transfer of capital reserve to share capital

### (I) Formulation, execution or adjustment of cash dividend policy

After the establishment of CRRC, the Company has formulated and perfected relevant contents of profit distribution in the Articles of Association. According to the spirit of “positively returning to shareholders”, the Company has regulated rules, policies, basic requirements, decisions and adjustment procedures for profit distribution, clarified specific ratio of cash dividend, which fully protects the legal rights of medium to small investors.

On 28 March 2019, the Company held the 9th meeting of the second session of the Board, pursuant to which the 2018 Proposal for Profit Distribution Plan of CRRC was considered and approved to distribute cash dividend of RMB0.15 (tax inclusive) per share to all shareholders based on the total share capital of the Company of 28,698,864,088 shares on 31 December 2018. On 25 June 2019, the proposal was approved at the 2018 annual general meeting. On 15 August 2019, the 2018 Profit Distribution Plan was completed.

On 30 March 2020, the Company held the 17th meeting of the second session of the Board, pursuant to which the 2019 Proposal for Profit Distribution Plan of CRRG was considered and approved to distribute cash dividend of RMB0.15 (tax inclusive) per share to all shareholders based on the total share capital of the Company of 28,698,864,088 shares on 31 December 2019. The proposal is subject to the consideration and approval by shareholders at 2019 annual general meeting.

If the proposal for profit distribution mentioned above is considered and approved by the general meeting of the Company, it is expected that the Company will pay dividends in cash on or before 24 August 2020. When the specific time is determined for convening the general meeting, the Company will make a separate announcement on further details regarding the closure of the registration of members of the H Shares and the expected cash dividend payment date, if updated, in respect of the relevant dividend distribution.

**(II) Final or preliminary plans about distribution of profits from ordinary share or about conversion of capital reserve into share capital made by the Company during the recent three years (including the reporting period)**

Unit: '0,000 Currency: RMB

Year of distribution	Number of bonus shares given for each 10 shares held	Dividends distributed for each 10 shares held (RMB) (tax inclusive)	Number of shares converted from capital reserve for each 10 shares held	Amount of cash bonus (tax inclusive)	Net profits attributable to ordinary shareholders of the listed Company contained in the consolidated financial statements for the year of distribution	Percentage of net profits attributable to ordinary shareholders of the listed Company contained in the consolidated financial statements (%)
2019	—	1.5	—	430,483	1,179,493	36
2018	—	1.5	—	430,483	1,130,504	38
2017	—	1.5	—	430,483	1,079,856	40

## V. Tax and Tax Relief

In accordance with the revised Enterprise Income Tax Law of the People's Republic of China and its implementation rules which became effective on 29 December 2018, and the circular on Issues Relating to the Withholding of Enterprise Income Tax for Dividends Distributed by Resident Enterprises in China to Overseas Non-resident Enterprise Shareholders Holding H Shares issued by the State Administration of Taxation (Guo Shui Han [2008] No.897), enterprise income tax shall be withheld at a rate of 10% when the Company pays final dividends to non-resident enterprise shareholders whose names appear on the register of H shareholders of the Company. The enterprise income tax shall be withheld for the dividends of any H shares under the names of non-individual shareholders (any H shares of the Company registered in the name of HKSCC Nominees Limited, other nominees and trustees, or other organizations and institutions, shall be deemed as shares held by non-resident enterprise shareholders).

According to Guo Shui Han [2011] No.348 issued by the State Administration of Taxation, the Company shall withhold and pay individual income tax for dividend payable to individual H shareholders. Individual H shareholders are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax agreements between the countries where they are residents and China or the tax arrangements between mainland China and Hong Kong (Macau). If the individual H shareholders are Hong Kong or Macau residents or residents of the countries having an agreed dividend tax rate of 10% with China, the Company shall withhold and pay the individual income tax at a rate of 10%. Should the individual H shareholders be residents of the countries having an agreed dividend tax rate of less than 10% with China, the Company would apply for entitlement of the relevant agreed preferential tax treatment on their behalf in accordance with the "Administrative Measures on Preferential Treatment Entitled by Non-resident Tax Payers" (《非居民納稅人享受協定待遇管理辦法》) (SAT Announcement [2019] No.35), eligible Shareholders must promptly submit to the Company all the reporting materials required by the tax treaty announcement. Should the individual H shareholders be residents of the countries having an agreed dividend tax rate exceeding 10% but lower than 20% with China, the Company shall withhold and pay the individual income tax at the actual agreed rate. In the cases of individual H shareholders who are residents of countries having not entered into any tax agreement with China or otherwise, the Company shall withhold and pay the individual income tax at a rate of 20%.

Under current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by the Company.

Shareholders of the Company are subject to tax and/or enjoy tax relief in accordance with the aforementioned regulations.

## VI. Connected Transactions

### (I) Non-exempt connected transactions

#### 1. Establishment of Zhuzhou Guochuang Railway Technology Company Limited\* (株洲國創軌道科技有限公司)

On 16 January 2019, CRRC Zhuzhou, CRRC ZELRI and CRRC Zhuzhou Electric Co., Ltd.\* (中車株洲電機有限公司) (“**Zhuzhou Electric**”), all of which are wholly-owned subsidiaries of the Company, entered into the Joint Venture Agreement of Zhuzhou Guochuang Railway Technology Company Limited\* (《株洲國創軌道科技有限公司合資協議》) (“**Joint Venture Agreement**”) with CRRC Zhuzhou Investment Holding Co., Ltd.\* (中車株洲投資控股有限公司) (“**Zhuzhou Holding**”) (an indirect wholly-owned subsidiary of CRRCG) and other independent third parties, i.e., Zhuzhou Geckor Group Co., Ltd.\* (株洲高科集團有限公司), Zhuzhou State-owned Assets Investment Holding Group Co., Ltd.\* (株洲市國有資產投資控股集團有限公司), Zhuzhou Lince Group Co., Ltd.\* (株洲聯誠集團控股股份有限公司), Luoyang Advanced Manufacturing Industry Center of Tianjin Research Institute for Advanced Equipment of Tsinghua University\* (清華大學天津高端裝備研究院洛陽先進製造產業研發基地), Kingdee Software (China) Company Limited\* (金蝶軟件(中國)有限公司), Zhuzhou Gofront Equipment Co., Ltd.\* (株洲九方裝備股份有限公司), Shenzhen Megmeet Electric Co., Ltd.\* (深圳麥格米特電氣股份有限公司) and Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd.\* (南京高精傳動設備製造集團有限公司) to establish Zhuzhou Guochuang Railway Technology Company Limited\* (株洲國創軌道科技有限公司) (“**Guochuang Company**”) by way of joint contribution pursuant to the terms and conditions of such agreement. The registered capital of Guochuang Company is RMB0.48 billion, the capital will be contributed by each of the parties in cash. Among which, CRRC Zhuzhou, CRRC ZELRI, Zhuzhou Electric and Zhuzhou Holding will contribute RMB72 million, RMB57.6 million, RMB43.2 million and RMB24 million, respectively. Upon completion of the transaction, CRRC Zhuzhou, CRRC ZELRI, Zhuzhou Electric and Zhuzhou Holding will hold 15%, 12%, 9% and 5%, respectively of the equity interests of Guochuang Company, which shall not become a subsidiary of the Company.

The establishment of Guochuang Company will be beneficial to the implementation of the Company's innovation development strategy and a full use of synergy effect for respective strength of all parties, which conforms to the interests of the Company.

On 16 January 2019, CRRC Zhuzhou, CRRC ZELRI and Zhuzhou Electric are subsidiaries of the Company. Zhuzhou Holding is a subsidiary of CRRCG which is a controlling shareholder of the Company, directly and indirectly holding 51.43% of the shares of the Company, Zhuzhou Holding is therefore a connected person of the Company under Chapter 14A of the Hong Kong Listing Rules, and the Joint Venture Agreement entered into among CRRC Zhuzhou, CRRC ZELRI, Zhuzhou Electric and Zhuzhou Holding constitutes a connected transaction of the Company under Chapter 14A of Hong Kong Listing Rules.

According to Rule 14A.81 of Hong Kong Listing Rules, the transaction under the Joint Venture Agreement shall be consolidated with the previous joint venture establishments. Upon consolidation, as the highest applicable percentage ratio exceeds 0.1% but is less than 5%, the transaction under the Joint Venture Agreement shall be subject to annual report and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

For details of the above transaction, please refer to the connected transaction announcement dated 16 January 2019 published by the Company on the website of the Stock Exchange.

## 2. Entering into the Land Arrangement and Compensation Agreement in Relation to Sifang's Factory Site

On 5 December 2019, CRRC Sifang Co., Ltd.\* (中車四方車輛有限公司) (“**CRRC Sifang**”) entered into the Land Arrangement and Compensation Agreement in Relation to Sifang's Factory Site (“**Land Arrangement and Compensation Agreement**”) with CRRC Science and Technology Park (Qingdao) Co., Ltd.\* (中車科技園(青島)有限公司) (“**Science and Technology Park Qingdao Company**”). Pursuant to the Land Arrangement and Compensation Agreement, Science and Technology Park Qingdao Company agreed to pay the compensation amount of RMB2,400,004,717 to CRRC Sifang.

By executing this transaction, CRRC Sifang aims to revitalise its assets of low and no efficiency, optimise the corporate asset structure, reduce the management cost and financial risks, and response to the general strategic goal of “Ecology City, Beautiful Qingdao” of Qingdao City. At the same time, by executing this transaction, the Company can receive corresponding cash inflow, which is beneficial to the Company's activities and safeguards the implementation of in-depth reform and high quality development of the Company.

On 5 December 2019, CRRCG is a controlling Shareholder holding, directly and indirectly, 50.73% of the shares of the Company, thus a connected person of the Company under the Hong Kong Listing Rules. CRRC Sifang is a wholly-owned subsidiary of the Company, and Science and Technology Park Qingdao Company is an indirect wholly-owned subsidiary of CRRCG, therefore the entering into of the Land Arrangement and Compensation Agreement by CRRC Sifang with Science and Technology Park Qingdao Company constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

Pursuant to Rule 14A.81 of the Hong Kong Listing Rules, the transaction should be aggregated with the previous transactions. Following the aggregation, as the highest of the applicable percentage ratios in respect of the Land Arrangement and Compensation Agreement calculated pursuant to the Hong Kong Listing Rules exceeds 0.1% but is less than 5%, the transaction is subject to annual reporting and announcement requirements but is exempt from independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

For details of the above transaction, please refer to the connected transaction announcement dated 5 December 2019 published by the Company on the website of the Stock Exchange.

### 3. Establishment of Xicheng CRRC (Wuxi) City Railway Engineering Co., Ltd.\* (錫澄中車(無錫)城市軌道交通工程有限公司)

On 19 December 2019, CRRC Construction Engineering Co., Ltd.\* (中車建設工程有限公司) (“**CRRC Construction Engineering**”), Suzhou CRRC Construction Engineering Co., Ltd.\* (蘇州中車建設工程有限公司) (“**Suzhou CRRC Construction Engineering**”) and Times Electric (all of which are subsidiaries of the Company) formed a consortium with CRRCG, Construction and Investment Company and City Investment Fund Management Company and entered into the Investment Agreement for Wuxi-Jiangyin Intercity Railway Construction PPP Project with government implementation authorities of Wuxi-Jiangyin Intercity Railway Construction PPP Project (i.e., Wuxi Municipal Rail Transit Planning and Construction Leadership Panel (Command) Office and Jiangyin Transport Bureau) as well as the Shareholders’ Agreement for Wuxi-Jiangyin Intercity Railway Construction PPP Project with government funding representatives (i.e., Wuxi Metro Group Co., Ltd.\* (無錫地鐵集團有限公司) and Jiangyin Xinguolian Investment and Development Co., Ltd.\* (江陰市新國聯投資發展有限公司)). Pursuant to such agreements, the consortium and government funding representatives would establish the Xicheng CRRC (Wuxi) City Railway Engineering Co., Ltd.\* (錫澄中車(無錫)城市軌道交通工程有限公司) (“**Project Company**”) with joint capital contribution to invest in PPP Project.

The registered capital of the Project Company is RMB800 million. The project capital is approximately RMB5,595,588,000, representing 40% of the total investment of the project. The capital will be contributed by each party in cash. Among which, CRRC Construction Engineering, Suzhou CRRC Construction Engineering, Times Electric, CRRCG, Construction and Investment Company and City Investment Fund Management Company will contribute RMB306,638,200, RMB55,955,900, RMB223,823,500, RMB5,595,600, RMB134,294,100 and RMB3,750,163,100, respectively. Upon establishment of the Project Company, CRRC Construction Engineering, Suzhou CRRC Construction Engineering, Times Electric, CRRCG, Construction and Investment Company and City Investment Fund Management Company will hold 5.48%, 1%, 4%, 0.1%, 2.4% and 67.02% of the equity interests of the Project Company, respectively. The Project Company would not become a subsidiary of the Company.

The entering into of the Investment Agreement and Shareholders’ Agreement is in line with the Company’s development strategy and beneficial to the business scale expansion of the Company, acceleration of the formation of mechanical and electrical integration capabilities, engineering contracting capabilities and operational service capabilities with “CRRC” characteristics.

On 19 December 2019, CRRC Construction Engineering, Suzhou CRRC Construction Engineering and Times Electric are subsidiaries of the Company. Construction and Investment Company is a subsidiary of CRRCG. City Investment Fund Management Company is an associate held as to 50% by CRRCG indirectly. CRRCG is the controlling Shareholder of the Company holding, directly and indirectly, 50.73% equity interests of the Company. CRRCG, Construction and Investment Company and City Investment Fund Management Company are therefore connected persons of the Company under Chapter 14A of the Hong Kong Listing Rules, and the establishment of the Project Company constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio of the transactions under the Investment Agreement and Shareholders' Agreement exceeds 0.1% but is less than 5%, such transactions are subject to annual reporting and announcement requirements but are exempt from the independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

For details of the above transaction, please refer to the connected transaction announcement dated 19 December 2019 published by the Company on the website of the Stock Exchange.

## (II) Non-exempt continuing connected transactions

### 1. The Product and Service Mutual Provision Framework Agreement entered into between the Company and CRRCG

The Product and Service Mutual Provision Framework Agreement entered into between the Company and CRRCG on 29 March 2016 has expired on 31 December 2018, in order to better regulate such continuing connected transactions, the Company and CRRCG renewed the Product and Service Mutual Provision Framework Agreement on 26 April 2018, pursuant to which CRRCG and/or its associates will sell raw materials, accessories, components, equipment, packing materials and other products, and provide repairing, training, processing, greening, security, sanitation and business consulting services to the Group. The Group will sell raw materials, accessories, components, equipment, vehicles and energy resource and other products, and provide repairing, installing, training, processing, greening, security, sanitation, project contracting, project operation and business consulting services to CRRCG and/or its associates. The agreement has an effective term from 1 January 2019 to 31 December 2021.

The Company estimates that under the Product and Service Mutual Provision Framework Agreement: (i) the annual caps for the amounts to be paid by CRRCG and/or its associates for provision of products and services by the Group for each of the three years ending 31 December 2021 will amount to RMB5,000 million, RMB7,000 million and RMB7,000 million, respectively; and (ii) the annual caps for the amounts to be paid by the Group for provision of products and services by CRRCG and/or its associates for each of the three years ending 31 December 2021 will amount to RMB4,000 million, RMB4,500 million and RMB5,000 million, respectively.

The Company considers that it is in the interest of the Group to enter into the aforesaid transactions with CRRCG to ensure the stable provision and supply of the products and services of the Company. CRRCG is familiar with the business needs of the Company and the transactions between the parties, and will therefore facilitate the internal development of the Group and minimise the associated administrative and transportation costs.

CRRCG is the controlling shareholder of the Company, and is thus a connected person of the Company under the Hong Kong Listing Rules. Accordingly, the Product and Service Mutual Provision Framework Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. Since the highest applicable size test percentage ratio exceeds 0.1% but is less than 5% in respect of the relevant continuing connected transactions under the Product and Service Mutual Provision Framework Agreement, such transactions are therefore subject to annual reporting and announcement requirements but are exempt from the independent shareholders' approval requirement of the Hong Kong Listing Rules.

For details of the above non-exempt continuing connected transaction, please refer to the continuing connected transaction announcements dated 29 March 2016 and 26 April 2018 published by the Company on the website of the Stock Exchange.

## 2. The Property Leasing Framework Agreement entered into between the Company and CRRCG

The Property Leasing Framework Agreement entered into between the Company and CRRCG on 29 March 2016 has expired on 31 December 2018, in order to better regulate such continuing connected transactions, the Company and CRRCG renewed the Property Leasing Framework Agreement on 26 April 2018, pursuant to which CRRCG and/or its associates lease their lawfully owned properties to the Group and the Group leases its lawfully owned properties to CRRCG and/or its associates. The agreement has an effective term from 1 January 2019 to 31 December 2021.

The Company estimates that under the Property Leasing Framework Agreement, (i) the annual caps for the amounts to be paid by the Group for leasing of properties from CRRCG and/or its associates for each of the three years ending 31 December 2021 will amount to RMB500 million, RMB500 million and RMB600 million, respectively; and (ii) while the annual caps for the amounts to be paid by CRRCG and/or its associates for leasing of properties from the Group for the three years ended 31 December 2021 will amount to RMB400 million, RMB400 million and RMB500 million, respectively.

As the properties leased between the Group and CRRCG are complementary in terms of geographical location, the Company considers that it is in the interest of the Group to enter into the aforesaid transactions with CRRCG to ensure the stable provision and usage of the property leasing business of the Company. In addition, CRRCG is familiar with the business needs of the Company and the transactions between the parties, and will therefore minimise the administrative costs of the Group.

CRRCG is the controlling shareholder of the Company, and is thus a connected person of the Company under the Hong Kong Listing Rules. Accordingly, the Property Leasing Framework Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. Since the highest applicable size test percentage ratio exceeds 0.1% but is less than 5% in respect of the relevant continuing connected transactions under the Property Leasing Framework Agreement, such transactions are therefore subject to annual reporting and announcement requirements but are exempt from the independent shareholders' approval requirement of the Hong Kong Listing Rules.

For details of the above non-exempt continuing connected transaction, please refer to the continuing connected transaction announcements dated 29 March 2016 and 26 April 2018 published by the Company on the website of the Stock Exchange.



### 3. The Financial Services Framework Agreement entered into between the Finance Company and CRRCG

The Financial Services Framework Agreement entered into between the Finance Company and CRRCG on 29 March 2016 has expired on 31 December 2018, in order to better regulate such continuing connected transactions, the Finance Company and CRRCG renewed the Financial Services Framework Agreement on 26 April 2018, pursuant to which the Finance Company will provide deposit services, credit services and other financial services to CRRCG. The agreement has an effective term from 1 January 2019 to 31 December 2021.

The Company estimates that under the Financial Services Framework Agreement: (i) the maximum daily deposit balance (including accrued interests) in respect of the provision by the Finance Company of deposit services to CRRCG and/or its associates for each of the three years ending 31 December 2021 will amount to RMB20,000 million, RMB21,000 million and RMB22,000 million, respectively; (ii) the maximum daily balance of credit (including accrued interests) in respect of the provision of credit services by the Finance Company to CRRCG and/or its associates for each of the three years ending 31 December 2021 will amount to RMB8,500 million, RMB12,000 million and RMB15,000 million, respectively; and (iii) the annual caps for the amounts to be received by the Finance Company for provision of miscellaneous financial services to CRRCG and/or its associates for each of the three years ending 31 December 2021 will amount to RMB200 million, RMB300 million and RMB400 million, respectively.

The Finance Company is a non-bank financial institution of the Group under the supervision of the relevant regulatory authorities and has a well-functioning internal control and risk management system. The Finance Company is also familiar with the operations of CRRCG, which is advantageous for the Finance Company in providing CRRCG with custom-made and efficient financial services. The entering into of the Financial Services Framework Agreement is also beneficial for the Finance Company to expand its financing channels, enhance its efficiency of fund usage and reduce its financing cost. Furthermore, the interest rates for credit services under the Financial Services Framework Agreement are set pursuant to the normal commercial terms and in the interests of the Company and the Shareholders. CRRCG is a large state-owned enterprise under the direct management of the State-owned Assets Supervision and Administration Commission and holds a sound reputation in the financial market. Taking into account the creditworthiness of CRRCG, and on the condition of strict risk control of the Finance Company, the Company considers that providing credit services to CRRCG through the Finance Company is a low-risk fund investment option and will generate a considerable return for the Group.

CRRCG is the controlling shareholder of the Company, and is thus a connected person of the Company under the Hong Kong Listing Rules. The Finance Company is a subsidiary of the Company. Accordingly, the Financial Services Framework Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

The placing of deposits by CRRCG with the Finance Company constitutes a financial assistance provided by the connected person to the Company. As the placing of deposits by CRRCG with the Finance Company and the deposit services provided by the Finance Company to CRRCG are on normal commercial terms which are no less favorable than those offered by independent commercial banks for the provision of comparable services in the PRC and are for the benefit of the Group, and no security over the assets of the Group is or will be granted in respect of the placing of deposits and the provision of such deposit services, the placing of deposits by CRRCG with the Finance Company and the deposit services to be provided by the Finance Company to CRRCG under the Financial Services Framework Agreement are exempt from all Shareholders' approval, annual reporting and announcement requirements pursuant to Rule 14A.90 of the Hong Kong Listing Rules.

The provision of loans and other credit services by the Finance Company to CRRCG constitutes a financial assistance provided by the Company to its connected person, and therefore constitutes a connected transaction. As the highest applicable percentage ratio in respect of the provision of credit services under the Financial Services Framework Agreement exceeds 5% on an annual basis, the credit services to be provided by the Finance Company to CRRCG are therefore subject to the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. As the highest applicable percentage ratio in respect of the provision of credit services under the Financial Services Framework Agreement exceeds 5% but is less than 25%, the credit services to be provided by the Finance Company to CRRCG also constitutes a discloseable transaction of the Company under Chapter 14 of the Hong Kong Listing Rules.

As the highest applicable size test percentage ratio exceeds 0.1% but is less than 5% in respect of the provision of miscellaneous financial services under the Financial Services Framework Agreement, the miscellaneous financial services to be provided by the Finance Company to CRRCG are therefore subject to the annual reporting and announcement requirements but are exempt from the independent shareholders' approval requirement of the Hong Kong Listing Rules.

For details of the above non-exempt continuing connected transaction, please refer to the continuing connected transaction announcements dated 29 March 2016 and 26 April 2018 published by the Company on the website of the Stock Exchange.

#### 4. Actual transaction amounts of non-exempt continuing connected transactions during the year

The Company confirms that the actual transaction amounts of the above non-exempt continuing connected transactions did not exceed the relevant caps in 2019. Please refer to the table below for details.

Unit: million Currency: RMB

No.	Category of connected transactions	Annual cap for 2019	Actual transaction amount for 2019
1.	Purchase of products and services under the Product and Service Mutual Provision Framework Agreement with CRRCG and/or its associates	4,000.00	732.47
2.	Sale of products and provision of services under the Product and Service Mutual Provision Framework Agreement with CRRCG and/or its associates	5,000.00	3,498.36
3.	Rental payment under the Property Leasing Framework Agreement with CRRCG and/or its associates	500.00	201.91
4.	Rental received under the Property Leasing Framework Agreement with CRRCG and/or its associates	400.00	3.13
5.	Maximum daily balance of credit (accrued interest included) in respect of the credit services provided by the Finance Company under the Finance Services Framework Agreement between the Finance Company and CRRCG and/or its associates	8,500.00	8,340.00
6.	Charges for miscellaneous financial services provided by the Finance Company under the Financial Services Framework Agreement between the Finance Company and CRRCG and/or its associates	200.00	0.44

## 5. Annual review of non-exempt continuing connected transactions

The finance and internal auditing units and relevant teams of the Company have reviewed the above non-exempt continuing connected transactions and related internal control procedures and submitted the results to the independent non-executive Directors. The Company also provided key information to the independent non-executive Directors for their review.

The independent non-executive Directors of the Company have confirmed to the Board that they have reviewed the above non-exempt continuing connected transactions and are of the opinion that such transactions are:

- (1) in the ordinary course of business of the Group;
- (2) conducted on normal commercial terms or more favorable terms; and
- (3) conducted on the terms of the relevant transaction agreements (including but not limited to the pricing policy and mechanism), which are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

The independent non-executive Directors ensure that:

- (1) the methods and procedures established by the Company are sufficient to ensure that transactions are conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority shareholders; and
- (2) the Company has appropriate internal control procedures in place and its internal auditing unit will review the above continuing connected transactions.

Pursuant to Rule 14A.56 of the Hong Kong Listing Rules, the listed issuer must engage its auditors to report on the continuing connected transaction every year. The auditors must provide a letter to the listed issuer's board of directors confirming whether anything has come to their attention that causes them to believe that the continuing connected transactions:

- (1) have not been approved by the listed issuer's board of directors;
- (2) were not, in all material respects, in accordance with the pricing policies of the listed issuer's group if the transactions involve the provision of goods or services by the listed issuer's group;
- (3) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and
- (4) have exceeded the cap.

Pursuant to the above requirement under Rule 14A.56 of the Hong Kong Listing Rules, the Board engaged the auditors of the Company to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Hong Kong Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

## **6. Related party transactions**

Save as to the above, details of the related party transactions of the Company for the year ended 31 December 2019 are set out in Note X to the consolidated financial statements. Except for the related party transactions between the Company and joint ventures and associates set out in Note X, all related party transactions are connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. The Company confirms that such related party transactions have complied with the applicable disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

### **(III) Non-competition agreements and undertakings**

For details of the provision of non-competition agreements and undertakings to the Company by the controlling shareholder of the Company, please refer to relevant content in the section named "Significant Events - I. Performance of Undertakings" of this annual report.

## **VII. Other Disclosable Matters**

### **(I) Principal businesses**

The Company is mainly engaged in research and development, design, manufacturing, refurbishment, sales, leasing and technical services of railway locomotives, MUs, urban rail transit vehicles, engineering machinery, various electromechanical equipment, electronic equipment and parts, electric products and environmental protection equipment; information consultancy; industrial investment and management; asset management; export/import business.

### **(II) Major customers and suppliers**

For details of the major customers and suppliers of the Company, please refer to the section headed "Report of Directors – B. Management Discussion and Analysis - II. Major operation results during the reporting period" of this annual report.

### **(III) Reserves**

Details of changes in the reserves of the Company are set out in the Consolidated Statement of Changes in Equity of this annual report prepared under the China Accounting Standards for Business Enterprises.

## **(IV) Reserves available for distribution**

For details of the reserves of the Company available for distribution, please refer to Note 52 to the financial statements of this annual report prepared under the China Accounting Standards for Business Enterprises.

## **(V) Share capital**

For details of the share capital of the Company, please refer to the relevant section headed “Changes in Shares and Particulars of Shareholders” of this annual report.

## **(VI) Bank loans and other loans**

Details of the bank loans and other loans of the Company as at 31 December 2019 are set out in Note 28,39 to the financial statements of this annual report prepared under the China Accounting Standards for Business Enterprises.

## **(VII) Property, plant and equipment**

Details of changes in the property, plant and equipment of the Company in 2019 are set out in Note 20 to the financial statements of this annual report prepared under the China Accounting Standards for Business Enterprises.

## **(VIII) Donations**

The total charitable and other donations of the Company amounted to approximately RMB16.984 million during the reporting period.

## **(IX) Service contracts of Directors and Supervisors**

None of the Directors or Supervisors entered into service contract with the Company which is not terminable within one year without payment of compensation other than normal statutory compensation.

**(X) Directors and Supervisors' interests in contracts**

The Company did not enter into any contract of significance in which Director(s) or Supervisor(s) of the Company held, either directly or indirectly, any material interests for the year ended 31 December 2019.

**(XI) Loans provided to Directors, Supervisors and Senior Management of the Company**

The Company did not provide Director(s), Supervisor(s) or other Senior Management with any loans or quasi-loans.

**(XII) Directors' interest in businesses competing with the Company**

None of the Directors have interests in any business which directly or indirectly competes or may compete with the Company.

**(XIII) Financial, business or family relationship among members of the Board**

None of the members of the Board of the Company had any financial, business, family or other material relationship with each other.

**(XIV) 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 or existed during the year.

**(XV) Pre-emptive rights**

There are no provisions regarding pre-emptive rights under the Articles of Association and the PRC law which oblige the Company to offer new shares to its existing shareholders on a pro-rata basis.

**(XVI) Employee retirement plan**

Details of the employee retirement plan of the Company are set out in Note 43 to the financial statements of this annual report prepared under the China Accounting Standards for Business Enterprises.

## (XVII) The Company's environmental policies and compliance

CRRC fully implements Xi Jinping's ecological civilization thought, grasps the direction and development trend of energy conservation and ecological environmental protection work correctly, actively implements the concept of green development, and further promotes the three-year battle of ecological protection and pollution prevention, creating a green factory benchmarking enterprise and fulfilling society responsibility. Three subsidiaries of the Company are honored to be selected as the green factory demonstration company by the Ministry of Industry and Information Technology of China. Some subsidiaries of the Company are the key pollutant discharging units published by the national ecological environment protection department. The environmental information of these companies has been made public in accordance with the relevant regulations and the specific requirements of the local government authorities. For more details, please refer to the websites of local government.

The main waste water pollutant of CRRC is COD, the main waste gas pollutant is sulfur dioxide, and the hazardous wastes are mainly HW08, HW09, HW12 and HW49. Waste water is discharged directly and indirectly upon treatment and reaching standards. The Company recorded COD emissions of 750 tons. Waste gas pollutant is discharged in an organized way. The Company recorded sulfur dioxide emissions of 325 tons. The Company recorded hazardous waste disposal of 21,458 tons, which were disposed by qualified institutions. Main pollutant emission reached the national or local emission standards. The total discharge of pollutants meets the requirements of the total discharge indicators.

CRRC effectively treated pollutants and the pollution treatment facilities were in normal operation. CRRC has established the sewage treatment station. Different treatment processes were adopted for different sewage under different discharge requirements, which reach the national or local emission standards. Some enterprises canceled coal-fired boilers and adopted outsourced steam or social heating; some enterprises implemented coal-to-gas or coal-to-electricity, which met the national or local emission requirements. The Company strongly promotes the use of water-based coatings in our affiliated freight wagon enterprises, and all railway freight wagons use water-based coatings. Hazardous wastes are stored and managed strictly in accordance with regulations, and qualified units are entrusted to implement innocuous and safe disposal in accordance with the law. These measures have continuously reduced the emissions of pollutants.

CRRC strengthened environmental risk control from source and required all companies under the Group to strictly comply with the Environmental Impact Assessment Law (《環境影響評價法》) and the requirements of our environmental protection system of "Three Meantimes" when carrying out construction projects, and more thorough review were made on technology plans, environmental protection investment, and governance technologies of construction projects. EIA approval shall be obtained from local government for all construction projects of each of its affiliated companies before construction, and ecological protection and pollution prevention measures shall be implemented. We carried out environmental acceptance works according to the Regulations on the Administration of Construction Project Environmental Protection (《建設項目環境保護管理條例》).

CRRC issued the Contingency Plan for Emergency Environmental Incidents (《突發環境事件應急預案》), made classification of emergency environmental incidents, and strengthened the emergency management of environmental emergencies. Each of the affiliated companies formulated its own environmental contingency plans according to requirements, revised and recorded the contingency plans, equipped them with emergency facilities or supplies, conducted environmental emergency drills, evaluated the operability of the plans, and effectively improved emergency capabilities.



CRRC strengthened environmental inspections or inspections of each of its affiliated companies, organized its own environmental monitoring agencies, and increased environmental monitoring of the Company and other enterprises. Some of the affiliated companies have installed wastewater and exhaust gas online monitoring systems in accordance with local government requirements, realized networking with environmental protection departments, and strengthened online monitoring management. Each of the affiliated companies conducted pollutant monitoring in accordance with their own monitoring programs to ensure the effective operation of the environmental management system.

Each of the affiliated companies of CRRC has disclosed relevant environmental information on the website of the local environmental protection department or its own company website pursuant to the requirements of the local environmental protection department.

## **(XVIII) Relationship with employees, customers and suppliers**

For details, please refer to the sections headed “Report of Directors - B. Management Discussion and Analysis” and “Directors, Supervisors, Senior Management and Staff - Staff of the Parent Company and Principal Subsidiaries” of this annual report.

## **(XIX) Compliance with laws, regulations and rules**

The Company is aware of the importance of complying with legal and regulatory requirements. The Company has established a relatively sophisticated system to ensure persistent compliance with applicable laws, regulations and rules. More specifically, the legal department of the Company and other relevant departments are primarily responsible for reviewing whether the Group’s operations have complied with the relevant laws and regulations. The Company has also deployed corresponding departments and sufficient manpower and resources to monitor the compliance situation at the subsidiary level. For the year ended 31 December 2019, to the best of our knowledge, the Company has complied with the laws and regulations of the relevant areas in all material respects, including but not limited to laws and regulations such as the Railway Law of the People’s Republic of China (《中華人民共和國鐵路法》), the Law of the People’s Republic of China on Work Safety (《中國人民共和國安全生產法》), the Environmental Protection Law of the People’s Republic of China (《中華人民共和國環境保護法》) and Regulation on the Administration of Railway Safety (《鐵路安全管理條例》), which have great significance or impact on the operation of the Company in aspects such as rail transit equipment production, safety and environmental protection etc. The Company is listed on the SSE and the Stock Exchange. For the year ended 31 December 2019, the Company complied with the listing rules and all applicable laws and regulations of its places of listing.

# ○ DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

As at the latest practicable date prior to the printing of this report, members of the Board include:

Liu Hualong

**Chairman, Executive Director**

Sun Yongcai

**Executive Director, President**

Lou Qiliang

**Executive Director**

Li Guo'an

**Independent non-executive Director**

Wu Zhuo

**Independent non-executive Director**

Sun Patrick

**Independent non-executive Director**

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

## I. Shareholding Changes and Remuneration

### (I) Shareholding changes and remuneration of current and retired Directors, Supervisors and Senior Management during the reporting period

Name	Position	Gender	Age	Commencement of term of office	Expiration of term of office	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Changes in number of shares for the year	Reason of the change	Remuneration	Welfare	Total	Whether receiving remuneration from related parties of the Company
										received from the Company during the reporting period	expenses including basic pension insurance	remuneration before tax received from the Company during the reporting period	
										(RMB'0,000)	(RMB'0,000)	(RMB'0,000)	
Liu Hualong <sup>Note</sup>	Executive Director, Chairman	Male	57	31 May 2018	30 May 2021	50,000	50,000	0	—	—	—	—	Yes
Sun Yongcai <sup>Note</sup>	Executive Director, President	Male	55	31 May 2018	30 May 2021	111,650	111,650	0	—	127.26	12.30	139.56	No
Lou Qiliang <sup>Note</sup>	Executive Director, Vice President	Male	56	27 December 2019 1 June 2018	30 May 2021 30 October 2019	0	0	0	—	116.12	12.30	128.42	No
Li Guo'an	Independent non-executive Director	Male	67	31 May 2018	30 May 2021	0	0	0	—	6.00	—	6.00	No
Wu Zhuo	Independent non-executive Director	Male	69	31 May 2018	30 May 2021	0	0	0	—	6.00	—	6.00	No
Sun Patrick	Independent non-executive Director	Male	61	31 May 2018	30 May 2021	0	0	0	—	14.10	—	14.10	No
Zhao Hu	Supervisor, Chairman of Supervisory Committee	Male	52	28 October 2019 5 December 2019	30 May 2021 30 May 2021	0	0	0	—	73.65	12.30	85.95	No
Chen Zhenhan	Supervisor	Male	45	25 June 2019	30 May 2021	0	0	0	—	40.19	12.30	52.49	No
Chen Xiaoyi	Supervisor	Male	56	27 December 2019	30 May 2021	0	0	0	—	60.81	12.30	73.11	No
Wang Jun <sup>Note</sup>	Vice President	Male	56	1 June 2018	30 May 2021	0	0	0	—	116.12	12.30	128.42	No
Yu Weiping <sup>Note</sup>	Vice President	Male	53	1 June 2018	30 May 2021	0	0	0	—	116.12	12.30	128.42	No
Li Zheng	Chief Financial Officer (Chief Accountant)	Female	47	30 October 2019	30 May 2021	0	0	0	—	7.67	2.07	9.74	No
Ma Yunshuang	Vice President	Male	49	30 October 2019	30 May 2021	0	0	0	—	7.67	2.07	9.74	No
Wang Gongcheng	Vice President	Male	47	30 October 2019	30 May 2021	0	0	0	—	7.67	2.07	9.74	No
Xie Jilong	Secretary to the Board	Male	53	1 June 2018	30 May 2021	73,288	73,288	0	—	77.35	12.30	89.65	No
Xu Zongxiang <sup>Note</sup>	Former executive Director	Male	56	31 May 2018	19 November 2019	0	0	0	—	114.48	11.26	125.75	No
Liu Zhiyong <sup>Note</sup>	Former non-executive Director	Male	62	31 May 2018	19 February 2020	0	0	0	—	—	—	—	No
Wan Jun <sup>Note</sup>	Former Supervisor, Former Chairman of Supervisory Committee	Male	56	31 May 2018 31 May 2018	27 December 2019 30 October 2019	0	0	0	—	109.14	7.12	116.26	No

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Name	Position	Gender	Age	Commencement of term of office	Expiration of term of office	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Changes in number of shares for the year	Reason of the change	Remuneration	Welfare	Total remuneration	Whether receiving remuneration from related parties of the Company
										received from the Company during the reporting period	expenses including basic pension insurance	before tax received from the Company during the reporting period	
										(RMB'0,000)	(RMB'0,000)	(RMB'0,000)	
Chen Fangping	Former Supervisor	Male	60	31 May 2018	25 June 2019	0	0	0	—	51.77	3.04	54.81	No
Qiu We	Former Employee Representative Supervisor	Male	60	31 May 2018	28 October 2019	30,000	30,000	0	—	66.39	7.12	73.51	No
Zhan Yanjing <sup>new</sup>	Former Vice President, Former Chief Financial Officer	Female	56	1 June 2018	30 October 2019	50,000	50,000	0	—	110.80	8.15	118.95	No
Total	/	/	/	/	/	314,938	314,938	0	/	1,229.31	14,1.30	1,370.62	/

Note 1: The remuneration of Liu Hualong was expensed by CRRCG.

Note 2: On 19 February 2020, Liu Zhiyong resigned as a non-executive Director, vice chairman and member of the Strategy Committee of the Board, member of the Audit and Risk Management Committee of the Board and member of the Remuneration and Evaluation Committee of the Board of the Company due to his age. For details, please refer to the "Announcement of Resignation of Non-Executive Director of CRRC Corporation Limited" of the Company dated 19 February 2020.

Note 3: The remuneration of Sun Yongcai, the Company's current Executive Director and President; Lou Qiliang, the Executive Director and Vice President; Wang Jun, the Vice President; Yu Weiping, the Vice President; Xu Zongxiang, the former Executive Director; Wan Jun, the former Supervisor and former Chairman of Supervisory Committee; and Zhan Yanjing, the former Vice President and former Chief Financial Officer includes the 2016-2018 three-year term incentives approved by the SASAC.

## (II) Major work experiences of the current Directors, Supervisors and Senior Management for the recent five years

### Directors

**Mr. Liu Hualong**, born in 1962, a Chinese national with no right of abode overseas, is a holder of bachelor's degree, MBA degree, a professorate senior engineer and a member of the 19th session of the CPC Central Commission for Discipline Inspection. He serves as the Chairman of the Board, an executive Director and the Party Secretary of the Company, as well as a chairman of the board and the Party secretary of CRRCG. Mr. Liu served as the deputy general manager, vice chairman and general manager, deputy Party secretary, chairman and general manager, deputy Party secretary of CNRG Qiqihar Railway Rolling Stock (Group) Co. Ltd., the deputy general manager, the deputy Party secretary and the secretary to the disciplinary committee, chairman of the labor union, the Party secretary of CSRG. From December 2007 to September 2011, he was an executive director, deputy Party secretary and the secretary of the disciplinary committee of CSR. From September 2011 to October 2012, he served as an executive director, a vice president and a standing member of the Party Committee of CSR. From October 2012 to May 2015, he served as an executive director, the president and the deputy Party secretary of CSR. He has served as the vice chairman, executive Director and the deputy Party Secretary of the Company from May 2015 to December 2016, and the Chairman and the Party Secretary of the Company since December 2016.

**Mr. Sun Yongcai**, born in 1964, a Chinese national with no right of abode overseas, is a holder of doctoral degree and is a professorate senior engineer. He serves as an executive Director, the President and the deputy Party Secretary of the Party Committee of the Company, and also serves as a director, general manager and the deputy Party Secretary of the Party Committee of CRRCG. Mr. Sun once served as a director and deputy general manager, vice chairman and the Party secretary and deputy general manager of Dalian Locomotive & Rolling Stock Co., Ltd., the vice chairman and deputy general manager of Dalian Dali Railway Transportation Equipment Company Limited and the chief engineer of CNR, as well as a standing member of the Party Committee of CNRG. From December 2010 to May 2015, he served as a vice president and a standing member of the Party Committee of CNR. He has served as a standing member of the Party Committee of the Company from May 2015 to September 2017, a Vice President of the Company from June 2015 to May 2017, an executive Director of the Company since June 2017, the deputy Party Secretary of the Party Committee of the Company since September 2017, and the President of the Company since October 2017. Mr. Sun has been awarded the "Reform Pioneer" by the Central Committee of the Communist Party of China and the State Council and is the presider of the development of "Fuxinghao" high speed train. He is entitled to a special government allowance from the State Council.

**Mr. Lou Qiliang**, alias Lou Suidong, born in 1963, a Chinese national with no right of abode overseas, is a holder of bachelor's degree and a professorate senior engineer. He serves as a deputy secretary of the Party Committee and an Executive Director of the Company, and as a deputy secretary of the Party Committee and an employee representative director of CRRC Group. Mr. Lou once served as the deputy head, head and deputy secretary of the Party Committee of CSR Group Nanjing Puzhen Rolling Stock Factory (中國南車集團南京浦鎮車輛廠), as well as the executive director, general manager and deputy secretary of the Party Committee of Puzhen Rolling Stock Co., Ltd. (浦鎮車輛有限公司), and a standing member of the Party Committee of CSRG. From October 2012 to May 2015, he served as a vice president and a standing member of the Party Committee of CSR. He has served as a standing member of the Party Committee of the Company since May 2015. From June 2015 to October 2019, he served as a vice president of the Company. He has been serving as a deputy secretary of the Party Committee of the Company since October 2019, and an executive director of the Company since December 2019.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

**Mr. Li Guo'an**, born in 1952, a Chinese national with no right of abode overseas, is a holder of bachelor's degree and a research fellow. He serves as an independent non-executive Director of the Company and an external director of China Baowu Steel Group Corporation Limited. Mr. Li once served as the deputy Party secretary, the deputy Party secretary and concurrently the secretary of the Party Discipline Inspection Committee of Wuhan Ship Development & Design Institute of the No. 7 Research Institute of China State Shipbuilding Corporation (中國船舶工業總公司第七研究院), assistant to the dean and concurrently the director of the Science and Technology Division, vice dean, member of the Party Group, vice dean and deputy secretary of the Party Group of the No. 7 Research Institute of China Shipbuilding Industry Corporation (中國船舶重工集團公司第七研究院), the deputy general manager and member of the Party Group of China Shipbuilding Industry Corporation and an external director of Wuhan Iron & Steel (Group) Corporation (武漢鋼鐵(集團)公司). From June 2014 to May 2015, he served as an independent non-executive director of CSR. Since May 2015, he has served as an independent non-executive Director of the Company.

**Mr. Wu Zhuo**, born in 1950, a Chinese national with no right of abode overseas, is a holder of bachelor's degree and a research fellow. He serves as an independent non-executive Director of the Company. Mr. Wu served as the deputy director of System Engineering Bureau of the Ministry of Aerospace Industry of China. He held several positions in China Aviation Industry Corporation (中國航天工業總公司) including division chief and deputy manager of Research & Production Department, deputy manager of Human Resources & Training Department, deputy director of Human Resources & Training Bureau and the Head of General Office. He also served as a deputy general manager and a member of the Party Group, and concurrently the head of the Party Disciplinary Inspection Division in China Aerospace Science and Technology Corporation and an external director of Wuhan Iron & Steel (Group) Corporation. From June 2014 to May 2015, he served as an independent non-executive director of CSR. Since May 2015, he has served as an independent non-executive Director of the Company. Mr. Wu is entitled to a special government allowance from the State Council.

**Mr. Sun Patrick**, born in 1958, is a citizen of Hong Kong, the PRC and a holder of bachelor's degree. He serves as an independent non-executive Director of the Company, an independent non-executive director of China Railway Construction Corporation Limited, an independent non-executive director of Trinity Limited, an independent non-executive director of China NT Pharma Group Company Limited, an independent non-executive director of Sihuan Pharmaceutical Holdings Group Ltd. and an independent non-executive director of Kunlun Energy Company Limited. Mr. Sun once served as a president of Hong Kong Region at J.P. Morgan and the head of Hong Kong investment banking department at J.P. Morgan, an executive director and the president of Value Convergence Holdings Limited, an executive director of SW Kingsway Capital Holdings Limited, the chairman of the global strategy committee of Financial International Holdings Ltd., an executive director and the head of investment banking department of Jardine Fleming Holdings Limited, an executive director of Sunwah Kingsway Capital Holdings Limited, an independent non-executive director of China Railway Corporation Limited, an independent non-executive director of China Railway Signal & Communication Corporation Limited, a honorary secretary-general of the Chamber of Hong Kong Listed Companies, the vice chairman and a member of the Listing Committee of the Hong Kong Stock Exchange and a member of the SFC Takeovers and Mergers Panel. Mr. Sun is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants of UK. From February 2012 to May 2015, he served as an independent non-executive director of CNR. Since May 2015, he has served as an independent non-executive Director of the Company.

## Supervisors

**Mr. Zhao Hu**, born in 1967, a Chinese national with no right of abode overseas, is a holder of bachelor's degree, MBA degree and a senior political officer. He is currently the chairman of the Supervisory Committee, the chairman of the labor union and the head of the organization department of the Party Committee of the Company. He also serves as the chairman of the labor union and the head of the organization department of the Party Committee of CRRCG. Mr. Zhao once served as the deputy director of general office (office of the Party Committee) of CNRG and the director of the board office and the deputy director of office of the Party Committee of CNR. He was originally the deputy secretary of the Party Committee as well as secretary to the disciplinary committee, and then served as the director, deputy secretary of the Party Committee, secretary to the disciplinary committee as well as the chairman of the labor union of Tangshan Railway Vehicle Co., Ltd., the director of general office (office of the Party Committee) of CNRG and CNR, the chief economist assistant of CNR. From June 2015 to December 2019, he successively served as the deputy chief economist and the director of president's office of the Company, the director of office of the Party Committee and the head of the organization department of the Party Committee of the Company and CRRCG, the employee representative supervisor, the chairman of the labor union and the head of the organization department of the Party Committee of the Company. He has served as the chairman of the Supervisory Committee, the chairman of the labor union and the head of the organization department of the Party Committee of the Company since December 2019.

**Mr. Chen Zhenhan**, born in 1974, a Chinese national with no right of abode overseas, is a holder of bachelor's degree and a master degree. He is a senior accountant and is currently the supervisor, head of the audit and risk department of the Company. Mr. Chen was the deputy director of the audit second division of the audit department, the deputy director, director of the audit division of the audit and risk department of CSR, the deputy director of the audit and risk department and director of the internal control division of CRRC, and the vice general manager and chief financial officer of CRRC Environmental & Technology Co., Ltd. From October 2018 to June 2019, he has served as the head of the audit and risk department of the Company, and since June 2019, he has been serving as the supervisor, head of the audit and risk department of the Company.

**Mr. Chen Xiaoyi**, born in 1963, a Chinese national with no right of abode overseas, is a holder of bachelor's degree and is a senior engineer, the supervisor, head of the legal affairs department of the Company. Mr. Chen also serves as the employee representative supervisor and head of the legal affairs department of CRRCG. He used to serve as the deputy director and director of the forging department, head of the business planning office and the planning management office of Beijing Erqi Locomotive Factory (北京二七機車廠), senior engineer of the integrated management department and senior engineer and head assistant of the enterprise management department of CNRG, deputy head and head of the legal affairs department of CNR. Mr. Chen served as the head of legal affairs department of the Company and deputy head (minister level) of the legal affairs department of the Company, deputy head (minister level) of the legal affairs department and employee representative supervisor of CRRCG. Mr. Chen has been serving as the head of the legal affairs department of the Company, head of the legal affairs department and employee representative supervisor of CRRCG. He has been serving as the supervisor, head of the legal affairs department of the Company since December 2019.

### Senior Management

**Mr. Sun Yongcai**, whose major work experience is the same as what stated above.

**Mr. Wang Jun**, born in 1963, a Chinese national with no right of abode overseas, is a holder of bachelor's degree and MBA degree and is a professorate senior engineer. He serves as a Vice President and a standing member of the Party Committee of the Company. Mr. Wang once served as a director and the chief engineer, a director and the general manager and deputy Party secretary, vice chairman and general manager and deputy Party secretary, chairman and the Party secretary of Sifang Co., Ltd. (四方股份公司), and a standing member of the Party Committee of CSRG. From October 2012 to May 2015, he served as a vice president and a standing member of the Party Committee of CSR. He has served as a standing member of the Party Committee of the Company since May 2015, and a Vice President of the Company since June 2015. Mr. Wang has been selected as a candidate of National Hundred Talents Program (國家百千萬人才工程) and is a National Young to Middle-aged Expert with Outstanding Contributions (國家有突出貢獻中青年專家). He was also granted the award of Zhan Tianyou Railway Science and Technology Award (詹天佑鐵道科學技術大獎), and is entitled to a special government allowance from the State Council.

**Mr. Yu Weiping**, born in 1966, a Chinese national with no right of abode overseas, is a holder of doctoral degree and a professorate senior engineer. He serves as a Vice President and a standing member of the Party Committee of the Company. Mr. Yu once served as a deputy general manager of Changchun Railway Vehicle Co., Ltd., and the chairman and the Party secretary, the chairman and general manager and deputy Party secretary, the chairman and deputy Party secretary of Tangshan Railway Vehicle Co., Ltd., as well as a standing member of the Party Committee of CNRG. From November 2013 to May 2015, he served as a vice president and a standing member of the Party Committee of CNR. He has served as a standing member of the Party Committee of the Company since May 2015, and a Vice President of the Company since June 2015.

**Ms. Li Zheng**, born in 1972, a Chinese national with no right of abode overseas, is a holder of bachelor's degree, Master of Accounting, professorate Senior Accountant, a member of the standing committee of the Company's Party Committee and Chief Financial Officer (Chief Accountant) of the Company. She also acts as the member of the standing committee of the Party Committee of CRRCG. Ms. Li previously served as the deputy general manager of China Engineering and Agriculture Machinery Import and Export Co., Ltd. (中國工程與農業機械進出口有限公司), deputy chief accountant and assistant general manager of Sinohydro International Engineering Co., Ltd. (中國水電建設集團國際工程有限公司), chief accountant, chairman of the labor union of Sinohydro Overseas Investment Co., Ltd. (中國水電海外投資有限公司), deputy general manager, chief accountant of Powerchina Resources Limited (中國電建集團海外投資有限公司). Since October 2019, she has served as a member of the standing committee of the Party Committee and Chief Financial Officer (Chief Accountant) of the Company.

**Mr. Ma Yunshuang**, born in 1970, a Chinese national with no right of abode overseas, is a holder of doctoral degree, professorate senior engineer, a member of the standing committee of the Party Committee and Vice President of the Company. Mr. Ma previously served as the deputy general manager, vice chairman, general manager and deputy secretary of the Party Committee of CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd., the director, general manager, deputy secretary of the Party Committee of CRRC Qingdao Sifang Co., Ltd. Since October 2019, he has served as a member of the standing committee of the Party Committee and Vice President of the Company.



**Mr. Wang Gongcheng**, born in 1972, a Chinese national with no right of abode overseas, is a holder of bachelor's degree, senior engineer, a member of the standing committee of the Party Committee and Vice President of the Company. Mr. Wang previously served as the deputy general manager of CSR Zhuzhou Electric Locomotive Co., Ltd., director of office (Party Committee Office) of CSR Group, deputy chief economist and director of the board office of CSR, and director of the Propaganda Department of the Party Committee (Corporate Culture Department), executive director, general manager and deputy secretary of the Party Committee of CSR Luoyang Locomotive Co., Ltd., director of Safety Production of CSR, assistant general manager of CSRG, assistant general manager of CRRCG and chairman, general manager and deputy secretary of the Party Committee, and chairman, secretary of the Party Committee and secretary of the Disciplinary Committee, chairman and Party secretary and director of CRRC Industrial Investment Co., Ltd. Since October 2019, he has served as a member of the standing committee of the Party Committee and Vice President of the Company.

**Mr. Xie Jilong**, born in 1966, a Chinese national with no right of abode overseas, is a holder of bachelor's degree and master degree, and is a professorate senior economist. He serves as the Secretary to the Board and joint company secretary of the Company and a director of China United Insurance (中華聯合保險). Mr. Xie once served as a chief accountant, deputy head, head and deputy Party secretary of Changchun Locomotive Factory, a director and general manager and deputy Party secretary of Changchun Locomotive and Rolling Stock Company Limited, the Party secretary of Tianjin Locomotive & Rolling Stock Machinery Works, and the vice chairman of Tianjin JL Railway Transportation Equipment Co., Ltd. From August 2008 to December 2013, he served as the secretary to the board of CNR. From January 2014 to May 2015, he served as the secretary to the board and joint company secretary of CNR. Since June 2015, he has served as the Secretary to the Board and joint company secretary of the Company. Mr. Xie is a fellow member of the Institute of Chartered Secretaries and Administrators and a fellow member of the Hong Kong Institute of Chartered Secretaries. He is also the vice president of the fifth session of the Council of The Listed Companies Association of Beijing.

### (III) Share incentive scheme granted to Directors, Supervisors and Senior Management during the reporting period

During the reporting period, the Company did not grant any share incentives to any of its Directors, Supervisors and Senior Management.

# ○ DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

## II. Positions Held by Current and Retired Directors, Supervisors and Senior Management During the Reporting Period

### (I) Positions held in shareholder's entity

Employee's name	Name of the shareholder's entity	Position held in the shareholder's entity	Commencement of term of office	Expiration of term of office
Liu Hualong	CRRCG	Chairman	November 2016	–
		Director	September 2015	–
Sun Yongcai	CRRCG	Director, general manager	September 2017	–
Lou Qiliang	CRRCG	Employee director	October 2019	–
Chen Xiaoyi	CRRCG	Employee representative supervisor	December 2017	–
Wan Jun	CRRCG	Employee director	December 2017	October 2019
Chen Fangping	CRRCG	General legal counsel	December 2016	April 2019

### (II) Positions held in other entities

Employee's name	Name of other entities	Position held in other entities	Commencement of term of office	Expiration of term of office
Li Guo'an	China Baowu Steel Group Corporation Limited	External director	October 2016	–
Sun Patrick	China Railway Construction Corporation Limited	Independent non-executive director	October 2014	–
	Trinity Limited	Independent non-executive director	October 2008	–
	China NT Pharma Group Company Limited	Independent non-executive director	March 2010	December 2019
	Sihuan Pharmaceutical Holdings Group Ltd.	Independent non-executive director	October 2010	–
	Kunlun Energy Company Limited	Independent non-executive director	February 2016	–
Xie Jilong	China United Insurance	Director	September 2016	–
Liu Zhiyong	SASAC	Professional external director	August 2013	February 2020
	China National Coal Group Corporation	Professional external director	August 2014	January 2020

Notes:

- (1) China Railway Construction Corporation Limited is a company listed on the SSE (stock code: 601186) and the Main Board of the Stock Exchange (stock code: 1186).
- (2) Trinity Limited is a company listed on the Main Board of the Stock Exchange (stock code: 891).
- (3) China NT Pharma Group Company Limited is a company listed on the Main Board of the Stock Exchange (stock code: 1011).
- (4) Sihuan Pharmaceutical Holdings Group Ltd. is a company listed on the Main Board of the Stock Exchange (stock code: 460).
- (5) Kunlun Energy Company Limited is a company listed on the Main Board of the Stock Exchange (stock code: 135).

### III. Remuneration of Directors, Supervisors and Senior Management

Decision-making procedures of the remuneration of Directors, Supervisors and Senior Management	The Remuneration and Evaluation Committee of the Board submits proposals to the Board in respect of the remuneration for Directors and members of the Senior Management. The Board decides the remuneration, incentives and punishment matters for members of the management. The general meeting of the Company decides matters relating to the remuneration for the relevant Directors and Supervisors.
Determination basis of the remuneration of Directors, Supervisors and Senior Management	The Company determined the remuneration of Directors, Supervisors and Senior Management with reference to the Articles of Association and relevant requirements.
Actual payment of the remuneration of Directors, Supervisors and Senior Management	The Company, pursuant to relevant provisions, paid remunerations to the Directors, Supervisors and Senior Management, except for Liu Zhiyong, a non-executive Director, who is concurrently a professional external director of SASAC and does not receive remuneration from the Company pursuant to the requirement of SASAC; Li Guo'an and Wu Zhuo, independent Directors, who received remuneration pursuant to the adjusted standard approved at the general meeting in accordance with the requirement of SASAC since July 2017; Liu Hualong, Chairman and executive Director, who has received remuneration from the CRRCG since November 2015.
Total actual remuneration of all the Directors, Supervisors and Senior Management at the end of the reporting period	RMB13,706,200 in aggregate.

During the reporting period, none of the Directors or the Supervisors waived or agreed to waive their respective emoluments.

## IV. Changes in Directors, Supervisors and Senior Management of the Company

1. At 2018 annual general meeting held on 25 June 2019, Mr. Chen Zhenhan was elected as the shareholder representative Supervisor of the second session of the Supervisory Committee.
2. On the employee congress of the Company held on 28 October 2019, Mr. Zhao Hu was elected as the employee representative Supervisor of the Company.
3. On the fourteenth meeting of the second session of Board of the Company held on 30 October 2019, Ms. Li Zheng was appointed as the Chief Financial Officer (Chief Accountant) of the Company, Mr. Ma Yunshuang and Mr. Wang Gongcheng were appointed as the Vice Presidents of the Company.
4. At the eleventh meeting of the second session of the Supervisory Committee of the Company held on 5 December 2019, Mr. Zhao Hu was elected as the chairman of the second session of the Supervisory Committee of the Company.
5. At the 2019 first extraordinary general meeting of the Company held on 27 December 2019, Mr. Lou Qiliang was elected as the executive Director for the second session of the Board of the Company, and Mr. Chen Xiaoyi was elected as the shareholder representative Supervisor of the second session of the Supervisory Committee of the Company.

The above persons shall hold office until the expiry of the term of office of the second session of the Board and the second session of the Supervisory Committee.

6. On 25 June 2019, Mr. Chen Fangping resigned from the position of shareholder representative Supervisor of the second session of the Supervisory Committee of the Company.
7. On 28 October 2019, Mr. Qiu Wei resigned from the position of employee representative Supervisor of the second session of the Supervisory Committee of the Company.
8. On 30 October 2019, Mr. Lou Qiliang resigned from the position of Vice president of the Company.
9. On 30 October 2019, Ms. Zhan Yanjing resigned from the positions of Vice President and Chief Financial officer of the Company.
10. On 30 October 2019, Mr. Wan Jun resigned from the position of Chairman of the second session of the Supervisory Committee of the Company. On 27 December 2019, he resigned from the position of shareholder representative Supervisor of the second session of the Supervisory Committee of the Company.
11. On 19 November 2019, Mr. Xu Zongxiang resigned from the position of executive Director of the second session of the Board of the Company
12. On 19 February 2020, Mr. Liu Zhiyong resigned from the position of non-executive Director of the Company.

## V. Staff of the Parent Company and Principal Subsidiaries

### (I) Staff information

Total number of staff with the parent company	215
Total number of staff with principal subsidiaries	165,500
Total number of staff	165,715
Number of employees whose retirement expenses are borne by the parent company and principal subsidiaries	123,608

#### By profession

Category of profession	Number of each profession
Production personnel	94,796
Technical personnel	34,842
Management personnel	30,967
Other personnel	5,110
<b>Total</b>	<b>165,715</b>

#### By education

Education level	Number (person)
Doctors	478
Masters	12,288
University graduates	50,573
Tertiary college graduates	37,443
Secondary school and below	64,933
<b>Total</b>	<b>165,715</b>

### (II) Remuneration policies

In 2019, the Company formulated a number of systems in the fields of medium and long-term incentives, total remuneration adjustment and remuneration management for overseas companies. Firstly, the “CRRC Medium and Long-term Incentive Guidance (Trial)” (《中國中車中長期激勵指導意見(試行)》) was formulated and issued, which summarized the policy highlights, reporting procedures and application requirements of three commonly used incentive tools i.e., dividends and share incentives for technology enterprises, share incentive schemes for listed companies, and employees’ holdings in mixed ownership, and has a strong normative guidance role in the development of mid- and long-term incentives for enterprises. Secondly, the “CRRC Measures on Total Remuneration Budget” (《中國中車薪酬總額預算辦法》) was formulated and issued, which adjusted employee remuneration from three dimensions: performance linkage, efficiency benchmarking, and wage level adjustment, improving the science and effectiveness of remuneration management. Thirdly, the “Guiding Opinions on the Employment and Remuneration Management of CRRC Overseas Enterprises” (《中國中車境外企業用工及薪酬管理指導意見》) was formulated and issued, which established a unified overseas employment and remuneration and benefits management model, standardized the employment methods, remuneration structure, welfare items, performance management and other business, regulated the relationship between remuneration levels and distribution scientifically, provided a strong support for CRRC to realize the internationalization strategy and the goal of “two builds, one develop (雙打造一培育)”.

### (III) Personnel training

According to the Talent Training and Development Plan of Company during the “13th Five-Year” and talent training and development planning, the Company formulated the 2019 Main Points of Human Resources of CRRC (《中國中車2019年人力資源工作要點》) to coordinate our 2019 talent training and development program. In respect of the target for the establishment of talent teams and key tasks for annual talent training, the Company continued to optimize its training management system, training course system, trainer system and internet academy platform, enhanced the innovativeness, perspectiveness, pertinence and effectiveness of talent cultivation, sped up the development of professional managers, international talent and core management, core technology, core skill talent teams. In light of actual operation and management needs, the Company leveraged on high quality domestic and foreign training resources, systemized design specific training items, well planned plans and created elaborate training programs.

In 2019, relied on domestic and foreign key universities and excellent enterprise resources, the Company organized a total of 90 group-level key trainings with over 3,800 participants, and focused on organizing and implementing key training programs, such as domestic and foreign training programs focusing on excellent leadership, internationalized talents, core technical talent, core management talent and core skilled talent were carried out. In 2019, there were 600,000 employees who participated in subsidiary-level trainings (organized by the companies they belonged to) and workshop-level trainings, of which approximately 103,000 participants were management personnel, approximately 122,000 participants were professional technicians and 345,000 participants were technical personnel. The orderly and thorough implementation of personnel training development has provided a guarantee of human resources for fully achieving the goal of “two builds, one develop (雙打造一培育)” of the Company and high-quality development of the Company.

# CORPORATE GOVERNANCE REPORT

## I. Explanation of Related Circumstance of Corporate Governance

During the reporting period, the Company carried out corporate governance work in strict compliance with requirements of laws and regulations such as the Company Law, the Securities Law and the Code of Corporate Governance for Listed Companies as well as relevant requirements of the SSE and the Stock Exchange and established the modern corporate governance structure featuring “General Meeting, the Board, the Supervisory Committee and the Management”. Through the establishment of an effective corporate governance mechanism, corporate governance and operation management continuously improved such that the corporate governance of the Company is further perfected.

The Company established its corporate governance rules according to the Corporate Governance Code (the “Code”) as set out in Appendix 14 to the Hong Kong Listing Rules. In certain aspects, the corporate governance practices adopted by the Company are more stringent than the code provisions set out in the Code. After reviewing the corporate governance documents adopted by the Company, the Board is of the opinion that the Company’s corporate governance is in compliance with all the principles, code provisions and part of the recommended best practices in the Code.

## II. Shareholders and General Meetings

### (I) Shareholders and general meetings

Safeguarding shareholders’ interests and promoting their values always serve as the Company’s goal of development. The general meeting is the highest authority of the Company, through which shareholders may exercise their powers. The Company convened and held general meetings to resolve related matters in strict compliance with relevant laws and regulations as well as the requirements under the Rules of Procedure for General Meetings of the Company. The Company ensured that all shareholders, especially minority shareholders, are entitled to their legal interest based on their shareholdings in the Company and to fully exercise their rights.

### (II) Relationship between the controlling shareholder and the Company

The Company is strictly independent from its controlling shareholder in terms of assets, business, organization, finance and personnel. The Board, Supervisory Committee and internal departments are able to operate independently. The controlling shareholder of the Company places stringent constraint on individual behaviors and exercised rights and undertook obligations as a shareholder pursuant to laws. The Company is not aware of any appropriation of the Company’s capital and assets by the controlling shareholder.

## III. Directors and the Board

### (I) Directors and the Board

Currently, the Company consists of six Directors, including three independent non-executive Directors. The Board acts in the best interests of the Company and shareholders and is responsible for the consideration and approval of business strategies and material investment and other significant matters of the Company. The main duties of the Board shall also include consideration and approval of the Company's regular announcements on results and operating condition. The convening, holding, voting and other relevant procedures of the Company's Board meetings were executed in strict compliance with relevant laws and regulations as well as requirements of the Rules of Regular Meetings of the Board and the Rules of Procedure for the Board of Directors. All Directors are familiar with their rights, obligations and responsibilities as Directors and are capable of performing their functions with due diligence in a faithful and diligent manner. All Directors were punctual at Board meetings. They duly considered every resolution proposed at the Board meetings and the general meetings and gave constructive advice thereof, bringing into full play their decision-making roles in corporate governance as Directors. The independent Directors of the Company actively participated in corporate governance and raised suggestions and advice for reform and development of the Company with their knowledge and rich work experiences, facilitating the Company with optimization of strategy, enhancement of management and improvement of operation.

The Board of the Company has established four special committees hereunder, namely the Strategy Committee, the Audit and Risk Management Committee, the Remuneration and Evaluation Committee and the Nomination Committee. During the reporting period, all the committees carried out work in a regular manner, presented work proposals from their respective professional perspectives independently for discussion and consideration, whereby providing strong support to the Board.

The Board is mainly responsible for formulating and reviewing the corporate governance policies and practices of the Company, and authorizing the special committees to perform specific functions of corporate governance. Details of the Board committees performing corporate governance functions are set out in the section headed "Board committees" in this chapter. The composition of the Board, biographical details of Directors and relationship between them are detailed in the chapter headed "Directors, Supervisors, Senior Management and Staff" and the section headed "Report of Directors-Financial, business or family relationship among members of the Board". Each Director was appointed for a term of three years. Upon expiry, such term is renewable upon re-election.

In 2019, the Company purchased liability insurance for Directors, Supervisors and Senior Management of the Company to provide security for the compensation liabilities that may rise during the performance of their duties in accordance with laws.

### (II) Convening of the Board meetings during the reporting period

Number of Board meetings convened during the year	8
Of which: the number of on-site meetings	7
Number of meetings held by communication method	1
Number of meetings held on site by means of communication	0



## (III) Attendance of Directors at the Board meetings and the general meetings

Name of Directors	Independent Director or not	Required attendance during the year	Attendance at the Board meetings				Absent	Absent from consecutive meetings or not	Attendance at the general meetings
			Attendance in person	Attendance by communication	Attendance by proxy	Number of attendance at the general meetings			
Liu Hualong	No	8	8	1	0	0	No	2	
Sun Yongcai	No	8	6	1	2	0	Yes <sup>Note 4</sup>	1	
Lou Qiliang <sup>Note 1</sup>	No	0	0	0	0	0	No	0	
Liu Zhiyong <sup>Note 2</sup>	No	8	8	1	0	0	No	1	
Li Guo'an	Yes	8	8	1	0	0	No	2	
Wu Zhuo	Yes	8	8	1	0	0	No	2	
Sun Patrick	Yes	8	7	1	1	0	No	2	
Xu Zongxiang <sup>Note 3</sup>	No	8	8	1	0	0	No	0	

Note 1: At the 2019 first extraordinary general meeting of the Company held on 27 December 2019, Mr. Lou Qiliang was elected as the executive Director of the second session of the Board, and his term of office shall commence from the date on which he was elected at the general meeting and end on the date of expiry of the term of office of the second session of the Board.

Note 2: On 19 February 2020, Mr. Liu Zhiyong resigned from the position of non-executive Director.

Note 3: On 19 November 2019, Mr. Xu Zongxiang resigned from the position of executive Director of the Company.

Note 4: Mr. Sun Yongcai cannot attend the 14th and 15th meetings of the second session of the Board of the Company in person due to other business engagement, and appointed Mr. Liu Hualong as proxy to vote on his behalf and to execute documents including resolutions and minutes of the meeting in relation to each resolution proposed at the Board meetings.

## (IV) Development and refreshment of knowledge and skills by Directors

The Board Office provided comprehensive services and sufficient information for the Directors, so that the Directors can understand the conditions of the Company in a timely manner. The Board Office delivered to Directors the latest information and bulletins relating to the business changes and development of the Company and the latest laws, rules and regulations in relation to their positions and responsibilities. The Board Office also arranged themed trainings and seminars for Directors. In 2019, pursuant to the requirements under code provision A.6.5 of the Code, Directors of the Company all participated in continuous professional development activities in relation to their positions and responsibilities, to develop and refresh their knowledge and skills, so as to ensure that their contribution to the Board remains informed and relevant. Based on the trainings arranged for the Directors by the Company and the records of learning and trainings submitted by the Directors personally, the trainings received by each Director in 2019 are as follows:

Name of Director	Trainings (Note)
<b>Executive Directors</b>	
Liu Hualong	ABC
Sun Yongcai	ABC
Xu Zongxiang	ABC
Lou Qiliang	BC
<b>Non-executive Director</b>	
Liu Zhiyong	ABC
<b>Independent Non-executive Directors</b>	
Li Guo'an	ABC
Wu Zhuo	ABC
Sun Patrick	ABC

Note:

1. A, B and C in the above table represent trainings of the following types respectively:
  - A. Attending trainings on corporate governance organized by regulatory institutes
  - B. Attending seminar trainings in aspects such as legal regulation, corporate governance and financial control organized by professional institutes
  - C. Studying and reading relevant laws and regulations (revised and amended) such as the Hong Kong Listing Rules
2. On 19 November 2019, Mr. Xu Zongxiang resigned from the position of Director of the Company.

## (V) Independent non-executive Directors and their independence

The Board currently comprises three independent non-executive Directors. All members of the Remuneration and Evaluation Committee and the Audit and Risk Management Committee under the Board are independent non-executive Directors. Independent non-executive Directors represent the majority of the members of the Nomination Committee, and the chairman of the Audit and Risk Management Committee, the Nomination Committee and the Remuneration and Evaluation Committee are all independent non-executive Directors.

The independent non-executive Directors of the Company have extensive expertise and experience, among whom Sun Patrick is an accounting professional. The independent non-executive Directors of the Company have submitted written confirmations of their independence as required by Rule 3.13 of the Hong Kong Listing Rules. The Company considers that the independence of each of the independent non-executive Directors has been established. During the reporting period, the independent non-executive Directors did not raise objections to the relevant matters of the Company.

## (VI) Responsibilities of the Board

The Board is the decision-making institution of the Company, who reports to the general meeting and exercises several powers in accordance with the Articles of Association, mainly including, but not limited to the following: (1) to convene general meetings and implement resolutions of the general meetings; (2) to decide on the Company's business plans and investment plans; (3) to formulate the Company's annual financial budget plan, final accounts, profit distribution plan and plan for recovery of losses; (4) to formulate proposals for material acquisition, share repurchase by the Company, or merger, division, dissolution and transformation of the Company form; (5) to appoint or remove senior management members and, to decide on their remuneration and award and punishment matters; (6) to formulate the Company's basic management system; (7) to decide on the establishment of special committees of the Board and to consider and approve the proposals proposed by each special committee of the Board; and (8) to manage information disclosure matters of the Company, etc.

## (VII) Board committees

### 1. Strategy Committee

During the reporting period, the Strategy Committee, in strict compliance with requirements of the Working Rules for Strategy Committee of the Board of the Company, performed its duties in an independent and objective manner. The Strategy Committee currently comprises Mr. Liu Hualong and Mr. Sun Yongcai, the executive Directors, Mr. Liu Zhiyong, the non-executive Director and Mr. Li Guo'an, the independent non-executive Director. Mr. Liu Hualong serves as the chairman of the committee and Mr. Liu Zhiyong serves as the vice-chairman of the committee. The Strategy Committee shall be held accountable to the Board and its primary responsibilities are to study and make recommendations on the long-term development strategies and major investment decisions of the Company, and to supervise and examine the implementation of the annual business plan and investment plan under the authorization of the Board.

During the reporting period, the Strategy Committee of the Board of the Company held one meeting in total, at which three proposals were considered, including, among others, the Proposal on Investment Budget of CRRC Corporation Limited for 2019. The attendance of each member is as follows:

Name of Directors	Number of attendance/ Number of meeting	Attendance rate
Liu Hualong	1/1	100%
Liu Zhiyong	1/1	100%
Sun Yongcai	1/1	100%
Xu Zongxiang	1/1	100%
Li Guo'an	1/1	100%

Note: On 19 November 2019, Mr. Xu Zongxiang resigned from the position of member of the Strategy Committee. On 19 February 2020, Mr. Liu Zhiyong resigned from the positions of vice chairman and member of the Strategy Committee of the Board.

## 2. Audit and Risk Management Committee

During the reporting period, the Audit and Risk Management Committee of the Board, in strict compliance with requirements of the Working Rules for Audit and Risk Management Committee of the Board and the Annual Report Working Procedures for the Audit and Risk Management Committee of the Board, performed its duties in an independent and objective manner. The Audit and Risk Management Committee of the Board of the Company was served by Mr. Sun Patrick, Mr. Li Guo'an, who are independent non-executive Directors; and Mr. Liu Zhiyong, a non-executive Director. Mr. Sun Patrick has extensive professional knowledge and experience in accounting and are certified public accountants serving as the chairman of the Audit and Risk Management Committee. The Audit and Risk Management Committee shall be held accountable to the Board and its primary responsibilities are to propose the appointment or replacement of external auditors, to supervise and evaluate the work of external auditors, to review the Company's financial information and its disclosure, to monitor the Company's internal audit system and its implementation, to review the Company's internal control and risk management system as well as communication between internal auditors and external auditors. During the reporting period, the Audit and Risk Management Committee successfully accomplished the following work: (1) Supervising external audit procedures and quality. The Audit and Risk Management Committee communicated with auditors for annual audit plan in respect of the 2018 annual audit arrangement and timetable. Having been debriefed special reports from the accounting firms, respectively, the committee determined the audit work arrangement of the Company for 2018. (2) Reviewing the financial information of the Company and the disclosure thereof. The Audit and Risk Management Committee examined and studied the financial information as disclosed in the Company's report and financial statements, and carefully reviewed the resolutions in relation to the financial report of the Company. (3) Providing guidance to the Company's internal audit. The Audit and Risk Management Committee considered the proposals submitted by the audit department and reviewed and approved the internal audit work plan put forward by the Company and gave guidance and lay down requirements for carrying out internal audit. (4) Reviewing the Company's implementation of internal control and risk management. The Audit and Risk Management Committee considered the proposals regarding internal control and risk management submitted by the Company and expressed review opinions on the internal control audit report of the Company for 2018.

During the reporting period, the Audit and Risk Management Committee of the Board of the Company held six meetings in total, at which 20 proposals were considered and approved, including, among others, the Proposal on the 2018 Annual Report of CRR Corporation Limited and the Proposal on the 2019 First Quarterly Report of CRR Corporation Limited. The attendance of each member is as follows:

Name of Directors	Number of attendance/ Number of meeting	Attendance rate
Sun Patrick	6/6	100%
Liu Zhiyong	6/6	100%
Li Guo'an	6/6	100%

Note: On 19 February 2020, Mr. Liu Zhiyong resigned from the position of member of the Audit and Risk Management Committee of the Board. On 12 March 2020, the 16th meeting of the second session of the Board of the Company considered and approved the resolution in relation to the appointment of Mr. Wu Zhuo as a member of the Audit and Risk Management Committee of the Board of the Company, for a term from the date of consideration and approval by the Board, and until the date of expiry of the term of office of the second session of the Board of the Company.

### 3. Remuneration and Evaluation Committee

During the reporting period, the Remuneration and Evaluation Committee of the Board, in strict compliance with requirements of the Working Rules for Remuneration and Evaluation Committee of the Board, performed its duties in an independent and objective manner. The Remuneration and Evaluation Committee of the Board of the Company comprises Mr. Wu Zhuo and Mr. Sun Patrick, the independent non-executive Directors, and Mr. Liu Zhiyong, the non-executive Director. Mr. Wu Zhuo serves as the chairman of the committee. The Remuneration and Evaluation Committee shall be held accountable to the Board and its primary responsibilities are to submit proposals to the Board on the Company's remuneration policy and structure for all Directors and Senior Management and on the establishment of a formal and transparent procedure for developing remuneration policy; to review the remuneration policies and schemes for the Directors and Senior Management; to formulate the evaluation criteria for them and to evaluate their performance of duties; to submit proposals to the Board on the formulation of the remuneration packages for certain executive Directors and Senior Management; to review and monitor the continuing professional development of the Directors and Senior Management; and to monitor the implementation of the Company's remuneration system.

During the reporting period, the Remuneration and Evaluation Committee of the Board of the Company held one meeting in total, at which two proposals were considered and approved, including, among others, the Proposal on Remuneration to Directors of CRRC Corporation Limited for 2018. The attendance of each member is as follows:

Name of Directors	Number of attendance/ Number of meeting	Attendance rate
Wu Zhuo	1/1	100%
Liu Zhiyong	1/1	100%
Sun Patrick	1/1	100%

Note: On 19 February 2020, Mr. Liu Zhiyong resigned from the position of member of the Remuneration and Evaluation Committee of the Board.

#### 4. Nomination Committee

During the reporting period, the Nomination Committee of the Board, in strict compliance with requirements of the Working Rules for Nomination Committee of the Board, performed its duties in an independent and objective manner. The Nomination Committee of the Board of the Company comprises Mr. Li Guo'an, Mr. Wu Zhuo and Mr. Sun Patrick, the independent non-executive Directors, and Mr. Liu Hualong and Mr. Sun Yongcai, the executive Directors. Mr. Li Guo'an serves as the chairman of the committee. The Nomination Committee is held accountable to the Board and its primary responsibilities are to formulate the nomination procedures and selection standards of the Directors and Senior Management and to preliminarily review the eligibility and other qualifications of the candidates for the Directors and Senior Management. The standards for recommendation on the nomination of the Directors include suitable professional knowledge and industry experience, personal conduct, integrity and skills and commitment to devote sufficient time; and to monitor the implementation of the Board Diversity Policy and to review and amend the policy, as appropriate, to ensure its effectiveness.

During the reporting period, the Nomination Committee adopted the Board Diversity Policy. When reviewing the size and composition of the Board and searching for and recommending candidates for Directors, the Nomination Committee should take into account relevant factors to achieve the diversity of the Board in accordance with the Company's business model and specific needs. The Committee may consider the diversity of the Board from various aspects, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service and so forth. Upon consideration of the above factors, the Nomination Committee shall make a final recommendation to the Board based on merit and contribution that the selected candidates will bring to the Board.

During the reporting period, the Nomination Committee of the Board of the Company held three meetings in total, at which four proposals were considered, including, among others, the Proposal on the Assessment of the Independence of the Independent Non-executive Directors. The attendance of each member is as follows:

Name of Directors	Number of attendance/ Number of meeting	Attendance rate
Li Guo'an	3/3	100%
Liu Hualong	3/3	100%
Sun Yongcai	1/3	33%
Wu Zhuo	3/3	100%
Sun Patrick	3/3	100%

Note: Mr. Sun Yongcai cannot attend the 5th and 6th meetings of the second session of the Nomination Committee of the Company in person due to other business engagement, and appointed Mr. Liu Hualong as proxy to vote on his behalf and to execute documents including resolutions and minutes of the meeting in relation to each resolution proposed at the meetings of Nomination Committee.

## IV. Chairman and President

To ensure the balanced distribution of power and authorization and to avoid excessive concentration of power, the positions of the chairman and the president are assumed by different persons, so as to improve independence, accountability and responsibility. The chairman and the president are two distinctly different positions, with clean division of responsibilities as set out in the Articles of Association.

As the legal representative of the Company, the chairman presides over the operations of the Board, with the aim to ensure that the Board acts in the best interests of the Company and operates effectively, performs its responsibilities accordingly and has discussion over various important and appropriate matters so that the Directors have access to accurate, timely and clear data. The president, on the other hand, leads the management and is responsible for the management of the day-to-day operations of the Company, including the implementation of the policies adopted by the Board, and reporting to the Board on the Company's overall operation. The Articles of Association set out in detail the respective responsibilities of the chairman and the president.

On 12 October 2017, having been considered and approved at the 26th meeting of the first session of the Board of the Company, Mr. Sun Yongcai, the general manager of CRRCG (controlling shareholder of the Company), has been appointed as the president of the Company. In February 2018, CRRCG has received the letter on the Waiver of the Senior Management of CRRG GROUP Co., Ltd. From Part-time Job Limit (letter from Listing Department [2018]N0.193) (《關於同意豁免中國中車集團有限公司高級管理人員兼職限制的函》(上市部函[2018]193號)), according to which it agreed to waive Mr. Sun Yongcai, the Senior Management, from part time job limit.

The independent Directors of the Company expressed the independent view on the performance status of Mr. Sun Yongcai during the period of his concurrent post as the general manager of CRRCG (controlling shareholder of the Company), which is as follows: Mr. Sun Yongcai presided in the production and operation work in the Company, paid close attention to relevant events in relation to the finance management and business development of the Company, implemented the resolutions of the general meeting and the Board and performed the presidential duties and exercised the presidential power pursuant to the laws and regulations of the PRC and the requirement from regulatory documents and the Articles of Association of CRRC Corporation Limited and the authorization from the Board of the Company, which demonstrated that he really performed the due diligent obligation that should be performed by the president of the Company. Mr. Sun Yongcai strictly observed the relevant commitments such as avoiding horizontal competition, ensuring compliance of related transaction and guarantying the independence of the Company made by CRRC GROUP Co., Ltd. He carried out work with diligence and responsibility and performed the presidential duties of the Company in priority, and protected the interest of the Company and its minority shareholders.

## V. Supervisors and the Supervisory Committee

The Supervisory Committee is the supervisory body of the Company, who reports to the general meeting of the Company and is responsible for supervising the Company's financial condition and compliance of the performance of duties by Directors and Senior Management, so as to protect the interests of the Company and shareholders under the laws. The Company has convened and held meetings of the Supervisory Committee in accordance with the Rules of Procedures for the Supervisory Committee, and taken effective measures to ensure the Supervisor's rights to be informed. All Supervisors were able to duly discharge their respective duties and acted in the interests of the shareholders. Besides, they supervised all significant events, financial affairs of the Company as well as the legal compliance of the performance of duties by the Directors and senior management of the Company.

## VI. Responsibilities of the Management

The Board is responsible for reviewing and approving the overall strategies and significant events of the Company. The Board delegates to the management of the Company to be in charge of the management of the daily operation and strategy implementation of the Company. The main responsibilities of the management include taking charge of the operation and management of the Company, organizing the implementation of the resolutions of the Board, and reporting its work to the Board. The management also organizes the implementation of the annual business and investment plans of the Company. In addition, the management proposes the annual targets and a development plan of the Company based on the national industry policies and the demand of markets, and organizes the implementation of the same upon consideration and approval at the Board meetings and general meetings. The Board gives clear guidelines on the delegation to the management and regularly reviews the responsibilities delegated to the management and their performance so as to ensure the overall interest of the Group. The management of the Company submits briefing reports to the Board on a monthly basis, which set out the financial position and significant operating performance of the Company. Issues such as the significant activities and decisions in the operation and management will also be reported to the Board or Supervisory Committee by the management.



## VII. Shareholders' Rights

### (I) Convening of an extraordinary general meeting by shareholders

Pursuant to the Articles of Association, shareholders individually or collectively holding more than ten percent (10%) of the issued shares of the Company with voting rights are entitled to propose to the Board for convening the extraordinary general meeting or separate meeting of class shareholders by written request. Feedback on whether agreeing to convene the extraordinary general meeting or separate meeting of class shareholders shall be given by the Board within ten (10) days upon receipt of the request.

Shareholders proposed to convene the extraordinary general meeting or separate meeting of class shareholders by written request are entitled to propose to the Supervisory Committee for convening the extraordinary general meeting or separate meeting of class shareholders by written request upon disagreement or no feedback on convening the extraordinary general meeting or separate meeting of class shareholders from the Board within ten (10) days upon receipt of the request. Notice on convening the meeting shall be issued by the Supervisory Committee within five (5) days upon receipt of request where the committee agrees to convene the meeting. The Supervisory Committee is deemed as not to convene and host the general meeting if notice on convening the meeting is not issued by the committee within the stipulated period. Shareholders individually or collectively holding more than ten percent (10%) of the shares of the Company for a consecutive period of ninety (90) days can convene and host the meeting by themselves.

### (II) Putting enquiry to the Board by shareholders

Shareholders can make enquiries to the Board at any time by contacting the Board Office. Shareholders who raise enquiries shall provide evidence on their interests in the Company's shares, such as documents of shareholding. Written means such as email, facsimile and post with sufficient contact details are recommended by the Company for timely and appropriately handling and recording of the enquiries.

Contact details of the Board Office of the Company are as follows:

Tel: (8610) 5186 2188

Fax: (8610) 6398 4785

Email :crrc@crrcgc.cc

Postal address: No.16-5, Central West Fourth Ring Road, Haidian District, Beijing, the PRC

### (III) Submission of proposals to the general meetings by shareholders

Shareholders individually or collectively holding more than three percent (3%) of the shares of the Company can submit additional proposal(s) in writing to the convenor on or before ten (10) days prior to the date of the general meeting. The additional proposal(s) should be within the terms of reference of the general meeting and with explicit subject and specific matters to be resolved on. Shareholders can contact the Board Office of the Company for submitting proposal(s) to the general meeting, the contact details of which are set out in the section headed "Putting enquiry to the Board by shareholders".

## VIII. Significant Change in the Articles of Association During the Reporting Period

In order to further improve its corporate governance, pursuant to the Company Law of the PRC, the Corporate Governance Guidelines for Listed Companies, the Guidelines on Articles of Association of Listed Companies and other prevailing laws, regulations and regulatory documents, and based on the Company's needs in its actual production and operation, the Board proposed to amend the Articles of Association (including the amendments to the Rules of Procedure for General Meetings of CRRC Corporation Limited, the Rules of Procedure for the Board of Directors of CRRC Corporation Limited and the Rules of Procedure for the Supervisory Committee of CRRC Corporation Limited which are appendices thereto). Please refer to the announcement dated on 29 April 2019 published by the Company on the websites of the Stock Exchange.

## IX. Establishment and Implementation on the Evaluation and Incentive System for the Senior Management During the Reporting Period

The Company conducts annual evaluation on the performance of the Senior Management by focusing on the evaluation and appraisal made on work performance, personal objective and behavior as well as teamwork. The remuneration of the Senior Management, including basic salary and performance bonus is determined based on performance evaluations made by the Company in the year.

## X. Directors' Responsibilities in Respect of Financial Statements

The Directors confirm that they are responsible for the preparation of the financial statements of the Company for the year ended 31 December 2019, in order to truly and impartially report the financial conditions and business results of the Company, and undertake relevant responsibilities for preparation of the financial statements of the Company. The Audit and Risk Management Committee of the Company has reviewed the financial statements of the Company for the year ended 31 December 2019.

With the assistance of the accounting department, the Directors ensure that the financial statements of the Company were prepared in accordance with relevant laws, regulations and applicable accounting standards. The Directors also ensure that the financial statements will be published in due course.

The responsibility statement made by the Company's auditors in respect of the financial statements is set out in the section headed "Independent Auditors' Report" of this annual report.

## XI. Code of Conduct Regarding Securities Transactions by Directors and Supervisors

The Company has adopted the Management Method Regarding the Shareholding of Directors, Supervisors and Senior Management on terms no less exacting than the required standards of securities transaction set out in the Model Code. Relevant employees who are likely to learn inside information in relation to the securities of the Company are also subject to the rules required under such document.

As of 31 December 2019, after making specific inquiries with all Directors and Supervisors, the Company confirmed that all Directors and Supervisors had complied with the relevant codes on securities transactions by Directors and Supervisors as set out in the Model Code and the Management Method Regarding the Shareholding of Directors, Supervisors and Senior Management of the Company.

## XII. Auditors

On 25 June 2019, the Resolution in Relation to the Engagement of Audit Firms of CRRC Corporation Limited for 2019 was considered and approved at the 2018 annual general meeting. According to the above resolution, the Company appointed Deloitte Touche Tohmatsu as the auditor for 2019 financial statements prepared under the International Financial Reporting Standards; and engaged Deloitte Touche Tohmatsu Certified Public Accountants LLP as the auditors in respect of financial report prepared under domestic financial reporting standards and in respect of internal control for 2019. During the past three years, the Company has not changed its auditor.

In 2019, the Company had paid the auditors an aggregate fee (tax inclusive) of RMB28.6 million, which included advance payments such as travel expenses and communication costs etc. In particular, the audit fees (tax inclusive) paid in respect of financial statements amounted to RMB22.3 million, audit fees (tax inclusive) paid in respect of internal control amounted to RMB2 million, fees (tax inclusive) paid in respect of interim agree-upon procedures amounted to RMB4.1 million and fees (tax inclusive) paid in respect of verification of placement and actual use of the proceeds of the Company amounted to RMB0.2 million.

In accordance with Article 20ZT of the Hong Kong Financial Reporting Council Ordinance (Cap. 588) (effective from 1 October 2019), Deloitte Touche Tohmatsu Certified Public Accountants LLP, auditor of the Company for the year 2019, is an eligible Mainland audit firm.

## XIII. Risk Management and Internal Control

Basing on the Company's core values, the Company has defined a unified risk concept, and through the combination of training and system promotion, the Company has continuously created a risk management culture that strictly implements risk management and internal control processes, and has formed a good working environment and atmosphere for risk internal control. The Company has established a Three Defense Lines for risk management and has established a "classification, layering and centralized management and control" model for major risks. In order to guarantee the standardized development and systematic implementation of risk management and internal control, the Company has continuously established and improved its risk management system. So far, two basic risk management systems have been formulated and 63 internal control guidelines and guidebooks for risk management and internal control have been released.

The Company has established appropriate policies and monitoring procedures to ensure that no assets will be used or disposed of without authorization. The Company maintains reliable financial and accounting records in accordance with relevant accounting standards and regulatory reporting procedures, and properly identifies major risks which may affect the Company's performance and reasonably ensures that the level of risk is within the acceptable scope of the Company. The Company embeds risk management and internal control into daily business management activities and major project decision-making processes, and establishes an all-round risk management and control mechanism, i.e., pre-assessment and control of major risks, dynamic in-process control, post-control response evaluation, and rectification. The Company establishes a relatively complete internal control organization, working system and processes, and uses a closed-loop mechanism of "process streamlining - internal control assessment - defect identification - defect rectification", and internal control self-evaluation and internal control audit work are carried out.

## CORPORATE GOVERNANCE REPORT

The Board is responsible for ongoing supervision of the Company's risk management and internal control and shall ensure that the risk management and internal control of functional departments and affiliated entities of the Company shall be assessed at least annually. The Board shall ensure that the risk management and internal control is assessed on sufficiency of resources, staff qualification and experience, relevant training and relevant budget on an annual basis. The Company has disclosed the risk management and internal control assessment in compliance with the relevant requirements under the Guidelines on Comprehensive Risk Management of Central Enterprises, the Basic Practices of Internal Control of Enterprises and the Hong Kong Listing Rules, etc.

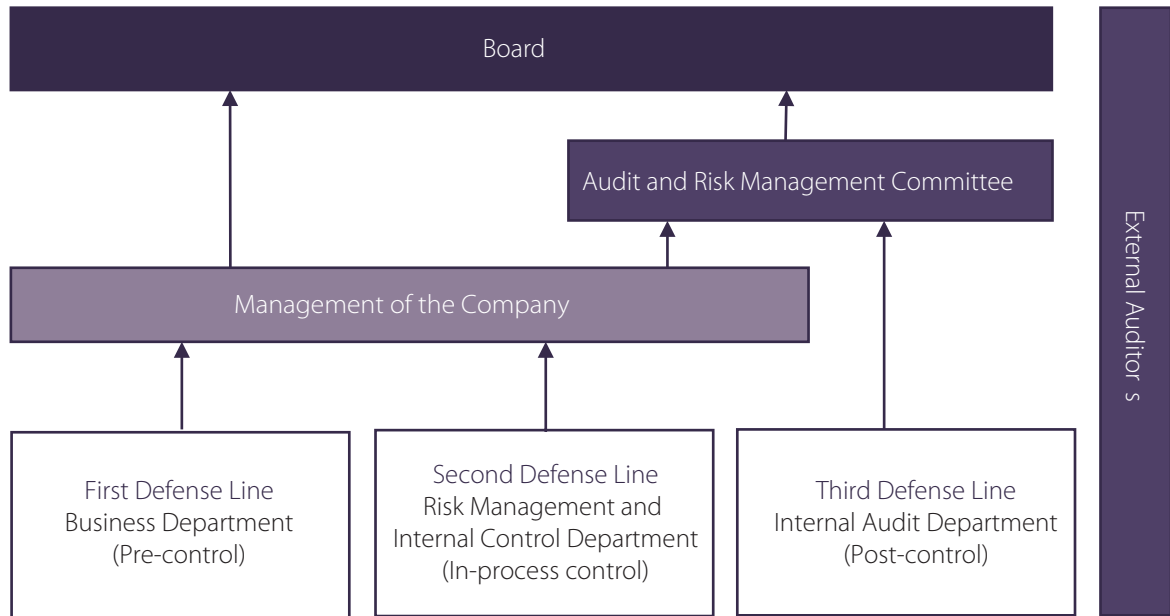
The Company has established its internal auditing function, and the Board is responsible for supervising the Company's risk management and internal control systems and reviewing their effectiveness through the Audit and Risk Management Committee. The Audit and Risk Management Committee shall assist the Board in the performance of its supervision of the Company's resources in finance, operation, compliance, risk management and internal control and financial and internal auditing functions as well as its role in corporate governance.

The Company has established a clearly defined organization structure with proper authorization, and has strict rules of procedure and reporting procedures in place. The audit and risk department of the Company assists the Board and the Audit and Risk Management Committee in the ongoing supervision and improvement of the effectiveness of the risk management and internal control systems. The Board is regularly informed of material risks which may affect the Company's performance through the Audit and Risk Management Committee.

The Board is responsible for the risk management and internal control systems mentioned above, and is responsible for reviewing the effectiveness of such systems. The Board further clarifies that the abovementioned systems were established to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide a reasonable but not absolute assurance against misstatement or loss.

The Company regulates the handling and dissemination of inside information in accordance with the obligation policy and various supplementary procedures of the Company so that inside information remains confidential until their disclosure is duly approved, and such information can be published effectively and consistently.

The risk management and internal control structure of the Company is guided under the following “Three Defense Lines (三道防線)” model.



The risk management and internal control department of the Company organizes the functional departments and affiliated entities of the Company to conduct annual risk assessment, prepare risk assessment report and report to the Audit and Risk Management Committee annually on a regularly basis. The functional departments and affiliated entities of the Company implement responding measures in respect of material risks in accordance with their respective responsibilities and report to the risk management and internal control department of the Company annually. Matters to be assessed include, among other things, risk management and internal control work scope of operation management, reporting of risk management and internal control work by operation management to the Board or the Audit and Risk Management Committee, changes in nature and severity of material risks subsequent to review in the previous year, the Company's abilities to respond to business transformation and changes in external environment and assessment on material risk management and internal control errors or material risk management and internal control defects identified during the period.

The audit and risk department of the Company reports to the Audit and Risk Management Committee on a regularly basis, including annual work plan, important audit report, material risks and responding measures implemented.

The audit and risk department of the Company carries out the work based on risks and problems. The annual work plan of the audit and risk department of the Company covers the Company's operation, business and finance and major procedures of its affiliated entities, and reports the audit findings to the Board and management of the Company. The audit and risk department of the Company urges relevant entities to rectify the problems identified in the audit process and reports the progress of rectification to the Audit and Risk Management Committee and the management on a regularly basis.

The audit and risk management department of the Company reports the sufficiency and effectiveness of its monitoring to the Board, the Audit and Risk Management Committee, the president and chief finance officer of the Company.

## CORPORATE GOVERNANCE REPORT

The management of the Company, with assistance of the risk management and internal control department and the internal audit department, is responsible for the design, implementation and monitoring of the risk management and internal control systems, and submitting the report on the effectiveness of risk management and internal control to the Board and the Audit and Risk Management Committee.

The Company has adopted various policies and procedures to evaluate and enhance the effectiveness of the risk management and internal control systems, including requiring the management of the Company to conduct assessment on a regular basis and control the risks at a level which is acceptable to the Company to ensure that the risk management and internal control systems operate effectively, which the Company believes will enhance the future corporate governance and improve the risk management and internal control capacities of the Company.

The Company has integrated risk management and internal control into its daily operations. The functional departments and affiliated entities of the Company continuously conduct risk assessment, formulate risk management strategies and risk responding measures, assess residual risk and report risk events and responding measures implemented to the risk management and internal control department of the Company on a seasonal basis. The risk management department of the Company summarizes the possibility and effect of risk events, analyses the effectiveness of risk management strategies and responding measures and reports to the management and the Board of the Company on a regular basis.

In 2019, the risk management and internal control department of the Company organized various departments and affiliated entities to continuously conduct risk management and internal control activities to improve the effectiveness of risk management and internal control, including but not limited to the following: organized and conducted annual risk assessment and responding management; organized and conducted annual internal control evaluation; carried out risk management and internal control consultation in respect of its affiliated entities in order to improve their risk management and internal control capacities; focused on risk evaluation of significant investment, overseas merger & acquisition and export-related project. The risk management department submitted the latest report on risk management and internal control to the Board and the Audit and Risk Management Committee during the year, and assisted the Directors in reviewing the effectiveness of the risk management and internal control systems of the Company.

In 2019, the internal audit department of the Company carried out special inspection and monitoring on the effectiveness of the risk management and internal control systems of the Company in terms of finance, operation and compliance monitoring and reported the relevant findings to the management and the Board of the Company.

The Audit and Risk Management Committee and the Board have not identified any risk event which materially affects the Company's financial condition or operating results and consider that the risk management and internal control systems are reasonably designed and operated effectively, and there are sufficient resources, staff qualification and experience for accounting, internal audit and financial reporting functions as well as sufficient staff training programs and budget.

In addition to monitoring and inspection of the risk management and internal control implemented by the Company, external auditors also evaluate the sufficiency and effectiveness of the risk management and internal control of the Company as part of its statutory audit. The Company will adopt the relevant recommendations of external auditors to enhance its risk management and internal control.

In 2019, Deloitte Touche Tohmatsu Certified Public Accountants LLP audited the financial statements and the effectiveness of relevant internal control of the Company, and issued an audit report with unqualified opinion. Relevant report has been reviewed and approved by the Audit and Risk Management Committee.

## XIV. Dividend Policy

Pursuant to the Articles of Association, the specific policy for dividend distribution of the Company is as follows:

1. When formulating a dividend distribution plan, the Company takes into account the interests of Shareholders and development needs of the Company;
2. The Company maintains a stable dividend level every year, and the cumulative profit distributed during the last three years is not less than 30% of the profits available for distribution in the last three years;
3. The Company prefers to distribute dividends in cash, and only considers non-cash dividends when special and significant investment needs arise.

# RELEVANT INFORMATION OF CORPORATE BONDS

## I. Basic Information of Corporate Bonds

During the reporting period, the Company holds a 2013 ten-year corporate bond of CSR Corporation Limited (first tranche) and a 2016 corporate bond of CRRC Corporation Limited (first tranche).

The 2013 ten-year corporate bond of CSR Corporation Limited (first tranche) was issued by CSR on 22 April 2013 and will expire on 22 April 2023. The outstanding balance of the bonds is RMB1,500 million and bears an interest rate of 5.00%. The interest on the bond will be paid annually and the principal will be repaid in one sum. The bond is listed and traded on the SSE.

The 2016 corporate bond of CRRC Corporation Limited (first tranche) was issued by the Company on 30 August 2016 and will expire on 30 August 2021. The outstanding balance of the bond is RMB589.72 million and bears an interest rate of 3.40%. The interest on the bond will be paid annually and the principal will be repaid in one sum. The bond is listed and traded on the SSE.

### Interests payment for corporate bonds

The Company disclosed the Announcement in relation to Interest Payment of 13 CSR 02 Corporate Bond of CRRC Corporation Limited (《中國中車股份有限公司關於13南車02公司債券的付息公告》) dated 11 April 2019 and paid the interest on 13 CSR 02 for the period from 22 April 2018 to 21 April 2019 on 22 April 2019.

The Company disclosed the Announcement in relation to Interest Payment of 16 CRRC 01 Corporate Bond of CRRC Corporation Limited (《中國中車股份有限公司關於16中車01公司債券的付息公告》) dated 22 August 2019 and paid the interest on 16 CRRC 01 for the period from 30 August 2018 to 29 August 2019 on 30 August 2019.

### Description of other matters in relation to corporate bonds

The Company resold the "16 CRRC 01" corporate bonds and adjusted its interest rate according to the "Prospectus of the 2016 Corporate Bonds of CRRC Corporation Limited (First Tranche)". According to the Announcement of CRRC Corporation Limited on the Resale of "16 CRRC 01" Corporate Bonds (《中國中車股份有限公司關於"16中車01"公司債券回售的公告》) (Lin 2019-023), the Announcement of CRRC Corporation Limited on the Coupon Rate Adjustment for "16 CRRC 01" Corporate Bonds (《中國中車股份有限公司關於"16中車01"公司債券票面利率調整的公告》) (Lin 2019-024), the Announcement of CRRC Corporation Limited on the Resale Results of "16 CRRC 01" Corporate Bonds (《中國中車股份有限公司關於"16中車01"公司債券回售結果公告》) (Lin 2019-032) and the Announcement of CRRC Corporation Limited on the Implementation Results of Resale of "16 CRRC 01" Corporate Bonds (《中國中車股份有限公司關於"16中車01"轉售實施結果公告》) (Lin 2019-036), the coupon rate of "16 CRRC 01" corporate bonds increased by 45bp for two years, that is, the coupon rate of bonds from 30 August 2019 to 29 August 2021 would be 3.40%, and the resale amount would be RMB1,410,280,000. The resale of resale bonds was handled based on the relevant regulations, and the final resale bond amount was RMB0, and the bond balance was RMB589,720,000.



## II. Enhancing Bond Credit Mechanism of the Company During the Reporting Period

On 5 August 2015, with the approval from SASAC, CNRG and CSRG signed the Merger Agreement of China Northern Locomotive & Rolling Stock Industry (Group) Corporation and CSR Group (《中國北方機車車輛工業集團公司與中國南車集團公司之合併協議》). It was agreed that CNRG will merge with CSRG by way of absorption, CSRG will be de-registered, CNRG will be renamed as “CRRC Group” (中國中車集團公司) and all assets, liabilities, businesses, employees, contracts, qualifications and all other rights and obligations of CSRG will be assumed by CRRCG, the postmerger corporation. On 7 September 2015, the trustee, China International Capital Corporation Limited (中國國際金融股份有限公司), convened the second meeting of bondholders of 2013 corporate bond of CSR Corporation Limited (first tranche) in 2015 at meeting room No. 2810 of China International Capital Corporation Limited at 28th Floor, China World Office 2, 1 Jianguomenwai Avenue, Beijing, P.R. China, where the Proposal on CRRC Group’s Assumption of CSR Group’s Obligation of Guarantee for this Tranche of Bond (《關於中國中車集團公司承繼中國南車集團公司對本期債券擔保義務的議案》) was considered and approved. On 24 September 2015, CNRG completed the registration of change of name and changed its name to “CRRC Group (中國中車集團公司)”. The obligation of a guarantor for the 2013 ten-year corporate bond of CSR Corporation Limited (first tranche) was assumed by CRRCG.

On 14 December 2017, CRRC Corporation Limited published the Announcement of CRRC Corporation Limited on the Restructuring and Renaming of Its Controlling Shareholders and Change of Industrial and Commercial Registration Matters Thereof (《中國中車股份有限公司關於控股股東改制更名及相關工商登記事項變更的公告》). Subject to the approval of SASAC, CRRCG was transformed into a wholly state-owned enterprise (國有獨資公司) from an enterprises owned by the whole people (全民所有制企業). After restructuring, the full name of CRRCG is “中國中車集團有限公司 (CRRC GROUP Co., Ltd.)”, and SASAC shall perform its duties as an investor on behalf of the State Council. All claims and debts, various professional and special qualifications and licenses of CRRCG shall be assumed by CRRC GROUP Co., Ltd.

## III. Accounting Data and Financial Indicators of the Company for Last Two Years as at the End of the Reporting Period

Unit: '000 Currency: RMB

Major indicator	2019	2018	Change
			between the period and same period last year (%)
EBITDA	22,886,225	21,729,876	5.32
Current ratio	1.26	1.21	4.13
Quick ratio	0.80	0.79	1.27
Gearing ratio (%)	58.59	58.13	Increased by 0.46 ppt
EBITDA of total debt ratio (%)	10.18	10.46	Decreased by 0.28 ppt
Interest coverage multiple	14.05	9.27	51.56
Cash interest coverage multiple	26.40	15.20	73.68
EBITDA interest coverage multiple	20.61	13.33	54.61
Loan repayment rate (%)	100	100	–
Interest paid coverage (%)	116.25	108.55	Increased by 7.70 ppt

## RELEVANT INFORMATION OF CORPORATE BONDS

### IV. Bank Credit Facilities During the Reporting Period

As at 31 December 2019, table below sets forth details on the amount of bank the credit facilities, the utilized amount and the outstanding credit facilities of the Company:

Unit: '000 Currency: RMB

Name of bank	Amount of credit facilities	Utilized amount	Outstanding credit facilities
Business department of CITIC Bank head office	15,000,000	2,771,060	12,228,940
Industrial Bank Beijing Branch	3,000,000	–	3,000,000
China Development Bank	13,500,000	–	13,500,000
Everbright Bank of China	6,600,000	–	6,600,000
Bank of Communications Beijing Branch	10,000,000	–	10,000,000
Beijing Rural Commercial Bank	4,500,000	–	4,500,000
Bank of Kunlun	1,000,000	–	1,000,000
China Construction Bank Corporation	10,000,000	5,198,501	4,801,499
Industrial and Commercial Bank of China	4,298,200	10	4,298,190
Bank of China	20,000,000	2,281,894	17,718,106
The Export-Import Bank of China	18,000,000	–	18,000,000
China Minsheng Bank	15,000,000	6,593,216	8,406,784
Agricultural Bank of China	5,000,000	–	5,000,000
China Merchants Bank	10,000,000	1,371,100	8,628,900
Societe Generale (China) Limited	100,000	55,890	44,110
Bank of Beijing Beichen Road Sub-branch	7,500,000	–	7,500,000
China Zheshang Bank	6,000,000	–	6,000,000
Hua Xia Bank Co., Ltd. Beijing Branch	4,000,000	–	4,000,000
Postal Savings Bank of China Co., Ltd.	4,000,000	–	4,000,000
China Guangfa Bank Co., Ltd. Beijing Branch	3,000,000	–	3,000,000
<b>Total</b>	<b>160,498,200</b>	<b>18,271,671</b>	<b>142,226,529</b>

Unit: '000 Currency: USD

Name of bank	Amount of credit facilities	Utilized amount	Outstanding credit facilities
SCB	30,000	8,233	21,767
DBS	100,000	2,378	97,622
Citibank	124,500	–	124,500
<b>Total</b>	<b>254,500</b>	<b>10,611</b>	<b>243,889</b>

## **V. Explanation of the Execution of Relevant Covenants or Undertaking Set Out in the Prospectus of Corporate Bonds of the Company During the Reporting Period**

During the reporting period, the Company has paid interest and repaid principal to bondholders in respect of the 2013 ten-year corporate bond of CSR Corporation Limited (first tranche) and the 2016 corporate bond of CRRC Corporation Limited (first tranche) in strict compliance with principal and interest repayment arrangements prescribed in the prospectus, without any breach of the relevant covenants or undertaking thereto.

## **VI. Significant Events of the Company and Their Impact on the Operation and Solvency of the Company**

During the reporting period, there was no event which may have any significant impact on the operation and solvency of the Company.

# INVESTOR RELATIONS

We established a platform for communication with investors and smoothed the channels for communication with investors, in order to communicate effectively with investors, continuously expand the Company's influence in the capital market and increase the Company's market value.

In 2019, in order to expand the Company's influence in the capital market, the Company communicated with investors and potential investors through various channels, such as organizing roadshows and reverse roadshows, participation in the strategic meetings of securities companies, etc. Firstly, organizing roadshow activities. In April, the Company organized the 2018 annual results presentation conference in Hong Kong, and a total of nearly 100 investors and senior analysts from major financial institutions attended the conference. After that, a roadshow which lasted for two-and-a-half-day was organized, and communicated with 20 institutional investors in one-to-one ways, and with 69 institutional investors in one-to-many ways. Secondly, organizing reverse roadshow activities. In early September, the Company invited 40 analysts and fund managers to conduct reverse roadshow activities in Meishan and Chengdu, so that the analysts and fund managers could experience the Company's deep cultural heritage, advanced and complete manufacturing bases, and lean and effective management methods. Thirdly, participation in the strategic meetings and forums of securities companies. The Company participated in strategic meetings organized by influential securities companies and communicated with investors in one-to-one or one-to-many ways. During the year, the Company participated in 27 strategic meetings organised by companies, such as CICC, Bank of America Merrill Lynch and Citibank, and communicated with nearly 400 major institutions. Fourthly, cultivating important institutional investors. Core institutional investors were the basis for stabilizing the share price of the Company and also the basis for increasing market value of the Company. The Company routinely conducted telephone communications or visits to key institutional investors, told them more about the Company and industry developments in detail, and strengthened their confidence in holding the Company's shares. Fifthly, conduct market value management communication meetings. The market value management meetings were held regularly every quarter, through market value management communication meeting, an interactive communication platform for the capital market, financial public relations companies and relevant departments of the Company were established, such that the Company could be more purposeful, targeted, and effective during the development of various management operations, and strived to maximize the value of the Company and Shareholders. Lastly, well prepared for crisis management and stabilizing the share price. For the negative news reported by the media, the Company launched the emergency plan immediately and took responsive measures of monitoring the development of public opinion, announcing the positive news and communicating with key analysts to increase the market confidence.

Except for the abovementioned major work, the Company continued to enhance the daily work of investor relationships. Firstly, the Company organized domestic and foreign financial public relation companies, edited and circulated daily monitoring information from the media, weekly reports on capital market and analyzed the public events to provide the information support for the members of the Board, the Supervisory Committee and senior management in a timely and accurate way. Secondly, it tracked the share price and analyzed the structure of shareholders, the movement of shareholdings of substantial shareholders. Thirdly, it continued to update investors' profiles, established an analyst library of the capital market, especially the analyst library of the companies concerned throughout the year, conducted daily management and maintenance, and regularly updated the library about investors' concerns. Fourthly, it timely updated the special column of investor relationships at the website of the Company, enabled the investors to keep up with the company information. Fifthly, it engaged knowledgeable staff to answer the phone from investors, receive their emails, record and answer the questions in a patient and meticulous way.

Over the past year, the Company was accredited with various recognitions in the capital market. The Company was accredited as A class company in the evaluation of information disclosure of the listed company of the year in SSE for four consecutive years. The Company was awarded 11 important awards such as the Outstanding Contribution Enterprise Award for the 70th Anniversary of the Founding of New China of China Securities Golden Bauhinia Awards and the Corporate Governance Medal of the 15th Golden Round Table Award for Boards of Directors of Chinese Listed Companies.

With effective investor relations management, we promoted positive interaction between the Company and investors, hence building a stable and high quality investor base, creating an investment philosophy to achieve maximum company interest while increasing the interest of its shareholders as a whole.

# CHANGES IN SHARES AND PARTICULARS OF SHAREHOLDERS

## I. Changes in Share Capital

During the reporting period, all the issued shares of the Company were ordinary shares, and there were no changes in the total number of ordinary shares and share capital structure.

## II. Issue and Listing of Securities

### (I) Issue of securities during the reporting period

During the reporting period, there were no securities issued by the company.

### (II) Existing internal employee shares

The Company has no internal employee shares.

## III. Particulars of Shareholders and Ultimate Controller

### (I) Total number of shareholders

Total number of shareholders of ordinary shares as of the end of the reporting period (shareholder) <sup>Note</sup>	796,529
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Total number of shareholders of ordinary shares as of the end of the last month before the disclosure date of the annual report (shareholder) <sup>Note</sup>	792,077
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Note: As at the end of the reporting period, the Company had 793,846 holders of A Shares and 2,683 holders of H Shares; as at the end of the month prior to the date of the annual report, the Company has 789,387 holders of A Shares and 2,690 holders of H Shares.

# CHANGES IN SHARES AND PARTICULARS OF SHAREHOLDERS

## (II) Shareholdings of the top ten shareholders and the top ten holders of tradeable shares (or holders of shares not subject to trading moratorium) as of the end of the reporting period

Unit: share

### Shareholdings of the top ten shareholders

Name of shareholder (full name)	Change during the reporting period	Number of shares held at the end of the reporting period	Percentage (%)	Number of shares subject to trading moratorium held	Shares pledged or frozen		Nature of shareholder
					Pledged or frozen	Number	
CRRCG <sup>Note 1</sup>	0	14,429,518,023	50.28	705,052,878	Nil	—	State-owned legal person
HKSCC NOMINEES LIMITED <sup>Note 2</sup>	140,531	4,360,121,089	15.19	—	Unknown	—	Overseas legal person
China Securities Finance Corporation Limited (中國證券金融股份有限公司)	0	858,958,326	2.99	—	Unknown	—	State-owned legal person
Hong Kong Securities Clearing Company Limited	132,902,770	338,364,894	1.18	—	Unknown	—	Overseas legal person
Central Huijin Asset Management Ltd. (中央匯金資產管理有限責任公司)	0	304,502,100	1.06	—	Unknown	—	State-owned legal person
Shanghai Xinghan Asset – Industrial Bank – China Industrial International Trust Limited (上海興瀚資產 – 興業銀行 – 興業國際信託有限公司)	0	235,017,626	0.82	235,017,626	Unknown	—	State-owned legal person
Bosera Funds – Agricultural Bank of China – Bosera China Securities and Financial Assets Management Plan (博時基金 – 農業銀行 – 博時中證金融資產管理計劃)	0	234,982,900	0.82	—	Unknown	—	Unknown
E Fund – Agricultural Bank of China – E Fund China Securities and Financial Assets Management Plan (易方達基金 – 農業銀行 – 易方達中證金融資產管理計劃)	0	234,982,900	0.82	—	Unknown	—	Unknown
Dacheng Fund – Agricultural Bank of China – Dacheng China Securities and Financial Assets Management Plan (大成基金 – 農業銀行 – 大成中證金融資產管理計劃)	0	234,982,900	0.82	—	Unknown	—	Unknown
Harvest Fund – Agricultural Bank of China – Harvest China Securities and Financial Assets Management Plan (嘉實基金 – 農業銀行 – 嘉實中證金融資產管理計劃)	0	234,982,900	0.82	—	Unknown	—	Unknown
GF Fund – Agricultural Bank of China – GF China Securities and Financial Assets Management Plan (廣發基金 – 農業銀行 – 廣發中證金融資產管理計劃)	0	234,982,900	0.82	—	Unknown	—	Unknown
Zhong'ou Asset – Agricultural Bank of China – Zhong'ou China Securities and Financial Assets Management Plan (中歐基金 – 農業銀行 – 中歐中證金融資產管理計劃)	0	234,982,900	0.82	—	Unknown	—	Unknown

# CHANGES IN SHARES AND PARTICULARS OF SHAREHOLDERS

## Shareholdings of the top ten shareholders

Name of shareholder (full name)	Change during the reporting period	Number of shares held at the end of the reporting period	Percentage (%)	Number of shares subject to trading moratorium held	Shares pledged or frozen		
					Pledged or frozen	Number	Nature of shareholder
China AMC – Agricultural Bank of China – China AMC China Securities and Financial Assets Management Plan (華夏基金－農業銀行－華夏中證金融資產管理計劃)	0	234,982,900	0.82	—	Unknown	—	Unknown
Yinhua Fund – Agricultural Bank of China – Yinhua China Securities and Financial Assets Management Plan (銀華基金－農業銀行－銀華中證金融資產管理計劃)	0	234,982,900	0.82	—	Unknown	—	Unknown
China Southern Asset Management – Agricultural Bank of China – China Southern Asset Management China Securities and Financial Assets Management Plan (南方基金－農業銀行－南方中證金融資產管理計劃)	0	234,982,900	0.82	—	Unknown	—	Unknown
ICBCCS Fund – Agricultural Bank of China – ICBCCS China Securities and Financial Assets Management Plan (工銀瑞信基金－農業銀行－工銀瑞信中證金融資產管理計劃)	0	234,982,900	0.82	—	Unknown	—	Unknown

# CHANGES IN SHARES AND PARTICULARS OF SHAREHOLDERS

Unit: share

## Shareholdings of the top ten shareholders not subject to trading moratorium

Name of shareholders	Number of tradable shares held not subject to trading moratorium	Class and number of shares	
		Class	Number
CRRCG <sup>Note 1</sup>	13,724,465,145	Ordinary shares denominated in RMB	13,724,465,145
HKSCC Nominees Limited <sup>Note 2</sup>	4,360,121,089	Overseas listed foreign shares	4,360,121,089
China Securities Finance Corporation Limited (中國證券金融股份有限公司)	858,958,326	Ordinary shares denominated in RMB	858,958,326
Hong Kong Securities Clearing Company Limited	338,364,894	Ordinary shares denominated in RMB	338,364,894
Central Huijin Asset Management Ltd. (中央匯金資產管理有限責任公司)	304,502,100	Ordinary shares denominated in RMB	304,502,100
Bosera Funds – Agricultural Bank of China – Bosera China Securities and Financial Assets Management Plan (博時基金–農業銀行–博時中證金融資產管理計劃)	234,982,900	Ordinary shares denominated in RMB	234,982,900
E Fund – Agricultural Bank of China – E Fund China Securities and Financial Assets Management Plan (易方達基金–農業銀行–易方達中證金融資產管理計劃)	234,982,900	Ordinary shares denominated in RMB	234,982,900
Dacheng Fund – Agricultural Bank of China – Dacheng China Securities and Financial Assets Management Plan (大成基金–農業銀行–大成中證金融資產管理計劃)	234,982,900	Ordinary shares denominated in RMB	234,982,900
Harvest Fund – Agricultural Bank of China – Harvest China Securities and Financial Assets Management Plan (嘉實基金–農業銀行–嘉實中證金融資產管理計劃)	234,982,900	Ordinary shares denominated in RMB	234,982,900
GF Fund – Agricultural Bank of China – GF China Securities and Financial Assets Management Plan (廣發基金–農業銀行–廣發中證金融資產管理計劃)	234,982,900	Ordinary shares denominated in RMB	234,982,900
Zhong'ou Asset – Agricultural Bank of China – Zhong'ou China Securities and Financial Assets Management Plan (中歐基金–農業銀行–中歐中證金融資產管理計劃)	234,982,900	Ordinary shares denominated in RMB	234,982,900



# CHANGES IN SHARES AND PARTICULARS OF SHAREHOLDERS

## Shareholdings of the top ten shareholders not subject to trading moratorium

Name of shareholders	Number of tradable shares held not subject to trading moratorium	Class and number of shares	
		Class	Number
China AMC – Agricultural Bank of China – China AMC China Securities and Financial Assets Management Plan (華夏基金–農業銀行–華夏中證金融資產管理計劃)	234,982,900	Ordinary shares denominated in RMB	234,982,900
Yinhua Fund – Agricultural Bank of China – Yinhua China Securities and Financial Assets Management Plan (銀華基金–農業銀行–銀華中證金融資產管理計劃)	234,982,900	Ordinary shares denominated in RMB	234,982,900
China Southern Asset Management – Agricultural Bank of China – China Southern Asset Management China Securities and Financial Assets Management Plan (南方基金–農業銀行–南方中證金融資產管理計劃)	234,982,900	Ordinary shares denominated in RMB	234,982,900
ICBCCS Fund – Agricultural Bank of China – ICBCCS China Securities and Financial Assets Management Plan (工銀瑞信基金–農業銀行–工銀瑞信中證金融資產管理計劃)	234,982,900	Ordinary shares denominated in RMB	234,982,900

Note 1: During the reporting period, CRRC Financial and Securities, a wholly-owned subsidiary of CRRC GROUP, subscribed for ETF by 200,892,000 A shares of CRRC held by it. The procedures of share register for the aforesaid subscriptions were completed.

Note 2: H shares held by HKSCC NOMINEES LIMITED are held on behalf of its various clients.

# CHANGES IN SHARES AND PARTICULARS OF SHAREHOLDERS

## Shareholding of the top ten shareholders subject to trading moratorium and their respective terms of trading moratorium

Unit: share

No.	Name of shareholders subject to trading moratorium	Number of shares held subject to trading moratorium	Trading conditions of the shares subject to trading moratorium		Terms of trading moratorium
			Date of listing and trading	Additional listed and tradeable shares	
1	CRRCG	705,052,878	17 January 2020	705,052,878	36 months after the completion date of the Non-public Issuance
2	Shanghai Xinghan Asset – Industrial Bank – China Industrial International Trust Limited (上海興瀚資產–興業銀行–興業國際信託有限公司)	235,017,626	17 January 2020	235,017,626	36 months after the completion date of the Non-public Issuance
3	China Development Bank Capital Co., Ltd. (國開金融有限責任公司)	176,263,219	17 January 2020	176,263,219	36 months after the completion date of the Non-public Issuance
4	Shanghai Zhaoyin Equity Investment Fund Management Co., Ltd. (上海招銀股權投資基金管理有限公司)	117,508,813	17 January 2020	117,508,813	36 months after the completion date of the Non-public Issuance
5	China Development Bank Jingcheng (Beijing) Investment Fund Co., Ltd. (國開精誠(北京)投資基金有限公司)	117,508,813	17 January 2020	117,508,813	36 months after the completion date of the Non-public Issuance
6	China Development Bank Siyuan (Beijing) Investment Fund Co., Ltd. (國開思遠(北京)投資基金有限公司)	58,754,406	17 January 2020	58,754,406	36 months after the completion date of the Non-public Issuance
Explanation on the connected or acting in concert relationship of the above shareholders		Both China Development Bank Jingcheng (Beijing) Investment Fund Co., Ltd. and China Development Bank Siyuan (Beijing) Investment Fund Co., Ltd. are corporate PE investment funds and are managed by China Development Bank Investment and Development Fund Management (Beijing) Co., Ltd., which is a wholly-owned subsidiary of China Development Bank Capital Co., Ltd. (國開金融有限責任公司).			

The shares (subject to trading moratorium) held by the above Shareholders have been listed and traded on 17 January 2020. For details, please refer to the "Indicative Announcement on the Listing and Trading of the Non-public Issuance of the Restricted A-Shares issued by CRRC Corporation Limited" dated 9 January 2020.

### Strategic investors or ordinary legal persons who became top ten shareholders due to placing of shares

During the reporting period, there were no strategic investors or ordinary legal persons who became top ten shareholders due to placing of shares.

# CHANGES IN SHARES AND PARTICULARS OF SHAREHOLDERS

## (III) Shareholding interests of Directors, Supervisors and Chief Executive

As at 31 December 2019, the following Directors and Supervisors have interests in the A Shares of the Company and relevant details are set out as follows:

Name	Position	Class of shares	Number of shares
Liu Hualong	Chairman, Executive Director	A Shares	50,000
Sun Yongcai	President, Executive Director	A Shares	111,650

Save as disclosed in the annual report, as at 31 December 2019, none of the Directors, Supervisors or chief executive of the Company had interests or short positions in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be entered in the register maintained by the Company under section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code by the Directors or Supervisors.

## (IV) Substantial shareholders' interests and short positions in the Company

As at 31 December 2019, the persons set out in the table below had an interest or short position in the Company's shares as recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholders	Capacity	H Shares or A Shares	Nature of Interest	Number of H shares or A shares held	Percentage of H shares or A shares held in	Percentage of total share capital of the Company
					H shares or total issued A shares (%)	Company (%)
CRRC GROUP Co., Ltd.	Beneficial owner	A Shares	Long position	14,429,518,023	59.31	50.28
	Interest of corporation controlled by the substantial shareholder	A Shares	Long position	128,871,427	0.53	0.45
BlackRock, Inc.	Interest of corporation controlled by the substantial shareholder	H Shares	Long position	256,574,335	5.87	0.89
	Interest of corporation controlled by the substantial shareholder	H Shares	Short position	5,358,000	0.12	0.02

## CHANGES IN SHARES AND PARTICULARS OF SHAREHOLDERS

Name of Shareholders	Capacity	H Shares or A Shares	Nature of Interest	Number of H shares or A shares held	Percentage of	Percentage
					H shares or A shares held in the total issued H shares or total issued A shares (%)	of total share capital of the Company (%)
Citigroup Inc.	Person having a security interest in shares, Interest of corporation controlled by the substantial shareholder, Approved lending agent	H Shares	Long position	270,671,316	6.19	0.94
	Interest of corporation controlled by the substantial shareholder	H Shares	Short position	4,825,000	0.11	0.02
	Approved lending agent	H Shares	Shares in lending pool	248,766,328	5.69	0.87
JPMorgan Chase & Co.	Interest of corporation controlled by the substantial shareholder, Investment manager, Person having a security interest in shares, Approved lending agent	H Shares	Long position	303,541,578	6.94	1.06
	Interest of corporation controlled by the substantial shareholder, Investment manager	H Shares	Short position	39,165,602	0.90	0.14
	Approved lending agent	H Shares	Shares in lending pool	165,981,816	3.80	0.58

Save as disclosed above, as far as the Directors are aware, as at 31 December 2019, no other person had interests and/or short positions in the shares or underlying shares (as the case may be) of the Company which were required to be recorded in the register pursuant to section 336 of Part XV of the SFO, or was otherwise a substantial shareholder (as defined in the Hong Kong Listing Rules) of the Company.

## IV. Particulars of Controlling Shareholder and the Ultimate Controller

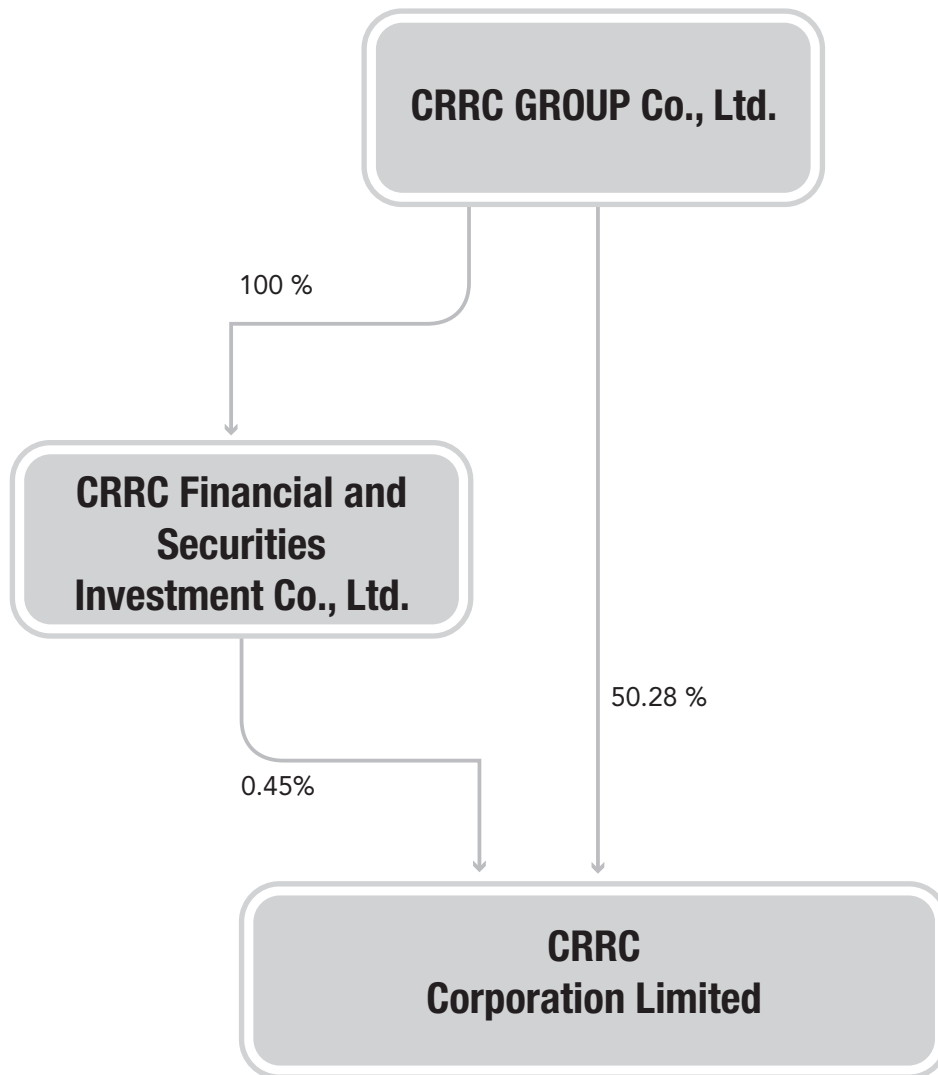
### (I) Controlling shareholder

#### 1. Legal person

Name:	CRRG GROUP Co., Ltd. (中國中車集團有限公司)
Responsible personnel or Legal representative:	Liu Hualong
Establishment date:	1 July 2002
Principal business:	Research and development, manufacturing, sales, refurbishment and leasing of locomotives, passenger carriages, freight wagons, MUs, rapid transit vehicles and key components as well as other businesses that utilize proprietary rolling stock technologies.
Equity interest in other controlling and investee companies listed in the PRC or overseas during the reporting period:	Directly holds 10,559,465 shares of Bank Of Guiyang Co., Ltd. (601997) as of 31 December 2019.

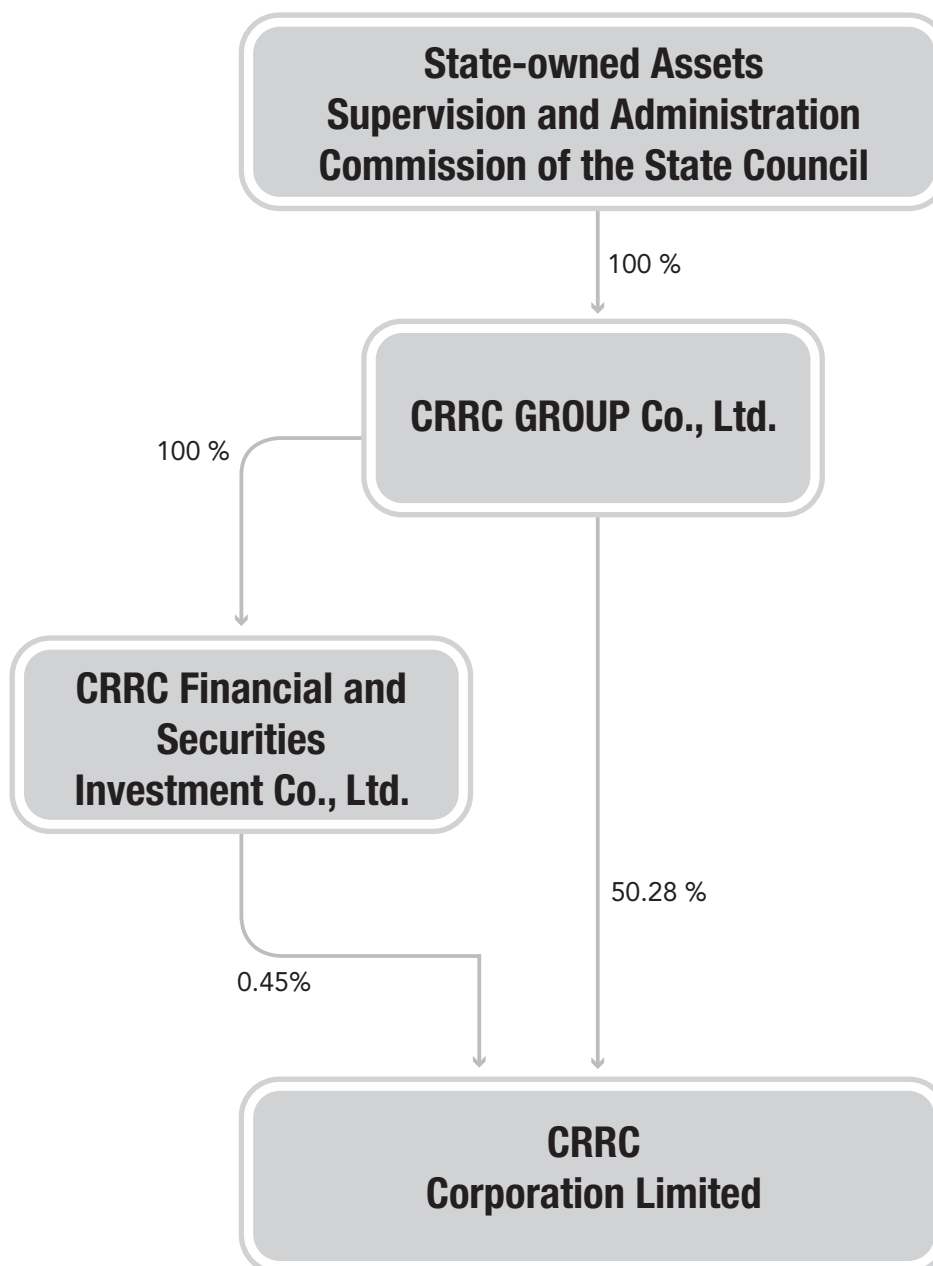
## CHANGES IN SHARES AND PARTICULARS OF SHAREHOLDERS

2. Framework of ownership and controlling relationship between the Company and the controlling shareholder as of the end of the reporting period



## (II) Ultimate controller

1. The ultimate controller of the Company is the SASAC.
2. Framework of ownership and controlling relationship between the Company and the ultimate controller as of the end of the reporting period



## ○ CHANGES IN SHARES AND PARTICULARS OF SHAREHOLDERS

### **V. Other Corporate Shareholders with Over 10% Shareholdings**

There were no other corporate shareholders holding over 10% shares of the Company as of the end of the reporting period.

### **VI. Sufficient Public Float**

As of the latest practicable date prior to the printing of this annual report, based on public information and as far as the Directors are aware, the Directors believe that the Company has sufficient public float which satisfies the minimum public float requirement under Rule 8.08 of the Hong Kong Listing Rules.

### **VII. Purchase, Sale or Redemption of Securities of the Company**

During the year ended 31 December 2019, the Company or any of its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company.



# SIGNIFICANT EVENTS

## I. Performance of Undertakings

**Undertakings by relevant parties of undertakings, such as actual controller, shareholders, related parties, acquirer and the Company, during or up to the reporting period:**

Background	Type	Covenantors	Undertakings	Validity period	Whether duration specified	Whether timely and strictly performed	If not performed timely, describe the specific reasons	If not performed timely, describe plans in next steps
Material assets reorganization related commitment	Resolution of same industry competitions	CRRC	Non-competition undertaking with Times New Material: on 5 August 2015, CRRC issued the Letter of Undertaking of Non-competition with Zhuzhou Times New Material Technology Co., Ltd. (《關於避免與株洲時代新材料科技股份有限公司同業競爭的承諾函》) in order to resolve the issue of competition between CRRC and Times New Material after the merger between CSR and CNR. The specific undertakings are as follows: the current operations of CRRC in fields such as air springs for rail vehicles and rubber-metal parts for rail vehicles compete with the operations of Times New Material, which is indirectly controlled by CRRC. In order to resolve such competition with Times New Material, in accordance with relevant laws and regulations, CRRC undertook that it will resolve such issue with Times New Material within five years from the date of this letter of undertaking in the manner approved by the regulatory authorities (including but not limited to asset restructuring, business integration etc).	Undertakings dated 5 August 2015, term is 5 years commencing from the date of issuance of this letter of undertaking	Yes	Yes	-	-

## SIGNIFICANT EVENTS

Background	Type	Covenantors	Undertakings	Validity period	Whether duration specified	Whether timely and strictly performed	If not performed timely, describe the specific reasons	If not performed timely, describe plans in next steps
Resolution of same industry competitions	CRRC		<p>Non-competition undertaking with Times Electric: on 5 August 2015, CRRC issued the Letter of Undertaking of Non-competition with Zhuzhou CSR Times Electric Co., Ltd. (《關於避免與株洲南車時代電氣股份有限公司同業競爭的承諾函》) in order to resolve the issue of competition between CRRC and Times Electric after the merger between CSR and CNR. The specific undertakings are as follows: the current operations of CRRC in fields such as transmission control systems, network control systems, traction power supply system, braking system, track construction machinery, electronic components and vacuum sanitation system compete with the operations of Times Electric, which is indirectly controlled by the Company. To safeguard the interests of Times Electric in its future development, in accordance with relevant laws and regulation, CRRC undertook that with respect to the operations of CRRC that compete with the operations of Times Electric: (1) CRRC will grant Times Electric a call option, pursuant to which Times Electric will be entitled to elect, at its own discretion, when to request CRRC to sell the competing businesses of CRRC to Times Electric; (2) CRRC will further grant Times Electric a pre-emptive right, pursuant to which if CRRC proposes to sell the competing business to an independent third party, CRRC shall offer to Times Electric the competing business first on the same terms and conditions, and the sale to an independent third party may only be effective after Times Electric refuses to purchase the competing business; (3) the decision of Times Electric to exercise the aforesaid call option and the pre-emptive right shall be made by the independent non-executive directors of Times Electric; (4) the exercise of the aforesaid call option and the pre-emptive right as well as other effective methods to resolve this competition matter 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 Times Electric respectively; and (5) the non-competition undertaking will be effective from the date of issuance of this letter of undertaking to the time when Times Electric is de-listed or CRRC ceases to be an indirect controlling shareholder of Times Electric.</p>	Undertakings dated 5 August 2015, term is from the date of issuance of this letter of undertaking to the time when Times Electric is de-listed or CRRC ceases to be an indirect controlling shareholder of Times Electric	No	Yes	-	-

## SIGNIFICANT EVENTS

Background	Type	Covenantors	Undertakings	Validity period	Whether duration specified	Whether timely and strictly performed	If not performed timely, describe the specific reasons	If not performed timely, describe plans in next steps
Resolution of same industry competitions	CRRCG		<p>Non-competition undertaking with CRRC: CNRG issued the Letter of Undertaking of Non-competition with CRRC Corporation Limited (《關於避免與中國中車股份有限公司同業競爭的承諾函》) on 5 August 2015 in order to avoid competition between CNRG (has completed restructuring and renamed as CRRCG) and CRRC after completion of merger of CNRG with CSRG. Pursuant to the Letter of Undertaking: (1) CRRCG undertook that CRRCG itself will not engage, and will, through legal procedures, procure its wholly owned and non-wholly owned subsidiaries to not engage in any businesses which might directly compete with the current operating businesses of CRRC; (2) subject to the aforesaid undertaking (1), if CRRCG (including its wholly-owned subsidiaries and non-wholly owned subsidiaries or other connected entities) provide any products or services that might be in competition with the principal products or services of CRRC in the future, CRRCG will agree to grant CRRC pre-emptive right to acquire the assets or its entire equity interests in such subsidiaries related to such products or services from CRRCG; (3) subject to the aforesaid undertaking (1), CRRCG may develop advanced and lucrative projects in the future which fall within the business scope of CRRC, but it should preferentially transfer any achievement on such projects to CRRC for its own operation on equal terms of transfer; and (4) CRRCG should compensate CRRC for its actual losses arising from any failure to comply with the aforesaid undertakings.</p>	Undertakings dated 5 August 2015, during the course of performance	No	Yes	-	-

## SIGNIFICANT EVENTS

Background	Type	Covenantors	Undertakings	Validity period	Whether duration specified	Whether timely and strictly performed	If not performed timely, describe the specific reasons	If not performed timely, describe plans in next steps
	Others	CRRCG	Undertaking to maintain the independence of CRRC: CNRG issued the Letter of Undertaking to Maintain the Independence of CRRC Corporation Limited (《關於保持中國中車股份有限公司獨立性的承諾函》) on 5 August 2015 in order to ensure that CNRG (has completed restructuring and renamed as CRRCG) will not interfere with the independence of CRRC after completion of the merger of CNRG with CSRG. Pursuant to the Letter of Undertaking: CRRCG undertook to be separate from CRRC in respect of areas such as assets, personnel, finance, organization and business and will, in strict compliance with the relevant requirements on the independence of a listed company imposed by the CSRC, not to use its position as the controlling shareholder to violate the standardized operation procedures of a listed company to intervene in the operating decisions of CRRC and to damage the legitimate interests of CRRC and other shareholders. CRRCG and other companies under its control undertook not to, by any means, use the funds of CRRC and companies under its control.	Undertakings dated 5 August 2015, during the course of performance	No	Yes	-	-
	Resolution of connected transactions	CRRCG	Undertaking for regulating connected transactions with CRRC: in order to regulate connected transaction entered into between CNRG (which have completed the transformation and renamed as CRRCG) and CRRC after the merger between CNRG and CSRG, CNRG issued the Letter of Undertaking to Regulate the Connected Transactions of CRRC Corporation Limited (《關於規範與中國中車股份有限公司關聯交易的承諾函》) on 5 August 2015, pursuant to which CRRCG and other companies controlled by CRRCG will endeavor not to enter into or reduce the connected transactions with CRRC and other companies in which it holds a controlling interest. For connected transactions that are inevitable or reasonable, CRRCG will continue to perform the obligations under the connected transaction framework agreements entered into between CRRCG and CRRC, and will comply with the approval procedures and information disclosure obligations in accordance with the relevant laws and regulations as well as the provisions under the Articles of Association of CRRC. Prices of the connected transactions will be determined based on prices of the same or comparable transactions conducted with other independent third parties.	Undertakings dated 5 August 2015, during the course of performance	No	Yes	-	-

# SIGNIFICANT EVENTS

Background	Type	Covenantors	Undertakings	Validity period	Whether duration specified	Whether timely and strictly performed	If not performed timely, describe the specific reasons	If not performed timely, describe plans in next steps
Undertakings in relation to the initial public issuance	Others	CRRCG	Undertakings on property ownership issues: CSR (has completed restructuring and renamed as CRRC) disclosed in its prospectus that CSR has not yet obtained proper property ownership certificates for 326 properties with a total gross floor area of 282,019.03 square meters, representing 7.85% of the total gross floor area of the property in use of CSR. As for the property which CSR has not yet obtained property ownership certificates, CSRG has made written undertaking which was inherited by CRRCG after the merger. Pursuant to the undertaking: for properties that could not obtain complete property ownership certificates due to reasons such as incomplete procedures in planning and constructions and, which were included in the asset injection to CRRC by CRRCG, CRRCG undertook that such properties satisfy the usage requirements necessary for the production and operations of CRRC. Moreover, if there is any loss incurred to CRRC due to such properties, CRRCG shall under take all compensation liabilities and all economic losses that CRRC incurred.	Undertakings dated 18 August 2008, during the course of performance	No	Yes	-	-
	Others	CRRCG	Undertakings on the state-owned land use certificate without specifying the land use terms or termination date: CNR (the relevant matters were inherited by CRRC after the merger) disclosed in the prospectus that the land use terms or termination date were not specified in the state-owned land use certificate for part of the authorized lands acquired by CNR. As such, CNRG (has completed restructuring and renamed as CRRCG) has made a written undertaking. Pursuant to the undertaking: CRRCG will compensate the relevant wholly-owned subsidiaries of CRRC for the loss caused as a result of the state-owned land use certificate not specifying the land use terms or termination date for the authorized land.	Undertakings dated 10 December 2009, during the course of performance	No	Yes	-	-

# SIGNIFICANT EVENTS

Background	Type	Covenants	Undertakings	Validity period	Whether duration specified	Whether timely and strictly performed	If not performed timely, describe the specific reasons	If not performed timely, describe plans in next steps
Undertakings in relation to the refinancing	Others	Directors, Senior Management of the Company	Undertaking to adopt measures of mitigating the potential dilution of return for the current period: the Directors and Senior Management of the Company have made the following undertakings on 27 May 2016: (1) not to transfer interests to other entities or individuals without consideration or with unfair consideration nor otherwise damage the Company's interests in any other ways; (2) to constrain expenses relating to the performance of their duties; (3) not to use the Company's assets for investments and consumption activities unrelated to the performance of their duties; (4) that the remuneration system formulated by the Board or the Remuneration and Evaluation Committee is in line with implementation of the remedial measures for the returns by the Company; (5) that the vesting conditions of share incentives to be formulated by the Company will be in line with the implementation of the remedial measures for returns by the Company if the Company were to make such share incentive plans in the future; (6) to perform the remedial measures for returns formulated by the Company as well as any commitment made by them for such remedial measures. The Directors and Senior Management will be liable for indemnifying the Company or the investors for their losses in the event of failure to perform the commitment.	Undertakings dated 27 May 2016, during the course of performance	No	Yes	-	-
	Others	CRRCG	Undertaking to adopt measures of mitigating the potential dilution of return for the current period: on 27 May 2016, CRRCG committed not to intervene in the operation and management activities of the Company or unlawfully infringe upon the Company's interests.	Undertakings dated 27 May 2016, during the course of performance	No	Yes	-	-

## II. Explanation of Integrity of the Company and Its Controlling Shareholders and Actual Controllers During the Reporting Period

During the reporting period, the Company, its controlling shareholders and actual controllers enjoyed a reputation of sound integrity. There was no failure to comply with the effective judgments of the court, outstanding liabilities due with a significant amount or other circumstances.

### III. Share Option Scheme, Employee Stock Ownership Scheme and Other Staff Incentives of the Company and Their Impacts

During the reporting period, the Company has no related share option scheme, employee stock ownership scheme and other staff incentives.

### IV. Significant Contracts and Their Implementation

#### (I) Entrusting, contracting or leasing

During the reporting period, the Company has no related entrusting, contracting or leasing.

#### (II) Guarantees

Unit: '000 Currency: RMB

Guarantees provided by the Company to external parties (excluding guarantees provided by the Company in favour of its subsidiaries)														
Guarantor	Relationship between the guarantor and the listed company	Guaranteed	Guaranteed amount	Date of guarantee (Date of signing agreement)		Commencement date	Maturity date	Guarantee type	Whether the guarantee has been fulfilled	Whether the guarantee is overdue or no	Outstanding amount of guarantee overdue	Counter guarantee	Whether the guarantee is provided to a connected party or not	Connected relationship
				signing	agreement)									
CRRC Corporation Limited, Suzhou CRRC Construction Engineering Co., Ltd. (蘇州中車建設工程有限公司), a wholly-owned subsidiary of the Company, and CRRC China Merchants (Tianjin) Equity Investment Fund Management Co., Ltd.* (中車招銀(天津)股權投資基金管理有限公司), a non wholly-owned subsidiary of the Company	CRRC Corporation Limited, its whollyowned subsidiary and non wholly-owned subsidiary Wuhu Yunda Construction and Operation Limited (蕪湖市運達軌道交通建設運營有限公司)	Wuhu Yunda Rail Transport Construction and Operation Limited (蕪湖市運達軌道交通建設運營有限公司)	4,613,318	27 April 2017	20 June 2017	20 June 2047	Joint and several liability guarantee	No	No	-	No	No	-	
Total guarantee amount provided during the reporting period (excluding guarantees provided by the Company in favour of its subsidiaries)													-	
Total guarantee balance at the end of the reporting period (A) (excluding guarantees provided by the Company in favour of its subsidiaries)													4,613,318	
Guarantees provided by the Company and its subsidiaries in favour of its subsidiaries														
Total guarantee amount provided to the Company's subsidiaries during the reporting period													9,078,294	
Total guarantee balance provided to the Company's subsidiaries at the end of the reporting period (B)													52,823,797	

## SIGNIFICANT EVENTS

	Aggregate guarantee amount provided by the Company (including guarantees provided by the Company in favour of its subsidiaries)
Total guarantee amount (A+B)	57,437,115
Percentage of total guarantee amount to net assets of the Company (%)	42.27
In which:	
Provision of guarantee to shareholders, ultimate controller and their respective connected persons (C)	-
Amount of guarantees directly or indirectly provided in favour of parties with gearing ratio over 70% (D)	22,512,662
The total amount of guarantees provided which exceeds 50% of the net asset (E)	-
Total amount of the three above-stated guarantees (C+D+E)	22,512,662
Explanation on guarantees undue that might be involved in any joint and several liability	/
Explanation on guarantees	

Percentage of total guarantee amount to net assets of the Company=Total guarantee amount/equity attributable to owners of the Company. As at 31 December 2019, total guarantee balance was RMB57.437 billion, representing 42.27% of the Company's net assets. Out of such guarantee balance, RMB21.588 billion and RMB31.236 billion were provided to the Company's wholly-owned subsidiaries and non wholly-owned subsidiaries respectively. Guarantee balance of RMB4.613 billion was provided to Wuhu Yunda Rail Transport Construction and Operation Limited. As far as guarantee type is concerned, RMB3.679 billion was provided for bank acceptance bills, RMB6.289 billion was provided for loans and medium-term notes, and RMB47.469 billion was provided for letters of guarantee, letters of credit and credit facilities, etc.

The Company did not provide any guarantees in favour of its controlling shareholders, ultimate controller and their related parties. As at the end of the reporting period, the Company provided guarantee in favour of its wholly-owned subsidiaries with gearing ratio over 70%. Approval procedures have been complied with at the Board meetings and the general meetings as required by the Articles of Associations.



## (III) Purchase of Entrusted Wealth Management

### 1. Overall status of entrusted wealth management

Unit: '000 Currency: RMB

Type	Capital source	Amounts	Outstanding balance	Amounts overdue but not yet recovered
Corporate wealth management product	Self-owned fund	4,060,500	648,500	–
Other types	Self-owned fund	1,641,827	2,872,384	–

### 2. Individual entrusted wealth management

Unit: '000 Currency: RMB

Trustee	Entrusted Wealth Management Product	Entrusted Wealth Management Amount	Starting Date of Entrusted Wealth Management	Ending Date of Entrusted Wealth Management	Capital source	Usage of funds	Method of Reward Determination	Annualized returns	Estimated returns (if any)	Actual gains or losses	Actual recovery	Whether Any Legal Process Involved	Future entrusted wealth management plan or not	Amount of provision for depreciation (if any)
E Fund Management Co., Limited	Non-principal guaranteed with floating returns	307,587	30 January 2019	No fixed expiry date	Self-owned fund	Fixed income products (bonds, notes, etc.)	Interest accrued daily, redeemed at any time	-	-	7,587	-	Yes	No	-
Harvest Fund Management Co., Ltd.	Non-principal guaranteed with floating returns	51,221	30 January 2019	No fixed expiry date	Self-owned fund	Fixed income products (bonds, notes, etc.)	Interest accrued daily, redeemed at any time	-	-	1,221	-	Yes	No	-
Hua Xia Bank Co., Ltd.	Non-principal guaranteed with floating returns	305,629	18 April 2019	No fixed expiry date	Self-owned fund	Fixed income products (bonds, notes, etc.)	Interest accrued daily, redeemed at any time	-	-	5,629	-	Yes	No	-
Everbright Pramerica Fund Management Co., Ltd.	Non-principal guaranteed with floating returns	100,548	15 October 2019	No fixed expiry date	Self-owned fund	Fixed income products (bonds, notes, etc.)	Interest accrued daily, redeemed at any time	-	-	548	-	Yes	No	-
Ever-bright Bank Zhuzhou Branch	Non-principal guaranteed with low risk	100,000	31 December 2019	2 January 2020	Self-owned fund	Fixed income products (bonds, notes, etc.)	Payment of due interest and principal	3.38%	-	-	-	Yes	No	-
Total	/	864,985	/	/	/	/	/	/	/	14,985	-	Yes	No	/

### **(IV) Other material contracts**

During the reporting period, the Company signed a number of sales contracts. For details, please refer to announcements dated 20 March 2019, 15 July 2019, 8 November 2019 and 31 December 2019 published by the Company on the websites of the SSE and the Stock Exchange.

## **V. Other Significant Events**

### **(I) Particulars of interbank debt financing instruments**

On 18 April 2019, the Company issued 2019 First Tranche of 90-day Super Short-term Financing Bills in a total amount of RMB3 billion, which were due on 18 July 2019. On 23 April 2019, the Company issued 2019 Second Tranche of 180-day Super Short-term Financing Bills in a total amount of RMB3 billion, which were due on 21 October 2019. On 24 April 2019, the Company issued 2019 Third Tranche of 90-day Super Short-term Financing Bills in a total amount of RMB3 billion, which were due on 24 July 2019. On 25 April 2019, the Company issued 2019 Fourth Tranche of 90-day Super Short-term Financing Bills in a total amount of RMB3 billion, which were due on 25 July 2019. The medium-term notes issued by the Company in 2014 (14 CNR MTN002) in a total amount of RMB2 billion expired on 18 March 2019 and was redeemed on schedule. On 26 June 2019, the Company completed the interest payment of priority notes under the asset-backed notes. On 23 July 2019, the Company issued 2019 Fifth Tranche of 61-day Super Short-term Financing Bills in a total amount of RMB3 billion, which were due on 23 September 2019. On 24 July 2019, the Company issued 2019 Sixth Tranche of 120-day Super Short-term Financing Bills in a total amount of RMB3 billion, which were due on 22 November 2019. On 25 July 2019, the Company issued 2019 Seventh Tranche of 90-day Super Short-term Financing Bills in a total amount of RMB1.5 billion, which were due on 24 October 2019. On 25 July 2019, the Company issued 2019 Eighth Tranche of 119-day Super Short-term Financing Bills in a total amount of RMB4.5 billion, which were due on 22 November 2019. On 18 September 2019, the Company issued 2019 Ninth Tranche of 60-day Super Short-term Financing Bills in a total amount of RMB3 billion, which were due on 18 November 2019. On 25 October 2019, the Company issued 2019 Tenth Tranche of 30-day Super Short-term Financing Bills in a total amount of RMB3 billion, which were due on 25 November 2019. On 25 October 2019, the Company issued 2019 Eleventh Tranche of 30-day Super Short-term Financing Bills in a total amount of RMB3 billion, which were due on 25 November 2019. On 18 November 2019, the Company issued 2019 Twelfth Tranche of 30-day Super Short-term Financing Bills in a total amount of RMB3 billion, which were due on 19 December 2019. On 19 November 2019, the Company issued 2019 Thirteenth Tranche of 30-day Super Short-term Financing Bills in a total amount of RMB1.5 billion, which were due on 20 December 2019. On 27 November 2019, the Company issued 2019 Fourteenth Tranche of 30-day Super Short-term Financing Bills in a total amount of RMB4.5 billion, which were due on 27 December 2019. All Super Short-term Financing Bills issued in 2019 were expired and paid. On 26 December 2019, the Company completed the interest payment of priority notes under the asset-backed notes.

On 13 March 2020, the Company issued 2020 First Tranche of 30-day Super Short-term Financing Bills in a total amount of RMB3 billion, which will be due on 13 April 2020.

As approved by the document "CSRC Permit No. [2019] 495" issued by the CSRC, the Company may issue corporate bonds not exceeding RMB20 billion through public offering. The bond is issued in installments. The initial issuance is scheduled to take place on 30 March 2020. The issuance size does not exceed RMB1 billion (including RMB 1 billion).

**(II) Compared with the previous accounting period, the circumstances, reasons and their impacts of changes in accounting policies, accounting estimates and audit method**

The Ministry of Finance issued the revised “Accounting Standards for Business Enterprises No. 21 – Leases” in 2018, which has been adopted by the Company since 1 January 2019. For details, please refer to “Section XIII Financial Report” – “Note III, 30” of this report.

**VI. Information on the Convertible Corporate Bonds**

On 5 February 2016, the Company issued H Share convertible bonds in an aggregate principal amount of US\$600,000,000 (the “**Convertible Bonds**” or “**Bonds**”). The Convertible Bonds will be due on 5 February 2021 with a par value of US\$250,000 each and are issued at 100% of its par value with zero coupon. The initial conversion price of the Convertible Bonds is HK\$9.65 per H Share, and the adjusted conversion price is HK\$9.00 per H Share as at 31 December 2019. Proceeds from the issuance of the Bonds will be used to satisfy the production and international operation needs of the Company, including but not limited to adjusting its debt structure, increasing the capital contribution to its subsidiaries, replenishing working capital and project investments etc., which may be utilised at sole discretion of the Company both inside and outside of the PRC according to actual circumstances. For the actual use of the Convertible Bonds, please refer to “Report of Directors – B. Management Discussion and Analysis – II. Major operation results during the reporting period – (VII) Use of Proceeds” of the report.

On 5 February 2019, as required by the bondholders, the Company redeemed the Convertible Bonds with an aggregate principal amount of US\$240,000,000 pursuant to the terms and conditions of the Convertible Bonds. Upon the completion of abovementioned redemption, the H Share Convertible Bonds of an aggregate principal amount of US\$360,000,000 remained outstanding, representing 60% of the total principal amount of the Bonds originally issued. According to the adjusted conversion price of HK\$9.00 per H share as at 31 December 2019, the maximum number of H Shares that the Company can issue will be 311,608,000 H Shares if the Bonds are fully converted.

For details of the Convertible Bonds, please refer to the relevant announcements dated 26 January 2016, 5 February 2016, 7 March 2016, 27 June 2016, 29 June 2017, 25 August 2017, 12 June 2018, 8 February 2019 and 8 July 2019 published by the Company on the websites of SSE and the Stock Exchange.

## SIGNIFICANT EVENTS

### (I) Dilution effect of the convertible bonds on shares

As at 31 December 2019, the outstanding principal amount of the Convertible Bonds was US\$360,000,000. Based on the adjusted conversion price of HK\$9.00 per H Share, the maximum number of H Shares issuable by the Company upon full conversion of the Convertible Bonds will be 311,608,000 H Shares. The following table sets out the shareholding structure of the Company upon full conversion of the Convertible Bonds with reference to the shareholding structure of the Company as at 31 December 2019 and assuming no further issuance of Shares by the Company:

Name of Shareholders	Number of Shares	Percentage of issued share capital enlarged by the issuance of Conversion Shares
CRRCG and its associates <sup>Note</sup>	14,558,389,450 A Shares	50.18%
Public Shareholders:		
Subscribers of the Bonds	311,608,000 H Shares	1.07%
Other public Shareholders	4,371,066,040 H Shares	15.07%
	9,769,408,598 A Shares	33.68%
<b>Issued share capital enlarged by the issuance of Conversion Shares</b>	<b>29,010,472,088 Shares</b>	<b>100.00%</b>

Note: CRRCG holds 128,871,427 A Shares through CRRC Financial and Securities.

An analysis of the impact on the earnings per share if the Convertible Bonds were fully converted into Shares of the Company as at 31 December 2019 is set out in Note "XIII. Other Significant Events – 4. Basic earnings per share and the calculation of diluted earnings per share" to the financial statements in this annual report.

## (II) Principal terms of convertible bonds

The principal terms of the Convertible Bonds are as follows:

### 1. Conversion right

The holders of the Convertible Bonds may convert the Convertible Bonds to Shares of the Company at the applicable conversion price at any time during the conversion period between 17 March 2016 and 26 January 2021. The bondholders may exercise the conversion right attached to the Convertible Bonds at their option at any time (1) during the conversion period; or (2) no later than 10 days prior to the designated redemption date provided that such bonds are required to be redeemed by the Company prior to the maturity date. No conversion right may be exercised in respect of the Bonds where the bondholder shall have exercised its rights to require the Company to purchase such Bonds under the terms and conditions of the Bonds within the restricted conversion period (both days inclusive).

The initial conversion price of the Convertible Bonds is HK\$9.65 per share which is adjusted to HK\$9.50 per H share since 28 June 2016 as a result of the distribution of 2015 cash dividend, and further adjusted to HK\$9.29 per H share since 30 June 2017 as a result of the distribution of 2016 cash dividend; and further adjusted to HK\$9.15 per H share since 13 June 2018 as a result of the distribution of 2017 cash dividend. The Company distributed a cash dividend of RMB0.15 per share (tax inclusive) to all shareholders pursuant to the 2018 profit distribution plan considered and approved at the general meeting held on 25 June 2019. The conversion price of the Convertible Bonds was adjusted to HK\$9.00 per H share from the 2018 adjusted conversion price of HK\$9.15 per H share pursuant to the terms and conditions of the Bonds with effect from 9 July 2019. The number of shares that may be converted is determined by the principal amount of the Bonds divided by the conversion price of the Bonds at the time of conversion. The fixed exchange rate of US dollar against HK dollar is HK\$7.7902 to US\$1.00.

### 2. Redemption option

#### (1) *Redemption at maturity*

Unless previously redeemed, converted or purchased and cancelled, the Company will redeem all the outstanding Convertible Bonds at 100% of the outstanding principal amount on the maturity date.

#### (2) *Conditional redemption*

Based on specific conditions, the Company may, having given not less than 30 nor more than 60 days' notice of redemption to the trustee, bondholders and principal agents, redeem all the outstanding Convertible Bonds at 100% of their outstanding principal amount as at the relevant redemption date:

- a. at any time after 5 February 2019 and prior to the maturity date, no such redemption may be made unless the closing price of an H share translated into US dollars at the applicable prevailing rate, for any 20 Stock Exchange business days within a period of 30 consecutive business days (the last of such Stock Exchange business day shall occur not more than 10 business days prior to the date upon which notice of such redemption is given), was at least 130% of the then conversion price (translated into US dollars at the fixed exchange rate) for each of such 20 Stock Exchange business days. If there occurs an event giving rise to a change in the conversion price during any of such period of 30 consecutive Stock Exchange business days, appropriate adjustments for the relevant days approved by an independent investment bank shall be made for the purpose of calculating the closing price of the H shares for such days; or
- b. if the aggregate principal of the Convertible Bonds that have not been redeemed or converted is less than 10% of the aggregate principal originally issued prior to the date upon which such notice is given.

#### (3) *Redemption at the option of the bondholders*

The holders of the Convertible Bonds by giving a notice of not less than 30 nor more than 60 days before redemption option date (i.e. 5 February 2019), the issuer will have the right, at the option of the holders of the Convertible Bonds, require the Company to redeem all or some of that holders' Convertible Bonds at 100% of their outstanding principal amount on the redemption option date.

**(III) Accounting for the Convertible Bonds**

The Convertible Bonds are comprised of debt component and derivative component with redemption option, conversion right and put-back option. The movements of the debt component and derivative component of the Convertible Bonds for the period are set out below:

Unit: '000 Currency: RMB

	Debt component	Derivative component	Total
1 January 2019	3,910,829	271,899	4,182,728
Amortization of premiums or discounts	63,068	–	63,068
Exchange gains or losses	3,989	-3,911	78
Redemption during the current period	-1,532,789	-106,302	-1,639,091
Gains or losses on changes in fair value	–	-156,290	-156,290
31 December 2019	2,445,097	5,396	2,450,493

**(IV) Others**

Pursuant to the terms and conditions of the Convertible Bonds, the implied rate of return of the Convertible Bonds is nil.

On 5 February 2019, the holders of H Share Convertible Bonds redeemed the Convertible Bonds with an aggregate principal amount of US\$240,000,000 pursuant to the terms and conditions of the Convertible Bonds. Upon the completion of abovementioned redemption, the H Share Convertible Bonds of an aggregate principal amount of US\$360,000,000 remained outstanding, representing 60% of the total principal amount of the Bonds originally issued. For details, please refer to the announcement dated 8 February 2019 published by the Company on the SSE and the Stock Exchange.

**VII. Fulfillment of Social Responsibility**

For details of the fulfilment of social responsibility by the Group during the reporting period, please see the 2019 Social Responsibility Report of CRRC Corporation Limited disclosed by the Company on the websites of the SSE and the Stock Exchange at the same date.

**VIII. Other Subsequent Significant Events****Profit Distribution of Ordinary Shares**

On 30 March 2020, the Company held the 17th meeting of the second session of the Board, at which the "2019 Proposal for Profit Distribution Plan of CRRC Corporation Limited" was considered and approved, pursuant to which the Company would distribute a cash dividend of RMB0.15 per share (tax inclusive) to all shareholders based on the 28,698,864,088 shares in the total share capital of the Company as at 31 December 2019. The profit distribution plan shall be considered and approved by the 2019 annual general meeting of the Company.

## AUDITOR'S REPORT

De Shi Bao (Shen) Zi (20) No P01025  
(Page 1 of 5)

To the shareholders of CRRC Corporation Limited

### I. OPINION

We have audited the financial statements of CRRC Corporation Limited (hereinafter referred to as "CRRC"), which comprise the consolidated and the Company's balance sheets as at 31 December 2019, and the consolidated and the Company's income statements, the consolidated and the Company's statements of changes in shareholders' equity and the consolidated and the Company's statements of cash flows for the year then ended, and notes to the financial statements.

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

### II. BASIS FOR OPINION

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

### III. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the current period. 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. The followings are key audit matters that we have determined to communicate in the auditor's report.

#### (I) Revenue recognition

##### 1. Description

We identified the cut-off risk arising from the early recognition of revenue from customers other than China State Railway Group Co., Ltd. and its subsidiaries (collectively referred to as "State Railway Group") as a key audit matter due to the management's motivation to early recognize the revenue to meet the performance targets and the significance of such revenue to the consolidated financial statements.

As set out in Note V.53 and Note XIII.2(2)(iii) to the consolidated financial statements, the Group's revenue for the year ended 31 December 2019 amounted to RMB229,010,833,000. Revenue from customers other than State Railway Group was RMB112,705,332,000, representing 49% of the Group's total revenue.



## 2. *How our audit addressed the key audit matter*

Our procedures in respect of the cut-off risk arising from the early recognition of revenue included:

- Testing and evaluating the effectiveness of the key internal controls related to the cut-off of revenue recognition;
- Identifying the contract terms relating to the transfer of controls in sales of goods and evaluating whether the revenue is recognized in accordance with ASBEs by reading the sales contracts and interviewing the management;
- Testing the revenue cut-off by selecting samples from the revenue schedules for a certain period prior to the balance sheet date and tracing to the supporting documents to determine whether the revenue was recognized appropriately in the current year;
- Performing confirmation procedures for accounts receivable with a significant amount of revenue recorded prior to the balance sheet date; and
- Inspecting sales return after the balance sheet date to identify whether there was any inappropriate reversal of the revenue recognized in the current year.

## (II) **Overseas supply of locomotives**

### 1. *Description*

We identified the matter described in note XI. 2 to the consolidated financial statements regarding the supply of locomotives to South African train operator, Transnet, as a key audit matter due to the judgments involved in evaluating the potential impacts of that matter on the Group and the consolidated financial statements.

As explained in note XI. 2, there have been media reports in South Africa of violations of laws related to multiple procurements of locomotives by Transnet.

As also described in note XI. 2, bank balances totalling RMB2.2 billion held in three bank accounts of the Group's subsidiary in South Africa are the subject of freezing orders issued by the South African Reserve Bank relating to alleged contraventions of the Exchange Control Regulations in South Africa in relation to overseas remittances by the Group's subsidiary in South Africa during the period 1 April 2014 to 20 January 2017 in respect to certain locomotive procurements involving Transnet. These bank balances may be subject to forfeiture under the Exchange Control Regulations in South Africa.

The conclusions of management with respect to this matter are set out in note XI. 2.

## 2. *How our audit addressed the key audit matter*

Our procedures in respect of this matter involved evaluating its impact including by:

- Understanding the controls implemented by the Group to identify and evaluate the impact on the consolidated financial statements of potential contingent liabilities or other discloseable events;
- In the context of the Group's controls over financial reporting, obtaining an understanding of the Group's processes for ensuring compliance with the laws and regulations of the various jurisdictions in which it operates, and the design and implementation of controls for evaluating financial statement impacts, including disclosures, for any potential non-compliance identified by the Group's processes;
- Obtaining an understanding of, and undertaking audit procedures to obtain audit evidence to enable us to assess, management's actions and considerations in relation to the potential impact on the Group of this matter and the related disclosures in the consolidated financial statements;
- Designing and performing audit procedures to obtain audit evidence to support our conclusions including reviewing advice and analysis respectively obtained and prepared by the Group; and
- Evaluating the appropriateness of the related disclosures made in note XI. 2 to the consolidated financial statements.

## IV. OTHER INFORMATION

Management of CRRC is responsible for the other information. The other information comprises the information included in the 2019 annual report of CRRC, but does not include the financial statements and our auditor's 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.

## **V. RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS**

Management of CRRC is responsible for the preparation of the financial statements that give a true and fair view in accordance with Accounting Standard 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 CRRC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate CRRC or to cease operations, or has no realistic alternative but to do so.

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

## **VI. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you. 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 scepticism 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.
- (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' 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 CRRC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause CRRC 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 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.

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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Deloitte Touche Tohmatsu CPA LLP**  
Shanghai, China

Chinese Certified Public Accountant  
Chen Xi (Engagement Partner)

Chinese Certified Public Accountant  
Yang Hongmei  
30 March 2020

# THE CONSOLIDATED BALANCE SHEET

31 December 2019

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

RMB'000

ITEM	Note V	31 December 2019	31 December 2018
<b>Current Assets:</b>			
Cash and bank balances	1	44,904,764	38,171,008
Placements with banks and other financial institutions	2	139,524	–
Held-for-trading financial assets	3	9,180,616	7,246,736
Bills receivable	4	14,245,965	15,475,106
Accounts receivable	5	59,712,424	64,205,603
Receivables at fair value through other comprehensive income	6	13,085,613	5,277,641
Prepayments	7	9,909,219	9,198,553
Other receivables	8	2,599,055	3,029,887
Inventories	9	60,833,768	55,121,500
Contract assets	10	16,364,966	14,657,889
Assets classified as held for sale		2,779	6,354
Non-current assets due within one year	11	14,416,293	11,646,729
Other current assets	12	5,820,129	3,475,122
<b>Total Current Assets</b>		<b>251,215,115</b>	<b>227,512,128</b>
<b>Non-current Assets:</b>			
Loans and advances to customers	13	180,588	1,880,911
Debt investments	14	1,658,234	1,622,252
Long-term receivables	15	10,518,918	7,809,013
Long-term equity investments	16	15,570,696	13,765,792
Investment in other equity instruments	17	2,654,602	2,252,423
Other non-current financial assets	18	616,855	598,551
Investment properties	19	1,109,477	1,248,530
Fixed assets	20	59,090,886	57,390,729
Construction in progress	21	7,243,849	8,098,213
Right-of-use assets	22	1,261,467	–
Intangible assets	23	16,014,314	16,650,104
Development expenditures	24	334,394	286,606
Goodwill	25	462,158	713,042
Long-term prepaid expenses		192,460	223,691
Deferred tax assets	26	3,400,751	3,644,579
Other non-current assets	27	12,047,721	13,826,486
<b>Total Non-current Assets</b>		<b>132,357,370</b>	<b>130,010,922</b>
<b>TOTAL ASSETS</b>		<b>383,572,485</b>	<b>357,523,050</b>

# THE CONSOLIDATED BALANCE SHEET

31 December 2019

ITEM	Note V	31 December 2019	31 December 2018
<b>Current Liabilities:</b>			
Short-term borrowings	28	10,530,416	8,634,101
Borrowings from the central bank		222,317	–
Due to customers	29	5,577,269	2,795,282
Placements from banks and other financial institutions		–	14,955
Bills payable	30	27,339,474	21,978,720
Accounts payable	31	106,602,413	99,189,987
Receipts in advance	32	5,827	24,337
Contract liabilities	33	28,167,471	22,335,899
Employee benefits payable	34	2,194,417	2,045,836
Tax payable	35	2,554,947	3,529,455
Other payables	36	9,176,397	9,860,396
Non-current liabilities due within one year	37	3,778,474	11,096,595
Other current liabilities	38	4,015,089	6,155,925
<b>Total Current Liabilities</b>		<b>200,164,511</b>	187,661,488
<b>Non-current Liabilities:</b>			
Long-term borrowings	39	2,589,644	880,011
Bonds payable	40	4,534,817	3,500,000
Lease liabilities	41	960,501	–
Long-term payables	42	85,484	279,178
Long-term employee benefits payable	43	3,686,239	3,599,049
Provisions	44	5,854,124	5,389,261
Deferred income	45	6,551,494	6,193,236
Deferred tax liabilities	26	142,756	158,546
Other non-current liabilities	46	174,433	177,654
<b>Total Non-current Liabilities</b>		<b>24,579,492</b>	20,176,935
<b>TOTAL LIABILITIES</b>		<b>224,744,003</b>	207,838,423
<b>Shareholders' equity:</b>			
Share capital	47	28,698,864	28,698,864
Capital reserve	48	40,747,823	40,628,708
Other comprehensive income	49	(1,084,770)	(866,748)
Special reserve	50	49,957	49,957
Surplus reserve	51	3,815,330	3,279,992
General risk reserve		551,265	551,265
Retained earnings	52	63,115,162	56,115,657
Total equity attributable to shareholders of the Company		135,893,631	128,457,695
Non-controlling interests		22,934,851	21,226,932
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>158,828,482</b>	149,684,627
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>383,572,485</b>	357,523,050

Legal Representative:  
Liu Hualong

Chief Accountant:  
Li Zheng

Person in Charge of the Accounting Department:  
Wang Jian

# THE COMPANY'S BALANCE SHEET

31 December 2019

RMB'000

ITEM	Note XIV	31 December 2019	31 December 2018
<b>Current Assets:</b>			
Cash and bank balances	1	12,375,161	8,472,605
Held-for-trading financial assets		–	61,242
Accounts receivable		225,077	275,828
Other receivables	2	17,081,153	23,195,654
Non-current assets due within one year		505,900	880,192
Total Current Assets		30,187,291	32,885,521
<b>Non-current Assets:</b>			
Long-term receivables		4,481,919	5,701,111
Long-term equity investments	3	103,551,976	100,154,514
Other equity instrument investments		25,000	–
Fixed assets		18,002	25,797
Construction in progress		75,261	40,752
Right-of-use assets		45,940	–
Intangible assets		95,638	109,148
Other non-current assets		374,940	2,430,000
Total Non-current Assets		108,668,676	108,461,322
TOTAL ASSETS		138,855,967	141,346,843
<b>Current Liabilities:</b>			
Short-term borrowings		5,550,110	4,866,730
Accounts payable		226,571	231,686
Contract liabilities		11,180	42,518
Employee benefits payable		61,582	56,964
Tax payable		10,850	10,912
Other payables		26,963,026	23,138,870
Non-current liabilities due within one year		71,729	6,181,896
Other current liabilities		–	3,000,000
Total Current Liabilities		32,895,048	37,529,576

# THE COMPANY'S BALANCE SHEET

31 December 2019

ITEM	Note XIV	31 December 2019	31 December 2018
<b>Non-current Liabilities:</b>			
Bonds payable	V.40	4,534,817	3,500,000
Lease liabilities		33,534	–
Long-term payables		240	241
Long-term employee benefits payable		1,010	2,090
Other non-current liabilities		5,396	–
Total Non-current Liabilities		4,574,997	3,502,331
<b>TOTAL LIABILITIES</b>		<b>37,470,045</b>	41,031,907
<b>Shareholders' Equity:</b>			
Share capital		28,698,864	28,698,864
Capital reserve		62,803,844	62,804,362
Other comprehensive income		(10,037)	(32,989)
Surplus reserve		3,815,330	3,279,992
Retained earning		6,077,921	5,564,707
TOTAL SHAREHOLDERS' EQUITY		101,385,922	100,314,936
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>138,855,967</b>	141,346,843

Legal Representative:  
Liu Hualong

Chief Accountant:  
Li Zheng

Person in Charge of the Accounting Department:  
Wang Jian



# THE CONSOLIDATED INCOME STATEMENT

From January to December 2019

RMB'000

ITEM	Note V	2019	2018
I. Total operating income	53	<b>229,010,833</b>	219,082,641
II. Total operating costs		<b>213,439,699</b>	205,917,450
Including: Operating costs	53	<b>176,149,897</b>	170,526,021
Taxes and levies	54	<b>1,938,170</b>	2,038,395
Selling expenses	55	<b>8,516,415</b>	7,745,841
Administrative expenses	56	<b>14,444,854</b>	13,430,881
Research and development expenses	57	<b>12,017,162</b>	10,896,916
Financial expenses	58	<b>373,201</b>	1,279,396
Including: Interest expenses		<b>1,020,702</b>	1,455,585
Interest income		<b>723,563</b>	591,127
Add: Other income	59	<b>1,274,943</b>	1,125,094
Investment income	60	<b>2,153,377</b>	2,053,926
Including: Gains from investments in associates and joint ventures		<b>347,616</b>	558,314
Loss from derecognition of financial assets measured at amortised cost		<b>(303,182)</b>	(416,186)
Gains from changes in fair value	61	<b>233,737</b>	419,593
Credit impairment losses	62	<b>(3,613,736)</b>	(1,630,275)
Assets impairment losses	63	<b>(1,549,953)</b>	(1,407,475)
Gains on disposal of assets	64	<b>1,753,202</b>	1,008,776
III. Operating profit		<b>15,822,704</b>	14,734,830
Add: Non-operating income	65	<b>978,881</b>	987,581
Less: Non-operating expenses	66	<b>193,260</b>	380,039
IV. Total profit		<b>16,608,325</b>	15,342,372
Less: Income tax expenses	67	<b>2,784,624</b>	2,343,865
V. Net profit		<b>13,823,701</b>	12,998,507
(I) Net profit classified by operating continuity			
1. Net profit from continuing operations		<b>13,823,701</b>	12,998,507
(II) Net profit classified by ownership ascription			
1. Net profit attributable to shareholders of the Company		<b>11,794,929</b>	11,305,044
2. Net profit attributable to non-controlling interests		<b>2,028,772</b>	1,693,463

# THE CONSOLIDATED INCOME STATEMENT

From January to December 2019

ITEM	Note V	2019	2018
VI. Other comprehensive income, net of tax	49	<b>(306,798)</b>	(237,531)
Other comprehensive income attributable to shareholders of the Company, net of tax		<b>(163,558)</b>	(250,398)
(I) Other comprehensive income that will not be reclassified to profit or loss		<b>(225,199)</b>	(395,233)
1. Changes in defined contribution plan due to re-measurement		<b>(115,969)</b>	(73,849)
2. Changes in fair value of investment in other equity instruments		<b>(109,230)</b>	(321,384)
(II) Other comprehensive income that may be reclassified to profit or loss		<b>61,641</b>	144,835
1. Other comprehensive income that may be reclassified to profit or loss under equity method		<b>21,662</b>	(56,699)
2. Changes in fair value of Receivables at fair value through other comprehensive income		<b>(94,468)</b>	45,492
3. Provision for credit impairments of Receivables at fair value through other comprehensive income		<b>3,656</b>	14
4. Translation differences of financial statements denominated in foreign currencies		<b>130,791</b>	156,028
Other comprehensive income attributable to non-controlling interests, net of tax		<b>(143,240)</b>	12,867
VII. Total comprehensive income		<b>13,516,903</b>	12,760,976
Total comprehensive income attributable to shareholders of the Company		<b>11,631,371</b>	11,054,646
Total comprehensive income attributable to minority interests		<b>1,885,532</b>	1,706,330
VIII. Earnings per share			
(I) Basic earnings per share(RMB/per share)		<b>0.41</b>	0.39
(II) Diluted earnings per share(RMB/per share)		<b>0.40</b>	0.39

Legal Representative:  
Liu Hualong

Chief Accountant:  
Li Zheng

Person in Charge of the Accounting Department:  
Wang Jian

# THE COMPANY'S INCOME STATEMENT

From January to December 2019

RMB'000

ITEM	Note XIV	2019	2018
I. Total operating income	4	<b>617,300</b>	567,509
II. Total operating costs		<b>520,930</b>	1,041,581
Including: Operating cost		<b>192,854</b>	167,764
Taxes and levies		<b>3,682</b>	9,513
Selling expenses		<b>21,470</b>	23,479
Administrative expenses		<b>283,125</b>	282,441
Research and development expenses		<b>192,674</b>	163,113
Financial expenses		<b>(172,875)</b>	395,271
Including: Interest expenses		<b>845,657</b>	1,388,213
Interest income		<b>1,049,392</b>	1,200,826
Add: Investment income	5	<b>5,105,629</b>	4,700,525
Including: Gains from investments in associates and joint ventures		<b>106,018</b>	125,766
Gains from changes in fair value		<b>155,048</b>	355,348
Credit impairment losses		<b>(7,908)</b>	(1,734)
III. Operating profit		<b>5,349,139</b>	4,580,067
Add: Non-operating income		<b>6,243</b>	4,229
Less: Non-operating expenses		<b>2,000</b>	1
IV. Total profit		<b>5,353,382</b>	4,584,295
Less: Income tax expenses		<b>–</b>	–
V. Net profit		<b>5,353,382</b>	4,584,295
(I) Net profit classified by operating continuity			
1. Net profit from continuing operations		<b>5,353,382</b>	4,584,295
VI. Other comprehensive income, net of tax		<b>22,952</b>	(53,328)
(I) Other comprehensive income that will not be reclassified to profit or loss		<b>1,290</b>	3,371
1. Changes in defined contribution plan due to re-measurement		<b>1,290</b>	3,371
(II) Other comprehensive income that may be reclassified to profit or loss		<b>21,662</b>	(56,699)
1. Other comprehensive income that can be reclassified to profit or loss under equity method		<b>21,662</b>	(56,699)
VII. Total comprehensive income		<b>5,376,334</b>	4,530,967

Legal Representative:  
Liu Hualong

Chief Accountant:  
Li Zheng

Person in Charge of the Accounting Department:  
Wang Jian

# THE CONSOLIDATED CASH FLOW STATEMENT

From January to December 2019

RMB'000

ITEM	Note V	2019	2018
<b>I. Cash Flows from Operating Activities:</b>			
Cash receipts from the sale of goods and the rendering of services		<b>252,542,468</b>	257,818,110
Net increase in due to customers		<b>2,781,987</b>	–
Receipts of tax refunds		<b>1,388,569</b>	1,294,261
Other cash receipts relating to operating activities	V. 68	<b>3,447,164</b>	3,461,593
Sub-total of cash inflows from operating activities		<b>260,160,188</b>	262,573,964
Cash payments for goods purchased and services received		<b>173,870,259</b>	182,025,019
Net decrease in due to customers		–	674,705
Cash payments to and on behalf of employees		<b>32,190,753</b>	29,628,066
Payments of various types of taxes		<b>14,624,108</b>	13,957,337
Other cash payments relating to operating activities	V. 68	<b>16,944,532</b>	17,419,493
Sub-total of cash outflows from operating activities		<b>237,629,652</b>	243,704,620
Net Cash Flow from Operating Activities	V. 69	<b>22,530,536</b>	18,869,344
<b>II. Cash Flows from Investing Activities:</b>			
Cash receipts from disposals and recovery of investments		<b>69,239,448</b>	56,520,852
Cash receipts from investment income		<b>628,440</b>	531,474
Cash receipts from disposals of fixed assets, intangible assets and other long-term assets		<b>2,675,535</b>	1,335,456
Net cash receipts from disposals of subsidiaries and other business units	VI. 1	<b>588,830</b>	630,430
Other cash receipts relating to investing activities		–	299,793
Sub-total of cash inflows from investing activities		<b>73,132,253</b>	59,318,005
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		<b>8,064,827</b>	9,041,777
Cash payments to acquire investments		<b>69,627,844</b>	54,320,829
Net cash payments to acquire subsidiaries not under common control		–	222,045
Cash payments for disposal of subsidiaries	VI. 1	<b>8,450</b>	66,678
Sub-total of cash outflows from investing activities		<b>77,701,121</b>	63,651,329
Net Cash Flow used in Investing Activities		<b>(4,568,868)</b>	(4,333,324)

# THE CONSOLIDATED CASH FLOW STATEMENT

From January to December 2019

ITEM	Note V	2019	2018
<b>III. Cash Flows from Financing Activities:</b>			
Cash receipts from capital contributions		895,110	145,719
Including: Cash receipts from capital contributions by non-controlling interests of subsidiaries		895,110	138,948
Cash receipts from borrowings		142,162,080	13,868,678
Cash receipts from bonds issuing		43,000,000	12,000,000
Other cash receipts relating to financing activities		–	19,188
Sub-total of cash inflows from financing activities		186,057,190	26,033,585
Cash repayments of borrowings		192,283,239	51,031,342
Cash payments for distribution of dividends or profits or settlement of interest expenses		6,044,864	6,758,429
Including: Payments for distribution of dividends or profits to non-controlling interests of subsidiaries		743,941	911,731
Other cash payments relating to financing activities		422,224	207,879
Sub-total of cash outflows from financing activities		198,750,327	57,997,650
Net Cash Flow used in Financing Activities		(12,693,137)	(31,964,065)
<b>IV. Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents</b>		260,961	12,596
<b>V. Net Increase (Decrease) in Cash and Cash Equivalents</b>	V. 69	5,529,492	(17,415,449)
Add: Opening Balance of Cash and Cash Equivalents	V. 69	30,290,094	47,705,543
<b>VI. Closing Balance of Cash and Cash Equivalents</b>	V. 69	35,819,586	30,290,094

Legal Representative:  
Liu Hualong

Chief Accountant:  
Li Zheng

Person in Charge of the Accounting  
Wang Jian

# THE COMPANY'S CASH FLOW STATEMENT

From January to December 2019

RMB'000

ITEM	Note XIV	2019	2018
<b>I. Cash Flows from Operating Activities:</b>			
Cash receipts from the sale of goods and the rendering of services		659,395	375,456
Receipts of tax refunds		22,020	37,940
Other cash receipts relating to operating activities		10,663,917	6,548,842
Sub-total of cash inflows from operating activities		11,345,332	6,962,238
Cash payments for goods purchased and services received		239,066	99,666
Cash payments to and on behalf of employees		163,059	168,240
Payments of various types of taxes		25,926	10,134
Other cash payments relating to operating activities		11,490,864	6,416,575
Sub-total of cash outflows from operating activities		11,918,915	6,694,615
Net Cash Flow (used in) from Operating Activities	6	(573,583)	267,623
<b>II. Cash Flows from Investing Activities:</b>			
Cash receipts from disposals and recovery of investments		83,600,904	66,528,388
Cash receipts from investment income		4,901,391	6,503,959
Net cash receipts from disposals of subsidiaries and other business units		–	9,602,077
Other cash receipts relating to investing activities		450,967	–
Sub-total of cash inflows from investing activities		88,953,262	82,634,424
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		42,700	41,200
Cash payments to acquire investments		77,407,318	69,570,936
Other cash payments relating to financing activities		121,264	–
Sub-total of cash outflows from investing activities		77,571,282	69,612,136
Net Cash Flow used in Investing Activities		11,381,980	13,022,288
<b>III. Cash Flows from Financing Activities:</b>			
Cash receipts from borrowings		168,856,364	92,256,730
Cash receipts from bonds issuing		42,000,000	12,000,000
Other cash receipts relating to financing activities		132,065,324	40,639,860
Sub-total of cash inflows from financing activities		342,921,688	144,896,590
Cash repayments of borrowings		218,208,445	123,031,946
Cash payments for distribution of dividends or profits or settlement of interest expenses		5,233,598	5,558,606
Other cash payments relating to financing activities		126,382,803	39,832,623
Sub-total of cash outflows from financing activities		349,824,846	168,423,175
Net Cash Flow used in Financing Activities		(6,903,158)	(23,526,585)
<b>IV. Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents</b>			
		(5,736)	(22,681)
<b>V. Net Increase (Decrease) in Cash and Cash Equivalents</b>			
Add: Opening Balance of Cash and Cash Equivalents	6	3,899,503	(10,259,355)
	6	7,470,296	17,729,651
<b>VI. Closing Balance of Cash and Cash Equivalents</b>			
	6	11,369,799	7,470,296

Legal Representative:  
Liu Hualong

Chief Accountant:  
Li Zheng

Person in Charge of the Accounting  
Wang Jian

# THE CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

From January to December 2019

RMB'000

ITEM	For the year ended 31 December 2019										
	Equity attributable to shareholders of the Company								Sub-Total	Non-controlling interests	Total shareholders' equity
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Retained earnings				
I. Balance at 31 December 2018	28,698,864	40,628,708	(866,748)	49,957	3,279,992	551,265	56,115,657	128,457,695	21,226,932	149,684,627	
II. Balance at 1 January 2019	28,698,864	40,628,708	(866,748)	49,957	3,279,992	551,265	56,115,657	128,457,695	21,226,932	149,684,627	
III. Changes for the year	-	119,115	(218,022)	-	535,338	-	6,999,505	7,435,936	1,707,919	9,143,855	
(I) Total comprehensive income	-	-	(163,558)	-	-	-	11,794,929	11,631,371	1,885,532	13,516,903	
(II) Shareholders' contributions and reduction in capital	-	119,115	-	-	-	-	(9,720)	109,395	573,052	682,447	
1. Capital contribution from shareholders	-	(58,103)	-	-	-	-	-	(58,103)	934,584	876,481	
2. Acquisition of non-controlling interests	-	(19,698)	-	-	-	-	(9,720)	(29,418)	(356,596)	(386,014)	
3. Others	-	196,916	-	-	-	-	-	196,916	(4,936)	191,980	
(III) Profit distribution	-	-	-	-	535,338	-	(4,840,168)	(4,304,830)	(750,665)	(5,055,495)	
1. Transfer to surplus reserve	-	-	-	-	535,338	-	(535,338)	-	-	-	
2. Distributions to owners (shareholders)	-	-	-	-	-	-	(4,304,830)	(4,304,830)	(750,665)	(5,055,495)	
(IV) Transfers within shareholders' equity	-	-	(54,464)	-	-	-	54,464	-	-	-	
1. Other comprehensive income carried forward to retained earnings	-	-	(54,464)	-	-	-	54,464	-	-	-	
(V) Special reserve	-	-	-	-	-	-	-	-	-	-	
1. Appropriation of special reserves	-	-	-	617,809	-	-	-	617,809	87,605	705,414	
2. Amount utilized in the year	-	-	-	(617,809)	-	-	-	(617,809)	(87,605)	(705,414)	
IV. Balance at 31 December 2019	28,698,864	40,747,823	(1,084,770)	49,957	3,815,330	551,265	63,115,162	135,893,631	22,934,851	158,828,482	

# THE CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

From January to December 2019

ITEM	For the year ended 31 December 2018									
	Equity attributable to shareholders of the Company								Non-controlling interests	Total shareholders' equity
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Retained earnings	Sub-Total		
I. Balance at 1 January 2018	28,698,864	40,687,666	(593,148)	49,957	2,821,562	551,265	49,555,490	121,771,656	20,512,189	142,283,845
II. Changes for the year	-	(58,958)	(273,600)	-	458,430	-	6,560,167	6,686,039	714,743	7,400,782
(I) Total comprehensive income	-	-	(250,398)	-	-	-	11,305,044	11,054,646	1,706,330	12,760,976
(II) Shareholders' contributions and reduction in capital	-	(58,958)	-	-	-	-	(4,819)	(63,777)	91,463	27,686
1. Capital contribution from shareholders	-	6,771	-	-	-	-	-	6,771	138,948	145,719
2. Consideration of business combinations involving enterprises under common control	-	(22,761)	-	-	-	-	-	(22,761)	-	(22,761)
3. Acquisition of non-controlling interests	-	(59,521)	-	-	-	-	(4,819)	(64,340)	(110,810)	(175,150)
4. Acquisition of subsidiaries	-	-	-	-	-	-	-	-	141,480	141,480
5. Disposal of non-controlling interests	-	-	-	-	-	-	-	-	19,189	19,189
6. Disposal of subsidiaries	-	-	-	-	-	-	-	-	(90,073)	(90,073)
7. Others	-	16,553	-	-	-	-	-	16,553	(7,271)	9,282
(III) Profit distribution	-	-	-	-	458,430	-	(4,763,260)	(4,304,830)	(1,083,050)	(5,387,880)
1. Transfer to surplus reserve	-	-	-	-	458,430	-	(458,430)	-	-	-
2. Distributions to shareholders	-	-	-	-	-	-	(4,304,830)	(4,304,830)	(1,083,050)	(5,387,880)
(IV) Transfers within shareholders' equity	-	-	(23,202)	-	-	-	23,202	-	-	-
1. Other comprehensive income carried forward to retained earnings	-	-	(23,202)	-	-	-	23,202	-	-	-
(V) Special reserve	-	-	-	-	-	-	-	-	-	-
1. Appropriation of special reserves	-	-	-	577,432	-	-	-	577,432	30,516	607,948
2. Amount utilized in the period	-	-	-	(577,432)	-	-	-	(577,432)	(30,516)	(607,948)
III. Balance at 31 December 2018	28,698,864	40,628,708	(866,748)	49,957	3,279,992	551,265	56,115,657	128,457,695	21,226,932	149,684,627



# THE COMPANY'S STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2019

RMB'000

ITEM	For the year ended 31 December 2019					
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained earnings	Total shareholders' equity
I. Balance at 31 December 2018	28,698,864	62,804,362	(32,989)	3,279,992	5,564,707	100,314,936
II. Balance at 1 January 2019	28,698,864	62,804,362	(32,989)	3,279,992	5,564,707	100,314,936
III. Changes for the year	-	(518)	22,952	535,338	513,214	1,070,986
(I) Total comprehensive income	-	-	22,952	-	5,353,382	5,376,334
(II) Shareholders' contributions and reduction in capital	-	(518)	-	-	-	(518)
1. Other equity changes of associates	-	(518)	-	-	-	(518)
(III) Profit distribution	-	-	-	535,338	(4,840,168)	(4,304,830)
1. Transfer to surplus reserve	-	-	-	535,338	(535,338)	-
2. Distribution to shareholders	-	-	-	-	(4,304,830)	(4,304,830)
IV. Balance at 31 December 2019	28,698,864	62,803,844	(10,037)	3,815,330	6,077,921	101,385,922

ITEM	For the year ended 31 December 2018					
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained earnings	Total shareholders' equity
I. Balance at 1 January 2018	28,698,864	62,801,939	20,339	2,821,562	5,743,672	100,086,376
II. Changes for the year	-	2,423	(53,328)	458,430	(178,965)	228,560
(I) Total comprehensive income	-	-	(53,328)	-	4,584,295	4,530,967
(II) Shareholders' contributions and reduction in capital	-	2,423	-	-	-	2,423
1. Other equity changes of associates	-	2,423	-	-	-	2,423
(III) Profit distribution	-	-	-	458,430	(4,763,260)	(4,304,830)
1. Transfer to surplus reserve	-	-	-	458,430	(458,430)	-
2. Distribution to shareholders	-	-	-	-	(4,304,830)	(4,304,830)
III. Balance at 31 December 2018	28,698,864	62,804,362	(32,989)	3,279,992	5,564,707	100,314,936

Legal Representative:  
Liu Hualong

Chief Accountant:  
Li Zheng

Person in Charge of the Accounting  
Wang Jian

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## I. BASIC INFORMATION ABOUT THE COMPANY

### 1. GENERAL INFORMATION

CSR Corporation Limited ("CSR") was incorporated in the People's Republic of China ("the PRC") on 28 December 2007 as a joint stock company with limited liability under the Company Law of the PRC. CSR's A shares were listed on the Shanghai Stock Exchange (the "SSE") on 18 August 2008 and CSR's foreign shares listed abroad ("H shares") were listed on the main board of The Stock Exchange of Hong Kong Limited ("HKEX") on 21 August 2008. CSR issued A-share ordinary shares on a non-public basis in 2012, and the ordinary shares increased to 13,803,000,000 shares after the non-public issuing.

China CNR Corporation Limited ("CNR") was incorporated in the PRC on 26 June 2008 as a joint stock company with limited liability under the Company Law of the PRC. CNR made an initial public offering of A shares which were listed on the SSE on 29 December 2009. H shares of CNR were listed on the Main Board of the HKSE on 22 May 2014. As at 31 December 2014, CNR has issued total shares of 12,259,780,303.

CSR and CNR published a joint announcement on 30 December 2014, announcing that the two companies entered into a merger agreement with respect to a merger proposal. CSR and CNR would merge by CSR issuing, on the basis of a single exchange ratio, CSR A shares and CSR H shares to holders of CNR A shares and CNR H shares respectively in exchange for all of the issued shares of CNR. The exchange proportion was 1:1.10, meaning that each CNR A share should be exchanged for 1.10 CSR A shares to be issued by CSR and that each CNR H share should be exchanged for 1.10 CSR H shares to be issued by CSR. As all of the conditions of the above agreement as specified in the merger agreement had been satisfied, the merger agreement became effective on 28 May 2015. CSR issued 2,347,066,040 H shares and 11,138,692,293 A shares on 26 May 2015 and 28 May 2015 respectively. CNR A shares were deregistered from the SSE and CNR H shares were deregistered from the Main Board of HKSE. After the completion of the merger, CSR assumed all the assets, liabilities and business of CNR and CNR was deregistered according to law. On 1 June 2015, the name of CSR was changed from "CSR Corporation Limited" to "CRRC Corporation Limited" ("CRRC" or the "Company").

On 5 August 2015, the respective holding companies of the Company, namely CSR Group and China Northern Locomotive & Rolling Stock Industry (Group) Corporation ("CNR Group") concluded the Merger Agreement by which CNR Group merged CSR Group with the latter deregistered and then was renamed to CRRC Group ("CRRCG", later renamed to CRRC Corporation Limited). All assets, liabilities, business, employees, contracts, qualifications and other rights and obligations of CSR Group shall be inherited by CRRCG after the merger.

As proposed and approved in the Company's 2015 annual general meeting of shareholders as well as approved by the China Securities Regulatory Commission ("CSRC") on *Reply on the Approval of Non-public Issuance of Stocks by CRRC Corporation Limited* (Zheng Jian Xu Ke [2016] No. 3203), the Company completed the non-public offering of 1,410,105,755 A shares with par value RMB1.00 each to specific investors in January 2017. The number of share capital has increased to 28,698,864,088, and CRRCG remains the controlling shareholder of CRRC.

The address of the Company's registered office is No.16 Central West Fourth Ring Road, Haidian District, Beijing, the PRC.

The Company and its subsidiaries (collectively the "Group") are principally engaged in the research and development, design, manufacture, refurbishment and service of locomotives (including multiple units), metro cars, engineering machinery, mechanical and electric equipment, electronic equipment, environmental protection equipment and related components products, as well as sales, technical services and equipment leasing of related products; imports and exports; industrial investment of the above businesses; assets management; information consultation, etc.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## I. BASIC INFORMATION ABOUT THE COMPANY (continued)

### 2. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

No.	Company name	Principal place of business	Place of Registration	Kind of legal entity	Legal representative	Business scope/ Nature of business	Unified social credit code	Paid-in capital (RMB'000)	Shareholding proportion (%)	Voting proportion (%)
1	CRRC Changchun Railway Vehicles Co. Ltd.	China	Changchun	Limited liability company	Wang Run	Manufacturing	91220000735902224D	5,807,947	93.54	93.54
2	CRRC Zhuzhou Institute Co., Ltd. ("CRRC Zhuzhou Institute")	China	Zhuzhou	Limited liability company	Li Donglin	Manufacturing	9143020044517525X1	8,340,710	100.00	100.00
3	CRRC Zhuzhou Locomotive Co., Ltd. ("CRRC Zhuzhou Locomotive")	China	Zhuzhou	Limited liability company	Zhou Qinghe	Manufacturing	914302007790310965	4,868,336	100.00	100.00
4	CRRC Qingdao Sifang Co., Ltd. ("CRRC Qingdao Sifang")	China	Qingdao	Limited liability company	Tian Xuehua	Manufacturing	91370200740365750X	4,071,272	97.81	97.81
5	CRRC Tangshan Co., Ltd. ("CRRC Tangshan")	China	Tangshan	Limited liability company	Hou Zhigang	Manufacturing	911302216636887669	3,990,000	100.00	100.00
6	CRRC Dalian Co., Ltd. ("CRRC Dalian")	China	Dalian	Limited liability company	Lin Cunzeng	Manufacturing	91210200241283929E	4,180,000	100.00	100.00
7	CRRC Qiqihar Group Co., Ltd. ("CRRC Qiqihar Group")	China	Qiqihar	Limited liability company	Gu Chunyang	Manufacturing	91230200057435769W	7,000,000	100.00	100.00
8	CRRC Yangtze River Transportation Equipment Group Co., Ltd. ("CRRC Yangtze River Group")	China	Wuhan	Limited liability company	Hu Haiping	Manufacturing	91420115MA4KYAEH3B	5,661,409	100.00	100.00
9	CRRC Investment & Leasing Co., Ltd. ("CRRC Investment & Leasing")	China	Beijing	Limited liability company	Yang Ruixin	Trading and financing/lease	911100007109247853	2,909,285	100.00	100.00
10	CRRC Qishuyan Co., Ltd. ("CRRC Qishuyan")	China	Changzhou	Limited liability company	Yao Guosheng	Manufacturing	9132040066638182170	2,255,243	100.00	100.00
11	CRRC Qishuyan Institute Co., Ltd. ("CRRC Qishuyan Institute")	China	Changzhou	Limited liability company	Wang Hongnian	Manufacturing	91320400137168058A	2,060,000	100.00	100.00
12	CRRC Capital Management Co., Ltd. ("CRRC Capital Management")	China	Beijing	Limited liability company	Lu Jianzhou	Finance	91110108MA00314Q4L	2,500,000	100.00	100.00
13	CRRC Nanjing Puzhen Co., Ltd. ("CRRC Nanjing Puzhen")	China	Nanjing	Limited liability company	Li Dingnan	Manufacturing	913201916663764650N	2,167,910	100.00	100.00
14	CRRC Hong Kong Capital Management Co., Ltd. ("CRRC Hong Kong Capital Management")	China	Hongkong	Limited liability company	Li Jin	Investment and capital operation	N/A	2,451,069	100.00	100.00

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## I. BASIC INFORMATION ABOUT THE COMPANY (continued)

### 2. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

No.	Company name	Principal place of business	Place of Registration	Kind of legal entity	Legal representative	Business scope/ Nature of business	Unified social credit code	Paid-in capital (RMB'000)	Shareholding proportion (%)	Voting proportion (%)
15	CRRC Construction Engineering Co., Ltd. ("CRRC Construction Engineering")	China	Beijing	Limited liability company	Wang Hongwei	Housing industry	91110106590663663T	1,500,000	100.00	100.00
16	CRRC Yongji Moto Co., Ltd. ("CRRC Yongji Moto")	China	Yongji	Limited liability company	Nan Qinlong	Manufacturing	91140881664458751J	1,290,000	100.00	100.00
17	CRRC Sifang Institute Co., Ltd. ("CRRC Sifang Institute")	China	Qingdao	Limited liability company	Kong Jun	Manufacturing	91370200264582788W	1,690,000	100.00	100.00
18	CRRC Finance Co., Ltd. ("CRRC Finance")	China	Beijing	Limited liability company	Dong Xuzhang	Finance	911100000573064301	2,200,000	91.36	91.36
19	CRRC Zhuzhou Moto Co., Ltd. ("CRRC Zhuzhou Moto")	China	Zhuzhou	Limited liability company	Zhou Junjun	Manufacturing	9143020076071871X7	1,342,200	100.00	100.00
20	CRRC Ziyang Co., Ltd. ("CRRC Ziyang")	China	Ziyang	Limited liability company	Xiang Jun	Manufacturing	91512000786693055N	1,426,533	99.61	99.61
21	CRRC Beijing Nankou Co., Ltd. ("CRRC Beijing Nankou")	China	Beijing	Limited liability company	Sun Kai	Manufacturing	91110000664625580F	805,000	100.00	100.00
22	CRRC Datong Electric Locomotive Co., Ltd. ("CRRC Datong")	China	Datong	Limited liability company	Huang Qichao	Manufacturing	91140200602161186E	656,000	100.00	100.00
23	CRRC Hong Kong Co., Ltd. ("CRRC Hong Kong")	China	Hong Kong	Limited liability company	Li Jin	Trading	N/A	1,350,000 (HK\$'000)	100.00	100.00
24	CRRC Dalian R&D Co., Ltd. ("CRRC Dalian R&D")	China	Dalian	Limited liability company	Guo Jianbin	Manufacturing	91210212079459729R	388,000	100.00	100.00
25	CRRC Dalian Institute Co., Ltd. ("CRRC Dalian Institute")	China	Dalian	Limited liability company	Jiang Dong	Manufacturing	91210200243024402A	350,000	100.00	100.00
26	CRRC Sifang Co., Ltd. ("CRRC Sifang")	China	Qingdao	Limited liability company	Lan Yuzhen	Manufacturing	9137020016357624X1	343,095	100.00	100.00
27	CRRC Logistics Co., Ltd. ("CRRC Logistics")	China	Beijing	Limited liability company	Du Pengyuan	Logistics trade	91110108737682982M	760,000	100.00	100.00
28	CRRC Industrial Institute Co., Ltd. ("CRRC Industrial Institute")	China	Beijing	Limited liability company	Gong Ming	Research and development	911101063066897448	200,000	100.00	100.00
29	CRRC International Co., Ltd. ("CRRC International")	China	Beijing	Limited liability company	Luo Chongfu	Trading	911101067109217367	700,000	100.00	100.00
30	Beijing CNR CR Transportation Equipment Co., Ltd. ("Beijing CNR CR Transportation Equipment")	China	Beijing	Limited liability company	Zhang Yan	Manufacturing	91110106684367734P	20,000	51.00	51.00

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## I. BASIC INFORMATION ABOUT THE COMPANY (continued)

### 2. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

No.	Company name	Principal place of business	Place of Registration	Kind of legal entity	Legal representative	Business scope/ Nature of business	Unified social credit code	Paid-in capital (RMB'000)	Shareholding proportion (%)	Voting proportion (%)
31	CRRC Information Technology Co., Ltd. ("CRRC Information Technology")	China	Beijing	Limited liability company	Tang Xiankang	Software development	91110108700035941C	50,000	100.00	100.00
32	CRRC SA (PTY) LTD	South Africa	South Africa	Limited liability company	Han Xiaobo	Manufacturing	N/A	1 (ZAR'000)	66.00	66.00
33	CRRC Financial Leasing CO., LTD. ("CRRC Financial Leasing") (Note 1)	China	Tianjin	Limited liability company	Xu Weifeng	Financial Services	91120118MA06J91H6K	3,000,000	81.00	81.00
34	Zhuzhou CRRC Times Electric CO., LTD. Times Electric (Note 2)	China	Zhuzhou	Limited company	Li Donglin	Manufacturing	914300007808508659	1,175,477	53.19	53.19
35	Zhuzhou Times New Material Technology CO., LTD. Times New Material (Note 3)	China	Zhuzhou	Limited company	Yang Shouyi	Manufacturing	91430200712106524U	802,798	39.55	51.02

Note 1: CRRC Financial Leasing is a newly established subsidiary of the Company in the current year.

Note 2: ZTE is a subsidiary of CRRC of Zhuzhou Institute. In 2018, CRRC Hong Kong Capital Management, a subsidiary of the Company, purchased 4,066,800 shares of Times Electric in the open market. As of December 31, 2018, the Group's shareholding in Times Electric was 52.38%. In 2019, CRRC Hong Kong Capital Management purchased 9,526,400 shares of Times Electric in the open market. As of December 31, 2019, the Group's shareholding in Times Electric was 53.19%.

Note 3: ZTNM is a subsidiary of CRRC of Zhuzhou Institute. The equity interests of Times New Material held by the Group was 39.55%. Since the Company's parent company, CRRCG held 11.47% equity interest of Times New Material and has authorized the Group to exercise its proposal rights and voting rights in the general meetings of shareholders of Times New Material, the voting rights of Times New Material held by the Group became 51.02%.

Note 4: The directors of the Company believe that the subsidiaries presented in the above table have effects on the results of operation assets and liabilities of the Group, and this table would be too long if listed with the details of subsidiaries.

Note 5: For the details of bonds issued by the subsidiaries of the Company in 2019, refer to Note V, 38.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

### 1. Basis of preparation

The Group has adopted the Accounting Standards for Business Enterprises and relative regulations ("ASBE") issued by the Ministry of Finance (the "MOF").

According to *Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong* issued by the Hong Kong Stock Exchange in December 2010 and other relevant Security Listing Rules (revised) issued by the Hong Kong Stock Exchange (Hong Kong Listing Rules), as well as relevant provisions issued by the MoF and the China Securities Regulatory Commission ("CSRC"), and approved by the 10th meeting of the second board of directors of the Company and the General Meeting of the Company, from the current fiscal year, the Company no longer provides the financial statements prepared in accordance with the ASBE and the International Financial Reporting Standards (the "IFRS") separately to stockholders of A shares and H shares. Instead, the Company provides the financial statements prepared in accordance with the ASBE to all stockholders, taking the relevant disclosure standards of Hong Kong Companies Ordinance and Hong Kong Listing Rules into consideration.

The financial data for the year ended 31 December 2018, which is used for comparison, is prepared based on ASBE.

In addition, the Group also discloses relevant financial information in accordance with *Preparation Rules for Information Disclosure by Companies Offering Securities to the Public No. 15 – General Provisions on Financial Reports (2014 Revision)*.

### 2. Going concern

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

### 1. Statement of compliance with the ASBE

These financial statements have been prepared in accordance with ASBE, and present truly and completely, the consolidated and the Company's financial position as at 31 December 2019, and the consolidated and the Company's operating results and cash flows for the year then ended.

### 2. Accounting period

The Group has adopted the calendar year as its accounting year, i.e. from 1 January to 31 December.

### 3. Business cycle

Business cycle refers to the period since purchasing assets for production till the realization of cash or cash equivalents. The Company's business cycle is 12 months in general.

### 4. Reporting currency

The functional currency of the Company is RMB and RMB is adopted to prepare the financial statements. Except for particular explanations, all items are presented in RMB'000. The functional currency of the Company's subsidiaries, joint ventures and associates is selected based on economic environment where they operate.

### 5. 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. 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 disclosure in the financial statements are determined according to the above basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 5. Basis of accounting and principle of measurement *(continued)*

Fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety:

- 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;
- Level 3 inputs are unobservable inputs for the asset or liability.

### 6. The accounting treatment of business combinations involving enterprises under common control and business combinations not involving enterprises under common control

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 enterprises under common control and business combinations not involving enterprises under common control.

#### *(1) Business combinations involving enterprises under common control*

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

Assets and liabilities obtained shall be measured at their respective carrying amounts as recorded by the combining entities at the date of the combination. 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 par value of the shares issued as consideration) is adjusted to share premium under capital reserve. If the capital reserve is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Costs that are directly attributable to the combination are charged to profit or loss in the period in which they are incurred.



## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 6. The accounting treatment of business combinations involving enterprises under common control and business combinations not involving enterprises under common control *(continued)*

#### *(2) Business combinations not involving enterprises under common control and goodwill*

A business combination not involving enterprises under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties before and after the combination.

The cost of combination is the aggregate of fair values of the assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer in exchange for control of the acquiree. The intermediary expenses incurred by the acquirer in respect of auditing, legal services, valuation and consultancy services, etc. and other associated administrative expenses attributable to the business combination are recognised in profit or loss when they are incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities acquired by the acquirer in a business combination not involving enterprises under common control shall be measured at fair value at the date of acquisition.

Where the cost of combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is treated as an asset and recognized as goodwill, which is measured at cost on initial recognition. Where the cost of combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer firstly reassesses the measurement of the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities and measurement of the cost of combination. If after that reassessment, the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer recognizes the remaining difference immediately in profit or loss for the current period.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 7. Preparation of consolidated financial statements

The scope of consolidation in the consolidated financial statements is determined on the basis of control. Control is the power over the investee, exposures 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. A subsidiary is an enterprise or entity that is controlled by the Company. The financial positions, operating results, and cash flow of subsidiaries are included in consolidated financial statement from the date on which the control starts to termination date of control.

No matter when the business combination occurs in the reporting period, subsidiaries acquired through a business combination involving enterprises under common control are included in the Group's scope of consolidation as if they had been included in the scope of consolidation from the date when they first came under the common control of the ultimate controlling party. Their operating results and cash flows from the beginning of the earliest reporting period are included in the consolidated income statement and consolidated statement of cash flows, as appropriate.

For a subsidiary acquired through a business combination not involving enterprises under common control, the acquired subsidiaries are included in the Company's scope of consolidation on the basis of fair value of identifiable assets and liabilities recognized on the date of acquisition.

The significant accounting policies and accounting periods adopted by the subsidiaries are determined based on the uniform accounting policies and accounting periods set out by the Company.

Influence over the consolidated financial statements arising from significant intra-group transactions are eliminated on consolidation.

The portion of subsidiaries' equity, profits or losses and comprehensive income that is attribute to their non-controlling shareholders is separately presented under "shareholders' equity" in the consolidated balance sheet, and "net profit" and "total comprehensive income" in the consolidated income statement.

When the amount of loss for the period attributable to the non-controlling shareholders of a subsidiary exceeds the non-controlling shareholders' portion of the opening balance of shareholders' equity of the subsidiary, the excess amount are still allocated against non-controlling interests.

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

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 recognized as investment income in the period in which control is lost, with goodwill offset simultaneously. Other comprehensive income associated with investment in the former subsidiary is reclassified to investment income in the period in which control is lost.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 8. Classification of joint arrangements and accounting methods for joint management

A joint arrangement is classified into joint operation and joint venture, depending on the rights and obligations of the parties to the arrangement, which is assessed by considering the structure and the legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances. 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. A joint venture is a joint venture arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement.

The Group's joint arrangements are joint ventures, which are accounted for using the equity method. Refer to Note III, 14 for details.

### 9. Recognition criteria of cash and cash equivalents

Cash equivalents are the Group's short-term (it generally expires within three months from the date of purchase), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### 10. Translation of transactions and financial statements denominated in foreign currencies

For foreign currency transactions, the Group translates the amount of foreign currency into RMB.

A foreign currency transaction is recorded, on initial recognition, by applying the spot exchange rate on the date of the transaction. At the balance sheet date, foreign currency monetary items are translated into RMB using the spot exchange rate at the balance sheet date. Exchange differences arising from the differences between the spot exchange rates prevailing at the balance sheet date and those on initial recognition or at the previous balance sheet date are recognized in profit or loss for the period, except that (1) exchange differences related to a specific-purpose borrowing denominated in foreign currency that qualify for capitalization are capitalized as part of the cost of the qualifying asset during the capitalization period; (2) exchange differences arising from changes in carrying amounts (other than amortised cost) of monetary items classified as at fair value through other comprehensive income are recognised as other comprehensive income.

Foreign currency non-monetary items measured at historical cost are translated into the amounts in functional currencies at the spot exchange rates at the transaction dates. Foreign currency non-monetary items measured at fair value are re-translated at the spot exchange rate on the date the fair value is determined. Difference between the re-translated functional currency amount and the original functional currency amount is treated as changes in fair value (including changes of exchange rate) and is recognized in profit and loss or as other comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 10. Translation of transactions and financial statements denominated in foreign currencies *(continued)*

For the purpose of preparing the consolidated financial statements, financial statements of a foreign operation are translated from the foreign currency into RMB using the following method: all the asset and liability items in the balance sheet are translated using the spot exchange rates at the balance sheet date, shareholders' equity items except for "retained earnings" are translated at the spot exchange rates at the dates on which such items arose; income and expense items in the income statement are translated at the average exchange rates during the period in which the transaction occurs. Translation differences of financial statements denominated in foreign currencies arising hereby are recognized as other comprehensive income. When a foreign operation is disposed of, other comprehensive income associated with such foreign operation is transferred to profit or loss for the period in which it is disposed of. In case of a disposal or other reason that leads to the reduction of the proportion of foreign operation interests held but does not result in the Group losing control of a foreign operation, the proportionate share of accumulated exchange differences arising on translation of financial statements are re-attributed to non-controlling interests and are not recognized in profit and loss. For partial disposals of equity interests in foreign operations which are associates or joint ventures, the proportionate share of the accumulated exchange differences arising on translation of financial statements of foreign operations is reclassified to profit or loss.

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 regarded as a reconciling item and presented separately in the cash flow statement.

### 11. Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

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 recognized in profit or loss. For other financial assets and financial liabilities, transaction costs are included in their initial recognised amounts. For accounts receivable excluding significant financing components or regardless of financing components of contracts less than one year recognised based *Accounting Standards for Business Enterprises No. 14 – Revenue* ("Revenue Standards"), the initial recognition is measured at transaction price defined in Revenue Standards.

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 or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When determining effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial asset or financial liability (i.e. pre-repayment, extension, call option or other similar options, etc.) without considering expected credit losses.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 11. Financial instruments *(continued)*

The amortised 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 amortised amount arising from amortisation 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).

#### **(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 achieved by collect contractual cash flows, the Group classify the financial asset into financial asset measured at amortized cost. Such financial assets include cash and bank balances, bills receivable, accounts receivable, other receivables, placements with banks and other financial institutions, some non-current assets due within one year, loans and advances to customers, debt investments and long-term receivables.

If the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, 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 Group classify the financial asset into financial assets at fair value through other comprehensive income ("FVTOCI"). For accounts receivable and bills receivable classified as at fair value through other comprehensive income, is presented under "Receivables at fair value through other comprehensive income". Other items within one year (including one year) from the date of acquisition are presented under "other current assets".

Financial assets at fair value through profit or loss ("FVTPL") include financial assets classified at fair value through profit or loss and designated as at fair value through profit or loss:

- Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI are classified as FVTPL.
- Upon initial recognition, to eliminate or significantly reduce accounting mismatches, the Group may irrevocably designate financial assets as at FVTPL.

Financial assets at FVTPL are presented under "held-for-trading 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".

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 11. Financial instruments *(continued)*

#### *(1) Classification and measurement of financial assets (continued)*

Upon initial recognition, the Group may irrevocably designates non-tradable equity instrument investment except for contingent considerations recognized in the business combination not under the common control as financial assets measured at FVTOCI. Such type of financial assets are presented as "investment in other equity instruments".

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

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

#### *(a) Financial assets measured at amortized cost*

Financial assets are subsequently measured at amortized cost using the effective interest method. Gain or loss arising from impairment or derecognition is recognized in profit or loss.

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

- For purchased or originated credit-impaired financial assets, the Group calculates and determines their interest income based on amortized cost and credit-adjusted effective interest rate of such financial assets since initial recognition.
- For purchased or originated financial assets without credit-impairment but subsequently becoming credit-impaired, the Group determines 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 determines interest income based on book value of financial assets multiplying effective interest rate.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 11. Financial instruments *(continued)*

#### **(1) Classification and measurement of financial assets** *(continued)*

##### *(b) Financial assets classified as FVTOCI*

Impairment losses or gains related to financial assets classified as FVTOCI, interest income measured using effective interest method and exchange gains or losses are included in profit or loss for the current period. Except for the above circumstances, changes in fair value of financial assets are included in other comprehensive income. The amount of the financial assets included in profit or loss of each period shall be regarded as equal as the amount measured at amortised cost through profit or loss over each period. When the financial asset is derecognized, the cumulative gains or losses previously recognized in other comprehensive income shall be removed from other comprehensive income and included in profit or loss.

##### *(c) Financial assets designated as FVTOCI*

Subsequent to designation of non-tradable equity instrument investments as financial assets as at FVTOCI, changes in fair value of such financial assets are recognized in other comprehensive income. When the financial assets are derecognized, the accumulative gains or losses previously recognized in other comprehensive income shall be removed from other comprehensive income and included in retained earnings. During the period in which the Group holds the non-tradable equity instrument investments, 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.

##### *(d) Financial assets as at FVTPL*

Financial assets as at FVTPL are 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 included in profit or loss for the period..

#### **(2) Impairment of financial assets and other items**

The Group recognises loss allowance for financial assets classified as at amortised and at FVOCI, lease receivables, contract assets, loan commitments and financial guarantee contracts based on ECL.

The Group measures loss allowance for contract assets and receivables arising from transactions regulated by Revenue Standard, and lease receivables arising from transactions regulated by the *Accounting Standards for Business Enterprises No. 21 – Leases* based on the amount of lifetime ECL.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 11. Financial instruments *(continued)*

#### *(2) Impairment of financial assets and other items (continued)*

For other financial instruments, except for purchased or originated 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 lifetime ECL; if credit risk of the financial instrument has not increased significantly since initial recognition, the Group measures 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 FVTOCI, financial guarantee contracts and loan commitments, credit loss allowance offsets the carrying amount of financial assets. For financial assets classified as FVTOCI, the Group recognizes credit loss allowance in other comprehensive income, which does not decrease the carrying amount of such financial assets in the balance sheet.

The Group has measured loss allowance at the amount of lifetime ECL of the financial instruments in the prior accounting period. However, at the balance sheet date for the current period, if the credit risk on a financial instrument has not increased significantly since initial recognition, the Group will measure the loss allowance for that financial instrument at an amount of 12-month ECL. Relevant reversal of loss allowance arising from such circumstances shall be included in profit or loss as impairment gains.

#### *(a) Significant increase in credit risk*

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the balance sheet date with the risk of a default occurring on the financial instrument as at the date of initial recognition, based on the reasonable and supportable forward-looking information that is available. For loan commitments and financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition in the application of criteria related to the financial instrument for impairment.

The Group will take the following factors into consideration when assessing whether credit risk has increased significantly:

- Significant changes in internal price indicators as a result of a change in credit risk;
- 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.);



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 11. Financial instruments *(continued)*

#### **(2) Impairment of financial assets and other items** *(continued)*

##### *(a) Significant increase in credit risk (continued)*

- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same expected life;
- An actual or expected significant change in the financial instrument's external credit rating;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the debtor's ability to meet its debt obligations;
- An actual or expected significant change in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments issued by the same debtor;
- An significant adverse change in the regulatory, economic, or technological environment of the debtor;
- Significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements;
- Significant changes in the expected performance and behaviour of the debtor;
- Changes in the Group's credit management approach related to the financial instrument;

At balance sheet date, if the Group judges that the financial instruments solely has lower credit risk, the Group will assume that the credit risk of the financial instruments has not been significantly increased since initial recognition. 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 CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 11. Financial instruments *(continued)*

#### (2) Impairment of financial assets and other items *(continued)*

##### (b) 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:

- Significant financial difficulty of the issuer or the debtor;
- A breach of contract by the debtor, such as a default or delinquency in interest or principal payments;
- The creditor, for economic or legal reasons relating to the debtor's financial difficulty, granting a concession to the debtor;
- It is becoming probable that the debtor will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- The purchase or origination of a financial asset at a large scale of discount, which reflects the facts of credit losses incurred.

##### (c) Recognition of expected credit losses

Except that the Group recognizes credit loss for financial assets that are individually significant or credit-impaired contract assets and lease receivables, loan commitments and financial guarantee contracts on an individual asset/contract basis, the Group recognizes credit loss for relevant financial assets and other items on a collectively basis using a provision matrix. The Group classifies financial instruments into different groups based on common risk characteristics. Shared credit risk characteristics include type of financial instruments, credit risk rating, type of collateral, remaining contractual term, industry of debtors, geographical location of debtors and the value of collateral relative to financial assets, etc.

The Group recognises expected credit losses for relevant financial assets and other items using the following methods:

- For a financial asset, credit loss is the present value of difference between the contractual cash flows that are due to the Group under the contract and the cash flows that the Group expects to receive;

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 11. Financial instruments *(continued)*

#### **(2) Impairment of financial assets and other items** *(continued)*

##### *(c) Recognition of expected credit losses (continued)*

- For a lease receivable, credit loss is the present value of difference between the contractual cash flows that are due to the Group under the contract and the cash flows that the Group expects to receive.
- For undrawn loan commitments, the credit loss is the present value of the difference between the contract cash flows that are due to the Group under the contract and the cash flows that the Group expects to receive, under the condition that the loan commitment holder withdraws the corresponding loans. The Group's estimate of the expected credit loss on the loan commitments is consistent with the expected withdrawal of the loan commitments.
- For a financial guarantee contract, credit loss is the present value of difference between the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.
- For credit-impaired financial assets other than the purchased or originated 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.

The factors reflected in methods of measurement of expected credit losses include an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; time value of money; reasonable and supportable information about past events, current conditions and forecasts on future economic status at balance sheet date without unnecessary additional costs or efforts.

##### *(d) Reduction in financial assets*

The Group shall directly reduce the carrying amount of a financial asset when the it no longer reasonably expects that the contractual cash flows of financial assets may be fully or partially recoverable, which constitutes derecognition of relevant financial assets.

#### **(3) Transfer of financial assets**

The Group derecognizes a financial asset if one of the following conditions is satisfied: (i) the contractual rights to the cash flows from the financial asset expire; or (ii) 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 (iii) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 11. Financial instruments *(continued)*

#### **(3) Transfer of financial assets** *(continued)*

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 recognizes an associated liability. Relevant liabilities are measured using the following methods:

- For transferred financial assets carried at amortized cost, the carrying amount of relevant liabilities is the carrying amount of financial assets transferred with continuing involvement less amortized cost of the Group's retained rights (if the Group retains relevant rights upon transfer of financial assets) with addition of amortized cost of obligations undertaken by the Group (if the Group undertakes relevant obligations upon transfer of financial assets). Relevant liabilities shall not designated as financial liabilities at fair value through profit or loss.
- For transferred 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 undertaken by the Group (if the Group undertakes 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, for financial asset classified as at amortized cost and 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 recognized in other comprehensive income, is recognized in profit or loss. For non-trading equity instruments designated as at FVTOCI, cumulative gains or losses previously recognized in other comprehensive income should be removed from other comprehensive income and included in retained earnings.

For a part of transfer of a financial asset that satisfies the derecognition criteria, 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 sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to the part derecognized which has been previously recognized in other comprehensive income; and (2) the carrying amount allocated to the part derecognized on derecognition date, is recognized in profit or loss or retained earnings.

For a transfer of a financial asset that does not satisfy the derecognition criteria, the Group continues to recognise the transferred financial asset as a whole and recognizes the consideration received as financial liabilities.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 11. Financial instruments *(continued)*

#### *(4) Classification of liabilities and equity*

Financial instruments issued by the Group are, at initial recognition, 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.

##### *(a) 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.

##### *(i) Financial liabilities at FVTPL*

Financial liabilities at FVTPL consist of financial liabilities held for trading (including derivative instruments classified as financial liabilities) and those designated as at FVTPL. Financial liabilities at FVTPL are presented as "held-for-trading financial liabilities"/"other non-current liabilities" based on its liquidity.

It is indicated that the Group's purpose of undertaking the financial liabilities is for trading if the financial liabilities meet one of the following conditions:

- The purpose for undertaking relevant financial liabilities is mainly for the repurchase in the near future;
- The relevant financial liabilities are part of the centrally managed identifiable financial instrument portfolio at initial recognition, and there is objective evidence indicating that a short-term profitability mode exists actually in a short term;
- Related financial liabilities are derivatives, except for derivatives that meet the definition of a financial guarantee contract and that are designated as effective hedging instruments.

Financial liabilities at FVTPL are subsequently measured at fair value. Any gains or losses arising from changes in fair value or any dividend or interest expenses paid related to the financial liabilities are included in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 11. Financial instruments *(continued)*

#### **(4) Classification of liabilities and equity**

##### *(a) Classification and measurement of financial liabilities*

##### *(ii) Other financial liabilities*

Other financial liabilities, except for financial guarantee contracts, are classified as financial liabilities measured at amortized cost, which is subsequently measured at amortized cost, with gains or losses arising from derecognition or amortization recognized 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 liability that is subsequently measured at amortised cost, the Group shall recalculate the carrying amount of the financial liability and shall include related gains or losses in profit or loss. The carrying amount of the financial liability shall be recalculated at 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 amortised over the remaining term of the modified financial liability.

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 FVTPL are measured at the higher of: (i) the loss provision after initial recognition, and (ii) balance of amount recognized initially less the accumulated amortization amount determined on the basis of relevant revenue standards.

##### *(b) Derecognition of financial liabilities*

The Group derecognizes a financial liability (or part of it) only when the underlying present obligation (or part of it) is discharged. An agreement between the Group (an existing borrower) and an existing 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 derecognizes a financial liability or a part of it, it recognizes the difference between the carrying amount of the financial liability (or part of the financial liability) derecognized and the consideration paid (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 11. Financial instruments *(continued)*

#### **(4) Classification of liabilities and equity**

##### *(c) 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 recognized as changes in equity. Change in fair value of equity instruments is not recognized by the Group. The related transaction costs are deducted from equity.

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

#### **(5) Derivatives and embedded derivatives**

Derivatives are measured at fair value at the date when the derivative contracts are entered into and are subsequently re-measured at fair value.

For hybrid contract comprised of embedded derivatives and host contract, if the host contract is a financial asset, 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.

If the host contract included in the hybrid contract is not a financial asset and satisfies all the following criteria, the embedded derivative is separated from the hybrid contract and treated as a standalone derivative.

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.
- The hybrid contract is not measured at FVTPL.

If the embedded derivative is separated from the hybrid contract, the host contract shall be accounted for in accordance with the appropriate accounting standards.

Changes in fair value of derivative financial instruments are included in profit or loss for the period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 11. Financial instruments *(continued)*

#### **(6) Convertible bonds**

Convertible bonds issued by the Group that contain liability, conversion option and redemption options are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments and redemption options are regarded as hybrid embedded derivatives. At the date of issue, both the liability and the embedded derivatives are initially recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The embedded derivatives are measured at fair value with changes in fair value included in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and derivative instruments in proportion to their relative fair values. Transaction costs relating to embedded derivatives are included in profit or loss for the period. Transaction costs relating to the liability component are included in the carrying amount of the liability and amortised over the period of the convertible bonds using the effective interest method.

#### **(7) Offsetting financial assets and financial liabilities**

Where the Group has a legal right that is currently enforceable to set off the recognized 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 balance sheet. Except for the above circumstances, financial assets and financial liabilities shall be presented separately in the balance sheet and shall not be offset.

### 12. Inventories

Inventories include raw materials, work in progress, finished goods, commissioned processing materials and turnover materials, etc.

Inventories are initially measured at cost. Cost of inventories includes purchase costs, processing cost and other costs. The actual costs of inventories are determined on specific identification, first-in, first-out, or weighted average methods depending on business types. Turnover materials include low cost and short-lived consumables, packaging materials, etc., which are amortized using either immediate write-off method or multiple-stage amortization method.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 12. Inventories *(continued)*

The perpetual inventory system is maintained for stock system.

At the balance sheet date, inventories are measured at the lower of cost and net realizable value. If the cost of inventories upon delivery is higher than the net realizable value, a provision for decline in value of inventories is recognized in profit or loss. If factors that previously resulted in the provision for decline in value of inventories no longer exist so that the net realisable value of inventories is higher than their cost, 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 recognized 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, the estimated costs necessary to make the sale and relevant taxes. Net realizable value is determined on the basis of clear evidence obtained, and takes into consideration the purposes of holding inventories and effect of post balance sheet events.

For items of inventories relating to a product line that are 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 in that product line, provision for decline in value of inventories can be determined on an aggregate basis. Provision for decline in value of other inventories is made based on the excess of cost of inventory over its net realizable value on an item-by-item basis.

### 13. Assets classified as held for sale

Non-current assets and disposal groups are classified as held for sale category when the Group recovers the carrying amount 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 both of 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.

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 recognized 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 assets classified as held for sale less costs to sell at the balance sheet date, the original deduction should be reversed in impairment loss of assets recognized after the classification of held-for-sale category, and the reverse amount is included in profit or loss for the period.

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 recognized.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 14. Long-term equity investments

#### **(1) Basis for determining joint control and significant influence**

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. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating policy decisions relating to the activity 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 over those policies. When determining whether an investing enterprise is able to exercise control or significant influence over an investee, the effect of potential voting rights of the investee (for example, warrants and convertible debts) held by the investing enterprises or other parties that are currently exercisable or convertible shall be considered.

#### **(2) Determination of investment cost**

For a long-term equity investment acquired through a business combination involving enterprises under common control, the investment cost of the long-term equity investment is the share of the carrying amount of the shareholders' equity of the acquiree attributable to the ultimate controlling party at the date of combination. 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. For a business combination not involving enterprises under common control achieved in stages that involves multiple exchange transactions, the initial investment cost is carried at the aggregate of the carrying amount of the acquirer's previously held equity interest in the acquiree and the new investment cost incurred on the acquisition date. Except for long-term equity investment acquired through a business combination, other equity investment is initially measured at cost.

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

#### **(3) Subsequent measurement and recognition of profit or loss**

##### **(a) Long-term equity investment measured under the cost method**

The Company's financial statements measured the long-term equity investments of subsidiaries using the cost method. A subsidiary is the investee controlled by the Group.

Under the cost method, a long-term equity investment initial recognised at cost. Except for cash dividends or profits already declared but not yet paid that are included in the price or consideration actually paid upon acquisition of the long-term equity investment, investment income is recognized in the period in accordance with the attributable share of cash dividends or profit distributions declared by the investee.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 14. Long-term equity investments *(continued)*

#### (3) *Subsequent measurement and recognition of profit or loss (continued)*

##### (b) *Long-term equity investment measured under the equity method*

The Group measured investments in associates and joint ventures under the equity method. An associate is an entity over which the Group has significant influence, and a joint venture is an entity over which the Group has joint control along with other investors.

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, no adjustment 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 recognized 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 recognizes its share of the net profit or loss and other comprehensive income of the investee for the period as investment income or loss and other comprehensive income for the period. The Group recognizes its share of the investee's net profit or loss based on the fair value of the investee's individual separately identifiable assets, etc. at the acquisition date after making appropriate adjustments to be confirmed with the Group's accounting policies and accounting period. Unrealized profits or losses resulting from the Group's transactions with its associates and joint ventures shall be eliminated when recognized investment income or loss to the extent that those attributable to the Group's equity interest. However, unrealized profits or losses resulting from the Group's transactions with its associates and joint ventures are recognized as investment income or loss to the extent that those attributable to the Group's equity interest are eliminated if the trading assets do not form a business. Unrealized losses are resulted from the Group's transactions with its associates and joint ventures, the impairment losses on the transferred assets are not eliminated. Changes in other equity of the investee other than net profit or loss, other comprehensive income and profit distribution shall be included in capital reserve, with the carrying amount of long-term equity investment correspondingly adjusted.

The Group discontinues recognizing its share of net losses of the investee after the carrying amount of the long-term equity investment together with any long-term interests that in substance form part of its net investment in the investee is reduced to zero. If the Group has incurred obligations to assume additional losses of the investee, a provision is recognized according to the expected obligation, and recorded as investment loss for the period. Where net profits are subsequently realised by the investee, the Group resumes recognizing its share of those profits only after its share of the profits exceeds the share of losses previously not recognized.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 14. Long-term equity investments *(continued)*

#### (3) *Subsequent measurement and recognition of profit or loss (continued)*

##### (c) *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 recognized in profit or loss for the period. For long-term equity investment measured under the equity method, the portion that is previously recognised in other comprehensive income is accounted for proportionately at the acquisition on the same basis of directly disposed related assets and liabilities of investee.

(d) Methods of impairment assessment approach and provision for impairment are set out in Note III, 20.

### 15. Investment properties

The property held by the Group for the purpose to earn rentals or for capital appreciation or for both purpose is classified as investment property. The Group measures the investment properties under cost model, namely, the investment properties are presented on the balance sheet at cost less accumulated depreciation, amortization and provision for impairment loss. The investment properties are depreciated or amortized over its useful life by straight-line method after deducting the estimated net residual value. The useful life, residual value rate and annual depreciation rate for various investment properties are as follows:

Item	Useful lives (years)	Residual value rate (%)	Annual depreciation rate (%)
Buildings	20-50	3-5	1.90-4.85
Land use rights	50	-	2

If the Group has conclusive evidence that the purpose for holding properties has changed and if one of the following conditions is met, the investment properties shall be converted into other assets, or other assets shall be converted into investment properties:

- The purpose for holding the property is changed to self-use;
- The self-use buildings or land use rights are stopped self-using, and changed to held for earning rentals or capital appreciation;
- Self-use structures stopped self-using, and changed to for renting.

Under the cost model, the carrying amounts of the buildings remain unchanged before and after the purpose change.

Methods of impairment assessment and provision for impairment are set out in Note III, 20.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

### 16. Fixed assets

#### (1) Recognition criteria

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and have useful lives of more than one accounting year.

The initial cost of purchased fixed assets includes purchase cost, relevant taxes and expenses attributable to the asset incurred before it reaches ready-to-use condition. The initial cost of self-constructed fixed assets is recognized in accordance with Note III, 17. The components of fixed assets, which have various useful life or contribute economic benefits to the Group in different ways, or at different depreciation rate or via different depreciation methods, will be recognized as individual fixed assets by the Group. The subsequent expenditure of fixed assets (including amount paid for replace certain component of fixed assets), is recognized into cost of fixed assets if it qualifies recognition criteria. Meanwhile, the carrying amount of replaced component is deducted. The expense relating to routine maintenance of fixed assets is included in profit or loss when it is incurred. Fixed assets are presented on the balance sheet at cost less accumulated depreciation and provision for impairment loss.

#### (2) Depreciation method

Except for land use right owned by the Group, fixed asset is depreciated using the straight-line method. The useful life, estimated net residual value rate and annual depreciation rate of each category of fixed assets are as follows:

Category	Depreciation method	Depreciation period (year)	Residual value rate (%)	Annual depreciation rate (%)
Buildings	Straight-line method	10-50	3-5	1.90-9.70
Machinery and equipment	Straight-line method	6-28	3-5	3.39-16.17
Office equipment and other equipment	Straight-line method	5-12	3-5	7.92-19.40
Transportation vehicles	Straight-line method	5-15	3-5	6.33-19.40

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 derecognized. 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 recognized in profit or loss for the period. The Group reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least once at the end of each fiscal year, and makes adjustments when necessary.

#### (3) Methods of impairment assessment and provision for impairment are set out in Note III, 20.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 17. Construction in progress

The cost of construction in progress is determined according to the actual construction expenditure, including various construction expenditures during the construction period, borrowing costs capitalized before it is ready for intended use and other relevant costs.

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

Methods of impairment assessment and provision for impairment are set out in Note III, 20.

### 18. Borrowing Costs

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 construction or production of a qualifying asset are capitalized. The amounts of other borrowing costs incurred are recognized as an expense in the period in which they are incurred. Qualifying assets are assets that necessarily take a substantial period of time for construction or production to get ready for their intended use or sale.

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

- Expenditures for the asset have incurred; and
- Borrowing costs are being incurred; and
- 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.

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

- Special-purpose borrowings are determined by the amount of interest expenses actually incurred in the current period less the temporary deposit interest income or investment income;
- General-purpose borrowings occupied are calculated and determined based on the weighted average of the excess of cumulative expenditures on the asset over the amounts of specific-purpose borrowings multiplied by the interest rates of the weighted average applicable to the general-purpose borrowings occupied.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 18. Borrowing Costs *(continued)*

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 recognized as an expense of the current period until the acquisition, construction or production is resumed.

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 incurred subsequently are recognized as an expense in the period in which they are incurred.

### 19. Intangible assets

#### (1) Valuation method, useful life and impairment test

A purchased intangible asset is measured initially at cost. The cost of an intangible asset acquired in the combination not involving enterprises under common control is recognized as fair value of the intangible asset on the acquisition date.

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 period over which the asset is expected to generate economic benefits for the Group.

The useful lives of the intangible assets are as follows:

Item	Useful life
Land use rights	50 years
Proprietary technology and industrial properties	3-10 years
Software use rights	2-10 years
Customer relationship	7-15 years
Backlog orders and technical service discount contracts	The period in which the services are rendered agreed in the contract

Land use rights acquired 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 19. Intangible assets *(continued)*

#### (1) **Valuation method, useful life and impairment test** *(continued)*

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 the end of each fiscal year and makes adjustment if necessary.

An intangible asset with an indefinite useful life is not amortized and its useful life is reviewed in each accounting period. If there is an 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.

#### (2) **Accounting policies for internal research and development expenditure**

The Group classifies the expenditure on an internal research and development project into research expenditures and development expenditures.

Expenditure during the research phase is recognized as an expense in the period in which it is incurred.

Expenditure during the development phase that meets all of the following conditions at the same time shall be capitalized, that is, it is technically feasible to complete the intangible asset so that it will be available for use or sale; the Group has the intention to complete the intangible asset and use or sell it; the Group can demonstrate the ways in which the intangible asset will generate economic benefits, including the evidence of 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; the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and the expenditure attributable to the intangible asset during its development phase can be reliably measured. Expenditure during the development phase that does not meet the above conditions is recognized in profit or loss for the period in which it is incurred.

If the expenditures cannot be distinguished between the research phase and development phase, the Group recognizes all of them in profit or loss for the period.

Methods of impairment assessment and provision for impairment are set out in Note III, 20.



## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 20. Impairment of long-term assets

The Group assesses at each balance sheet date whether there is any indication that long-term equity investment, fixed assets and construction in progress, investment properties, development expenditure, long-term prepaid expense, some other non-current assets, right-of-use assets and intangible assets with a finite useful life may be impaired. If there is any indication that such assets may be impaired, recoverable amounts are estimated for such assets. Intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that the assets may be impaired.

Recoverable amount is estimated on the basis of individual asset. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group to which the asset belongs will be estimated. The recoverable amount of an asset or asset group is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset.

If the recoverable amount of an asset or an asset group is less than its carrying amount, the deficit is accounted for as provision for impairment loss and is recognized in profit or loss for the period.

Goodwill is tested for impairment at least at the end of each year. For the purpose of impairment testing, goodwill is considered together with the related assets group(s), i.e., goodwill is reasonably allocated to the related assets group(s) or each of assets group(s) expected to benefit from the synergies of the combination. An impairment loss is recognized if the recoverable amount of the assets group or sets of assets groups (including goodwill) is less than its carrying amount. The impairment loss is firstly allocated to reduce the carrying amount of any goodwill allocated to such assets group or sets of assets groups, and then to the other assets of the group pro-rata on the basis of the carrying amount of each asset (other than goodwill) in the group.

Once the above impairment loss is recognized, it cannot be reversed in any subsequent accounting periods.

### 21. Long-term prepaid expenses

Long-term prepayments are expenses incurred that should be amortized over the current and subsequent periods (amortization period of more than one year). Long-term prepayments are amortized using the straight-line method over the expected periods in which benefits are derived.

### 22. Employee benefits

Employee benefits are all forms of remuneration and compensation given by an entity in exchange for services rendered by employees or for the termination of employment and other remunerations. Employee benefits include short-term employee benefit, 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 22. Employee benefits *(continued)*

#### (1) Accounting treatment of short-term employee benefits

During the accounting period in which the employees provide services, the Group's actual short-term employee benefits is recognized as liabilities and included in the profits or losses for the current period or recognized as respective assets costs.

Payment made by the Group of social security contributions for employees such as premiums or contributions on medical insurance, work injury insurance and maternity insurance, etc. and payments of housing funds, as well as trade union fund and employee education fund provided in accordance with relevant requirements, are calculated according to prescribed bases and percentages in determining the amount of employee benefits and recognized as relevant liabilities, with a corresponding charge to the profit or loss for the period or the costs of related assets in the accounting period in which employees render services.

#### (2) Accounting treatment of post-employment benefits

Post-employment benefits are classified into defined contribution plans and defined benefit plans.

In an accounting period in which an employee has rendered service to the Group, the amount payable calculated in accordance with the defined contribution plan is recognized as a liability and charged to profit or loss in the period, or included in cost of related assets.

For defined benefit plans, the independent actuary makes actuarial estimation to determine cost of benefits offered and attributable period by using projected unit credit method. Defined benefit costs are categorized as follows:

- (i) Service costs include current service cost, past service cost, as well as gains and losses on settlements. Current service cost refers to the increase amount of present value of defined benefit obligation arising from service rendered in current year; past service cost refers to the change of present value of defined benefit obligation arising from modification of defined benefit plans;
- (ii) Net interest of net liabilities or assets of defined benefit plan (including interest income of planned assets, interest expenses of defined benefit plan liabilities and effect of asset ceiling);
- (iii) Changes arising from re-measurement of net liabilities or net assets of defined benefit plans (including actuarial gains and losses).

Except that cost of employee benefits recognised in the cost of assets are required or permitted by other standards, the Group presents the above (i) and (ii) in profit or loss while (iii) in other comprehensive income, which will not be reversed to the profit or loss during the subsequent accounting period.

The defined benefit plans provided by the Group are set out in Note V, 43.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 22. Employee benefits *(continued)*

#### **(3) Accounting treatment of termination benefits**

When the Group terminates the employment relationship with employees before the end of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision shall be recognized for the compensation arising from termination of employment relationship with employees, with a corresponding charge to the profit or loss for the current year, at the earlier of when:

- (i) The Group cannot unilaterally withdraw from the termination plan or the redundancy offer; or
- (ii) The Group recognizes costs or expenses relating to termination benefits payment in respect of restructuring.

### 23. Provisions

Except for contingent consideration arisen and contingent liabilities undertaken in business combinations, the Group recognizes an obligation related to a contingency as a provision when all of the following conditions are satisfied: (i) the obligation is a present obligation of the Group; (ii) it is probable that an outflow of economic benefits will be required to settle the obligation; and; (iii) 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 each 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.

Provisions are recognized when the Group has a present obligation related to a contingency such as warranty provisions/onerous contract/outstanding litigations, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into consideration of the factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 24. Revenue

- (1) Accounting policy for recognition and measurement of revenue from contracts with customers

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

- (i) Revenue from selling of goods;
- (ii) Revenue from rendering of services;

The Group shall recognize revenue when the Group satisfies a performance obligation in the contract, namely, when the customer obtains control over relevant goods or services, which is based on the transaction price allocated to the performance obligation. A performance obligation represents the commitment that goods or services that are distinct shall be transferred by the Group to the customer. Transaction price refers to the consideration that the Group is expected to receive 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.

Revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following conditions is met: (i) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; (ii) the customer is able to control goods in the progress during the Group's performance; (iii) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognised at a point of time when the customer obtains control over the relevant goods or services.

For performance obligations performed over time, the Group adopts input method to determine the appropriate progress of performance, that is, the progress of the performance is determined according to the Group's input for fulfilling its performance obligations. Where the progress cannot be determined reasonably, the revenue is recognized based on the amount of cost that is expected to be compensated based on the cost already incurred, until the progress of performance is reasonably determined.

If the contract includes two or more performance obligations, at contract inception, the Group allocates the transaction price to single performance obligation according to relative proportion of the stand-alone selling prices of the goods or services promised by single performance obligation. However, where there is conclusive evidence that the contract discount or variable consideration is only related to one or more (not all) performance obligations in the contract, the Group shall allocate the contract discount or variable consideration to relevant one or more performance obligations. The stand-alone selling price is the price at which the Group would sell promised goods or services separately to a customer. If a stand-alone selling price is not directly observable, the Group shall consider all information that is reasonably available to the Group and maximize the use of observable inputs and apply estimation methods consistently in similar circumstances.

If the contract includes consideration payable to a customer (for example, supplier nomination fee, etc.), the Group shall account for consideration payable to a customer as a reduction of the transaction price unless the payment to the customer is in exchange for distinct goods or services, and recognized the reduction of revenue when (or as) the later of either of the following events occurs: 1) the Group recognizes revenue for the transfer of the related goods or services to the customer; and 2) the Group pays or promises to pay the consideration.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 24. Revenue *(continued)*

- (1) Accounting policy for recognition and measurement of revenue from contracts with customers *(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 Standards for Business Enterprises No. 13 – Contingencies.

If the contract contains a significant financing component, the Group determines the transaction price based on the amount payable under the assumption that the customer pays that amount payable in cash when “control” of the goods or services is obtained by the customer. The difference between the transaction price and the contract consideration shall be amortized within the contract period using effective interest rate. If the Group expects, at contract inception, that the period between when the Group transfers promised goods or services to a customer and when the customer pays for that goods or services will be one year or less, the Group needs not to consider the significant financing component.

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 goods or services before that goods or services are transferred to a customer, and the revenue shall be recognized based on the total consideration received or receivable; otherwise, the Group is an agent, and the revenue shall be recognized 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 recognize the amounts as liabilities and then transfer to revenue until satisfying relevant performance obligations.

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, 11. 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 or receivable consideration from the customer.

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

Except for the income arising from contracts with customers, income of the Group includes interest income and lease income from daily operating activities. Relevant accounting policies are detailed in Note III, 11 and 27.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 25. Government grants

Government grants are transfer of monetary assets and non-monetary assets from the government to the Group at no consideration. A government grant is recognized only when the Group can comply with the conditions attaching to the grant and the Group will receive the grant.

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 non-monetary asset, it is measured at fair value. If the fair value cannot be reliably determined, it is measured at a nominal amount. A government grant measured at a nominal amount is recognized immediately in profit or loss for the period.

#### ***(1) Determination basis and accounting treatments for government grants related to assets***

If the government grant is a compensation for acquiring, constructing or forming long-term assets in other ways, the government grant is recognized as government grants related to assets.

A government grant related to an asset is recognized as deferred income and included in profit or loss over the useful life of the related asset. Where the relevant asset is sold, transferred, retired 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.

#### ***(2) Determination basis and accounting treatments for government grants related to income***

Government grants other than government grants related to assets are government grants related to income.

For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognized as deferred income and recognized in profit or loss over the periods in which the related costs or losses are recognized; If the grant is a compensation for related expenses or losses already incurred, the grant is recognized immediately in profit or loss for the period. The Group classifies government grants that are difficult to be distinguished as government grants related to income aggregately.

A government grant related to the Group's daily activities is recognized in other income based on the substance of economic activities; a government grant not related to the Group's daily activities is recognized in non-operating income and expenses.

Discount interest on preferential loans obtained by the Group is directly allocated to the Group, with the corresponding interest discounts offsetting related borrowing costs.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 26. Deferred tax assets/deferred tax liabilities

The income tax expenses include current income tax and deferred income tax. Except for that (1) goodwill adjusted by deferred income tax arising from the business combination or (2) the current income tax and deferred income tax related to transactions or events recognized in other comprehensive income or shareholders' equity are included in other comprehensive income or shareholders' equity, the expenses or gains of other current income tax and deferred income tax are included in profit or loss for the period.

#### (1) Current income tax

Current tax assets or liabilities for the current and prior periods are measured at the amount expected to be recovered or paid according to the taxation laws and regulations.

#### (2) Deferred tax assets/deferred tax liabilities

For temporary differences between the carrying amounts of certain assets or liabilities and their tax base, or between the nil carrying amount of those items that are not recognized as assets or liabilities and their tax base that can be determined according to tax laws, deferred tax assets or liabilities are recognized using the balance sheet liability method.

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

- where taxable temporary differences arise from the initial recognition of goodwill; or the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, it affects neither accounting profit nor taxable profit or deductible loss;
- For taxable temporary differences associated with investments in subsidiaries, joint ventures and associates, where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deductible temporary differences arise from a transaction that is not a business combination and, at the time of the transaction, neither affects the accounting profit nor taxable profit or deductible loss;
- deductible temporary differences associated with investments in subsidiaries, joint ventures and associates, a deferred tax asset is only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the deductible temporary differences can be utilized in the future.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 26. Deferred tax assets/deferred tax liabilities *(continued)*

At the balance sheet date, deferred income tax assets and liabilities are measured, subject to the tax laws, at the applicable rate in the period in which deferred tax assets or liabilities are expected to be realized or settled, and the tax effects arising from the expected realization of assets or settlement of liabilities are reflected at the balance sheet date.

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 the future to allow the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at the balance sheet date and are recognized 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.

When the Group has a legal right to settle on a net basis and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously, current tax assets and current tax liabilities are offset and presented on a net basis.

Deferred tax assets and deferred tax liabilities are offset and presented on a net basis if the Group has a legal right to settle the current tax assets and liabilities on a net basis and the deferred income taxes relate to the same taxable entity and the same taxation authority.

### 27. Leases

A Lease refers to a contract in which the lessor conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group assesses whether a contract is or contains a lease at the commencement date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

#### **(1) The Group acts as a lessee**

##### *(a) Separation of leases*

For a contract that contains one or more lease and non-lease components, the Group will separate lease components from non-lease components and allocate the consideration in the contract on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.



## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 27. Leases *(continued)*

#### (1) *The Group acts as a lessee (continued)*

##### (b) *Right-of-use assets*

Except for short-term leases and leases of low-value assets, the Group recognises right-of-use assets at the commencement date of the lease. The commencement date of the lease refers to the date on which the lessor provides leased assets to make it available to the Group. The right-of-use asset is initially measured at cost. This cost includes:

- The initial measurement amount of the lease liabilities;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

After the commencement date of the lease term, the carrying amount of right-of-use assets shall be adjusted when lease liability is re-measured.

Right-of-use assets are depreciated by the Group in accordance with the relevant depreciation requirements of the Accounting Standards for Business Enterprises No. 4 – Fixed Assets. Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated over the shorter of its estimated useful life and the lease term.

The Group determines whether the right-of-use assets are impaired in accordance with the accounting policies described in Notes III, 20, and conducts accounting treatment for the recognized impairment losses.

##### (c) *Lease liabilities*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 27. Leases *(continued)*

#### (1) *The Group acts as a lessee (continued)*

##### (c) *Lease liabilities (continued)*

Lease payment refers to the amount paid by the Group to the lessor relating to the right to use an underlying asset during the lease term, including:

- fixed payments and in-substance fixed payments less any lease incentives receivable (if any);
- variable lease payments that depend on an index or a ratio;
- the exercise price of a purchase option reasonably certain to be exercised by the Group;
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate; and
- amounts expected to be paid under residual-value guarantees.

The variable lease payments, depending on the index or ratio, are determined at the initial measurement based on the index or ratio at the beginning of the lease term. The variable lease payments that are not included in the measurement of the lease liability are recognised in profit or loss or related asset costs when incurred.

The Group calculates the interest expense of the lease liabilities for each period of the lease term based on a fixed periodic interest rate after the commencement date of the lease term.

After the commencement date of the lease term, the Group re-measures the lease liabilities and adjusts the corresponding right-of-use asset in the following circumstances. If the carrying amount of the right-of-use asset has been reduced to zero, but the lease liability still needs to be further reduced, the Group will record the difference into the current profit and loss:

- The Group re-measures the lease liabilities by discounting the revised lease payments using a revised discount rate as a result of changes in the lease term or changes in the evaluation result of the purchase option;
- If there are changes in the expected amount payable of guaranteed residual value or the index or proportion used to determine the lease payment, the Group re-measures the lease liabilities based on the present value of revised lease payment and the original discount rate. If the change of lease payment comes from the change of floating interest rate, the revised discount rate shall be used to calculate the present value.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 27. Leases *(continued)*

#### (1) *The Group acts as a lessee (continued)*

##### (d) *Short-term leases and leases of low-value assets*

The Group chooses not to recognize right-of-use assets and lease liabilities for short-term leases and low-value leases of houses and buildings, machinery and equipment, transportation equipment and office equipment and other equipment. Short-term leases are leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. A lease of low-value asset refers to a single lease asset, when new, is of low value. Lease payments on short-term leases and leases of low-value assets are recognised in profit or loss or the cost of underlying assets on a straight line basis in each periods over the lease term.

##### (e) *Lease modifications*

If the lease changes and meets the following conditions, the Group will account for the change as a separate lease:

- The modification expands the scope of the lease by increasing the right to use one or more leased assets;
- The increased consideration is equal to the individual price of the expanded portion of the lease, as adjusted by the contractual situation.

For a lease modification that is not accounted for as a separate lease, the Group redistributes the consideration of the changed contract, re-determines the lease term, and re-measures the lease liability by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

If the scope of the lease is narrowed or the lease term is shortened as a result of the lease modification, the Group reduces the carrying amount of the right-of-use assets accordingly, and record the relevant gains or losses of partial or complete termination of the lease into the current profit and loss. In case of re-measurement of lease liabilities due to other lease modifications, the Group adjusts the carrying amount of the right-of-use assets accordingly.

#### (2) *The Group as a lessor*

##### (a) *Separation of leases*

Where a contract contains both lease and non-lease components, the Group allocates the consideration in the contract according to the requirements on the allocation of transaction price in Note III, 24. The basis of the allocation is the separately standalone price of the leased component and the non-lease component.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 27. Leases *(continued)*

#### (2) *The Group as a lessor (continued)*

##### (b) *Classification of lease*

A lease that substantially transfers almost all the risks and rewards related to the ownership of leased assets is a finance lease. Leases other than finance leases are operating leases.

##### (i) *The Group records the operating lease business as a lessor*

During each period of the lease term, the Group uses the straight-line method to recognise the lease payments from operating leases as rental income. The initial direct costs incurred by the Group in relation to the operating leases are capitalised when they are incurred, amortized on the same basis as the recognition of rental income during the lease term, and recognized in the current profits and losses using the straight-line method.

##### (ii) *The Group records the finance lease business as a lessor*

On the commencement date of the lease term, the Group uses the net lease investment as the entry value of the finance lease receivables and derecognises the finance lease assets. The net lease investment is the sum of the unguaranteed residual value and the present value of lease receivable not received on the commencement date of the lease term discounted at the interest rate implicit in lease.

The amount of the lease receivable refers to the amount that the Group should collect from the lessee for the purpose of transferring the leased assets during the lease term, including:

- The fixed payment amount and the substantial fixed payment amount to be paid by the lessee, if there is a lease incentive, the amount related to the lease incentive is deducted;
- Variable lease payments depending on the index or ratio;
- the exercise price of the purchase option, provided that it is reasonably determined that the lessee will exercise the option;
- The lessee exercises the amount to be paid for the termination of the lease option, provided that the lease period reflects the lessee's exercise of the option to terminate the lease;

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 27. Leases *(continued)*

#### **(2) The Group as a lessor** *(continued)*

##### *(b) Classification of lease (continued)*

##### *(ii) The Group records the finance lease business as a lessor*

- The residual value of the guarantee provided by the lessee, the party concerned with the lessee and the independent third party with the financial ability to perform the guarantee obligation.

The Group calculates and recognizes the interest income of each period of the lease term based on a fixed periodic interest rate.

##### *(c) Lease modifications*

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease receipts relating to the original lease as part of the lease receipts for the new lease.

If the finance lease changes and meets the following conditions, the Group will account for the change as a separate lease:

- The modification expands the scope of the lease by increasing the right to use one or more leased assets;
- The increased consideration is equal to the individual price of the expanded portion of the lease, as adjusted by the contractual situation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 27. Leases *(continued)*

#### (2) *The Group as a lessor (continued)*

##### (c) *Lease modifications (continued)*

If the modification of the finance lease is not treated as a separate lease, the Group will deal with the lease modification in the following cases:

- If the lease is classified as an operating lease when the modification becomes effective on the commencement date of the lease, the Group takes it as a new lease for accounting treatment from the effective date of the lease modification and uses the net lease investment before the effective date of the lease modification as the carrying amount of the leased asset;
- If the lease is classified as a finance lease when the modification becomes effective on the commencement date of the lease, the Group performs accounting treatment in accordance with the provisions of the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments for the modification or renegotiation of contracts.

#### (3) *Sale and leaseback transaction*

##### (a) *The Group acts as the seller (lessee)*

The Group assesses and determines whether the asset transfer in the sale and leaseback transaction is a sale in accordance with Note III, 24. If the transfer of assets is not a sale, the Group continues to recognize the transferred assets and recognizes a financial liability equal to the transfer income, and accounts for the financial liabilities in accordance with Note III, 11. Where the transfer of assets belongs to sales, the Group measures the right-of-use assets formed by the sale and leaseback based on the portion of the original asset's carrying amount that is related to the right to use obtained from the leaseback, and only recognizes the relevant gains or loss of the rights to transfer to the lessor.

##### (b) *The Group acts as the buyer (lessor)*

If the asset transfer in the sale and leaseback transaction is not a sale, the Group does not recognize the transferred asset, but recognizes a financial asset equal to the transfer income and performs accounting treatment on the financial asset in accordance with Note III, 11. If the asset transfer belongs to sales, the Group will account for the asset purchase according to other applicable accounting standards and conduct accounting treatment for the asset lease.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 28. Other significant accounting policies and accounting estimates

#### (1) Profit distribution

The proposed dividend distribution after balance sheet date will not be included in liabilities on balance sheet date, and will be disclosed individually in notes.

#### (2) Production safety expenses

Production safety expenses accrued based on the aforesaid regulations shall be recorded in the costs of related products or expenses in profit or loss for the current period, and provided as a fund in the special reserve. When the expenditures are utilized as expenses, they should be recognized in the statement of profit or loss and offset against the special reserve; when the expenditures incurred relate to fixed assets, they shall be recognized in the cost of fixed assets, which will be recognized when it is ready for use. The same amount as the expenditure will be offset against the special reserve and recorded as accumulated depreciation equivalent at the same time.

#### (3) Debt restructuring

##### *Recording debt restructuring obligations as a creditor*

When a debt is settled by assets in a debt restructuring, the assets other than the transferred financial assets are initially recognized and measured at cost, including other costs such as the fair value of abandoned creditor's rights and taxes directly attributable to the asset. The difference between the fair value and the carrying amount of the abandoned creditor's right is included in the current profit or loss.

Where debt restructuring is carried out by modifying other terms, the Group recognizes and measures the debt restructuring in accordance with the accounting policies described in Note III, 11.

### 29. Significant accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions, which will affect the presented amounts of revenue, cost, assets and liabilities and the disclosure of contingent liabilities on balance sheet date. However, the uncertainty of assumptions and estimates may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in future periods.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 29. Significant accounting estimates and judgements *(continued)*

#### *Uncertainties in accounting estimates*

The following is key assumptions and uncertainties in accounting estimates at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in future periods.

#### *(i) Impairment of goodwill*

For goodwill arising from business combination, the Group tests it for impairment at the year end. Impairment test requires an estimate of the recoverable amount of the relevant asset group containing goodwill, that is, the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset. In determining the present value of the future cash flows of the relevant asset group or the fair value of such asset group under equity method, the Group needs to properly predict the revenue growth rate of future cash flows of related asset group, the gross profit, rate the investment income ratio of long-term assets, the long-term average growth rate margin and reasonable discount rate, etc. When the market conditions change, the recoverable amount of the relevant asset group may differ from the existing estimates, which will affect the profit and loss for the period. The information of goodwill impairment is described in Note V. 25.

#### *(2) Credit loss allowance for receivables and contract assets*

Except for that the Group recognizes credit loss for receivables and contract assets that are individually significant or have credit impaired on an individually basis, the Group determines the expected credit loss of receivables and contract assets on a collectively basis using a provision matrix. For receivables and contract assets whose credit losses are determined individually, the Group determines the credit loss by estimating the expected cash flows based on reasonable and evidenced information available on the balance sheet date with forward-looking information taken into consideration. For receivables and contract assets other than the above, the Group, based on the historical collection condition, determines the proportion of corresponding loss provision for each type of receivables and contract assets with similar credit risk characteristics on a portfolio basis. The provision matrix is based on the Group's historical credit loss experience and is based on reasonable and evidence-based forward-looking information that is available without undue cost or effort. As at 31 December 2019, the Group has reassessed the historical actual credit loss rate and considered changes in forward-looking information.

#### *(3) Depreciation and amortization of investment properties, fixed assets and intangible assets*

Investment properties, fixed assets and intangible assets with a definite life are depreciated and amortized in their useful lives respectively by the Group after considering residual values. The Group reviews useful life of assets periodically so as to determine the amounts for depreciation and amortization in each reporting period. The useful life of assets is determined on the basis of previous experiences of similar assets and estimated technology upgrading. If previous estimates change significantly, make adjustments to depreciation and amortization expenses.



## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 29. Significant accounting estimates and judgements *(continued)*

#### *Uncertainties in accounting estimates (continued)*

##### *(4) Supplementary pension benefits and other supplementary benefits plan liabilities*

The Group has recognized supplementary pension benefits and other supplementary benefits plan as liabilities. The estimated amounts of such benefits expenses and liabilities are calculated on the basis of various assumption conditions, including discount rate, growth rate of related benefits and others. The difference between actual results and actuarial assumption may affect the accuracy of accounting estimations. The changes in above assumptions will affect the amount of liabilities for supplementary pension benefits and other supplementary benefits plan liabilities, even though the management considers the assumptions are reasonable.

##### *(5) Provision for decline in value of inventories*

Provision for decline in value of obsolete and slow-moving inventories is made by the Group. These estimates are made with reference to age analyses of inventories, projections of expected future saleability of goods and management's experience and judgement. Based on this review, Provision for decline in value of inventories will be made when the cost of inventory is lower than the net realizable value. Due to changes in market conditions, actual saleability of goods may be different from estimation and the current profit or loss could be affected by differences in this estimation.

##### *(6) Deferred tax assets*

Besides the exceptions that have been illustrated in the Note III,26, deferred tax assets are recognized for all the deductible losses not yet utilized and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible losses and deductible temporary differences can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and amount of future taxable profits together with future tax planning strategies.

##### *(7) Impairment of long-term assets (other than goodwill)*

The Group determines if there is any indication showing impairment of long-term assets other than goodwill at the balance sheet date. If there is any indication that it is unlikely to recover the carrying amount, the Group will make impairment assessment. Where the carrying amount of an asset or an asset group is higher than recoverable amount, namely the higher of net amount of fair value less disposal expense, and the present value of expected future cash flow, the Group determines that impairment exists. The management must make estimation on expected future cash flow of such asset or asset group, and select reasonable discount rate to determine the present value of future cash flow.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 29. Significant accounting estimates and judgements *(continued)*

#### *Uncertainties in accounting estimates (continued)*

##### *(8) Products quality warranty*

Based on the recent experience in product maintenance, the Group will estimate the provisions for after-sales quality maintenance commitments provided to customers for the sale, maintenance and transformation of locomotives, vehicles and spare parts. As the recent maintenance experience may not reflect the maintenance situation of the sold products in the future, the management's judgments are required to estimate the provisions. Any increase or decrease in the provision would affect profit or loss in future years.

### 30. Changes in significant accounting policies and accounting estimates

#### *(1) Changes in significant accounting policies*

##### *(a) New lease standard*

Since 1 January 2019 ("the date of initial application"), the Group has adopted the Accounting Standards for Business Enterprises No. 21 – Leases revised by the MoF in 2018 (hereinafter referred to as the "new lease standard", the pre-revision lease standard is referred to as the "original lease standards"). The new lease standard improves the definition of lease; the identification, allocation and combination are added to the new lease standard; the classification of operating lease and finance lease is cancelled; requires to recognize right-of-use assets and lease liabilities for all leases (except for short-term lease and leases of low-value assets) at the commencement date, and recognize the depreciation and interest expenses separately. The new lease standard improves the lessee's subsequent measurement of lease, adds the accounting treatment for the re-assessment of option and lease modifications, and adds relevant disclosure requirements. In addition, it also enriches the disclosure of the lessor. The Group's revised accounting policies for the recognition and measurement of leases as lessees and lessors are set out in Note III, 27.

For contracts that existed before the date of initial application, the Group chose not to reassess whether they are, or contain, leases on the initial application date.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 30. Changes in significant accounting policies and accounting estimates *(continued)*

#### (1) *Changes in significant accounting policies (continued)*

##### (a) *New lease standard (continued)*

##### (i) The Group as the lessee

The Group adjusts the retained earnings on the initial application date and other related items in the financial statements based on the cumulative impact of the initial application of the new lease standard, and does not adjust the comparable period information.

For the operating leases (other than leases of low-value assets) before the initial application date, the Group has adopted the following simplified treatments for each lease:

- Leases completed within 12 months after the initial application date are treated as short-term leases;
- When measuring lease liabilities, leases with similar characteristics use the same discount rate;
- The measurement of the right-of-use assets does not include the initial direct cost;
- If there is a renewal option or the termination of lease option, the Group determines the lease period based on the actual exercise of the option before the initial application date and other recent developments;
- If a lease modification occurs before the initial application date, the Group will perform accounting treatment based on the final arrangement of the lease modification.

On the initial application date, the Group has made the following adjustments due to the application of the new lease standard:

- For the finance lease before the initial application date, the right-of-use assets and lease liabilities of the Group are recognized according to the original carrying amount of financial leased assets and financial leases payables respectively on the initial application date.
- For the operating lease before the initial application date, the lease liabilities are recognized according to the present value of residual lease payments discounted by the incremental borrowing interest rate determined by the lessee on the initial application date. And the right-of-use assets is measured according to the amount equal to the lease liabilities adjusted by the lease prepayments if necessary.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 30. Changes in significant accounting policies and accounting estimates *(continued)*

#### (1) *Changes in significant accounting policies (continued)*

##### (a) *New lease standard (continued)*

##### (i) *The Group as the lessee (continued)*

On 1 January 2019, the Group recognized lease liabilities (including due within one year) of RMB727,116,000 and right-of-use assets of RMB779,995,000. For the operating leases before the initial application date, the Group measures the lease liability using the present value after discounting the incremental borrowing rate on the initial application date. The range of incremental borrowing rates is 0.26%-8.53%.

The adjustment information of the Group's lease liabilities recognized on 1 January 2019 and the significant operating lease commitments disclosed in the financial statements of 2018 are as follows:

<b>Item</b>	<b>1 January 2019</b>
	RMB'000
I. Operating lease commitments at 31 December 2018	704,692
Lease liabilities discounted at relevant incremental borrowing rate on initial application date	622,248
Less: Recognised exemption – short-term lease and leases of low-value assets	38,327
Lease liabilities related to original operating lease recognized by the new lease standard	583,921
Add: finance lease payables at 31 December 2018	143,195
Including: Amount presented under non-current liabilities due within one year	13,757
II. Lease liabilities at 1 January 2019	727,116
Presented as:	
Non-current liabilities due within one year	197,173
Lease liabilities	529,943

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

### 30. Changes in significant accounting policies and accounting estimates (continued)

#### (1) Changes in significant accounting policies (continued)

##### (a) New lease standard (continued)

##### (i) The Group as the lessee (continued)

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

RMB'000

Item	1 January 2019
Right-of-use assets:	
Right-of-use assets recognized for operating leases before the date of initial application	583,921
Reclassified prepaid rental	29,774
Financing leased assets recognized under the original lease standards	166,300
Total	779,995

The right-of-use assets on 1 January 2019 by category are as follows:

RMB'000

Item	1 January 2019
Buildings	516,655
Machinery and equipment	227,413
Transportation equipment	33,393
Office equipment and other equipment	2,534
Total	779,995

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

### 30. Changes in significant accounting policies and accounting estimates (continued)

#### (1) Changes in significant accounting policies (continued)

##### (a) New lease standard (continued)

##### (ii) The Group as the lessor

There was no need to make any transitional adjustments for leases in which the Group acts as the lessor. The Group made accounting treatments in accordance with the new lease standard starting from the date of initial application.

##### (iii) Sale and leaseback transactions

For sale and leaseback transactions that exist before the date of initial application, the Group does not reassess whether the transfer of assets belongs to sales according to Note III, 24 on the initial application date. For future transactions after the initial application date, the Group (as vendor) and lessee shall assess whether the transfer of asset in after sale leaseback transaction belong to sales in accordance with Note III, 24. There was no new after sale leaseback transaction during the year.

##### (iv) The impact of the application of the new lease standard on the related items in the Group's balance sheet on 1 January 2019 is listed as follows:

	RMB'000		
Item	31 December 2018	Adjustment	1 January 2019
<b>Current Assets:</b>			
Prepayments	9,198,553	(29,774)	9,168,779
<b>Non-current Assets:</b>			
Right-of-use assets	–	779,995	779,995
Fixed assets	57,390,729	(166,300)	57,224,429
<b>Current Liabilities:</b>			
Non-current liabilities due within one year	11,096,595	183,416	11,280,011
<b>Non-current Liabilities:</b>			
Lease liabilities	–	529,943	529,943
Long-term payables	279,178	(129,438)	149,740

The application of the new lease standard has had no significant impact on the Company's financial statements as at 1 January 2019

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### 30. Changes in significant accounting policies and accounting estimates *(continued)*

#### **(1) Changes in significant accounting policies *(continued)***

##### *(b) Financial statement presentation format*

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

##### *(c) The newly revised standard for non-monetary assets exchange*

On 9 May 2019, the MoF issued the revised the Accounting Standard for Business Enterprises No. 7 – Exchange of Non-monetary Assets (hereinafter referred to as "the new non-monetary assets exchange standard"), which has taken effect on 10 June 2019. The new non-monetary assets exchange standard revised the definition of non-monetary assets exchange, clarified the application scope of the standard, specified the time point of recognition and termination of recognition, and provided accounting treatment principles in circumstances where the recognition time point of the received assets is inconsistent with the derecognition time point of the surrendered assets. It also elaborated the accounting treatment for the non-monetary assets exchange and increased the requirements about disclosure. The implementation of the newly revised non-monetary assets exchange standard had no significant impact on the Group's financial statements for the year.

##### *(d) The newly revised standard for debt restructuring*

On 16 May 2019, the MoF issued the revised the Accounting standard for Business Enterprises No. 12 – Debt Restructuring (hereinafter referred to as "the new debt restructuring standard"), which has taken effect on 17 June 2019. The new debt restructuring standard revised the definition of debt restructuring, clarified the application scope of the standard, revised the accounting treatment of debt restructuring and simplified the disclosure requirements for debt restructuring. The implementation of the newly revised debt restructuring standard had no significant impact on the Group's financial statements for the year.

#### **(2) The Group had no significant changes in accounting estimates for the year.**

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## IV. TAXES

### 1. Major categories of taxes and tax rates

#### *Major categories of taxes and tax rates*

Category of tax	Basis of tax computation	Tax rate
VAT	VAT is calculated and paid at the balance of the output VAT determined based on taxable income less deductible input VAT for the period.	6-16%
City maintenance and construction tax	Computed by value added tax payable	5-7%
Enterprise income tax	Computed by taxable income	25%

Note: According to the "Announcement on Policies Related to Deepening Value-Added Tax (VAT) Reform" issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs (Announcement No. 39 of 2019 by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs). Since April 1, 2019, the Group has originally applied 16% VAT tax rate and 10% VAT tax rate to its business. Since then, the Group has applied 13% VAT tax rate and 9% VAT tax rate respectively.

### 2. Tax incentive

#### *(1) VAT*

According to the Notice of the MoF and the State Administration of Taxation on the Policy of Value Added Tax on Software Products (Cai Shui [2011] No. 100), the part of the actual tax burden of VAT exceeding 3% was levied and refunded upon collection, when CRRC Information Technology and CRRC Zhuzhou Institute and its holding subsidiaries sell their self-developed and self-produced software products in 2019.

#### *(2) Enterprise income Tax*

As approved by relevant Provincial Department of Science and Technology, Provincial Department of Finance, Provincial Office of the State Administration of Taxation, and Provincial Local Taxation Bureau, CRRC Changchun Railway Vehicles Co. Ltd., CRRC Zhuzhou Institute, CRRC Zhuzhou Locomotive, CRRC Tangshan, CRRC Qishuyan, CRRC Qishuyan Institute, CRRC Yongji Moto, CRRC Zhuzhou Moto and CRRC Datong obtained high-tech enterprise certificate in 2017, and is subject to an enterprise income tax at a reduced rate of 15% from 2017 to 2019. The Group expected that they would remain the reduced rate of 15% in 2020.

As approved by relevant Municipal Department of Science and Technology, Municipal Department of Finance, Municipal Office of the State Administration of Taxation, and Municipal Local Taxation Bureau, CRRC Qingdao Sifang, CRRC Sifang Institute, CRRC Sifang and CRRC Dalian Institute obtained high-tech enterprise certificate in 2017, and is subject to an enterprise income tax at a reduced rate of 15% from 2017 to 2019. The Group expected that they would remain the reduced rate of 15% in 2020.



## IV. TAXES (continued)

### 2. Tax incentive (continued)

#### (2) Enterprise income Tax (continued)

As approved by relevant Provincial Department of Science and Technology, Provincial Department of Finance, Provincial Office of the State Administration of Taxation, and Provincial Local Taxation Bureau, CRRC Nanjing Puzhen, CRRC Industrial Institute obtained high-tech enterprise certificate in 2018, and is subject to an enterprise income tax at a reduced rate of 15% from 2018 to 2020.

As approved by relevant Municipal Department of Science and Technology, Municipal Department of Finance, Municipal Office of the State Administration of Taxation, and Municipal Local Taxation Bureau, CRRC Dalian, CRRC Dalian R&D, obtained high-tech enterprise certificate in 2018, and is subject to an enterprise income tax at a reduced rate of 15% from 2018 to 2020.

As approved by Beijing Municipal Science & Technology Commission, Beijing Municipal Bureau of Finance, Beijing Municipal Office of the State Administration of Taxation and Beijing Local Taxation Bureau, CRRC Information Technology, obtained high-tech enterprise certificate in 2019, and is subject to an enterprise income tax at a reduced rate of 15% from 2019 to 2021.

According to the *Notice of the MoF, the General Administration of Customs and the State Administration of Taxation on Tax Policy Issues concerning Further Implementing the Western China Development Strategy* (Cai Shui [2011] No. 58), From 1 January 2011 to 31 December 2020, the enterprise income tax on an enterprise in an encouraged industry established in western China shall be paid at the reduced rate of 15%. As approved by Sichuan State Taxation Bureau, the principal operations of CRRC Ziyang are defined as state encouraged projects which levied at a reduced rate of 15%.

According to the PRC Enterprise Income Tax Law and its implementing regulations, as well as the *Notice of the MoF and the State Administration of Taxation on Extending the Period for Carry-over of Losses of High-tech Enterprises and Small and Medium-sized Technological Enterprises* (Cai Shui [2018] No.76), the enterprises with the qualification of high-tech enterprises or small and medium-sized technological enterprises (hereinafter referred to as "qualification") in 2018, are allowed to carry forward the losses occurred from 2013 to 2017 that have not yet been covered to subsequent years, regardless of whether they are the enterprises with the qualification from 2013 to 2017. The maximum carry-over period is 10 years. Enterprises that are qualified from the year after 2018 carry forward losses to offset tax on the same basis. A number of companies under the Group, as high-tech enterprises, will carry forward the undistributed losses for 10 years since 2018 according to the provisions.

According to the *Notice of Increasing the Proportion of the Weighted Pre-tax Deduction of Research and Development Expenses* (Cai Shui [2018] No. 99), during the period from 1 January 2018 to 31 December 2020, the R&D expenses, which do not form intangible assets and are included in the current P/L, can be deducted in accordance with provisions, with 75% of the actual amount is deducted before tax additionally. If intangible assets are formed, the 175% of R&D expenses can be deducted before tax during the aforementioned period with the aim of motivating R&D activities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS

### 1. Cash and bank balances

RMB'000

Item	31 December 2019	31 December 2018
Cash on hand	2,027	2,011
Bank deposits	40,656,503	34,663,132
Other cash and bank balances	4,246,234	3,505,865
<b>Total</b>	<b>44,904,764</b>	<b>38,171,008</b>
Including: Total amount deposited overseas	5,171,079	4,163,610

Restricted cash and bank balances of the Group:

RMB'000

Item	31 December 2019	31 December 2018
Statutory reserve deposited by CRRC Finance at central bank	1,513,236	1,484,825
Guarantee deposits for acceptances	1,137,930	2,367,325
Guarantee deposits for letter of credit	16,942	54,270
Guarantee deposits for letter of guarantee	294,707	422,565
Pledge of bank borrowings for the Group	809	–
Deposits subject to government regulation or special restrictions and others (Note)	2,795,807	698,681
<b>Total</b>	<b>5,759,431</b>	<b>5,027,666</b>

Bank balances subject to governmental restriction of RMB2.2 billion (2018: RMB600 million) represents balances restricted pursuant to freezing orders issued by the South African Reserve Bank ("SARB") relating to alleged contraventions of the Exchange Control Regulations in South Africa in relation to overseas remittances by the Group's subsidiary in South Africa during the period 1 April 2014 to 20 January 2017 in respect of certain locomotive procurements involving Transnet (see also note XI. 2).

As at 31 December 2019, the term deposits that have not been pledged or restricted for use for three months or over three months is RMB3,325,747,000 (31 December 2018: RMB2,853,248,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 2. Placements with other financial institutions

RMB'000

Item	31 December 2019	31 December 2018
Placements with other financial institutions of Finance Company	139,524	–
Total	139,524	–

Note: Placements with other financial institutions are the placements of Finance Company in other financial institutions.

### 3. Held-for-trading financial assets

RMB'000

Item	31 December 2019	31 December 2018
Investments in equity instruments	1,174,225	891,841
Derivatives	2,550	2,515
Others (Note)	8,003,841	6,352,380
Total	9,180,616	7,246,736

Note: Others are mainly short-term floating income wealth management products and monetary funds purchased by the Group.

### 4. Bills receivable

#### (1) Category of bills receivable:

RMB'000

Item	31 December 2019	31 December 2018
Bank acceptances	5,098,282	5,138,671
Commercial acceptances	9,189,560	10,398,924
Less: Credit loss allowance	(41,877)	(62,489)
Total	14,245,965	15,475,106

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 4. Bills receivable (continued)

#### (2) Bills receivable pledged at the end of the year:

	RMB'000
Item	Pledged as at 31 December 2019
Bank acceptances	362,067
Commercial acceptances	147,000
Total	509,067

#### (3) Bills receivable endorsed or discounted but not matured at the balance sheet date:

	RMB'000
Item	Amount not derecognized as at 31 December 2019
Bank acceptances	2,399,977
Commercial acceptances	1,926,820
Total	4,326,797

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 4. Bills receivable (continued)

#### (4) Details of provision for credit loss allowance:

RMB'000

Credit loss allowance	12-month ECL (Non-credit- impaired)	Total
At 1 January 2019	62,489	62,489
Provision	41,877	41,877
Reversal	(62,489)	(62,489)
At 31 December 2019	41,877	41,877

(5) As at 31 December 2019, bills receivable due from related parties are set out in Note X, 5.

### 5. Accounts receivable

#### (1) Aging analysis of accounts receivable

RMB'000

Aging	31 December 2019	31 December 2018
Within 1 year	54,186,217	57,456,195
1 to 2 years	4,754,799	4,955,465
2 to 3 years	2,274,474	2,411,319
3 to 4 years	1,202,072	1,816,070
4 to 5 years	1,434,048	1,123,821
Over 5 years	1,736,162	1,485,276
Sub-total	65,587,772	69,248,146
Less: Credit loss allowance	(5,875,348)	(5,042,543)
Total	59,712,424	64,205,603

The aging of accounts receivable of the Group is classified based on the invoicing date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 5. Accounts receivable (continued)

#### (2) Analysis of accounts receivable by categories based on method of provision for credit loss allowance

RMB'000

Category	31 December 2019					31 December 2018				
	Book value		Credit loss allowance		Carrying amount	Book value		Credit loss allowance		Carrying amount
	Amount	Proportion (%)	Amount	Proportion (%)		Amount	Proportion (%)	Amount	Proportion (%)	
Provision on individual basis	10,279,644	15.7	(4,092,819)	39.8	6,186,825	13,311,773	19.2	(3,322,008)	25.0	9,989,765
Provision on portfolio basis	55,308,128	84.3	(1,782,529)	3.2	53,525,599	55,936,373	80.8	(1,720,535)	3.1	54,215,838
<b>Total</b>	<b>65,587,772</b>	<b>100.0</b>	<b>(5,875,348)</b>	<b>/</b>	<b>59,712,424</b>	<b>69,248,146</b>	<b>100.0</b>	<b>(5,042,543)</b>	<b>/</b>	<b>64,205,603</b>

#### (i) Analysis of accounts receivable for which credit loss allowance is provided on an individual basis:

RMB'000

Name	Book value	31 December 2019		Reason for provision
		Credit loss allowance	Proportion (%)	
Accounts receivable 1	213,676	(213,676)	100.0	Note
Accounts receivable 2	177,790	(177,790)	100.0	Note
Accounts receivable 3	150,712	(150,712)	100.0	Note
Accounts receivable 4	146,323	(146,323)	100.0	Note
Accounts receivable 5	130,662	(130,662)	100.0	Note
Others	9,460,481	(3,273,656)	34.6	Note
<b>Total</b>	<b>10,279,644</b>	<b>(4,092,819)</b>	<b>/</b>	<b>/</b>

Note: The Group considered the reasonable and evidenced information (including forward-looking information) available in relation to the counterparty, assessed the expected credit losses and made loss allowance.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 5. Accounts receivable (continued)

#### (2) Analysis of accounts receivable by categories based on method of provision for credit loss allowance (continued)

(ii) Analysis of accounts receivable for which credit loss allowance is provided on a portfolio basis:

RMB'000

Aging	Expected credit loss rate (%)	Book value at 31 December 2019	Credit loss allowance	Carrying amount at 31 December 2019
Within 1 year	0.1-2.0	48,426,112	(414,249)	48,011,863
1 to 2 years	1.0-10.0	3,901,009	(214,215)	3,686,794
2 to 3 years	5.0-25.0	867,276	(149,051)	718,225
3 to 4 years	20.0-30.0	651,143	(173,509)	477,634
4 to 5 years	35.0-50.0	772,924	(369,820)	403,104
Over 5 years	60.0-70.0	689,664	(461,685)	227,979
Total	/	55,308,128	(1,782,529)	53,525,599

#### (3) Details of provision for credit loss allowance:

RMB'000

Credit loss allowance	Lifetime ECL (Non-credit-impaired)	Lifetime ECL (Credit-impaired)	Total
At 1 January 2019	2,880,439	2,162,104	5,042,543
Transfer to Phase 2	349,322	(349,322)	–
Transfer to Phase 3	(911,608)	911,608	–
Provision	296,734	1,862,023	2,158,757
Reversal	(658,575)	–	(658,575)
Write-off	–	(487,634)	(487,634)
Other changes	(23)	(179,720)	(179,743)
At 31 December 2019	1,956,289	3,919,059	5,875,348

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 5. Accounts receivable (continued)

#### (4) Details of accounts receivable from debtors with top 5 closing balances

RMB'000

Company name	Relationship with the Group	31 December 2019	Proportion to total accounts receivable (%)
Top 5 accounts receivables	Third party	32,169,238	49.0

#### (5) Accounts receivable derecognized due to transfer of financial assets:

RMB'000

Item	Ways to transfer financial assets	Amount derecognized as during January to December 2019
CRRC Trust Assets-backed Notes	Securitization	3,193,369
Accounts receivable factoring	Factoring	5,515,572
Total		8,708,941

(6) As at 31 December 2019, the Group has accounts receivable with carrying amount equivalent to RMB53,105,000 (31 December 2018: Nil) as pledge for bank loans.

(7) As at 31 December 2019, amounts due from related parties of the Group are set out in Note X, 5.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 6. Receivables at fair value through other comprehensive income

RMB'000

Item	31 December 2019	31 December 2018
Bills receivable	11,494,707	4,233,540
Accounts receivable	1,590,906	1,044,101
Total	text-align: right;">13,085,613	text-align: right;">5,277,641

#### (1) Changes in fair value

RMB'000

Changes in fair value	31 December 2019
Cost	13,317,886
Fair value	13,085,613
Amount of changes in fair value accumulated in other comprehensive income	text-align: right;">(232,273)

#### (2) Bills receivable pledged at the end of the year:

RMB'000

Item	Pledged as at 31 December 2019
Bank acceptances	629,385
Total	text-align: right;">629,385

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### 6. Receivables at fair value through other comprehensive income *(continued)*

#### (3) Bills receivable endorsed or discounted but not matured at the balance sheet date:

Item	RMB'000
	Amount derecognized as at 31 December 2019
Bank acceptances	11,672,780
Total	11,672,780

#### (4) Credit loss allowance for receivables at fair value through other comprehensive income

Credit loss allowance	Phrase 1 12-month ECL (Non-credit-impaired)	Total
At 1 January 2019	19	19
Provision	7,054	7,054
Reversal	(19)	(19)
At 31 December 2019	7,054	7,054

(5) As at 31 December 2019, amounts due from related parties of the Group are set out in Note X, 5.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 7. Prepayments

#### (1) Prepayments presented by aging:

RMB'000

Aging	31 December 2019		31 December 2018	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	7,708,551	77.8	6,974,405	75.8
1 to 2 years	860,367	8.7	987,198	10.7
2 to 3 years	383,324	3.9	952,572	10.4
Over 3 years	956,977	9.6	284,378	3.1
Total	9,909,219	100.0	9,198,553	100.0

#### (2) Details of prepayments with top 5 closing balances

RMB'000

Company name	Relationship with the Group	31 December 2019	Proportion to total prepayments (%)
Top 5 prepayments	Third party	2,165,010	21.8

(3) As at 31 December 2019, prepayments made to related parties of the Group are set out in Note X, 5.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 8. Other receivables

#### (1) Presented by item:

	RMB'000	
Item	31 December 2019	31 December 2018
Interests receivable	45,355	43,817
Dividends receivable	148,563	70,473
Other receivables	2,405,137	2,915,597
Total	2,599,055	3,029,887

#### (2) Interests receivable

	RMB'000	
Item	31 December 2019	31 December 2018
Bonds investment	16,656	31,602
Others	28,699	12,215
Total	45,355	43,817

#### (3) Dividends receivable

	RMB'000	
Investee	31 December 2019	31 December 2018
Related party	92,074	68,703
Third party	56,489	1,770
Total	148,563	70,473

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 8. Other receivables (continued)

#### (4) Other receivables

##### (i) Aging analysis of other receivables

	RMB'000	
Aging	31 December 2019	31 December 2018
Within 1 year	1,756,099	2,439,539
1 to 2 years	725,883	326,745
2 to 3 years	294,238	57,511
3 to 4 years	54,800	67,229
4 to 5 years	58,588	283,030
Over 5 years	572,822	300,240
Sub-total	3,462,430	3,474,294
Less: Credit loss allowance	(1,057,293)	(558,697)
Total	2,405,137	2,915,597

##### (ii) Categorized by nature:

	RMB'000	
Nature	31 December 2019	31 December 2018
Advances paid for others	840,371	848,026
Deposits and securities	525,761	446,587
Land transfer receivables	51,525	698,067
Others	987,480	922,917
Total	2,405,137	2,915,597

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 8. Other receivables (continued)

#### (4) Other receivables (continued)

(iii) Provision for credit loss allowance:

RMB'000

Credit loss allowance	12-month ECL	Lifetime ECL (Non-credit- impaired)	Lifetime ECL (Credit- impaired)	Total
At 1 January 2019	7,158	40,280	511,259	558,697
Transfer to Phase 3	–	(39,194)	39,194	–
Provision	28,204	10,067	341,645	379,916
Reversal	(4,355)	(3,486)	–	(7,841)
Write-off	–	–	(1,700)	(1,700)
Other changes	55	105	128,061	128,221
At 31 December 2019	31,062	7,772	1,018,459	1,057,293

(iv) Details of other receivables from debtors with top 5 closing balances:

RMB'000

Company name	Nature	31 December 2019	Proportion to total other receivables (%)
Top 5 other receivables	Related party/Third party	<b>779,468</b>	22.5

(5) As at 31 December 2019, other receivables due from related parties of the Group are set out in Note X, 5.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 9. Inventories

#### (1) Category of inventories

RMB'000

Item	31 December 2019			31 December 2018		
	Book value	Provision for decline in value of inventories	Carrying amount	Book value	Provision for decline in value of inventories	Carrying amount
Raw materials	18,130,578	(876,486)	17,254,092	17,072,638	(756,446)	16,316,192
Work in progress	33,453,471	(1,126,267)	32,327,204	28,670,346	(881,278)	27,789,068
Finished goods	11,606,037	(675,696)	10,930,341	11,024,218	(426,110)	10,598,108
Turnover materials	202,546	(15,307)	187,239	208,575	(9,738)	198,837
Commissioned processing materials	135,468	(576)	134,892	219,852	(557)	219,295
Total	63,528,100	(2,694,332)	60,833,768	57,195,629	(2,074,129)	55,121,500

#### (2) Provision for decline in value of inventories

RMB'000

Item	1 January	Increase			Decrease		31 December
	2019	Provision	Others	Reversal	Write-off	Others	
Raw materials	756,446	236,080	-	18,965	98,635	(1,560)	876,486
Work in progress	881,278	381,786	-	1,389	122,147	13,261	1,126,267
Finished goods	426,110	353,501	13,942	16,912	100,713	232	675,696
Turnover materials	9,738	7,465	-	11	1,885	-	15,307
Commissioned processing materials	557	19	-	-	-	-	576
Total	2,074,129	978,851	13,942	37,277	323,380	11,933	2,694,332

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 10. Contract assets

#### (1) Details of contract assets:

Item	RMB'000	
	31 December 2019	31 December 2018
Sale of goods related (Note 1)	23,824,746	20,381,420
Project contracting services related (Note 2)	2,312,863	3,389,039
Less: Credit loss allowance on contract assets	(231,803)	(188,638)
Sub-total	25,905,806	23,581,821
Less: Contract assets presented under other non-current assets (Note V, 27)	(9,540,840)	(8,923,932)
Total	16,364,966	14,657,889

Note 1: For the sales of goods provided by the Group, it is agreed in the contract that the Group shall pay separately at different stages according to the proportion. The Group recognizes the revenue at the time of acceptance and delivery of goods, and the right to receive consideration that does not meet the unconditional right to receive payment is recognized as contract assets and presented under contract assets/other non-current assets according to the liquidity.

For the quality guarantee deposit from the Group's sales contracts, the Group has the unconditional right to collect consideration from customers after the expiration of the quality guarantee period without material quality problems. Therefore, the contract assets formed from this part of the quality guarantee deposit should be recognized as receivable after the expiration of the quality guarantee period without material quality problems.

Note 2: Revenue from project contracting services provided by the Group shall be recognized based on the performance progress, and the contract consideration shall be collected after the customer completes the acceptance check and work settlement. The difference between the revenue recognized based on the performance progress and such consideration shall be recognized as contract assets and presented under contract assets/other non-current assets according to the liquidity.

The quality guarantee deposit from project contracting services provided by the Group and customer settlement, the Group has the unconditional right to collect consideration from customers after the expiration of the quality guarantee period without material quality problems. Therefore, the contract assets formed from this part of the quality guarantee deposit should be recognized as receivable after the expiration of the quality guarantee period without material quality problems.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 10. Contract assets (continued)

#### (2) Credit loss allowance on contract assets for the year:

RMB'000

Credit loss allowance	Lifetime ECL (Non-credit- impaired)	Lifetime ECL (Credit- impaired)	Total
At 1 January 2019	169,005	19,633	188,638
Provision	130,271	1,495	131,766
Reversal	(92,839)	(387)	(93,226)
Other changes	24,099	(19,474)	4,625
At 31 December 2019	230,536	1,267	231,803

(3) As at 31 December 2019, details of current account balances with related parties included in the balance of contract assets are set out in Note X, 5.

### 11. Non-current assets due within one year

RMB'000

Item	31 December 2019	31 December 2018
Long-term receivables due within one year (Note V, 15)	6,415,374	6,102,273
Loans and advances due within one year (Note V, 13)	7,966,056	4,656,971
Debt investments due within one year (Note V, 14)	34,863	880,525
Other non-current assets due within one year (Note V, 27)	–	6,960
Total	14,416,293	11,646,729

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 12. Other current assets

RMB'000

Item	31 December 2019	31 December 2018
VAT to be deducted and prepaid	5,157,028	3,046,307
Bond investment	567,789	409,841
Others	95,312	18,974
Total	5,820,129	3,475,122

### 13. Loans and advances to customers

RMB'000

Item	31 December 2019	31 December 2018
Loans and advances made by CRRC Finance	8,272,417	6,637,600
Less: Credit loss allowance	(125,773)	(99,718)
Sub-total	8,146,644	6,537,882
Including: Loans and advances due within one year (Note V, 11)	7,966,056	4,656,971
Loans and advances due after one year	180,588	1,880,911

As at 31 December 2019, the details of loans and advances (inclusive of the portion due within one year) to related parties of the Group are set out in Note X, 5.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 14. Debt investments

#### (1) Details of debt investments

Item	31 December 2019			31 December 2018		
	Book value	Loss allowance	Carrying amount	Book value	Loss allowance	Carrying amount
Five-year USD Notes of China Merchants Group	209,285	–	209,285	205,895	–	205,895
Five-year Medium Term Notes of Minsheng Financial Leasing Co., Ltd.	209,284	–	209,284	205,894	–	205,894
Three-year Bonds of Tongfang Co., Ltd.	207,719	–	207,719	203,210	–	203,210
Seven-year Medium Term Notes of China Aircraft Leasing Group Holdings Limited	187,673	–	187,673	184,077	–	184,077
Related to “Built – transfer” – Nanjing Qilin Modern Tram Construction Co., Ltd.	174,660	–	174,660	174,660	–	174,660
Five-year Medium Term Notes of China Aircraft Leasing Group Holdings Limited	145,952	–	145,952	142,762	–	142,762
Five-year Bonds of Qingdao City Construction Investment (Group) Co., Ltd.	139,387	–	139,387	137,088	–	137,088
Others	419,737	(600)	419,137	1,249,791	(600)	1,249,191
Sub-total	1,693,697	(600)	1,693,097	2,503,377	(600)	2,502,777
Less: Debt investment included in non-current assets due within one year (Note V, 11)	(34,863)	–	(34,863)	(880,525)	–	(880,525)
Total	1,658,834	(600)	1,658,234	1,622,852	(600)	1,622,252

RMB'000

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 14. Debt investments (continued)

#### (2) Provision for credit loss allowance:

	RMB'000
	<b>Phase 1</b>
<b>Credit loss allowance</b>	<b>12-month ECL</b>
1 January 2019 & 31 December 2019	合計
	600
	600

### 15. Long-term receivables

#### (1) Details of long-term receivables:

	31 December 2019			31 December 2018			
<b>Item</b>	<b>Book value</b>	<b>Credit loss allowance</b>	<b>Carrying amount</b>	Book value	Credit loss allowance	Carrying amount	Discount rate interval
Financing lease	14,437,312	(2,947,657)	11,489,655	10,584,343	(2,384,667)	8,199,676	4.9%-14%
Sales by instalments	3,015,135	(535,743)	2,479,392	3,027,523	(133,704)	2,893,819	4%-6%
Construction payment and Bulit-bransfer receivables	3,217,432	(252,187)	2,965,245	2,945,358	(127,567)	2,817,791	3.5%-6%
Total	20,669,879	(3,735,587)	16,934,292	16,557,224	(2,645,938)	13,911,286	/
Less: Long-term receivables due within one year (Note V, 11)	/	/	(6,415,374)	/	/	(6,102,273)	/
Long-term receivables due after one year	/	/	10,518,918	/	/	7,809,013	/

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 15. Long-term receivables (continued)

#### (2) Provision for credit loss allowance:

RMB'000

Credit loss allowance	Phase 2 Lifetime ECL (Non-credit- impaired)	Phase 3 Lifetime ECL (Credit- impaired)	Total
1 January 2019	212,488	2,433,450	2,645,938
Provision	141,206	1,574,820	1,716,026
Reversal	(19,316)	(5,424)	(24,740)
Write-off	(722)	(457,298)	(458,020)
Other changes	(2,292)	(141,325)	(143,617)
31 December 2019	331,364	3,404,223	3,735,587

#### (3) Financing lease receivable

RMB'000

Item	31 December 2019	31 December 2018
The minimum amount of the lease receivable:		
1st year after the balance sheet date	<b>10,581,337</b>	8,258,404
2nd year after the balance sheet date	<b>2,231,130</b>	1,448,623
3rd year after the balance sheet date	<b>1,807,093</b>	813,573
4th year after the balance sheet date	<b>1,088,612</b>	660,040
5th year after the balance sheet date	<b>624,604</b>	526,328
Years afterward	<b>922,540</b>	1,415,186
Total of the minimum amount of the lease receivable	<b>17,255,316</b>	13,122,154
Less: Unrealized financing income	<b>(2,818,004)</b>	(2,537,811)
Credit loss allowance	<b>(2,947,657)</b>	(2,384,667)
Financing lease receivable	<b>11,489,655</b>	8,199,676
Including: financing lease receivable due within one year	<b>5,840,285</b>	4,489,291
financing lease receivable due after one year	<b>5,649,370</b>	3,710,385

(4) As at 31 December 2019, the Group has long-term receivables with carrying amount equivalent to RMB371,694,000 (31 December 2018: RMB244,030,000) as pledge for the Group to obtain bank loans.

(5) As at 31 December 2019, long-term receivables (inclusive of the portion due within one year) due from related parties of the Group are set out in Note X, 5.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 16. Long-term equity investments

RMB'000

Investee	Changes for the period									Carrying amount as at 31 December 2019	Provision for impairment loss as at 31 December 2019
	Carrying amount as at 1 January 2019	Increase in investment	Reduction in investment	Investment gains or losses under equity method (Note V, 60)	Adjustment of other comprehensive income	Other equity changes (Note 1)	Announcement of cash dividends or profits	Provision for impairment loss	Others (Note 2)		
<b>I. Joint ventures</b>											
Wuhu Yunda Rail Transit Construction And Operation Co., Ltd. ("Wuhu Yunda")	375,000	98,000	-	-	-	-	-	-	-	473,000	-
Dalian Toshiba Locomotive Electric Equipment Co., Ltd.	377,072	-	-	36,334	-	-	(42,155)	-	-	371,251	-
Changchun Bombardier Railway Vehicles Company Ltd.	263,114	-	-	19,500	-	-	(5,000)	-	-	277,614	-
Zhuzhou Times Mitsubishi Transportation Equipment Co., Ltd.	207,979	-	-	301	-	-	-	-	-	208,280	-
Zhuzhou CRRC Times High-tech Investment & Trusting Co., Ltd.	199,149	-	-	13,493	-	-	(5,000)	-	-	207,642	-
Qingdao Sifang Faiveley Railway Brake Co., Ltd.	114,395	-	-	16,924	-	-	(17,500)	-	-	113,819	-
Others	705,595	500,092	(58)	(37,943)	-	-	(16,873)	-	12,306	1,163,119	-
Sub-total	2,242,304	598,092	(58)	48,609	-	-	(86,528)	-	12,306	2,814,725	-
<b>II. Associates</b>											
China United Insurance Holding Company ("China United Insurance")	4,974,497	-	-	151,094	21,662	(1,910)	-	-	-	5,145,343	-
CRRC Hunan Times Electric Vehicle Co., Ltd.	1,454,293	363,683	-	8,386	-	-	(28,629)	-	-	1,797,733	-
Jinan-Qingdao High-speed Railway Co., Ltd.	1,302,165	-	-	(45,784)	-	-	-	-	-	1,256,381	-
CRRC Ziyang Electric Technology Co., Ltd.	487,544	-	-	634	-	727	-	-	-	488,905	-
CRRC Foshan Investment Development Co., Ltd.	130,000	-	-	-	-	187,500	-	-	-	317,500	-
Tianjin Electric Locomotive Co., Ltd. ("Tianjin Electric Locomotive")	377,888	-	-	(61,154)	-	-	-	-	-	316,734	-
CRRC Tianjin Jinpu Industrial Park Management Co., Ltd.	264,307	-	-	3	-	-	-	-	-	264,310	-
Shanghai Alstom Communications Electric Co. Ltd.	141,804	-	-	41,904	-	-	(16,960)	-	-	166,748	-
Huaneng Tieling Daxing Wind Power Generating Co., Ltd.	179,575	-	-	23,934	-	-	(53,315)	-	(204)	149,990	-
Others	2,211,415	218,305	(47,956)	179,990	-	17,539	(194,904)	-	467,938	2,852,327	-
Sub-total	11,523,488	581,988	(47,956)	299,007	21,662	203,856	(293,808)	-	467,734	12,755,971	-
Total	13,765,792	1,180,080	(48,014)	347,616	21,662	203,856	(380,336)	-	480,040	15,570,696	-

Note 1: The main reason for other equity changes is that the share of investment in the investee owned by the Group is increased by the non-proportional capital increase by other investors of the investee.

Note 2: Other adjustments are mainly due to the Group's disposal of part of subsidiaries' equity and loss of control over the original subsidiaries in the current year. Such companies are changed into joint ventures or associates of the Group. The fair value of the remaining equity at the date of loss of control is RMB484,853,000 (Note VI, 1).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 17. Investment in other equity instruments

#### (1) Category of investment in other equity instruments:

RMB'000

Item	31 December 2019	31 December 2018
Listed equity instruments investments	1,398,150	1,370,906
Unlisted equity instruments investments	1,256,452	881,517
<b>Total</b>	<b>2,654,602</b>	<b>2,252,423</b>

#### (2) Details of investment in other equity instruments:

RMB'000

Item	Dividend income recognized in this year	Accumulative gains	Accumulative losses	Amount recognized in other comprehensive income transferred to retained earnings for the period	Reason for being designated as at FVTOCI	Reason of other comprehensive income transferred to retained earnings
Listed equity instrument investments	34,313	–	778,015	(6,150)	Note	Disposal
Unlisted equity instrument investments	4,198	181,528	–	60,614	Note	Disposal

Note: The unlisted equity instrument investments of the Group are investments planned to be held for the long term for the strategic purpose of the Group. Therefore, the above investments are designated as financial assets at FVTOCI by the Group.

### 18. Other non-current financial assets

RMB'000

Item	31 December 2019	31 December 2018
Financial assets investments: such as preference shares	616,855	598,551
<b>Total</b>	<b>616,855</b>	<b>598,551</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 19. Investment properties

RMB'000

Item	Buildings	Land use rights	Total
I. COST			
1. At 1 January 2019	1,394,533	127,065	1,521,598
2. Increases	176,940	–	176,940
(1) Transfer from fixed assets (Note V, 20)	174,589	–	174,589
(2) Transfer from construction in progress (Note V, 21)	2,351	–	2,351
3. Decreases	276,517	19,621	296,138
(1) Sale or retirement	5,326	–	5,326
(2) Transfer to fixed assets (Note V, 20)	271,191	–	271,191
(3) Transfer to intangible assets (Note V, 23)	–	19,621	19,621
4. At 31 December 2019	1,294,956	107,444	1,402,400
II. Accumulated depreciation and amortization			
1. At 1 January 2019	239,527	21,480	261,007
2. Increases	55,758	2,389	58,147
(1) Provision or amortization	25,777	2,389	28,166
(2) Transfer from fixed assets (Note V, 20)	29,981	–	29,981
3. Decreases	33,987	4,305	38,292
(1) Sale or retirement	867	–	867
(2) Transfer to fixed assets (Note V, 20)	33,120	–	33,120
(3) Transfer to intangible assets (Note V, 23)	–	4,305	4,305
4. At 31 December 2019	261,298	19,564	280,862
III. Provision for impairment loss			
At 1 January 2019 and 31 December 2019	12,061	–	12,061
IV. Carrying amount			
1. Carrying amount as at 31 December 2019	1,021,597	87,880	1,109,477
2. Carrying amount as at 31 December 2018	1,142,945	105,585	1,248,530



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 20. Fixed assets

#### (1) Presented by item:

Item	RMB'000	
	31 December 2019	31 December 2018
Fixed assets	59,065,583	57,321,099
Disposal of fixed assets	25,303	69,630
Total	59,090,886	57,390,729

#### (2) Details of fixed assets

Item	RMB'000					
	Land assets	Buildings	Machinery and equipment	Transportation vehicles	Office equipment and other equipment	Total
I. COST						
1. At 31 December 2018	225,917	44,860,673	44,698,265	2,817,814	5,246,914	97,849,583
Changes in accounting policies (Note III, 30)	-	(107,596)	(161,075)	-	-	(268,671)
At 1 January 2019 (restated)	225,917	44,753,077	44,537,190	2,817,814	5,246,914	97,580,912
2. Increases	59,537	4,184,317	4,052,563	182,915	807,382	9,286,714
(1) Acquisitions	-	404,796	1,104,449	92,684	391,248	1,993,177
(2) Transfer from construction in progress (Note V, 21)	58,406	3,508,330	2,948,114	90,017	414,792	7,019,659
(3) Transfer from investment properties (Note V, 19)	-	271,191	-	-	-	271,191
(4) Exchange fluctuation	1,131	-	-	214	1,342	2,687
3. Decreases	-	749,793	1,392,683	259,954	185,759	2,588,189
(1) Disposal or retirement	-	193,303	1,039,400	251,307	164,215	1,648,225
(2) Disposal of subsidiaries	-	335,261	283,100	-	18,763	637,124
(3) Transfer to construction in progress	-	43,949	69,181	8,647	2,781	124,558
(4) Transfer to investment properties (Note V, 19)	-	174,589	-	-	-	174,589
(5) Exchange fluctuation	-	2,691	1,002	-	-	3,693
4. At 31 December 2019	285,454	48,187,601	47,197,070	2,740,775	5,868,537	104,279,437

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 20. Fixed assets (continued)

#### (2) Details of fixed assets (continued)

Item	Land assets	Buildings	Machinery and equipment	Transportation vehicles	Office equipment and other equipment	Total
II. Accumulated depreciation						
1. At 31 December 2018	-	11,050,134	23,964,024	1,710,476	3,390,111	40,114,745
Changes in accounting policies (Note III, 30)	-	(11,511)	(90,860)	-	-	(102,371)
At 1 January 2019 (restated)	-	11,038,623	23,873,164	1,710,476	3,390,111	40,012,374
2. Increases	-	1,671,873	3,533,895	201,337	580,914	5,988,019
(1) Provision	-	1,638,753	3,533,895	201,306	580,604	5,954,558
(2) Transfer from investment properties (Note V, 19)	-	33,120	-	-	-	33,120
(3) Exchange fluctuation	-	-	-	31	310	341
3. Decreases	-	185,141	844,318	78,935	134,074	1,242,468
(1) Disposal or retirement	-	78,547	740,793	70,653	123,886	1,013,879
(2) Disposal of subsidiaries	-	69,498	73,078	-	9,580	152,156
(3) Transfer to construction in progress	-	6,535	29,513	8,282	608	44,938
(4) Transfer to investment properties (Note V, 19)	-	29,981	-	-	-	29,981
(5) Exchange fluctuation	-	580	934	-	-	1,514
4. At 31 December 2019	-	12,525,355	26,562,741	1,832,878	3,836,951	44,757,925
III. Provision for impairment loss						
1. At 1 January 2019	-	58,876	344,888	4,003	5,972	413,739
2. Increases	-	-	34,663	43,146	1	77,810
(1) Provision	-	-	34,663	43,146	1	77,810
3. Decreases	-	-	31,276	2,462	1,882	35,620
(1) Disposal or retirement	-	-	30,644	2,462	1,882	34,988
(2) Transfer to construction in progress	-	-	632	-	-	632
4. At 31 December 2019	-	58,876	348,275	44,687	4,091	455,929
IV. Carrying amount						
1. Carrying amount as at 31 December 2019	285,454	35,603,370	20,286,054	863,210	2,027,495	59,065,583
2. Carrying amount as at 31 December 2018	225,917	33,751,663	20,389,353	1,103,335	1,850,831	57,321,099

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 20. Fixed assets (continued)

#### (3) Details of rent-out fixed assets under operating leases:

RMB'000

Item	Carrying amount as at 31 December 2019
Machinery and equipment	310,225
Transportation vehicles	211,033
Other equipment	17,836
<b>Total</b>	<b>539,094</b>

#### (4) Details of fixed assets of which property right certificates had not been obtained yet:

RMB'000

Item	Carrying amount	Reasons for having not to obtained the property right certificates
Buildings	5,785,576	Inprocess

#### (5) Disposal of fixed assets

RMB'000

Item	31 December 2019	31 December 2018
Buildings	8,489	4,171
Machinery and equipment	12,445	63,789
Transportation vehicles	889	616
Office equipment and other equipment	3,480	1,054
<b>Total</b>	<b>25,303</b>	<b>69,630</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 20. Fixed assets (continued)

- (6) As at 31 December 2019, the Group had buildings, machinery, and equipment with carrying amount equivalent to RMB134,440,000 (31 December 2018: RMB17,274,000) as pledge for the Group to obtain bank loans. Except for the fixed assets used as pledge, there was no other restriction on the ownership of fixed assets as at 31 December 2019.

### 21. Construction in progress

#### (1) Presented by item

RMB'000

Item	31 December 2019	31 December 2018
Construction in progress	7,193,679	8,054,931
Materials for construction of fixed assets	50,170	43,282
Total	7,243,849	8,098,213

#### (2) Details of construction in progress:

RMB'000

Item	31 December 2019			31 December 2018		
	Book value	Provision for impairment loss	Carrying amount	Book value	Provision for impairment loss	Carrying amount
Construction in progress	7,199,664	(5,985)	7,193,679	8,058,506	(3,575)	8,054,931
Total	7,199,664	(5,985)	7,193,679	8,058,506	(3,575)	8,054,931

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 21. Construction in progress (continued)

#### (3) Changes in significant construction in progress for the year:

RMB'000

Name of projects	Budget	Book value	Increases	Transfer to	Transfer to	Transfer from	Others	Book value	Proportion of	Project	Cumulative	Including:	Capitalization	Source of funds	
		as at 1 January 2019		fixed assets (Note V, 20)	investment properties (Note V, 19)			intangible assets (Note V, 23)	as at 31 December 2019						accumulated investment to the budget (%)
Lushun project	4,774,000	2,076,620	232,232	(514,345)	-	-	-	1,794,507	71.27	71.27	295,933	20,344	5.25	Loan	
Construction of new plant in Shajingyi	1,700,000	241,149	376,961	(73)	-	-	-	618,037	36.38	36.38	32,551	11,611	3.70	Loan	
Camel hill wind power plant	347,265	-	330,921	-	-	-	-	330,921	95.29	95.29	74	74	4.35	Loan, self-raised	
Heavy axle load casting and forging project	850,000	248,924	14,205	-	-	-	-	263,129	78.00	78.00	48,478	4,069	5.25	Loan	
Beijing Erqi rail vehicle industrial park construction project	480,000	25,997	194,841	(1,466)	-	-	-	219,372	65.00	65.00	7,937	3,007	4.41	Loan	
Harmony six-year inspection and construction project	190,000	139,281	4,009	(22,428)	-	-	-	120,862	94.00	94.00	10,722	3,824	4.90	Loan, self-raised	
New base project (phase I)	320,000	59,146	51,134	(417)	-	-	-	109,863	34.33	34.33	-	-	-	Self-raised	
Renovation project of high power permanent magnet experimental station	200,000	5,753	74,250	(6,249)	-	-	-	73,754	97.02	97.02	-	-	-	Self-raised	
Changzhou rail transit vehicle repair and construction base construction project (phase I)	265,500	55,398	1,264	-	-	-	-	56,662	49.32	49.32	5,858	1,102	4.06	Loan	
Phase III special container new project	243,000	12,544	69,411	(27,396)	-	1,904	-	56,463	96.00	96.00	2,516	2,516	4.90	Loan	
Factory of Chicago	871,000	642,643	46,773	(689,416)	-	-	-	-	100.00	100.00	-	-	-	Self-raised	
Others	30,297,268	4,551,051	4,884,459	(5,757,869)	(2,351)	(196,189)	77,084	(91)	3,556,094	/	/	56,724	6,384	/	Self-raised, Loan
Total	40,538,053	8,058,506	6,280,460	(7,019,659)	(2,351)	(196,189)	78,988	(91)	7,199,664	/	/	460,793	52,931	/	/

#### (4) Materials for construction of fixed assets

RMB'000

Item	31 December 2019			31 December 2018		
	Book value	Provision for impairment loss	Carrying amount	Book value	Provision for impairment loss	Carrying amount
Specialized materials	2	-	2	724	-	724
Specialized equipment	2,483	-	2,483	8,042	-	8,042
Prepayments for large equipment	47,077	-	47,077	34,020	-	34,020
Others	608	-	608	496	-	496
Total	50,170	-	50,170	43,282	-	43,282

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 22. Right-of-use assets

RMB'000

Item	Buildings	Machinery and equipment	Transportation vehicles	Office equipment and other equipment	Total
I. Cost					
1. At 31 December 2018	–	–	–	–	–
Changes in accounting policies (Note III, 30)	528,166	318,273	33,393	2,534	882,366
At 1 January 2019 (restated)	528,166	318,273	33,393	2,534	882,366
2. Increases	760,039	76,826	26,821	7,850	871,536
(1) Newly rented	757,993	76,754	26,821	7,814	869,382
(1) Exchange fluctuation	2,046	72	–	36	2,154
3. Decreases	70,671	106,897	–	–	177,568
(1) Expiration or early termination of lease contract	69,832	106,897	–	–	176,729
(2) Exchange fluctuation	839	–	–	–	839
4. At 31 December 2019	1,217,534	288,202	60,214	10,384	1,576,334
II. Accumulated depreciation					
1. At 31 December 2018	–	–	–	–	–
Changes in accounting policies (Note III, 30)	11,511	90,860	–	–	102,371
At 1 January 2019 (restated)	11,511	90,860	–	–	102,371
2. Increases	195,875	50,181	19,888	2,997	268,941
(1) Provision	195,712	50,167	19,888	2,978	268,745
(2) Exchange fluctuation	163	14	–	19	196
3. Decreases	5,236	51,209	–	–	56,445
(1) Expiration or early termination of lease contract	5,204	51,209	–	–	56,413
(2) Exchange fluctuation	32	–	–	–	32
4. At 31 December 2019	202,150	89,832	19,888	2,997	314,867
III. Carrying amount					
1. Carrying amount as at 31 December 2019	1,015,384	198,370	40,326	7,387	1,261,467
2. Carrying amount as at 31 December 2018	–	–	–	–	–

In 2019, the Group's short-term lease expenses with simplified treatment included in profit or loss is RMB214,658,000, and the lease expenses of low-value assets is RMB4,475,000. In 2019, the Group's total cash outflow related to leasing is RMB540,313,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 23. Intangible assets

#### (1) Details of intangible assets

RMB'000

Item	Land use rights	Proprietary technology and industrial properties	Software licenses	Customer relationship	Backlog orders and technical service discount contracts	Total
I. Cost						
1. At 1 January 2019	16,662,037	4,454,709	2,542,452	347,583	52,926	24,059,707
2. Increases	135,249	226,489	356,660	10,255	1,445	730,098
(1) Acquisitions	109,875	22,430	171,242	-	-	303,547
(2) Transfer from construction in progress (Note V, 21)	4,752	12,026	179,411	-	-	196,189
(3) Transfer from investment properties (Note V, 19)	19,621	-	-	-	-	19,621
(4) Internal research and development (Note V, 24)	-	179,634	3,845	-	-	183,479
(5) Exchange fluctuation	1,001	12,399	2,162	10,255	1,445	27,262
3. Decreases	310,957	53,099	8,806	-	-	372,862
(1) Disposal	274,563	30,298	8,806	-	-	313,667
(2) Disposal of subsidiaries	36,394	22,801	-	-	-	59,195
4. At 31 December 2019	16,486,329	4,628,099	2,890,306	357,838	54,371	24,416,943
II. Accumulated amortization						
1. At 1 January 2019	2,948,299	2,307,030	1,673,459	146,699	52,926	7,128,413
2. Increases	343,028	247,500	285,869	47,678	1,445	925,520
(1) Provision	338,671	238,425	284,406	43,704	-	905,206
(2) Transfer from investment properties (Note V, 19)	4,305	-	-	-	-	4,305
(3) Exchange fluctuation	52	9,075	1,463	3,974	1,445	16,009
3. Decreases	90,787	25,341	6,985	-	-	123,113
(1) Disposal	89,694	17,421	6,985	-	-	114,100
(2) Disposal of subsidiaries	1,093	7,920	-	-	-	9,013
4. At 31 December 2019	3,200,540	2,529,189	1,952,343	194,377	54,371	7,930,820
III. Provision for impairment loss						
1. At 1 January 2019	-	280,683	507	-	-	281,190
2. Increases	-	68,417	1,224	120,978	-	190,619
(1) Provision	-	68,417	1,224	119,812	-	189,453
(2) Exchange fluctuation	-	-	-	1,166	-	1,166
3. Decreases	-	-	-	-	-	-
4. At 31 December 2019	-	349,100	1,731	120,978	-	471,809
IV. Carrying amount						
1. Carrying amount as at 31 December 2019	13,285,789	1,749,810	936,232	42,483	-	16,014,314
2. Carrying amount as at 31 December 2018	13,713,738	1,866,996	868,486	200,884	-	16,650,104

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 23. Intangible assets (continued)

#### (2) Details of land use rights of which property right certificates had not been obtained:

RMB'000

Item	Carrying amount	Reasons for having not to obtain the property rights certificate
Project land	53,400	Inprogress

(3) As at 31 December 2019, the Group had no intangible assets (31 December 2018: RMB6,515,000) as pledge for the Group to obtain bank loans.

### 24. Development expenditures

RMB'000

Item	1 January 2019	Increases		Decreases		31 December 2019
		Internal development expenditures	Others	Recognised as intangible assets (Note V, 23)	Transfer to profit or loss	
Development expenditures	286,606	12,264,632	–	183,479	12,033,365	<b>334,394</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 25. Goodwill

#### (1) Cost of goodwill

RMB'000

Name of investee	1 January 2019	Increases	Decreases	Exchange fluctuation	31 December 2019
CRRC Zhuzhou Locomotive and its subsidiaries	20,156	–	–	–	20,156
CRRC Ziyang and its subsidiaries	1,814	–	–	–	1,814
CRRC Zhuzhou Institute and its subsidiaries	1,386,980	–	–	14,884	1,401,864
CRRC Information Technology and its subsidiaries	13,557	–	–	–	13,557
CRRC Tangshan and its subsidiaries	36,379	–	–	–	36,379
CRRC Construction Engineering and its subsidiaries	4,048	–	–	–	4,048
CRRC Datong and its subsidiaries	2,100	–	–	–	2,100
<b>Total</b>	<b>1,465,034</b>	<b>–</b>	<b>–</b>	<b>14,884</b>	<b>1,479,918</b>

#### (2) Provision for impairment losses of goodwill

RMB'000

Name of investee	1 January 2019	Increases	Decreases	Exchange fluctuation	31 December 2019
CRRC Zhuzhou Locomotive Co., Ltd. and its subsidiaries	20,156	–	–	–	20,156
CRRC Zhuzhou Institute and its subsidiaries	731,836	258,921	–	5,033	995,790
CRRC Ziyang and its subsidiaries	–	1,814	–	–	1,814
<b>Total</b>	<b>751,992</b>	<b>260,735</b>	<b>–</b>	<b>5,033</b>	<b>1,017,760</b>

In 2019, the Group has assessed the recoverable amount of each asset group (including goodwill).

- (a) The impairment of goodwill of CSR New Material Technologies GmbH ("NM Germany"), a subsidiary of CRRC Zhuzhou Institute, amounts to RMB178,984,000 (2018: RMB529,921,000) in 2019. The main reason for the impairment of the asset group is the continuous weak performance of the global passenger vehicle market and the continuous decline of passenger vehicle production and sales. Based on the current operations and future forecast of orders, provision for impairment loss of intangible assets in NM Germany's asset group is RMB119,491,000 in the current year. Except that, there is no provision for impairment loss of other assets in NT Germany's asset group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### 25. Goodwill *(continued)*

#### *(2) Provision for impairment losses of goodwill (continued)*

The recoverable amount of NM Germany's goodwill is determined based on the net amount of fair value of cash-generating unit ("CGU") less disposal expenses. Since there are no similar transactions in the market, the management measures the fair value of the CGU using the income method and recognizes the disposal expenses as 1%(31 December 2018: 1%) of the fair value. The management prepares the cash flow forecast for the next six years based on the most recent financial budget, and calculates the cash flows of subsequent years (the "calculation period"). The pre-tax discount rate used to calculate the recoverable amount is 10.7% (31 December 2018: 11.1%), and the income growth rate of the calculation period is 1.3% (31 December 2018: 1.2%), and the investment income ratio of long-term assets in the calculation period is 3.8% (31 December 2018: 3.0%).

- (b) The impairment of goodwill of Specialist Machine Developments (SMD) Limited ("SMD"), a subsidiary of CRRC Zhuzhou Institute, amounts to RMB68,000,000 (2018: Nil) in 2019. The main reason for the impairment of the CGU is the weak performance of deep-water robot market and the decline of sales. There are no other assets in this CGU for which provision needs to be made.

The recoverable amount of SMD's goodwill is determined based on the present value of the expected future cash flows of the CGU. The management prepares the cash flow forecast for the next five years based on the most recent financial budget assumptions, and calculates the cash flows in the calculation period. The pre-tax discount rate used to calculate the recoverable amount is 16.0% (31 December 2018: 14.5%), and the income growth rate in the calculation period is 2.0% (31 December 2018: 2.0%).

- (c) The impairment of goodwill of Qingdao CRRC Huaxuan Water Co., Ltd. ("Qingdao Huaxuan"), a subsidiary of CRRC Zhuzhou Institute, amounts to RMB11,937,000 (2018: Nil) in 2019. The main reason for the impairment of CGU is the reduction of business scale, and it is predicted that the business will not bring enough profits in subsequent years. There are no other assets in this asset group for which provision needs to be made.

The recoverable amount of Qingdao Huaxuan's goodwill is determined based on the present value of the expected future cash flows of the CGU. The management forecasts and calculates the cash flows in the calculation period based on the cash flows of the most recent financial budget period. The pre-tax discount rate used to calculate the recoverable amount is 12.0% (31 December 2018: 12.0%), and the income growth rate in the calculation period is 1.5% (31 December 2018: 1.5%).

- (d) The recoverable amounts of goodwill of the remaining manufacturing subsidiaries are determined based on the present value of the expected future cash flows of the CGU. The management prepares the cash flow forecast for the next five years based on the most recent financial budget and calculates the cash flows in the calculation period. The discount rate used to calculate the recoverable amount is from 12.0% to 18.7% (31 December 2018: from 14.0% to 18.6%). When predicting future cash flows, a key assumption is the income growth rate in the budget period (different growth rates in different subsidiaries), which does not exceed the average long-term growth rate of related industries, and the income growth rate in the calculation period is from 0% to 1.5% (31 December 2018: from 0% to 2.0%).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 26. Deferred tax assets/Deferred tax liabilities

#### (1) Deferred tax assets before offsetting:

RMB'000

Item	31 December 2019		31 December 2018	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Expected warranty provisions	7,407,903	1,144,234	6,615,848	1,019,934
Provision for impairment loss of assets	1,260,148	244,811	1,895,524	326,546
Credit loss allowance	2,998,742	492,422	4,411,811	804,336
Unrealized profit from internal transactions	1,952,416	316,522	1,884,196	303,407
Estimated losses	740,896	111,134	740,896	111,134
Government grants	1,879,857	290,269	1,697,259	263,564
Accrued expenses	1,678,424	303,107	615,069	96,403
Accrued but not paid employee benefits	336,906	53,940	416,318	65,467
Deductible losses	1,015,736	152,965	1,942,614	312,208
Changes in fair value of investment in other equity instruments	374,880	67,372	383,318	62,143
Changes in fair value of Receivable at FVTOCI	207,103	36,307	118,367	18,902
Others	1,316,519	273,661	2,044,725	325,796
<b>Total</b>	<b>21,169,530</b>	<b>3,486,744</b>	<b>22,765,945</b>	<b>3,709,840</b>

#### (2) Deferred tax liabilities before offsetting:

RMB'000

Item	31 December 2019		31 December 2018	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Adjustment on fair value of acquisition of subsidiaries	437,099	78,952	593,642	123,347
Depreciation difference due to inconsistency of depreciation period between tax law and accounting	577,311	93,973	402,893	63,877
Changes in fair value of investment in other equity instruments	207,055	35,764	164,493	29,286
Gains on changes in fair value during the holding period of the financial assets at fair value through profit or loss	75,110	18,778	25,629	6,407
Others	8,091	1,282	5,040	890
<b>Total</b>	<b>1,304,666</b>	<b>228,749</b>	<b>1,191,697</b>	<b>223,807</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 26. Deferred tax assets/Deferred tax liabilities (continued)

#### (3) Deferred tax assets/liabilities after offsetting:

Item	RMB'000			
	Amount of offsetting of deferred tax assets and liabilities as at 31 December 2019	Balances of deferred tax assets or liabilities after offsetting as at 31 December 2019	Amount of offsetting of deferred tax assets and liabilities as at 31 December 2018	Balances of deferred tax assets or liabilities after offsetting as at 31 December 2018
Deferred tax assets	85,993	3,400,751	65,261	3,644,579
Deferred tax liabilities	85,993	142,756	65,261	158,546

#### (4) Details of unrecognized deferred tax assets:

Item	RMB'000	
	31 December 2019	31 December 2018
Deductible temporary differences	10,784,601	6,577,494
Deductible tax losses	15,704,049	13,363,406
Total	26,488,650	19,940,900

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 26. Deferred tax assets/Deferred tax liabilities (continued)

(5) *Deductible tax losses, for which deferred tax assets were not recognized, will expire in the following years:*

	RMB'000	
Year	31 December 2019	31 December 2018
2019	–	504,038
2020	582,286	746,613
2021	1,163,430	1,316,504
2022	936,888	797,168
2023	3,681,772	2,833,767
2024	2,537,718	556,293
2025	1,503,714	2,046,116
2026	1,506,996	1,641,079
2027	1,461,674	1,588,133
2028	1,184,627	1,333,695
2029	1,144,944	–
Total	<b>15,704,049</b>	13,363,406

### 27. Other non-current assets

	RMB'000	
Item	31 December 2019	31 December 2018
Contract assets (Note V, 10)	9,540,840	8,923,932
Prepaid investment funds	–	2,430,000
Prepayment of intangible assets	1,150,429	1,006,332
Prepayment of engineering equipment	974,921	1,269,196
Others	381,531	203,986
Sub-total	<b>12,047,721</b>	13,833,446
Less: Other non-current assets due within one year (Note V,11)	–	(6,960)
Total	<b>12,047,721</b>	13,826,486

As at 31 December 2019, prepayments made to related parties of the Group in the balance of other non-current assets are set out in Note X, 5.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 28. Short-term borrowings

#### (1) Category of short-term borrowings:

Item	RMB'000	
	31 December 2019	31 December 2018
Credit loans	8,519,291	6,483,209
Guaranteed loans	1,612,939	1,933,148
Pledged loans	398,186	190,244
Mortgage loans	–	27,500
Total	10,530,416	8,634,101

As at 31 December 2019, the guaranteed loans were guaranteed by the Group and its subsidiaries.

As at 31 December 2019, the annual interest rate of short-term borrowings ranged from 0.16%-5.90% (31 December 2018: 0.61%-8.42%).

As at 31 December 2019, short-term borrowings from related party of the Group are set out in Note X, 5.

### 29. Due to Customers

Item	RMB'000	
	31 December 2019	31 December 2018
Customer deposits of Finance Company	5,577,269	2,795,282
Total	5,577,269	2,795,282

As at 31 December 2019, details of related party deposits with the Group are set out in Note X, 5

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 30. Bills payable

RMB'000

Category	31 December 2019	31 December 2018
Commercial acceptances	23,693,154	19,528,128
Bank acceptances	3,646,320	2,450,592
<b>Total</b>	<b>27,339,474</b>	21,978,720

As at 31 December 2019, details of amounts due to the Group's related parties included in the balance of bills payable are set out in Note X, 5.

### 31. Accounts payable

#### (1) Details of accounts payable:

RMB'000

Item	31 December 2019	31 December 2018
Related party	5,390,015	5,292,075
Third party	101,212,398	93,897,912
<b>Total</b>	<b>106,602,413</b>	99,189,987

#### (2) Aging analysis of accounts payable:

RMB'000

Item	31 December 2019	31 December 2018
Within one year	100,026,536	92,739,616
1-2 years	4,572,376	2,545,169
2-3 years	641,717	1,249,411
Over 3 years	1,361,784	2,655,791
<b>Total</b>	<b>106,602,413</b>	99,189,987

The aging of accounts payable of the Group is classified based on the invoicing date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 31. Accounts payable (continued)

(3) As at 31 December 2019, details of accounts payable due to related parties of the Group are set out in Note X, 5.

### 32. Receipts in advance

RMB'000

Item	31 December 2019	31 December 2018
Related party	2,000	–
Third party	3,827	24,337
Total	5,827	24,337

As at 31 December 2019, details of receipts in advance due to related parties of the Group are set out in Note X, 5.

### 33. Contract liabilities

#### (1) Details of contract liabilities

RMB'000

Item	31 December 2019	31 December 2018
Sale of goods related (Note 1)	27,930,959	21,189,001
Project contracting services related (Note 2)	328,820	1,237,467
Sub-total	28,259,779	22,426,468
Less: Contract liabilities presented under other non-current liabilities (Note V, 46)	(92,308)	(90,569)
Total	28,167,471	22,335,899

Note 1: As at 31 December 2019, the acceptance and transfer of certain sales of goods of the Group was later than the customer's payment, generating contract liabilities related to the contract on sales of goods.

Note 2: As at 31 December 2019, the Group's contract liabilities related to the project contracting service contracts represented the excess of the settled amount over revenue recognized based on the progress of construction.

(2) As at 31 December 2019, details of current account balances with related parties included in the balance of contract liabilities are set out in Note X, 5



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 34. Employee benefits payable

#### (1) Details of employee benefits payable

RMB'000

Item	1 January 2019	Increases	Decreases	31 December 2019
I. Short-term employee benefits	1,707,311	27,144,101	26,965,221	<b>1,886,191</b>
II. Post-employment benefits –				
Defined contribution plan	77,019	3,507,029	3,523,894	<b>60,154</b>
III. Labor expenditures	1,959	1,660,350	1,656,933	<b>5,376</b>
IV. Post-employment benefits due within one year-Net liabilities in defined benefit plan (Mainland China) (Note V, 43)	234,278	212,839	228,076	<b>219,041</b>
V. Post-employment benefits due within one year-Net liabilities in defined benefit plan (other countries and regions) (Note V, 43)	25,269	90,529	92,143	<b>23,655</b>
<b>Total</b>	<b>2,045,836</b>	<b>32,614,848</b>	<b>32,466,267</b>	<b>2,194,417</b>

#### (2) Presentation of short-term benefits

RMB'000

Item	1 January 2019	Increases	Decreases	31 December 2019
I. Salaries, bonuses, allowances and subsidies	635,486	20,593,450	20,497,974	<b>730,962</b>
II. Welfare benefits	325,125	1,410,045	1,386,663	<b>348,507</b>
III. Social insurances	48,845	1,702,335	1,675,508	<b>75,672</b>
Including: Medical insurance	40,367	1,434,852	1,406,967	<b>68,252</b>
Employment injury insurance	7,851	131,937	132,847	<b>6,941</b>
Maternity insurance	627	135,546	135,694	<b>479</b>
IV. Housing funds	37,043	1,867,851	1,869,937	<b>34,957</b>
V. Employee union funds and staff education funds	236,550	714,095	683,276	<b>267,369</b>
VI. Others	424,262	856,325	851,863	<b>428,724</b>
<b>Total</b>	<b>1,707,311</b>	<b>27,144,101</b>	<b>26,965,221</b>	<b>1,886,191</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 34. Employee benefits payable (continued)

#### (3) Details of defined contribution plan

RMB'000

Item	1 January 2019	Increases	Decreases	31 December 2019
1. Basic pension insurance	59,394	2,733,555	2,753,646	<b>39,303</b>
2. Unemployment insurance	7,750	97,888	101,658	<b>3,980</b>
3. Enterprise annuity	9,875	675,586	668,590	<b>16,871</b>
Total	77,019	3,507,029	3,523,894	<b>60,154</b>

### 35. Tax payable

RMB'000

Item	31 December 2019	31 December 2018
VAT	<b>1,204,332</b>	2,258,450
Enterprise income tax	<b>801,829</b>	560,000
Individual income tax	<b>221,642</b>	257,517
City maintenance and construction tax	<b>91,099</b>	164,369
Educational surcharge	<b>66,501</b>	117,315
Property tax	<b>39,088</b>	60,001
Land use tax	<b>23,033</b>	34,335
Others	<b>107,423</b>	77,468
Total	<b>2,554,947</b>	3,529,455

### 36. Other payables

#### (1) Presented by item

RMB'000

Item	31 December 2019	31 December 2018
Interests payable	<b>43,113</b>	223,538
Dividends payable	<b>385,098</b>	378,374
Other payables	<b>8,748,186</b>	9,258,484
Total	<b>9,176,397</b>	9,860,396

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 36. Other payables (continued)

#### (2) Interests payable

	RMB'000	
Item	31 December 2019	31 December 2018
Interests of borrowings	41,412	29,219
Interests on ultra-short-term financing bonds	–	30,618
Interests on corporate bonds	1,701	163,701
<b>Total</b>	<b>43,113</b>	<b>223,538</b>

#### (3) Dividends payable

	RMB'000	
Item	31 December 2019	31 December 2018
Related party	18,144	–
Third party	366,954	378,374
<b>Total</b>	<b>385,098</b>	<b>378,374</b>

#### (4) Other payables

##### (i) Categorized by nature:

	RMB'000	
Item	31 December 2019	31 December 2018
Collections on behalf of other parties	2,472,203	3,210,265
Payments for equipment and projects	1,608,739	1,657,222
Deposits and securities, housing fund, and public facilities maintenance funds	1,183,157	848,879
Technology royalties and research expenditures	681,060	398,267
Utilities, repair and transportation expenses	399,646	210,951
Others	2,403,381	2,932,900
<b>Total</b>	<b>8,748,186</b>	<b>9,258,484</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 36. Other payables (continued)

(5) As at 31 December 2019, details of other payables due to related parties are set out in Note X, 5.

### 37. Non-current liabilities due within one year

	RMB'000	
Item	31 December 2019	31 December 2018
Long-term borrowings due within one year (Note V, 39)	699,809	2,644,890
Bonds payable due within one year (Note V, 40)	58,279	5,909,997
Lease liabilities due within one year (Note V, 41)	297,387	–
Long-term payables due within one year (Note V, 42)	4,897	22,524
Provisions due within one year (Note V, 44)	2,712,162	2,241,361
Other non-current liabilities due within one year (Note V, 46)	5,940	277,823
Total	3,778,474	11,096,595

### 38. Other current liabilities

	RMB'000	
Item	31 December 2019	31 December 2018
Ultra-short-term financing bonds	500,000	3,000,000
Output VAT tax to be transferred and received VAT in advance	3,515,089	3,155,925
Total	4,015,089	6,155,925

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 38. Other current liabilities (continued)

#### (1) Change in ultra-short-term bonds payable

RMB'000

Name of bonds	Par value	Issuing date	Bond duration (days)	Issuing amount	1 January 2019	Issued in the year	Accrued interests at par value	Amortization of premium and discount	Repayment in the year	31 December 2019
CRRC's Phase III ultra-short-term financing bonds in 2018	3,000,000	16/08/2018	180	3,000,000	3,000,000	-	41,129	-	(3,041,129)	-
CRRC's Phase I ultra-short-term financing bonds in 2019	3,000,000	18/04/2019	90	3,000,000	-	3,000,000	16,967	-	(3,016,967)	-
CRRC's Phase II ultra-short-term financing bonds in 2019	3,000,000	23/04/2019	180	3,000,000	-	3,000,000	37,623	-	(3,037,623)	-
CRRC's Phase III ultra-short-term financing bonds in 2019	3,000,000	24/04/2019	90	3,000,000	-	3,000,000	17,926	-	(3,017,926)	-
CRRC's Phase IV ultra-short-term financing bonds in 2019	3,000,000	25/04/2019	90	3,000,000	-	3,000,000	16,967	-	(3,016,967)	-
CRRC's Phase V ultra-short-term financing bonds in 2019	3,000,000	23/07/2019	61	3,000,000	-	3,000,000	10,800	-	(3,010,800)	-
CRRC's Phase VI ultra-short-term financing bonds in 2019	3,000,000	24/07/2019	120	3,000,000	-	3,000,000	25,574	-	(3,025,574)	-
CRRC's Phase VII ultra-short-term financing bonds in 2019	1,500,000	25/07/2019	90	1,500,000	-	1,500,000	8,115	-	(1,508,115)	-
CRRC's Phase VIII ultra-short-term financing bonds in 2019	4,500,000	25/07/2019	119	4,500,000	-	4,500,000	38,041	-	(4,538,041)	-
CRRC's Phase IX ultra-short-term financing bonds in 2019	3,000,000	18/09/2019	60	3,000,000	-	3,000,000	10,623	-	(3,010,623)	-
CRRC's Phase X ultra-short-term financing bonds in 2019	3,000,000	25/10/2019	30	3,000,000	-	3,000,000	4,303	-	(3,004,303)	-
CRRC's Phase XI ultra-short-term financing bonds in 2019	3,000,000	25/10/2019	30	3,000,000	-	3,000,000	4,303	-	(3,004,303)	-
CRRC's Phase XII ultra-short-term financing bonds in 2019	3,000,000	18/11/2019	30	3,000,000	-	3,000,000	4,303	-	(3,004,303)	-
CRRC's Phase XIII ultra-short-term financing bonds in 2019	1,500,000	19/11/2019	30	1,500,000	-	1,500,000	2,152	-	(1,502,152)	-
CRRC's Phase XIV ultra-short-term financing bonds in 2019	4,500,000	27/11/2019	29	4,500,000	-	4,500,000	6,240	-	(4,506,240)	-
Times New Material's Phase I ultra-short-term financing bonds in 2019	500,000	03/09/2019	90	500,000	-	500,000	4,303	-	(504,303)	-
Times New Material's Phase II ultra-short-term financing bonds in 2019	500,000	27/11/2019	90	500,000	-	500,000	1,701	-	-	500,000
<b>Total</b>	/	/	/	46,000,000	3,000,000	43,000,000	251,070	-	(45,749,369)	500,000

As at 31 December 2019, the balance of interest on bonds payable is RMB1,701,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 39. Long-term borrowings

#### (1) Category of long-term borrowings

Item	RMB'000	
	31 December 2019	31 December 2018
Credit loans	2,711,906	2,477,640
Pledged loans	436,554	212,000
Mortgage loans	133,880	2,800
Guaranteed loans	7,113	832,461
<b>Total</b>	<b>3,289,453</b>	<b>3,524,901</b>
Less: Long-term borrowings due within one year (Note V, 37)	(699,809)	(2,644,890)
Including: Credit loans	(653,398)	(1,875,607)
Pledged loans	(32,065)	(11,000)
Mortgage loans	(14,346)	(2,800)
Guaranteed loans	–	(755,483)
Long-term borrowings due after one year	2,589,644	880,011
Including: Credit loans	2,058,508	602,033
Pledged loans	404,489	201,000
Mortgage loans	119,534	–
Guaranteed loans	7,113	76,978

Analysis of long-term borrowings due after one year is as follows:

Subsequent to the balance sheet date	RMB'000	
	31 December 2019	31 December 2018
Within a period of more than one year but not exceeding two years	1,997,779	250,523
Within a period of more than two year but not exceeding five years	290,992	440,022
Within a period of more than five years	300,873	189,466
<b>Total</b>	<b>2,589,644</b>	<b>880,011</b>

As at 31 December 2019, guaranteed loans were guaranteed by the Group and its subsidiaries.

As at 31 December 2019, the annual interest rate of long-term borrowings ranged from 0.16% to 9.00% (31 December 2018: from 0.00% to 9.00%).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 40. Bonds payable

#### (1) Bonds payable

RMB'000

Item	31 December 2019	31 December 2018
2016 Convertible Bonds	<b>2,445,097</b>	3,910,829
Corporate bonds	<b>2,147,999</b>	5,499,168
Total	<b>4,593,096</b>	9,409,997
Less: Bonds payable due within one year (Note V, 37)	<b>(58,279)</b>	(5,909,997)
Bonds payable due after one year	<b>4,534,817</b>	3,500,000

#### (2) Changes in bonds payable:

RMB'000

Name of bonds	Par value	Issuing date	Term of the bond	Issue amount	1 January 2019	Issued for the year	Opening interest payable	Accrued interests at par value	Amortization of premium/discount	Exchange gain or loss	Repayment of principal and interest for the year	31 December 2019
CSR 2013 Corporate Bonds (Phase I) (Ten-year Term)	1,500,000	22 April 2013	10 years	1,500,000	1,500,000	-	52,603	73,542	-	-	(75,000)	<b>1,551,145</b>
CNR 2014 Phase II Medium Term Notes	2,000,000	17 March 2014	5 years	2,000,000	1,999,168	-	91,055	23,945	832	-	(2,115,000)	-
CRRC 2016 Phase I Corporate Bonds	2,000,000	30 August 2016	5 years	2,000,000	2,000,000	-	20,044	46,090	-	-	(1,469,280)	<b>596,854</b>
2016 Convertible Bonds	3,918,840	05 February 2016	5 years	3,918,840	3,910,829	-	-	-	63,068	3,989	(1,532,789)	<b>2,445,097</b>
Total	/	/	/	9,418,840	9,409,997	-	163,702	143,577	63,900	3,989	(5,192,069)	<b>4,593,096</b>
Less: Bonds payable due within one year (Note V, 37)	/	/	/	/	(5,909,997)	/	/	/	/	/	/	<b>(58,279)</b>
Bonds payable due after one year	/	/	/	/	3,500,000	/	/	/	/	/	/	<b>4,534,817</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### 40. Bonds payable *(continued)*

#### **(3) Description of conditions and timing of conversion for convertible bonds**

As at 5 February 2016, the Company issued convertible bonds ("2016 Convertible Bonds") amounting to USD 600,000,000 in total, the maturity date of which is 5 February 2021. Each convertible bond has a face value of USD250,000, issued at 100% of the face value with a coupon rate of nil. Main terms of 2016 Convertible Bonds are as follows:

##### (i) Right of conversion

Holders of 2016 Convertible Bonds have the right to convert convertible bonds under their names into shares at any time during the conversion period at applicable price of conversion. The conversion period for 2016 Convertible Bonds is from 17 March 2016 to 26 January 2021. Bonds holders may be requested to repurchase by the Company i) during the conversion period, or ii) prior to the maturity of the bonds, and exercise any right of conversion attached with the bonds at any time until 10 days before the relevant designated redemption date. If holders of the bonds have exercised their rights during the restricted conversion period (the first and the last days inclusive) based on conditions to require the Company to redeem such bonds, they cannot exercise rights of conversion over the bonds.

The initial price of conversion for 2016 Convertible Bonds is HKD 9.65 per share. The price of conversion will be adjusted based on (including) the following items: share consolidation, split and reclassification, capitalization of profit or reserve, profit distribution, share allotment or share option, placing of other securities, issuing of any ordinary shares at prices lower than the prevailing market prices, other issuance at prices lower than the prevailing market prices, modification to rights of conversion, other issuance to shareholders of ordinary shares etc. The number of conversion is determined based on the principal amount of bonds divided by the price of conversion. The fixed exchange rate of USD against HKD is 7.7902. The Company held the general meeting of shareholders on 25 June 2019, which approved the following: 2018 profit distribution scheme; a cash dividend of RMB0.15 (tax inclusive) per share declared to all shareholders; since 9 July 2019, the price of conversion adjusted to HKD9.00 per share from the adjusted price of HKD9.15 per share.



## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### 40 Bonds payable *(continued)*

#### **(3) Description of conditions and timing of conversion for convertible bonds *(continued)***

##### (ii) Issuer's rights of redemption

###### Redemption upon maturity

Except for those previously redeemed, converted, repurchased or cancelled, the Company will redeem all 2016 Convertible Bonds which have not been converted yet at the maturity date of 2016 Convertible Bonds at 100% of the outstanding principal.

###### Conditional redemption

Upon issuing redemption notice to the trustee, the bond holder or the principal agent for 30 to 60 days, based on the following specific conditions, the Company may redeem all 2016 Convertible Bonds which have not been converted yet at 100% of the outstanding principal on the date of redemption:

- a. At any time within the period from 5 February 2019 to the maturity date, redemption shall be made during 20 working days of HKEX in the period of 30 consecutive working days before the publication of the redemption notice at HKEX (the last working day of HKEX shall be 10 working day earlier than the issue of the redemption notice), at the closing price of H Share translated into USD at the applicable prevailing exchange rate, which shall be at least 130% of the conversion price (translated into USD at fixed exchange rate) on a daily basis for 20 working days of HKEX. Otherwise, the redemption is rejected. In case which leads to changes in conversion price during the 30 consecutive working days of HKEX, when calculating the closing price of H Share at the related date, adjustment shall be made regarding the related date as appropriate and the aforesaid adjustment shall be approved by the independent investment bank; or
- b. The principal of 2016 Convertible Bonds which have not been redeemed or converted is less than 10% of the principal of bonds originally issued.

##### (iii) Bond holders' right of resale

Holders of 2016 Convertible Bonds are entitled to request the Company to redeem all or part of the bonds of the holders on the date of the resale right (i.e. 5 February 2019) at 100% of the outstanding principal of bonds. After the expiration of the exercise period of relevant rights, holder of the bonds with a total principal of USD 240 million (the "redeemed bonds") had notified the exercise of the right of resale. Accordingly, the redeemed bonds were redeemed on the basis of 100% of the principal of bonds on 5 February 2019, and were cancelled in real time after redemption. As at 31 December 2019, bonds with a total principal of USD 360 million were not redeemed, equivalent to 60% of total principal of bonds originally issued.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 40. Bonds payable (continued)

#### (4) Accounting of convertible corporate bonds

2016 Convertible Bonds comprise the debts in the host contract and the embedded derivatives including right of redemption, right of conversion and right of resale. While the embedded derivatives are not closely related to the host contract in terms of economic characteristics and risk, they are separated from 2016 Convertible Bonds, and accounted for as derivative instruments separately.

- (i) The debts in the host contract are initially recognized at fair value, amounting to RMB3,488,045,000 approximately. The effective interest rate method is adopted for subsequent measurement. The master debt contract is measured at amortized cost of debts determined at the effective interest rate of 2.53% in consideration of issuing costs including the underwriting fee.
- (ii) The embedded derivatives are initially recognized and subsequently measured at fair value, with related costs of transaction immediately recognized in profit or loss for the period.

Issuing costs associated with 2016 Convertible Bonds including the underwriting fee are allocated based on the proportion of the debts in the host contract and the fair value of the embedded derivatives. Issuing costs associated with the host contract including the underwriting fee of approximate RMB28,745,000 are included in the initial carrying amount of the debts and amortized over the remaining life of the bonds using the effective interest method. Issuing costs associated with the embedded derivatives including the underwriting fee of approximate RMB3,550,000 are immediately recognized in financial expenses for the period.

The independent asset valuer assesses the fair value of the embedded derivatives using the Binominal Model, the assessment reference dates are 31 December 2019 and 31 December 2018 respectively, mainly using the following parameters:

Item	31 December 2019	31 December 2018
Current price of stock	HK\$5.70	HK\$7.63
Exercise price of option	HK\$9.00	HK\$9.15
Risk-free interest rate	1.907%	1.819%
Weekly volatility of stock price	3.2649%	3.0204%

The risk-free interest rate is based on the comprehensive yield rate of 5-year government bonds in the HK market.

The Stock price volatility is determined by reference to the historical volatility of the Company's stock price.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### 40. Bonds payable *(continued)*

#### (4) Accounting of convertible corporate bonds *(continued)*

The fluctuation of any parameter in the Binominal Model will have impact on the fair value of the embedded derivative of 2016 Convertible Bonds.

Movements of debts of 2016 Convertible Bonds and embedded derivatives are as follows:

Item	Debt	Embedded derivatives (Note V, 46)	Total
At 1 January 2019	3,910,829	271,899	4,182,728
Amortization of premium/discount	63,068	–	63,068
Exchange gain or loss	3,989	(3,911)	78
Redemption of bonds	(1,532,789)	(106,302)	(1,639,091)
Gains on changes in fair value (Note V, 61)	–	(156,290)	(156,290)
At 31 December 2019	2,445,097	5,396	2,450,493
Including: Due within 1 year	–	–	–
Due after 1 year	2,445,097	5,396	2,450,493

#### (5) Adjustment on coupon rate of corporation bonds and resale events

The 2016 First Tranche of corporate bonds of CRRC Co., Ltd. issued on 30 August 2016 are attached with the issuer's option to adjust the coupon rate and the investors' option to resale. The Company has the right to decide to adjust the coupon rate for the following two years at the end of the third year during the lifetime of the bonds. After the Company issues a notice on whether to adjust the coupon rate and the adjustment range, the investors holding the bonds have the option to sell back all or part of the bonds to the Company at face value on the interest payment date of the third interest-bearing year of the bonds.

On 11 July 2019, the Company issued a notice to increase the coupon rate of the bonds by 45bp in the next two years, that is, the coupon rate of the bonds from 30 August 2019 to 29 August 2021 is 3.40%. From 19 July 2019 to 23 July 2019, the total amount of bonds registered to exercise the investors' option to resale is RMB1,410,280,000. Bonds related to resale have been cashed on 28 August 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 41. Lease liabilities

RMB'000

Item	31 December 2019
Lease liabilities	1,257,888
Less: Lease liabilities included in non-current liabilities due within one year (Note V, 37)	(297,387)
Lease liabilities due over one year	960,501

Analysis of lease liabilities due after one year is as follows:

RMB'000

Subsequent to the balance sheet date	31 December 2019
Within a period of more than one year but not exceeding two years	287,631
Within a period of more than two year but not exceeding five years	502,425
Within a period of more than five years	367,531
Total undiscounted payments	1,157,587
Less: Unrecognized financing expenses	(197,086)
Lease liabilities due over one year	960,501

As at 31 December 2019, the lease liability (including the one-year maturity) due to the related parties are set out in Note X, 5.

### 42. Long-term payables

#### (1) Presented by item

RMB'000

Item	31 December 2019	31 December 2018
Long-term payables	80,662	288,719
Special payables	9,719	12,983
Total	90,381	301,702
Less: Non-current liabilities due within one year (Note V, 37)	(4,897)	(22,524)
Long-term payables due over one year	85,484	279,178

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 42. Long-term payables (continued)

#### (2) Long-term payables

RMB'000

Item	31 December 2019	31 December 2018
Financing lease payable	–	143,195
Other long-term payables	<b>80,662</b>	145,524
Total	<b>80,662</b>	288,719
Less: Long-term payables due within one year	<b>(1,418)</b>	(15,781)
Long-term payables due over one year	<b>79,244</b>	272,938

#### (3) Special payables

RMB'000

Item	1 January 2019	Increases	Decreases	31 December 2019
Special fund for industrial transformation of Gansu Province in 2016	6,000	–	–	<b>6,000</b>
Research & development of the overall solution and prototype system of embedded system of the rail transit equipment	3,481	4,477	6,948	<b>1,010</b>
Others	3,502	1,000	1,793	<b>2,709</b>
Total	12,983	5,477	8,741	<b>9,719</b>
Less: Special payables due within one year	(6,743)	/	/	<b>(3,479)</b>
Special payables due over one year	6,240	/	/	<b>6,240</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 43. Long-term employee benefits payable

#### (1) Table of long-term employee benefits payable

		RMB'000	
Item	31 December 2019	31 December 2018	
I. Post-employment benefits – net liabilities in defined benefit plan (Mainland China)	<b>1,875,343</b>	2,013,043	
II. Post-employment benefits – net liabilities in defined benefit plan (Other countries and regions)	<b>1,173,816</b>	993,269	
III. Others	<b>637,080</b>	592,737	
<b>Total</b>	<b>3,686,239</b>	3,599,049	

#### (2) Changes in defined benefit plan (Mainland China)

		RMB'000	
Item (Note 1)	2019	2018	
I. Opening balance	<b>2,247,321</b>	2,418,947	
II. Defined benefit cost recognized in profit or loss	<b>51,685</b>	95,111	
1. Net interests	<b>68,755</b>	90,309	
2. Cost of service in previous periods	<b>(17,070)</b>	4,802	
III. Defined benefit cost recognized in other comprehensive income	<b>23,454</b>	71,432	
1. Actuarial losses	<b>23,454</b>	71,432	
IV. Other changes	<b>(228,076)</b>	(265,381)	
1. Paid benefits	<b>(228,076)</b>	(265,381)	
V. Disposal of subsidiaries	–	(72,788)	
VI. Closing balance	<b>2,094,384</b>	2,247,321	
Less: Post-employment benefits due within one year-liabilities in defined benefit plan (Note V, 35)	<b>(219,041)</b>	(234,278)	
VII. Post-employment benefits due after one year – liabilities in defined benefit plan	<b>1,875,343</b>	2,013,043	

Note 1: For the Company and other domestic subsidiaries, in addition to the basic pension insurance provided by the local government departments, the Group also provides supplementary pension insurance plans and other comprehensive retirement benefit plans for employees retired before 1 July 2007. These plans include monthly living subsidies for employees after their retirement. The Group no longer provides (pays) any supplementary retirement benefits (including supplementary benefits such as retirement salaries, subsidies, medical care) for employees retired since 1 July 2007.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 43. Long-term employee benefits payable (continued)

#### (2) Changes in defined benefit plan (Mainland China) (continued)

The Group engaged an independent actuary, Towers Watson (Shenzhen) Consulting Co., Ltd., to estimate the present value of its above retirement benefit plan obligations using the actuarial method based on the expected cumulative welfare unit method. The plan estimates future cash outflows based on inflation rate and mortality rate assumptions and determines its present value at a discount rate. The discount rate is determined based on the market yield of the national debt that matches the term and currency of the obligations of defined benefit plan on the balance sheet date.

The defined benefit plan exposes the Group to actuarial risks, including interest rate risk, longevity risk and inflation risk. A decrease in the rate of return of national debt will result in an increase in the present value of the defined benefit plan obligations. The present value of the defined benefit plan obligations is calculated based on the optimal estimate of the mortality rate of the participating employees, and an increase in the life expectancy of the plan members will result in an increase in the liabilities in the plan. In addition, the present value of the defined benefit plan obligation is related to the planned future payment standard, and the payment standard is determined based on the inflation rate. Therefore, the increase in the inflation rate will also result in an increase in the liabilities in the plan.

The average period of defined benefit plan obligations as at 31 December 2019 is 5 to 8 years.

Significant actuarial assumptions (discount rate and average growth rate of medical cost) used in determining present value of defined benefit plan obligations are as follows:

Item	31 December 2019 (%)	31 December 2018 (%)
Discount rate	3.00	3.25
Average growth rate of medical cost	7.00/12.00/8.00	7.00/12.00/8.00

The following sensitivity analysis is based on reasonably possible changes in the corresponding assumptions at the end of the year (all other assumptions remain unchanged):

Item	Decrease in liabilities recognized under defined benefit plan	Increase in liabilities recognized under defined benefit plan
Discount rate (increases) decreases by 1%	(138,310)	161,140
Average growth rate of medical cost increases (decreases) by 1%	29,160	(25,660)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 43. Long-term employee benefits payable (continued)

#### (2) Changes in defined benefit plan (Mainland China) (continued)

The above sensitivity analysis is an inference based on the impact of key assumptions on the net defined benefit plan when there is a reasonable change on the balance sheet date. Because some of the assumptions may be relevant and one assumption cannot be changed in isolation, the above sensitivity analysis may not necessarily reflect the actual changes in the present value of the defined benefit plan obligations.

#### (3) Changes in defined benefit plan (Other countries and regions)

	RMB'000	
Item (Note 2)	2019	2018
I. Opening balance	<b>1,018,538</b>	964,940
II. Defined benefit cost recognized in profit or loss	<b>40,717</b>	48,778
1. Net interests	<b>22,054</b>	20,663
2. Cost of service in the current period	<b>18,663</b>	28,115
III. Defined benefit cost recognized in other comprehensive income	<b>231,369</b>	9,468
1. Actuarial losses	<b>232,987</b>	6,238
2. Changes in foreign exchange rates	<b>(1,618)</b>	3,230
IV. Other changes	<b>(93,153)</b>	(4,648)
1. Paid benefits	<b>(93,153)</b>	(4,648)
V. Closing balance	<b>1,197,471</b>	1,018,538
Less: Post-employment benefits due within one year–liabilities in defined benefit plan (Other countries and regions) (Note V, 34)	<b>(23,655)</b>	(25,269)
VI. Post-employment benefits due after one year–liabilities in defined benefit plan (Other countries and regions)	<b>1,173,816</b>	993,269

Note 2: Post-employment benefits – net liabilities in defined benefit plan (other countries or regions) are based on the liabilities recognized in the pension plan provided by the Group's subsidiary, German Rubber and Plastics Business ("Germany BOGE") and Blue Engineering Co., Ltd. and its subsidiaries ("Blue Group"), to their employees.

The principal pension plan of Germany BOGE provides a defined benefit plan for all unallocated assets for all eligible employees in Germany. According to the Pension Plan 2005 ("Rentenordnung 2005") and the Pension Plan 2004 ("Versorgungszusage 2004"), Germany BOGE provides a traditional German pension plan group, including normal and early retirement benefits and benefits for long-term disabled people and survivors of deceased employees.

The Blue Group's post-employment benefit plan is a defined benefit plan for all eligible employees in Italy under the Italian Civil Code 2120 (2120 del codice civile italiano).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 43. Long-term employee benefits payable (continued)

#### (3) Changes in defined benefit plan (Other countries and regions) (continued)

The average period of defined benefit plan obligations as at 31 December 2019 is 28 years.

The actuarial valuation of the present value of the defined benefit plan obligations is determined using the expected cumulative benefit unit method. In addition to the assumptions for life expectancy, other significant assumptions are as follows:

Item	31 December 2019 (%)	31 December 2018 (%)
Discount rate	0.80-1.30	1.60-2.30
Expected increase in wages and salaries	0.50-2.70	0.50-2.70
Increase in pension	1.30	1.30
Volatility	1.00	1.00

The expected increase in wages and salaries depends primarily on factors such as inflation, salary standards and the company's operating conditions.

### 44. Provisions

RMB'000

Item	31 December 2019	31 December 2018	Reason
Warranty provisions	7,624,284	6,642,712	Agreement on after-sales service
Others	942,002	987,910	Market conditions
Total	8,566,286	7,630,622	/
Less: Provisions expected to due within one year (Note V, 37)	(2,712,162)	(2,241,361)	/
Provisions due after one year	5,854,124	5,389,261	/

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 45. Deferred income

RMB'000

Item	1 January 2019	Increases	Decreases	31 December 2019
Government grants related to assets	4,894,815	294,466	348,329	<b>4,840,952</b>
Government grants related to income	1,298,421	806,750	394,629	<b>1,710,542</b>
<b>Total</b>	<b>6,193,236</b>	<b>1,101,216</b>	<b>742,958</b>	<b>6,551,494</b>

#### (1) Items related to government grants

RMB'000

Items	1 January 2019	Additional subsidies in the period	Amount recognized in non-operating income in the period	Amount recognized in other income for the period	Other changes	31 December 2019	Related to assets/ Related to income
Fund of science and technology projects and innovation enterprise awards	1,635,919	760,622	–	402,763	(11,096)	1,982,682	Assets/Income
Compensation for demolition	2,324,238	50,000	100,653	11,578	(500)	2,261,507	Assets
Land subsidy refund	1,055,630	19,373	29,514	7,723	–	1,037,766	Assets
Infrastructure subsidies	589,067	140,840	30,203	38,175	–	661,529	Assets
Discount on imported products	30,306	2,941	–	5,025	(1,489)	26,733	Income
Others	558,076	127,440	60,539	29,642	(14,058)	581,277	Assets/Income
<b>Total</b>	<b>6,193,236</b>	<b>1,101,216</b>	<b>220,909</b>	<b>494,906</b>	<b>(27,143)</b>	<b>6,551,494</b>	<b>/</b>

### 46. Other non-current liabilities

RMB'000

Item	31 December 2019	31 December 2018
Contract liabilities (Note V, 33)	<b>92,308</b>	90,569
2016 Convertible Bonds (Embedded derivative financial instruments) (Note V, 40)	<b>5,396</b>	271,899
Others	<b>82,669</b>	93,009
Less: Other non-current liabilities due within one year (Note V, 37)	<b>(5,940)</b>	(277,823)
<b>Total</b>	<b>174,433</b>	177,654

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 47. Share capital

RMB'000

Item	1 January 2019	Changes		31 December 2019
		Issuance of new shares	Sub-total	
Total shares	28,698,864	-	-	<b>28,698,864</b>
Shares with restrictions for sales				
1. RMB ordinary shares	1,410,106	-	-	<b>1,410,106</b>
Shares without restrictions for sales				
1. RMB ordinary shares	22,917,692	-	-	<b>22,917,692</b>
2. Overseas listed ordinary shares	4,371,066	-	-	<b>4,371,066</b>

As of December 31, 2019, the Group's restricted shares were 1,410,106,000 shares, and were released from circulation on January 17, 2020.

### 48. Capital reserve

RMB'000

Item	1 January 2019	Increases	Decreases	31 December 2019
Capital premium (Share capital premium)	40,482,504	-	-	<b>40,482,504</b>
Other capital reserves (Note)	146,204	203,856	84,741	<b>265,319</b>
Total	40,628,708	203,856	84,741	<b>40,747,823</b>

Note: The increase of other capital reserves in this year is mainly due to other equity changes of the Group's associates and joint ventures, which are set out in Note V, 16. The decrease in other capital reserves is mainly due to the equity transactions between the Group and minority shareholders.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 49. Other comprehensive income

RMB'000

Item	1 January 2019	Amount incurred before income tax in the period	Less: Amount recognized in other comprehensive income in the prior period but transferred to profit or loss for the period	Amount incurred for the period			Less: Amount recognized in other comprehensive income for the prior year but transferred to retained earnings in the period	31 December 2019
				Less: Income tax expenses	Amount attribute to the Company after tax	Amount attribute to non-controlling interests after tax		
I. Other comprehensive income that cannot be subsequently reclassified to profit or loss	(725,130)	(364,422)	-	1,249	(225,199)	(140,472)	54,464	<b>(1,004,793)</b>
Including: Changes from remeasurement of defined benefit plans	(333,878)	(256,441)	-	-	(115,969)	(140,472)	-	<b>(449,847)</b>
Changes in fair value of investment in other equity instruments	(391,252)	(107,981)	-	1,249	(109,230)	-	54,464	<b>(554,946)</b>
II. Other comprehensive income that will be reclassified to profit or loss	(141,618)	12	(42,502)	(16,359)	61,641	(2,768)	-	<b>(79,977)</b>
Including: Other comprehensive income that will be reclassified to profit or loss under equity method	(29,924)	21,662	-	-	21,662	-	-	<b>(8,262)</b>
Changes in fair value of other debt investments (note)	(63,928)	(181,445)	(42,599)	(17,405)	(94,468)	(26,973)	-	<b>(158,396)</b>
Provision for credit impairments of other debt investments (note)	14	7,035	-	1,046	3,656	2,333	-	<b>3,670</b>
Translation differences of financial statements dominated in foreign currencies (note)	(47,780)	152,760	97	-	130,791	21,872	-	<b>83,011</b>
Total other comprehensive income	(866,748)	(364,410)	(42,502)	(15,110)	(163,558)	(143,240)	54,464	<b>(1,084,770)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 50. Special reserve

RMB'000

Item	1 January 2019	Increases	Decreases	31 December
				2019
Production safety expenses	49,957	617,809	(617,809)	<b>49,957</b>
Total	49,957	617,809	(617,809)	<b>49,957</b>

### 51. Surplus reserve

RMB'000

Item	1 January 2019	Increases (Note V, 52)	Decreases	31 December
				2019
Statutory surplus reserve	3,279,992	535,338	–	<b>3,815,330</b>
Total	3,279,992	535,338	–	<b>3,815,330</b>

### 52. Retained earnings

RMB'000

Item	2019	2018
Retained earnings at the beginning of the period	<b>56,115,657</b>	49,555,490
Add: Net profit attributable to shareholders of the Company for the period	<b>11,794,929</b>	11,305,044
Less: Appropriation to statutory surplus reserve (Note V, 51)	<b>(535,338)</b>	(458,430)
Declaration of dividends on ordinary share (Note 1)	<b>(4,304,830)</b>	(4,304,830)
Other comprehensive income carried forward to retained earnings	<b>54,464</b>	–
Others (Note 3)	<b>(9,720)</b>	18,383
Retained earnings at the end of period	<b>63,115,162</b>	56,115,657

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 52. Retained earnings (continued)

Note 1: The Group's profit distribution plan for 2018 was approved at the 2018 Annual General Meeting of Shareholders held on 25 December 2019. Based on the total Company's share capital of 28,698,864,000 shares as at 31 December 2018, the annual dividends for 2018 were distributed to all shareholders, and a cash dividend of RMB0.15 (including tax) per share was distributed, totalling approximately RMB4,304,830,000.

The Group's profit distribution plan for 2017 was approved at the 2017 Annual General Meeting of Shareholders held on 31 May 2018. Based on the total Company's share capital of 28,698,864,000 shares as at 31 December 2017, the dividends for 2017 were distributed to all shareholders, and a cash dividend of RMB0.15 (including tax) per share was distributed, totalling approximately RMB4,304,830,000.

Note 2: As at 31 December 2019, the balance of the Group's retained earnings included the surplus reserve already appropriated by the subsidiaries of RMB14,804,576,000 (31 December 2018: RMB13,226,175,000).

Note 3: The decrease in other retained earnings is mainly due to the equity transactions of the Group acquired non-controlling interests in subsidiaries.

### 53. Revenue and operating costs

#### (1) Details of revenue and operating costs

Item	2019		2018	
	Income	Costs	Income	Costs
Principal operating activities	225,438,308	173,484,072	215,103,209	168,135,886
Other operating activities	3,572,525	2,665,825	3,979,432	2,390,135
Total	229,010,833	176,149,897	219,082,641	170,526,021

RMB'000

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 53. Revenue and operating costs (continued)

#### (2) Category of revenue and operating costs by business type

RMB'000

Item	2019		2018	
	Income	Costs	Income	Costs
Sale of goods	179,588,091	139,466,748	177,642,476	139,697,698
Rendering of services	48,102,382	36,252,688	40,141,373	30,544,433
Sub-total	227,690,473	175,719,436	217,783,849	170,242,131
Interest income	526,132	113,684	607,223	60,972
Lease income	794,228	316,777	691,569	222,918
Total	229,010,833	176,149,897	219,082,641	170,526,021

#### (3) Details of revenue from contracts with customer

RMB'000

Railway transportation equipment and its extension products	2019	2018
Categorized by sales region		
Mainland China	207,849,397	198,461,182
Other countries and regions	19,841,076	19,322,667
Total	227,690,473	217,783,849

#### (4) Description on performance obligations

##### (i) Revenue from sales of goods (revenue recognized at a certain time point)

The goods sold by the Group are mainly railway transportation equipment and its extension products. The Group recognizes revenue when the customer obtains control of the goods, i.e. at the time of acceptance and delivery of the goods.

##### (ii) Revenue from rendering of services (revenue recognized within a certain period of time)

The Group's revenue from rendering of services is mainly extended services of railway transportation equipment. The Group recognizes the revenue within a certain period of time according to the progress of the performance as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 54. Taxes and levies

RMB'000		
Item	2019	2018
City maintenance and construction tax	610,033	672,605
Educational surcharge	440,409	484,467
Property tax	369,003	344,909
Land use tax	267,066	294,359
Stamp duty	182,024	185,655
Vehicle and vessel use tax	1,433	1,777
Others	68,202	54,623
<b>Total</b>	<b>1,938,170</b>	<b>2,038,395</b>

### 55. Selling expenses

RMB'000		
Item	2019	2018
Expected warranty provisions	3,548,021	3,055,842
Employee benefits	1,820,246	1,657,218
Transportation and handling expenses	1,074,706	1,051,471
Travel expenses	318,480	318,429
Others	1,754,962	1,662,881
<b>Total</b>	<b>8,516,415</b>	<b>7,745,841</b>

### 56. Administrative expenses

RMB'000		
Item	2019	2018
Employee benefits (excluding employee benefits under defined benefit plan)	7,494,854	6,793,798
Settlement allowance for employees	416,778	383,090
Depreciation of fixed assets	889,649	799,824
Amortization of intangible assets	655,369	625,451
Others	4,988,204	4,828,718
<b>Total</b>	<b>14,444,854</b>	<b>13,430,881</b>

For the year ended 2019, the audit expense of RMB28,600,000 (2018: RMB28,600,000) is included in aforementioned administrative expenses.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 57. Research and Development expenses

RMB'000

Item	2019	2018
Employee benefits	4,658,809	4,109,494
Depreciation charge	528,998	384,507
Amortization of intangible assets	125,286	129,010
Other expenses	6,704,069	6,273,905
Total	12,017,162	10,896,916

### 58. Financial expenses

RMB'000

Item	2019	2018
Interest expenses	1,060,190	1,622,470
Less: Capitalization of interest	(89,751)	(166,885)
Interest expense on lease liabilities	50,263	–
Interest income	(723,563)	(591,127)
Exchange (gains) losses	(114,556)	252,280
Handling charge of financial institutions	258,003	205,061
Actuarial interest adjustment	111,134	139,296
Amortization of unrecognized financing expenses	–	7,251
Others	(178,519)	(188,950)
Total	373,201	1,279,396

### 59. Other income

RMB'000

Item	2019	2018
VAT Refund	230,854	268,676
Scientific and technological projects fund	594,936	491,405
Others	449,153	365,013
Total	1,274,943	1,125,094

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 60. Investment income

	RMB'000	
Item	2019	2018
Income from long-term equity investment accounted for under equity method (Note V, 16)	347,616	558,314
Investment income from disposal of subsidiaries	1,294,486	1,169,889
Investment loss on disposal of associates or joint ventures	126	–
Dividend income from investments in other equity instruments during the holding period	38,511	53,278
Interest income from debt investments during the holding period	56,023	88,327
Investment income from disposal of held-for-trading financial assets	204,857	339,576
Loss from derecognition of financial assets measured at amortised cost	(303,182)	(416,186)
Income from disposal of subsidiaries' rest equity re-measured at fair value	456,952	284,005
Gains on debt restructuring (Note XIII)	53,357	–
Others	4,631	(23,277)
<b>Total</b>	<b>2,153,377</b>	<b>2,053,926</b>

### 61. Gains from changes in fair value

	RMB'000	
Sources of gains from changes in fair value	2019	2018
Held-for-trading financial assets	77,447	168,181
Including: Gains on fair value changes of derivative financial instruments	35	225,192
Gains from changes in fair value of investments in equity instruments	64,799	16,154
Gains from changes in fair value of investments in debt instruments	8,175	(6,310)
Others	4,438	(66,855)
Gains on changes in fair value of 2016 Convertible Bonds-embedded derivative financial instruments (Note V, 40)	156,290	251,412
<b>Total</b>	<b>233,737</b>	<b>419,593</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 62. Losses of credit impairment

RMB'000		
Item	2019	2018
Losses of credit impairment on bills receivable	(20,612)	62,489
Losses of credit impairment on accounts receivable	1,500,182	531,622
Losses of credit impairment on receivables at FVTOCI	7,035	19
Losses of credit impairment on contract assets	3,489	(116,272)
Losses of credit impairment on other receivables	372,075	42,369
Losses of credit impairment on loans and advances	26,055	53,927
Losses of credit impairment on long-term receivables	1,691,286	979,197
Losses of credit impairment on debt investments	–	600
Losses of credit impairment on other non-current assets	35,051	66,327
Losses of credit impairment on part of loan commitments and financial guarantee contracts	(825)	9,997
<b>Total</b>	<b>3,613,736</b>	<b>1,630,275</b>

### 63. Impairment losses of assets

RMB'000		
Item	2019	2018
Loss on decline in value of inventories	941,574	253,448
Impairment losses of fixed assets	77,810	238,976
Impairment losses of construction in progress	2,410	–
Impairment losses of intangible assets	189,453	84,742
Impairment losses of goodwill	260,735	529,921
Others	77,971	300,388
<b>Total</b>	<b>1,549,953</b>	<b>1,407,475</b>

### 64. Gains (losses) on disposal of assets

RMB'000		
Item	2019	2018
Losses on disposal of fixed assets	524,056	(10,892)
Gains from disposal of intangible assets	1,229,146	1,024,636
Others	–	(4,968)
<b>Total</b>	<b>1,753,202</b>	<b>1,008,776</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 65. Non-operating income

RMB'000

Item	2019	2018	Amount included in non-recurring profit or loss for the period
Government grants	586,417	534,967	586,417
Liquidated damages, fines and compensation	60,381	150,780	60,381
Unpayable amount	22,000	2,826	22,000
Gains on retirement of assets	–	6,959	–
Claim income	139,770	146,356	139,770
Others	170,313	145,693	170,313
<b>Total</b>	<b>978,881</b>	<b>987,581</b>	<b>978,881</b>

Government grants included in profit or loss

RMB'000

Item	2019	2018	Related to assets/ Related to income
Compensation for demolition	103,808	108,429	Assets
Infrastructure subsidy	30,203	58,318	Assets
Land subsidy return	29,514	34,354	Assets
Resettlement subsidy	248,836	153,960	Income
Subsidy for environmental protection	944	–	Income
Others	173,112	179,906	Assets/Income
<b>Total</b>	<b>586,417</b>	<b>534,967</b>	/

### 66. Non-operating expenses

RMB'000

Item	2019	2018	Amount included in non-recurring profit or loss for the period
Penalty expenses	32,062	119,397	32,062
Relocation expenditure	30,394	85,766	30,394
Losses on retirement of assets	69,642	74,956	69,642
Donation expenditure	16,984	12,334	16,984
Flood control fund	30,240	26,719	30,240
Others	13,938	60,867	13,938
<b>Total</b>	<b>193,260</b>	<b>380,039</b>	<b>193,260</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 67. Income tax expenses

#### (1) Table of income tax expenses

	RMB'000	
Item	2019	2018
Current income tax expenses	2,562,839	2,207,182
Deferred income tax expenses	221,785	136,683
<b>Total</b>	<b>2,784,624</b>	<b>2,343,865</b>

#### (2) Reconciliation of accounting profits and income tax expenses

	RMB'000	
Item	2019	2018
Profit before tax	16,608,325	15,342,372
Income tax expenses at statutory tax rate (25%) (2018: 25%)	4,152,081	3,835,593
Effect of different tax rates applied by subsidiaries	(1,543,854)	(1,515,384)
Effect of income free of tax	(9,960)	(13,319)
Effect of adjustment of income tax in the previous period	11,066	(12,469)
Effect of profits or losses attributable to joint ventures and associates	(86,903)	(139,579)
Effect of non-deductible cost, expenses and losses	427,553	320,563
Effect of using deductible temporary differences or deductible losses for which no deferred tax assets were recognized for the prior period	(543,132)	(826,043)
Effect of deductible temporary differences or deductible losses for which no deferred tax assets were recognized in the current period	1,925,859	1,933,620
Other tax incentives (Note)	(1,548,086)	(1,239,117)
<b>Income tax expenses</b>	<b>2,784,624</b>	<b>2,343,865</b>

Note: Other tax incentives is mainly weighted deduction performed on technology research and development expenditures.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 68. Items in the cash flow statement

#### (1) Other cash receipts relating to operating activities

	RMB'000	
Item	2019	2018
Government grants	1,986,001	1,288,246
Interest income	608,545	485,600
Others	852,618	1,687,747
<b>Total</b>	<b>3,447,164</b>	<b>3,461,593</b>

#### (2) Other cash payments relating to operating activities

	RMB'000	
Item	2019	2018
Development and design expenses of products	6,421,276	6,530,857
Net increase in loans and advances to customers by Finance Company	1,634,817	2,767,600
Transportation, packing and insurance expenses of products	1,513,309	1,415,840
Marketing expenses	1,225,635	1,120,955
Expenditures on warranty provisions	658,316	673,591
Administrative office expenditure	626,957	600,391
Expenditure on water, electricity and energy, etc.	210,090	385,242
Statutory reserve deposited by CRRC Finance at central bank	28,411	125,809
Others	4,625,721	3,799,208
<b>Total</b>	<b>16,944,532</b>	<b>17,419,493</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 69. Supplementary information to the cash flow statement

#### (1) Reconciliation of net profit to cash flow from operating activities

	RMB'000	
Item	2019	2018
Net profit	<b>13,823,701</b>	12,998,507
Add: Provision for impairment losses of assets	<b>1,549,953</b>	1,407,475
Provision for impairment losses of credit	<b>3,613,736</b>	1,630,275
Depreciation of fixed assets and amortization of investment properties	<b>5,982,724</b>	5,633,004
Amortization of right-of-use assets	<b>268,745</b>	–
Amortization of intangible assets	<b>905,206</b>	895,557
Amortization of long-term prepaid expenses	<b>102,129</b>	81,967
Losses (Gains) on disposal and retirement of fixed assets, intangible assets and other long term assets	<b>(1,683,560)</b>	(940,779)
Gains on fair value changes	<b>(233,737)</b>	(419,593)
Financial expenses	<b>788,554</b>	1,611,510
Investment income	<b>(2,480,617)</b>	(2,053,926)
Changes in deferred tax assets and liabilities	<b>221,785</b>	136,683
Increase in inventories	<b>(6,660,928)</b>	(129,411)
Increase in operating receivables	<b>(16,601,909)</b>	(2,533,281)
Increase in operating payables	<b>23,666,519</b>	1,009,023
Changes in restricted cash and bank balances	<b>(731,765)</b>	(457,667)
Net Cash Flow from Operating Activities	<b>22,530,536</b>	18,869,344

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 69. Supplementary information to the cash flow statement (continued)

#### (2) Net changes in cash and cash equivalents

	RMB'000	
Item	2019	2018
Closing balance of cash	35,819,586	30,290,094
Less: Opening balance of cash	30,290,094	47,705,543
Net increase (decrease) in cash and cash equivalents	5,529,492	(17,415,449)

#### (3) Composition of cash and cash equivalents

	RMB'000	
Item	31 December 2019	31 December 2018
I. Cash	35,819,586	30,290,094
Including: Cash on hand	2,027	2,011
Bank deposits	35,817,559	30,288,083
II. Cash equivalents	-	-
III. Closing balance of cash and cash equivalents	35,819,586	30,290,094

### 70. Assets with restriction of ownership

	RMB'000	
Item	Carrying amount as at 31 December 2019	Reason for restriction
Cash and bank balances	5,759,431	Note V, 1
Bills receivable	4,437,678	Note V, 4
Accounts receivable	53,105	Note V, 5
Receivables at fair value through other comprehensive income	629,385	Note V, 6
Long-term receivables (including those due within one year)	371,694	Note V, 15
Fixed assets	134,440	Note V, 20
Total	11,385,733	/



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 71. Foreign-currency monetary items

#### (1) Foreign-currency monetary items

Item	Foreign currency balance as at the end of the year	Exchange rate	Translated RMB balance as at the end of the year
			RMB'000
Cash and bank balances			
Including: USD	408,520	6.9762	2,849,914
EUR	207,417	7.8155	1,621,066
HKD	428,295	0.8958	383,667
AUD	522,381	4.8843	2,551,468
Others	/	/	1,398,640
Placements with other financial institutions			
Including: USD	20,000	6.9762	139,524
Held-for-trading financial assets			
Including: USD	37,960	6.9762	264,815
EUR	326	7.8155	2,550
HKD	2,900	0.8958	2,598
Accounts receivable			
Including: USD	366,844	6.9762	2,559,177
EUR	111,450	7.8155	871,037
HKD	253,803	0.8958	227,357
AUD	127,468	4.8843	622,592
Others	/	/	561,003
Others current assets :			
Including: USD	29,888	6.9762	208,503
Other receivables:			
Including: USD	10,351	6.9762	72,210
EUR	3,887	7.8155	30,378
HKD	187,518	0.8958	167,975
AUD	1,977	4.8843	9,657
Others	/	/	35,348
Debt investments (including those due within one year):			
Including: USD	196,407	6.9762	1,370,174
Long-term receivables(including those due within one year)			
Including: USD	30,000	6.9762	209,286
Short-term borrowings			
Including: USD	271,617	6.9762	1,894,855
EUR	86,127	7.8155	673,124
Others	/	/	101,604

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## V. NOTES OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 71. Foreign-currency monetary items (continued)

#### (1) Foreign-currency monetary items (continued)

Item	Foreign currency balance as at the end of the year	Exchange rate	Translated RMB balance as at the end of the year
balance as at the end of the year			
Accounts payable			
Including: USD	15,891	6.9762	110,859
EUR	52,421	7.8155	409,696
HKD	190	0.8958	170
Others	/	/	675,006
Other payables			
Including: USD	464,572	6.9762	3,240,948
EUR	4,305	7.8155	33,647
HKD	71,106	0.8958	63,697
AUD	33	4.8843	162
Others	/	/	446,287
Long-term borrowings (including those due within one year)			
Including: USD	10,701	6.9762	74,654
EUR	17,391	7.8155	135,923
HKD	159,468	0.8958	142,848
Other non-current liabilities (2016 Convertible Bonds-embedded derivative financial instruments)			
Including: USD	773	6.9762	5,396
Bonds payable (2016 Convertible Bonds-liability portion)			
Including: USD	350,491	6.9762	2,445,097

#### (2) Significant overseas operating entities

Name of overseas business entity	Main business place	Functional currency
NM Germany	German	EUR
SMD	Britain	GBP

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## VI. CHANGE IN CONSOLIDATION SCOPE

### 1. Disposal of subsidiaries

#### (1) Single disposal of investments in subsidiaries, i.e. the loss of control

RMB'000

Name of subsidiary	Equity disposal proportion (%)	Equity disposal approach	Time point of losing control	Determination basis for time point of losing control	Difference amount of disposal consideration and shares of corresponding net assets of the subsidiary at consolidated level	Proportion of remaining equity at the date of losing control	Fair value of remaining equity at the date of losing control	Gains or losses arising from re-measuring remaining equity at fair value	Determination method and major assumptions about fair value of remaining equity at the date of losing control	Amount of other comprehensive income related to equity investments of the original subsidiary transferred to investment profit or loss
Zhuzhou Times Huaxin New Material Technology Co., Ltd. ("Times Huaxin")	65.00	Equity transfer	2019-12-20	Transfer of control	481,638	35.00	277,478	259,344	Market price	-
Beijing CRRC Nankou Science and Technology Park Management Co., Ltd. ("Nankou Science and Technology Park")	70.00	Equity transfer	2019-12-31	Transfer of control	813,494	30.00	197,608	197,608	Assessment method: asset-based approach Key assumption: cash flow and discount rate	-
Others	/	/	/	Transfer of control	(646)	/	9,767	-	/	-
<b>Total</b>	<b>/</b>	<b>/</b>	<b>/</b>	<b>/</b>	<b>1,294,486</b>	<b>/</b>	<b>484,853</b>	<b>456,952</b>	<b>/</b>	<b>-</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## VI. CHANGE IN CONSOLIDATION SCOPE

### 1. Disposal of subsidiaries (continued)

#### (1) Single disposal of investments in subsidiaries, i.e. the loss of control (continued)

##### (a) Times Huaxin

Times New Material signed an equity transfer agreement with Zhuzhou Guotou Innovation Venture Capital Co., Ltd. to transfer 65% equity of Times Huaxin to it. On December 20, 2019, after the completion of the above equity transfer transaction, the Group lost control of Times Huaxin and no longer included it in the scope of the Group's consolidated financial statements.

	RMB'000
Disposal price	515,316
Including: cash and cash equivalents	515,316
Less: Net assets of Times Huaxin disposal day (65%)	33,678
Gain on disposal	481,638
Cash and cash equivalents received for disposal of subsidiaries in the current period	515,316
Less: cash and cash equivalents held by subsidiaries	54,560
Net cash receipts from disposal of subsidiaries	460,756

##### (b) Nankou Science and Technology Park

Nankou Company and CRRC Real Estate Co., Ltd., a subsidiary of CRRC Group (renamed CRRC Technology Park Development Co., Ltd., hereinafter referred to as "CRRC Technology Park"), signed an equity transfer agreement, and transferred Nankou Science and Technology Park 70% equity. On December 31, 2019, after the completion of the above equity transfer transaction, the Group lost control of Nankou Science and Technology Innovation Park and no longer included it in the scope of the Group's consolidated financial statements.

	RMB'000
Disposal price	428,276
Including: cash and cash equivalents	-
Other receivables increased	128,483
Decrease in other payables	299,793
Less: Net assets of Times Huaxin disposal day (70%)	(385,218)
Gain on disposal	813,494
Cash and cash equivalents received for disposal of subsidiaries in the current period	-
Less: cash and cash equivalents held by subsidiaries	797
Net cash payment from disposal of subsidiaries	(797)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## VI. CHANGE IN CONSOLIDATION SCOPE (continued)

### 1. Disposal of subsidiaries (continued)

#### (1) Single disposal of investments in subsidiaries, i.e. the loss of control (continued)

##### (c) Cash flow from disposal of other subsidiaries

	RMB'000
Cash and cash equivalents received for disposal of subsidiaries in the current period	3,429
Less: cash and cash equivalents held by subsidiaries	11,082
Net cash payment from disposal of subsidiaries	(7,653)

##### (d) Summary of cash flow from disposal of subsidiaries

	RMB'000
Cash and cash equivalents received for disposal of subsidiaries in the current period	518,745
Less: cash and cash equivalents held by subsidiaries	66,439
Add: Amount received in the current period from disposal of subsidiaries in previous period	128,074
Net cash receipts from disposal of subsidiaries	580,380

## VII. INTERESTS IN OTHER ENTITIES

### 1. Interests in subsidiaries

#### (1) Composition of the Group

The details of the Company's subsidiaries are set out in Note 1, 2.

#### (2) Significant non-wholly owned subsidiaries

				RMB'000
Name	Proportion of minority interest (%)	Net profit attributable to minority interests	Dividends distributed to minority interests	Minority interests at 31 December 2019
Times Electric	46.81	1,258,425	265,540	10,492,451
Times New Material	60.45	(153)	19,142	2,770,139
CRRC Changchun Railway Vehicles Co., Ltd.	6.46	182,145	80,612	2,109,947

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## VII. INTERESTS IN OTHER ENTITIES (continued)

### 1. Interests in subsidiaries (continued)

#### (3) Key financial information of significant non-wholly owned subsidiaries

RMB'000

Name	31 December 2019						31 December 2018					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Times Electric	26,774,622	6,210,993	32,985,615	9,381,868	1,407,468	10,789,336	23,582,506	5,452,016	29,034,522	7,723,753	1,187,256	8,911,009
Times New Material	9,563,890	5,460,719	15,024,609	7,477,309	3,002,608	10,479,917	8,860,864	5,416,201	14,277,065	8,027,923	1,457,741	9,485,664
CRRC Changchun Railway Vehicles Co., Ltd.	45,300,238	13,601,510	58,901,748	37,420,307	1,815,772	39,236,079	41,655,180	13,462,117	55,117,297	35,180,205	1,655,408	36,835,613

RMB'000

Name	2019				2018			
	Revenue	Net profit	Total comprehensive income	Operating cash flows	Revenue	Net profit	Total comprehensive income	Operating cash flows
Times Electric	16,304,207	2,657,559	2,654,777	1,837,950	15,657,901	2,650,535	2,641,736	3,758,563
Times New Material	11,245,613	21,157	(214,962)	1,220,812	11,996,047	(434,591)	(406,111)	375,428
CRRC Changchun Railway Vehicles Co., Ltd.	36,010,080	2,622,794	2,612,624	3,109,914	34,258,852	2,532,420	2,576,924	5,287,788

### 2. Changes of shares of owners' equity in subsidiaries but continue to remain control over transactions of subsidiaries

#### (1) Description of changes in the share of owner's equity in subsidiaries

In the current period, the Company acquired a 49% minority stake in its subsidiary CRRC Information Technology. After the completion of the acquisition, the Company's shareholding in CRRC Information Technology changed from 51% to 100%.

In the current period, CRRC Hong Kong Capital Management, a wholly-owned subsidiary of the Company, acquired the shares of Times Electric, a subsidiary of the Group. The Company's shareholding in Times Electric is 53.19%.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## VII. INTERESTS IN OTHER ENTITIES *(continued)*

### 3. Equity in associates or joint ventures

#### (1) Significant joint ventures or associates

RMB'000

Name of associate	Main business place	Place of incorporation	Nature of business	Shareholding proportion (%)		Accounting methods for investment in associates
				Direct	Indirect	
China United Insurance	Beijing	Beijing	Finance	13.0633	–	Equity method

The Group holds 13.0633% voting power of China United Insurance. The Group assigns one director to the board of directors of China United Insurance and has substantive power of decision-making participation, therefore has significant influence over China United Insurance.

#### (2) Key financial information of significant associates

RMB'000

China United Insurance	Balance at 31 December 2019/ Amount for the current period	Balance at 31 December 2018/ Amount for the prior period
TOTAL ASSETS	<b>75,557,682</b>	69,469,787
TOTAL LIABILITIES	<b>56,988,414</b>	52,325,774
Minority interests	<b>2,011,604</b>	1,894,177
Equities attributable to shareholders of parent company	<b>16,557,664</b>	15,249,836
Share of net assets calculated based on shareholding proportion	<b>2,162,978</b>	1,992,132
– Goodwill	<b>2,982,365</b>	2,982,365
Carrying amount of equity investments in associates	<b>5,145,343</b>	4,974,497
Revenue	<b>49,927,850</b>	43,423,092
Net profit	<b>1,292,409</b>	1,015,112
Net profit attributable to shareholders of parent company	<b>1,156,626</b>	879,162
Other comprehensive income attributable to shareholders of parent company	<b>165,827</b>	(485,075)
Total comprehensive income attributable to shareholders of parent company	<b>1,322,448</b>	530,037
Dividends received from associates in the current year	–	–

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## VII. INTERESTS IN OTHER ENTITIES *(continued)*

### 3. Equity in associates or joint ventures *(continued)*

#### *(3) Financial information of insignificant joint ventures and associates*

	<b>Balance at 31 December 2019/ Amount for the current period</b>	Balance at 31 December 2018/ Amount for the prior period
		RMB'000
Joint ventures:		
Total carrying amount of investment	<b>2,814,725</b>	2,242,304
Total amounts calculated based on shareholding proportions		
– Net profit	<b>48,609</b>	168,517
– Other comprehensive income	–	–
– Total comprehensive income	<b>48,609</b>	168,517
Associates:		
Total carrying amount of investment	<b>7,610,628</b>	6,548,991
Total amounts calculated based on shareholding proportions		
– Net profit	<b>147,913</b>	274,949
– Other comprehensive income	–	–
– Total comprehensive income	<b>147,913</b>	274,949

### 4. Equity in structured entities that are not included in consolidated financial statements

At 31 December 2019, the structured entities that are related with the Group but not included in consolidated financial statements are special-purpose trusts, which are mainly engaged in CRRC trust asset-backed notes and manage, operates and handles the trust property for the benefit of the holder of trust asset-backed notes, and makes payments to the holder of trust asset-backed notes according to the trust contract. The Group, as a special-purpose initiator of the trust and asset service institution, only provides collection service according to the agreement and does not charge service fee. The Group holds no share in the special-purpose trust. At 31 December 2019, the structured entity has total assets of RMB3,229,938,000. The Group didn't provide financial support to the structured entity.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2019*

## VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS

The Group's main financial instruments include cash and bank balances, placements with other banks and other financial institutions, held-for-trading financial assets, bills receivable, accounts receivable, receivables at fair value through other comprehensive income, a part of other receivables, a part of non-current assets due within one year, a part of other current assets, loans and advances to customers, debt investments, long-term receivables, investment in other equity instruments, other non-current financial assets, short-term borrowings, borrowings from central bank, due to customers, bills payable, accounts payable, other payables, a part of non-current liabilities due within one year, a part of other current liabilities, long-term borrowings, bonds payable, lease liabilities, part of long-term payables and part of other non-current liabilities. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure the risks are monitored at a certain level.

The Group adopts sensitivity analysis technique to analyze how the profit and loss for the period and shareholders' equity would have been affected by reasonably possible changes in the relevant risk variables. As it is unlikely that risk variables will change in an isolated manner, and the interdependence among risk variables will have significant effect on the amount ultimately influenced by the changes in a single risk variable, the following are based on the assumption that the change in each risk variable is on a stand-alone basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

### 1. Category of financial instruments

#### (1) Carrying amount of financial assets

RMB'000

Item	31 December 2019				Total
	At FVTPL	At amortized cost	Classified as at FVTOCI	Designed as at FVTOCI	
Cash and bank balances	–	44,904,764	–	–	44,904,764
Placements with other banks and other financial institutions	–	139,524	–	–	139,524
Held-for-trading financial assets	9,180,616	–	–	–	9,180,616
Bills receivable	–	14,245,965	–	–	14,245,965
Accounts receivable	–	59,712,424	–	–	59,712,424
Receivables at fair value through other comprehensive income	–	–	13,085,613	–	13,085,613
Other receivables (exclude for government subsidy and reserve fund)	–	2,324,427	–	–	2,324,427
Other current assets (bond investment)	–	567,789	–	–	567,789
Loans and advances to customers (include due within one year)	–	8,146,644	–	–	8,146,644
Debt investments (include due within one year)	–	1,693,097	–	–	1,693,097
Long-term receivables (include due within one year)	–	5,444,637	–	–	5,444,637
Investment in other equity instruments	–	–	–	2,654,602	2,654,602
Other non-current financial assets	616,855	–	–	–	616,855
<b>Total</b>	<b>9,797,471</b>	<b>137,179,271</b>	<b>13,085,613</b>	<b>2,654,602</b>	<b>162,716,957</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

### 1. Category of financial instruments (continued)

#### (2) Carrying amount of financial liabilities

RMB'000

Item	31 December 2019		
	At FVTPL	Other financial liabilities	Total
Short-term borrowings	–	10,530,416	10,530,416
Borrowings from central bank	–	222,317	222,317
Due to Customers	–	5,577,269	5,577,269
Bills payable	–	27,339,474	27,339,474
Accounts payable	–	106,602,413	106,602,413
Other payables	–	9,176,397	9,176,397
Other current liabilities (short-term financing)	–	500,000	500,000
Long-term borrowings (include due within one year)	–	3,289,453	3,289,453
Bonds payable (include due within one year)	–	4,593,096	4,593,096
Long-term payables (include due within one year) (excluding special accounts payable)	–	80,662	80,662
Other non-current liabilities (convertible loan notes with embedded derivatives)	5,396	–	5,396
<b>Total</b>	<b>5,396</b>	<b>167,911,497</b>	<b>167,916,893</b>

### 2. Credit risk

Credit risk represents the risk that the failure to perform obligation by one party of the financial instruments will cause financial loss to the other party.

As at 31 December 2019, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties, contract assets, lease receivables and financial guarantees issued by the Group is arising from:

- (i) The carrying amount of the respective recognized financial assets as stated in the consolidated balance sheet. For financial instruments measured at fair value, the carrying amount reflects the exposure to risks but not the maximum exposure to risks. The maximum exposure to risks would vary according to the future changes in fair value.
- (ii) The amount of external guarantees disclosed in Note XI, 2.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS *(continued)*

### 2. Credit risk *(continued)*

The Group only has transactions with recognized and reputable third parties. According to the Group's policies, for all the customers that require to make transactions on credit, the Group needs to review the credit of the customers and determines the manner of sales on the basis of customers' credit grading, credit line and credit period. For sales on credit, the payment period and the amount on credit need to be specified in the sales contract, with the payment period not exceeding credit period, and the accumulated amount of credit sales shall not exceed the credit line. For cash on delivery, the goods are not shipped until all the collection procedures are completed, so as to ensure the Group will not be exposed to significant credit loss.

The specific method used by the Group to assess whether the credit risk of financial instruments has increased significantly since initial recognition and the basis for determining that the financial assets are impaired, as well as the policies of immediate write-off of financial assets etc. are set out in Note III,11.

The Group's credit risk exposure to any single financial instrument is limited because the bank deposits are deposited with banks with high credit ratings.

The Group's revenue from one major customer, China State Railway Group Co., Ltd. and its subsidiaries (collectively referred to as "the China Railway"), accounts for a larger proportion of the Group's revenue, accordingly, the accounts receivable from such customer also account for a larger proportion. The Group's management believes that the customer is of reliable and good reputation, therefore the Group has no significant credit risk in respect of the receivables from this customer. Except for this customer, the Group has no other significant concentration of credit risk.

The Group's major operating activities and corresponding concentration of operating risk are located in Mainland China.

As at 31 December 2019, included in the Group's accounts receivable, the accounts receivable from the top one and top five customers respectively account for 42.9% (31 December 2018: 39.5%) and 49.0% (31 December 2018: 46.2%); included in the Group's long-term receivables (including those due within one year), the long-term receivables from top one and top five customers account for 6.1% (31 December 2018: 8.5%) and 26.0% (31 December 2018: 32.5%) respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

### 2. Credit risk (continued)

#### (1) The credit risk exposure of the Group's financial assets and other items

RMB'000

Item	Note V	Balance as at 31 December 2019			Total
		12-month ECL	Lifetime ECL (No credit loss occurred)	Lifetime ECL (Credit loss occurred)	
<b>Financial assets measured at amortized cost</b>					
Cash and bank balances	1	44,904,764	–	–	44,904,764
Placements with other banks and other financial institutions	2	139,524	–	–	139,524
Bills receivable	4	14,287,842	–	–	14,287,842
Accounts receivable	5	–	55,733,617	9,854,155	65,587,772
Other receivables	8	1,288,378	564,210	1,529,132	3,381,720
Other current assets (bonds investments)	12	567,789	–	–	567,789
Loans and advances to customers (including due within one year)	13	7,436,600	835,817	–	8,272,417
Debt investments (including due within one year)	14	1,693,697	–	–	1,693,697
Long-term receivables (excluding for finance lease) (including due within one year)	15	–	4,653,412	1,579,155	6,232,567
<b>Financial assets classified as at fair value through other comprehensive income ("FVTOCI"):</b>					
Receivables at FVTOCI	6	13,085,613	–	–	13,085,613
<b>Other items:</b>					
Contract assets (including non-current part)	10	–	26,123,860	13,749	26,137,609
Long-term receivables – Finance lease (including due within one year)	15	–	9,351,384	5,085,928	14,437,312
Financial guarantee contracts		4,613,318	–	–	4,613,318

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS *(continued)*

### 2. Credit risk *(continued)*

#### (1) *The credit risk exposure of the Group's financial assets and other items (continued)*

Note 1: For accounts receivable and contract assets formed under revenue standards as well as finance lease receivables formed under lease standards, the Group adopts simple method to measure the amount of lifetime ECL.

Note 2: For financial guarantee contracts, the amount represents the maximum amount guaranteed by the Group under the contract.

The movements of loss allowance for the Group's bills receivable, accounts receivable, receivables at fair value through other comprehensive income, other receivables, contract assets, debt investments and long-term receivables are detailed in Note V 4, V 5, V 6, V 8, V 10, V 14 and V15.

### 3. Liquidity risk

Liquidity risk represents the risk that the entity encounters shortage of funds when performing the obligation relating to financial liabilities. The Group's objective is to maintain the balance between the continuity and flexibility of financing by comprehensively using multiple financing measures such as settlement with notes, bank borrowing, short-term financing bonds and corporate bonds etc. and adopting proper combination of long-term and short-term financing as well as the method of optimizing financing structure. The Group has obtained bank credit from several commercial banks to meet its need of working capital and capital expenditures. The management has been monitoring the Group's liquidity so as to ensure the Group has sufficient liquidity to repay all the due debts and get maximum benefits from its financial resources.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

### 3. Liquidity risk (continued)

#### (1) Maturity analysis of non-derivative financial liabilities and lease liabilities based on undiscounted contract cash flows

RMB'000

Item	31 December 2019				Total
	Within 1 year (inclusive)	1-2 years (inclusive)	2-5 years (inclusive)	Over 5 years	
Short-term borrowings	10,687,378	–	–	–	10,687,378
Borrowings from central bank	222,487	–	–	–	222,487
Due to Customers	5,596,789	–	–	–	5,596,789
Bills payable	27,339,474	–	–	–	27,339,474
Accounts payable	106,602,413	–	–	–	106,602,413
Other payables	9,176,397	–	–	–	9,176,397
Other current liabilities	504,424	–	–	–	504,424
Long-term borrowings (including due within one year)	794,178	2,085,756	320,195	312,631	3,512,760
Bonds payable (including due within one year)	92,397	3,187,750	1,598,333	–	4,878,480
Long-term payables (including due within one year) (Except special accounts payable)	2,370	86,922	1,478	1,234	92,004
Lease liabilities (including due within one year)	359,701	287,631	502,425	367,531	1,517,288
Financial guarantees (Note)	4,613,318	–	–	–	4,613,318
<b>Total</b>	<b>165,991,326</b>	<b>5,648,059</b>	<b>2,422,431</b>	<b>681,396</b>	<b>174,743,212</b>

Note: The above amounts included in financial guarantee contracts represent the maximum amount that the Group is required to repay in respect of all the guaranteed amount under the contract arrangement when the holder of the guarantee contract claims for compensation. According to the prediction at balance sheet date, the Group believes that there is minor possibility to make any payments according to the contract arrangements. However, this estimate will change as the possibility that the contract holder puts forward the claim changes, while relevant possibility is related to the possibility that the receivables held by the contract holder incur credit loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

### 4. Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to the changes in market price. The market risk mainly includes interest rate risk, currency risk and price risk.

#### (1) Interest rate risk

Interest risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to the changes in market interest rate. The risk of fluctuations in the fair value of the Group's financial instruments due to changes in market interest rates is primarily related to the Group's fixed-rate borrowings, bonds payable, other current assets, and long-term receivables. The risk of fluctuations in the future cash flows of the Group's financial instruments due to changes in market interest rates is primarily related to the Group's liabilities with floating interest rates.

The following table sets out the sensitivity analysis of interest rate risk, reflecting the effect of reasonably possible changes in interest rate on net profit (via effect on variable-rate borrowings) (with effect of capitalization of borrowing costs considered) under the assumption that all the other variables held constant.

Item	2019		2018	
	Increase in 25 point	Decrease in 25 point	Increase in 25 point	Decrease in 25 point
Rate of variable-rate borrowings				
(Decrease)/Increase in net profit (RMB'000)	(10,614)	10,614	(13,401)	13,401

#### (2) Other price risk

The Group's price risk is mainly arising from investments in held-for-trading equity instruments investments and investments in other equity instruments. The Group adopts combination of multiple equity securities to mitigate the price risk of investments in equity securities.

#### (3) Currency risk

Currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. The Group's exposure to the currency risk is primarily associated with its operating activities (settled in foreign currency other than the functional currency).

The Group's operating activities are mainly located in China and most of the transactions are denominated in RMB, except for certain sales, purchases and borrowings which are settled in foreign currency. The fluctuation of the exchange rate between such foreign currency and RMB will affect the Group's operating performance.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS *(continued)*

### 4. Market risk *(continued)*

#### (3) Currency risk *(continued)*

The Group tries to mitigate the currency risk to the minimum extent mainly by closely monitoring the changes in market exchange rate and actively adopting responsive measures. In the export business, the Group's policy is to provide quotation based on the expected changes of exchange rate in respect of the external contracts under negotiation; During the negotiation, it is required to specify the range of exchange rate and the risks on the buyer and seller respectively. In import business, the enterprises are required to seize the moment of foreign exchange settlement for import so as to control the currency risk.

#### (i) Foreign currency financial assets and financial liabilities

RMB'000

Item	31 December 2019	31 December 2018
<b>Foreign currency financial assets:</b>		
Cash and bank balances	8,804,755	6,996,100
Placements with other financial institutions	139,524	–
Held-for-trading financial assets	269,963	227,307
Accounts receivable	6,488,999	4,258,418
Other receivables	1,375,375	103,094
Other current assets	208,503	205,896
Debt investments (inclusive of the portion due within one year)	1,370,174	2,520,932
Long-term receivables (inclusive of the portion due within one year)	209,286	467,704
<b>Total</b>	<b>18,866,579</b>	<b>14,779,451</b>
<b>Foreign currency financial liabilities:</b>		
Short-term borrowings	4,071,758	1,991,024
Accounts payable	1,473,651	245,945
Other payables	3,784,741	5,400,341
Long-term borrowings (inclusive of the portion due within one year)	353,425	1,441,303
Long-term payables (inclusive of the portion due within one year)	–	41,525
Bonds payable (inclusive of the portion due within one year)	2,445,097	3,910,829
Other non-current liabilities (inclusive of the portion due within one year)	5,396	271,899
<b>Total</b>	<b>12,134,068</b>	<b>13,302,866</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

### 4. Market risk (continued)

#### (3) Currency risk (continued)

The following table sets out the sensitivity analysis on currency risk, reflecting the effect of reasonably possible changes in exchange rate of EUR and USD on net profit under the assumption that all the other variables held constant. As the effect changes in exchange rate of other currencies is not significant, related sensitivity analysis is not presented.

EUR	31 December 2019		31 December 2018	
Increase/(Decrease) in exchange rate of EUR against RMB	4.54%	(4.54%)	7.08%	(7.08%)
Increase/(Decrease) in net profit (RMB'000)	49,102	(49,102)	47,465	(47,465)

USD	31 December 2019		31 December 2018	
(Decrease)/Increase in exchange rate of USD against RMB	5.95%	(5.95%)	10.76%	(10.76%)
(Decrease)/Increase in net profit (RMB'000)	(53,402)	53,402	(181,982)	181,982

### 5. Transfer of financial assets

At 31 December 2019, the Group endorsed bills receivable of RMB8,371,176,000 (31 December 2018: RMB7,654,452,000) to its suppliers to pay the accounts payable; discounted bills receivable of RMB3,301,604,000 (31 December 2018: RMB1,195,378,000) to bank to obtain currency funds. The Group believes that the risk and rewards of the ownership of such endorsed or discounted bills receivable have been substantially transferred to the supplier or discounting bank, therefore derecognized such endorsed or discounted bills receivable. If the acceptor can't cash such notes, according to relevant laws and regulations of China, the Group is held jointly liable for such bills receivable. The Group believes that as the acceptor is of good reputation, there is minor risk of the acceptor's failure to cash the notes upon maturity. At 31 December 2019, if the acceptor fails to cash such notes upon maturity, i.e. the Group's maximum exposure to loss is equivalent to the amount that the Group should pay the supplier or discounting bank in respect of such endorsed or discounted notes. For all the bills receivable endorsed to suppliers or discounted to bank, the maturity is within 1 year after the end of reporting year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

### 5. Transfer of financial assets (continued)

At 31 December 2019, the Group endorsed bills receivable of RMB3,928,611,000 (31 December 2018: RMB4,055,254,000) to its suppliers to pay the accounts payable; discounted bills receivable of RMB398,186,000 (31 December 2018: RMB26,429,000) to bank to obtain currency funds. The Group believes that it retains substantially all risk and rewards of the ownership of such endorsed or discounted bills receivable (including relevant risk of default), therefore continues to recognize such endorsed or discounted bills receivable as well as the carrying amount of relevant accounts payable that have been repaid. After the endorsement or discounting of bills receivable, the Group does not retain any right to use such endorsed or discounted notes, including selling, transferring or pledging such endorsed or discounted notes to any third party.

For the year ended 2019, the Group transferred accounts receivable of RMB5,515,572,000 (2018: RMB5,468,228,000) to bank to obtain currency funds. The Group believes that it has transferred substantially all the risks and rewards of ownership of such accounts receivable, therefore derecognized such accounts receivable. The Group's losses arising from derecognition of such accounts receivable are included in investment income amounting to RMB153,607,000 (2018: RMB122,051,000).

For the year ended 2019, the Group securitized accounts receivable of RMB3,193,369,000 (2018: RMB6,227,911,000). In this business, the Group, as assets service institution, only provides collection service according to the agreement and does not charge service fee. The Group believes that it has transferred substantially all the risks and rewards of ownership of such accounts receivable, therefore derecognized such accounts receivable. The Group's losses arising from derecognition of such accounts receivable are included in investment income amounting to RMB149,575,000 (2018: RMB294,135,000).

### 6. Capital management

The major objective of the Group's capital management is to ensure the Group's continuing operation, and provide the shareholders with continuous return by establishing a price of products and service that matches the risk level so as to obtain financing at reasonable cost.

The Group reviews and manages its capital structure on a regular basis, aiming to achieve most ideal capital structure and return to shareholders. The factors that the Group takes into consideration include: the Group's future capital demand, capital efficiency, actual and expected profitability, expected cash flows, expected capital expenditures and etc. If the economic conditions change and affect the Group, the Group will adjust the capital structure.

The Group monitors and manages its capital structure using asset-liability proportion. At 31 December 2019 and 31 December 2018, the asset-liability proportion are as follows:

	31 December 2019	31 December 2018
Asset-liability proportion (%)	58.59	58.13

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## IX. DISCLOSURE OF FAIR VALUE

### 1. Closing fair value of assets and liabilities measured at fair value

RMB'000

Item	Fair value at 31 December 2019			Total	Valuation technique and inputs	Significant unobservable inputs
	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement			
(I) Held-for-trading financial assets	2,598	8,006,391	1,171,627	9,180,616		
1. Derivative financial assets	–	2,550	–	2,550	Note 1	/
2. Bank wealth management products	–	8,003,841	–	8,003,841	Note 3	/
3. Listed equity instrument investments	2,598	–	–	2,598	Note 2	/
4. Unlisted equity instrument investments	–	–	1,171,627	1,171,627	Note 4	Note 4
(II) Receivables at fair value through other comprehensive income	–	13,085,613	–	13,085,613	Note 3	/
(III) Investment in other equity instruments	1,398,150	–	1,256,452	2,654,602		
1. Listed equity instrument investments	1,398,150	–	–	1,398,150	Note 2	/
2. Unlisted equity instrument investments	–	–	1,256,452	1,256,452	Note 5	Note 5
(IV) Other non-current financial assets	616,855	–	–	616,855		
1. Preferred shares etc. financial instrument investments	616,855	–	–	616,855	Note 1	
<b>Total assets measured at fair value on recurring basis</b>	<b>2,017,603</b>	<b>21,092,004</b>	<b>2,428,079</b>	<b>25,537,686</b>		
(V) Other non-current liabilities	–	–	5,396	5,396		
1. Convertible bonds (embedded derivative financial instruments)	–	–	5,396	5,396	Note 6	Note 6
<b>Total liabilities measured at fair value on recurring basis</b>	<b>–</b>	<b>–</b>	<b>5,396</b>	<b>5,396</b>		

Note 1: Discounted cash flow method. Future cash flows are based on forward exchange rate (sourced from the forward exchange rate observed at financial statement date) and estimated contractual forward exchange rate, and discounted using the discounting rate reflecting the credit risk of counterparty.

Note 2: Quoted price (unadjusted) in active market.

Note 3: Discounted cash flow method. Future cash flows are estimated based on expected return and discounted using the discounting rate reflecting the credit risk of counterparty.

Note 4: Discounted cash flow method. Unobservable inputs include revenue growth and system risk factor. The revenue growth is based on the estimate of the management of the investee. The system risk factor is based on the system risk factor of historical stock price of comparative companies.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## IX. DISCLOSURE OF FAIR VALUE (continued)

### 1. Closing fair value of assets and liabilities measured at fair value (continued)

Note5: Comparative listed company comparing method and dividends discounting model. The unobservable inputs of the comparative listed company comparing method include liquidity discount. The unobservable inputs of dividends discounting model include expected growth rate and discounting rate.

Note6: The embedded derivative financial instruments are measured using binomial option tree pricing model (See Note V, 40). The volatility is based on the historical volatility of the stock price of the Company. The Group performed sensitivity analysis on volatility. Where the other parameters held constant, the increase or decrease in volatility by 1% will result in increase of RMB573,000/decrease of RMB557,000 in the value of convertible bonds-derivative instruments portion for the current period (31 December 2018: increase by RMB2,659,000 or decrease by RMB2,637,000).

### 2. Items continuously measured at level 3 fair value, and reconciliation with opening and closing carrying amount and sensitivity analysis on unobservable inputs

RMB'000

Item	Held-for-trading financial assets (unlisted equity instrument investments)	Investments in other equity instruments (unlisted equity instrument investments)	Other non- current liabilities (convertible bonds – embedded derivative financial instruments)
1 January 2019	885,884	881,517	(271,899)
Additions	224,913	458,812	–
Disposals/redemptions	(10,237)	(67,764)	106,302
Gain (loss) for the period	71,067	(16,113)	156,290
Included in profit or loss	71,067	–	156,290
Included in other comprehensive income	–	(16,113)	–
Changes in exchange rate	–	–	3,911
31 December 2019	1,171,627	1,256,452	(5,396)

### 3. For the current period, there is no transfer among level 1, level 2 and level 3 fair value measurement of the Group's financial assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## IX. DISCLOSURE OF FAIR VALUE *(continued)*

### 4. Fair value of financial assets and financial liabilities that are not measured at fair value

The Group's financial assets and financial liabilities measured at amortized cost are detailed in Note VIII, 1. Except for the items listed below, the management of the Group believes that the carrying amount of financial assets and financial liabilities in the financial statements approximates the fair value of such assets and liabilities.

RMB'000

Item	Carrying amount		Fair value	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Fixed-rate debt investments	<b>1,658,234</b>	1,622,252	<b>1,366,443</b>	1,466,573
Fixed-rate long-term receivables	<b>10,518,918</b>	7,809,013	<b>9,674,427</b>	7,148,620
Fixed-rate long-term borrowings	<b>615,003</b>	407,469	<b>597,865</b>	389,023
Fixed-rate bonds payable	<b>4,534,817</b>	3,500,000	<b>3,888,944</b>	3,162,140

The listed bonds in debt investments are publicly traded in active market and attributable to level 1 fair value measurement; fixed-rate 2016 convertible bonds are determined based on the latest transaction price published by BLOOMBERG PROFESSIONAL(R) and attributable to level 2 fair value measurement; the fair value of debt investments (exclusive of listed bonds), part of other non-current assets, long-term receivables, long-term borrowings and corporate bonds payable (exclusive of convertible bonds in 2016) are determined based on discounted cash flow and attributable to level 2 fair value measurement, and using the discounting rate reflecting the credit risk of the issuer as the main inputs.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

### 1. Parent of the Company

RMB'000

Name of the parent company	Place of incorporation	Nature of business	Registered capital	Proportion of ownership interest held by the parent company (%)	Proportion of voting power held by the parent company (%)
CRRC Group	Beijing	Manufacturing	23,000,000	50.28	50.73

CRRC Group's wholly-owned subsidiary CRRC Jinzheng Investment Co., Ltd. (the "CRRC Jinzheng") holds 0.45% voting power of the Company, therefore CRRC Group holds totally 50.73% voting power of the Company.

Related party transactions between the Group and CRRC Group and its subsidiaries other than the Group also constitute related party transactions or continuous related party transactions as defined in Chapter 14A of the Listing Rules of the Stock Exchange of Hong Kong Ltd.

The ultimate controlling party of the Company is State-owned Assets Supervision and Administration Commission of the State Council (the "SASAC").

### 2. The Company's subsidiaries are detailed in Note I, 2.

### 3. Joint ventures and associates of the Company

The joint ventures and associates that have transactions with the Group in the current year or with a balance formed by the transactions in the previous period are as follows:

Name of joint ventures or associates	Relationship with the Company
Changchun Bombardier Railway Vehicles Company Ltd.	Joint ventures
Shentong CNR (Shanghai) Railway Transportation Vehicle Maintenance Co., Ltd.	Joint ventures
Shenzhen CNR Railway Vehicle Co., Ltd.	Joint ventures
Qingdao Sifang Faiveley Railway Brake Co., Ltd.	Joint ventures
CRRC Ziyang Transmission Co., Ltd.	Joint ventures
Shenyang CRRC Westinghouse Railway Brake Technology Co., Ltd.	Joint ventures
Changchun Changke Track Environmental Protection Equipment Co., Ltd.	Joint ventures
Beijing Sifang Tongchuang Rail Transit Equipment Co., Ltd.	Joint ventures
Jiangsu Langrui Maoda Foundry Co., Ltd.	Joint ventures
Changzhou RuiYang Transmission Technology Co., Ltd.	Joint ventures
Dalian Toshiba Locomotive Electric Equipment Co., Ltd.	Joint ventures
Qiqihar Times Rubber & Plastic Ltd.	Joint ventures

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

### 3. Joint ventures and associates of the Company *(continued)*

Name of joint ventures or associates	Relationship with the Company
Guangzhou CSR Sifang Railway Transportation Equipment Co.,Ltd.	Joint ventures
Shanxi Jinlong Sifang Railway Vehicle Equipment Co., Ltd.	Joint ventures
Xi'an Sifang Rail Transportation Equipment Co Ltd	Joint ventures
Qingdao Sifang Kawasaki Vehicle technology Co., Ltd.	Joint ventures
Zhuzhou Times Mitsubishi Transportation Equipment Co., Ltd.	Joint ventures
Chongqing Xingyong Sifang Rail Transit Development Co., Ltd.	Joint ventures
Beijing CRRC Erqi Danobat Machine Tool Manufacturing Co., Ltd.	Joint ventures
Shenyang CRRC Urban Rail Transit Equipment CO., LTD.	Joint ventures
Siemens Traction Equipment Ltd. Zhuzhou	Joint ventures
BWTON Technology Co., Ltd.	Joint ventures
Sichuan CRRC Railway Investment Rail Transit Co., Ltd.	Joint ventures
Hunan CRRC Honghui Technology Co., Ltd.	Joint ventures
Qingdao Sifang SRI&Intellectual Co., Ltd.	Joint ventures
Zhuzhou CRRC Times High-tech Investment Co., Ltd.	Joint ventures
Guangzhou Electric Locomotive Co.,Ltd.	Associates
Beijing Nankou SKF Railway Bearing Co., Ltd.	Associates
Hunan CSR Westinghouse Railway Transportation Technology Co.,Ltd.	Associates
ALSTOM Transport Electric Equipment Co. Ltd. (Shanghai)	Associates
Knorr Nankou Air Supply Equipment (Beijing) Co., Ltd.	Associates
Sichuan CSR Sharing Foundry Co., Ltd.	Associates
Chengdu CRC Xinzhu Railway Transportation Equipment Co., Ltd.	Associates
Tianjin Locomotive & Rolling Stock Steel Co., Ltd.	Associates
Datong CRRC McCann Rail Transportation Equipment Co., Ltd.	Associates
Tianjin Electric Locomotive Co., Ltd.	Associates
ALSTOM Railway Equipment Co. Ltd. (Qingdao, Shandong)	Associates
CREC Shenyang Railway Equipment Co., Ltd.	Associates
Hebei Luyou Railway Locomotive & Rolling Stock Components Co., Ltd.	Associates
Inner Mongolia First Machinery Group Like Plastic Products CO., LTD	Associates
Vertex Railcar Corporation	Associates
Xinyang Amsted Tonghe Wheels Co., Ltd.	Associates
Beijing Beijiufang Science and Trade Co., Ltd.	Associates
ABB Datong Traction Transformers Co., Ltd.	Associates
Taizhou Taizhong Railway Transportation Co., Ltd.	Associates
Wuhu Yunda Railway Transportation Construction and Operation Co., Ltd. (Wuhu Yunda)	Associates
Hunan Maglev Transportation Development Co., Ltd.	Associates
Shentong CSR (Shanghai) Railway Transportation Vehicle Maintenance Co., Ltd.	Associates
Changchun Xiangtie Vehicle Equipment Manufacturing Co., Ltd	Associates



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

### 3. Joint ventures and associates of the Company *(continued)*

<b>Name of joint ventures or associates</b>	<b>Relationship with the Company</b>
Qiqihaer Sanyi Foundry Equipment Co., Ltd.	Associates
CRRC China Merchants Bank (Tianjin) Equity Investment Fund Management Co., Ltd.	Associates
Datong Faiveley Railway Vehicle Equipment Ltd.	Associates
ALSTOM Yongji Electric Equipment Co. Ltd. (Xi'an, Shaanxi)	Associates
Shanghai Nanji Track Equipment Technology Development Co., Ltd.	Associates
Beijing Daxing Railway Equipment Technology Service Co., Ltd.	Associates
CRRC Capital (Tianjin) Equity Investment Fund Management Co., Ltd.	Associates
Zhuzhou Times Engineering Plastics Technology Co., Ltd.	Associates
Zhuzhou Times Electric Insulation Limited Liability Company	Associates
Huaneng Tieling Daxing Wind Power Generating Co.,Ltd.	Associates
Anhui CRRC Ruida Electric Co., Ltd.	Associates
Huaneng Tieling Wind Power Generating Co.,Ltd.	Associates
Huaneng Panjin Wind Power Co., Ltd.	Associates
Jiangsu CRRC Digital Technology Co., Ltd.	Associates
Zhuzhou Guochuang Rail Technology Co., Ltd.	Associates
Shanghai CRRC Voith Transmission Technology Co., Ltd.	Associates
CRRC Guochuang (Beijing) Fund Management Co., Ltd.	Associates
Times Huaxin	Associates
Jinan-Qing High Speed Railway Co., Ltd.	Associates
CNR Changke (Thailand) Co., Ltd	Associates

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

### 4. Related party transactions

#### (1) Purchases and sales of goods, rendering and receipt of services

##### (i) Purchase of goods/receipt of service

RMB'000

Related party	Content of related party transaction	2019	2018
Joint ventures	Purchase of goods	1,494,972	821,652
Associates	Purchase of goods	751,948	852,127
CRRC Group and subsidiaries (Note)	Purchase of goods	677,416	829,910
Joint ventures	Receipt of service	2,031	36,485
Associates	Receipt of service	1,146	284,019
CRRC Group and subsidiaries (Note)	Receipt of service	53,681	39,822
Total		2,981,194	2,864,015

Note: Such related party transactions constitute continuous related party transactions as defined in Chapter 14A of the Listing Rules of the Stock Exchange of Hong Kong Ltd.

##### (ii) Sale of goods/rendering of service

RMB'000

Related party	Content of related party transaction	2019	2018
Joint ventures	Sale of goods	1,069,875	605,361
Associates	Sale of goods	1,772,452	1,751,356
CRRC Group and its subsidiaries (Note 1)	Sale of goods	581,902	692,477
Joint ventures (Note 2)	Rendering of service	32,893	14,568
Associates (Note 3)	Rendering of service	2,978,643	251,357
CRRC Group and its subsidiaries (Note 1)	Rendering of service	28,990	98,988
Total		6,464,755	3,414,107

Note 1: Such related party transactions constitute continuous related party transactions as defined in Chapter 14A of the Listing Rules of the Stock Exchange of Hong Kong Ltd.

Note 2: The amount that constitutes a continuous related party transaction as defined in Chapter 14A of the Listing Rules of the Stock Exchange of Hong Kong Ltd. is RMB266,000.

Note 3: The amount that constitutes a continuous related party transaction as defined in Chapter 14A of the Listing Rules of the Stock Exchange of Hong Kong Ltd. is RMB2,713,552,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

### 4. Related party transactions *(continued)*

#### (2) Leases with related parties

##### (i) The Group as the lessor:

RMB'000

Name of lessee	Type of leased assets	Lease income recognized in 2019	Lease income recognized in 2018
Joint ventures (Note 1)	Fixed assets	1,010	382
Associates	Fixed assets	6,989	3,114
CRRC Group and its subsidiaries (Note 2)	Fixed assets	1,507	3,116
<b>Total</b>		<b>9,506</b>	6,612

Note 1: The amount that constitutes a continuous related party transaction as defined in Chapter 14A of the Listing Rules of the Stock Exchange of Hong Kong Ltd. is RMB9,000.

Note 2: Such related party transactions constitute continuous related party transactions as defined in Chapter 14A of the Listing Rules of the Stock Exchange of Hong Kong Ltd.

##### (ii) The Group as the lessee:

RMB'000

Name of lessor	Type of leased assets	Lease payment recognized in 2019 (Note 2)	Lease payment recognized in 2018
CRRC Group and its subsidiaries (Note 1)	Fixed assets	60,363	76,527
<b>Total</b>		<b>60,363</b>	76,527

Note 1: Such related party transactions constitute continuous related party transactions as defined in Chapter 14A of the Listing Rules of the Stock Exchange of Hong Kong Ltd.

Note 2: Leasing expenses recognized in 2019 were short-term leases that applied the simplified approach and were charged to current profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

### 4. Related party transactions (continued)

#### (3) Guarantees with related parties

(i) The company as the guarantor

The guaranteed company	31 December 2019	31 December 2018
Wuhu Yunda	4,613,318	5,818,593

(ii) The Company as the guaranteed party

RMB'000

Guarantor	Content of related party transaction	31 December 2019	31 December 2018
CRRC Group	Supply chain financial guarantee	12,784,962	7,470,941
CRRC Group	Bond guarantee	1,551,145	1,500,000
Total		14,336,107	8,970,941

#### (4) Borrowings/loans with related parties

RMB'000

Related party	Amount of borrowing/loan	Inception date	Maturity date
<b>Borrowed from:</b>			
CRRC Group and its subsidiaries	42,000	23/01/2019	22/01/2020
CRRC Group and its subsidiaries	148,590	14/06/2019	14/06/2020
CRRC Group and its subsidiaries	289,830	19/08/2019	17/09/2020
CRRC Group and its subsidiaries	10,000	15/10/2019	14/10/2020
CRRC Group and its subsidiaries	600,000	30/12/2019	29/12/2020
Total	1,090,420		

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

### 4. Related party transactions *(continued)*

#### (5) Assets transfer with related parties

RMB'000

Related party	Content of related party transaction	2019	2018
CRRC Group and its subsidiaries	Purchase of fixed assets	21,510	14,716
CRRC Group and its subsidiaries	Purchase of right-of-use assets (Note 1)	141,225	–
CRRC Group and its subsidiaries	Purchase of intangible assets	–	9,055
CRRC Group and its subsidiaries	Sales of intangible assets, etc.	1,486,074	1,221,181
Total		1,648,809	1,244,952

Note 1: Such related party transactions constitute continuous related party transactions as defined in Chapter 14A of the Listing Rules of the Stock Exchange of Hong Kong Ltd.

#### (6) Related party equity transfer

During the year, the Group transferred 70% equity of NanKon Science and Technology Park to CRRC Technology Park. Details are set out in Note VI,1.

#### (7) Compensation for key management personnel

Key management personnel represent the directors of the Company (executive directors and non-executive directors), supervisors, president, vice president, secretary of the Board and chief accountant. Compensation paid or payable to key management personnel for their employee service is as follows:

RMB'000

Item	2019	2018
Compensation for key management personnel	13,445	9,056

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

### 4. Related party transactions (continued)

#### (7) Compensation for key management personnel (continued)

##### (i) Directors', supervisors' and chief executive's emoluments

	RMB'000	
	2019	2018
Fees	261	334
Other emoluments :		
Salaries	2,138	1,356
Performance-related bonuses (Note 1)	5,459	2,603
Social security contribution other than pension scheme contributions (Note 2)	554	350
Pension scheme contributions (Note 3)	347	275
Total	<b>8,759</b>	4,918

Note 1: The performance-related bonuses are determined by the remuneration committee in accordance with the relevant remuneration policies of the Company.

Note 2: The social security contributions other than pension represent the Company's statutory contributions directly to the PRC government, and are determined based on a certain percentage of the salaries of the directors, supervisors and the chief executive.

Note 3: The pension scheme contributions represent the Company's statutory contributions to a defined contribution pension scheme organized by the PRC government, and are determined based on a certain percentage of the salaries of the directors, supervisors and the chief executive.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

### 4. Related party transactions (continued)

#### (7) Compensation for key management personnel (continued)

##### (i) Directors', supervisors' and chief executive's emoluments (continued)

As at 31 December 2019, the names of the directors, supervisors and the chief executive and their emoluments are as follows:

RMB'000

	Fees	Salaries	Performance-related bonuses	Social security contribution (other than pension scheme contributions)	Pension scheme contributions	Total
Executive directors:						
Mr. Liu Hualong (Note 1)	-	-	-	-	-	-
Mr. Sun Yongcai (Note 2)	-	221	1,052	76	47	1,396
Mr. Lou Qiliang (Note 3)	-	197	964	76	47	1,284
Mr. Xu Zongxiang (Note 4)	-	180	964	70	43	1,257
Sub-total	-	598	2,980	222	137	3,937
Non-executive director:						
Mr. Liu Zhiyong (Note 1)	-	-	-	-	-	-
Independent non-executive directors:						
Mr. Li Guo'an	60	-	-	-	-	60
Mr. Wu Zhuo	60	-	-	-	-	60
Mr. Xin Dinghua	141	-	-	-	-	141
Sub-total	261	-	-	-	-	261
Supervisors:						
Mr. Wan Jun (Note 5)	-	116	975	43	28	1,162
Mr. Qiu Wei (Note 6)	-	291	373	43	28	735
Mr. Chen Fangping (Note 7)	-	166	352	18	13	549
Mr. Zhao Hu (Note 8)	-	361	375	76	47	859
Mr. Chen Zhenhan (Note 9)	-	302	100	76	47	525
Mr. Chen Xiaoyi (Note 10)	-	304	304	76	47	731
Sub-total	-	1,540	2,479	332	210	4,561
Total	261	2,138	5,459	554	347	8,759

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

### 4. Related party transactions *(continued)*

#### (7) Compensation for key management personnel *(continued)*

##### (i) Directors', supervisors' and chief executive's emoluments *(continued)*

Note 1: Mr. Liu Hualong holds the legal representative and the chairman of CRRCG and his remuneration has been borne by CRRCG. Mr. Liu Zhiyong holds the external director of the Company, his remuneration has been borne by SASAC of the State Council.

Note 2: Mr. Sun Yongcai has been the president of the company since October 2017, and the disclosure period of aforementioned includes the remuneration for services rendered as president.

Note 3: On 30 October 2019, Mr. Lou Qiliang resigned from the position of Vice President. On 27 December 2019, the company convened an extraordinary general meeting and appointed Mr. Lou Qiliang as the executive director. The disclosure period of aforementioned is from January to December 2019.

Note 4: On 19 November 2019, Mr. Xu Zongxiang resigned from the position of the director, and the disclosure period of aforementioned remuneration is from January to November 2019.

Note 5: On 30 October 2019, Mr. Wan Jun resigned from the position of the supervisor, and the disclosure period of aforementioned remuneration is from January to October 2019.

Note 6: On 28 October 2019, Mr. Qiu Wei resigned from the position of the supervisor, and the disclosure period of aforementioned remuneration is from January to October 2019.

Note 7: On 29 April 2019, Mr. Chen Fangping resigned from the position of the supervisor, and the disclosure period of aforementioned remuneration is from January to April 2019.

Note 8: On 28 October 2019, Zhao Hu, the former director of the organization department of the Party committee, was appointed as staff representative supervisor, and the disclosure period of aforementioned remuneration is from January to December 2019.

Note 9: On 1 June 2019, Chen Zhenhan, the former director of the audit and risk department, was appointed as supervisor, and the disclosure period of aforementioned remuneration is from January to December 2019.

Note 10: On 7 December 2019, Chen Xiaoyi, the former director of the legal affairs department, was appointed as supervisor, and the disclosure period of aforementioned remuneration is from January to December 2019.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

### 4. Related party transactions (continued)

#### (7) Compensation for key management personnel (continued)

##### (i) Directors', supervisors' and chief executive's emoluments (continued)

As at 31 December 2018, the names of the directors, supervisors and the chief executive and their emoluments are as follows:

	Fees	Salaries	Performance- related bonuses	Social security contribution (other than pension scheme contributions)	Pension scheme contributions	Total
Executive directors:						
Mr. Liu Hualong (Note 1)	-	-	-	-	-	-
Mr. Sun Yongcai (Note 2)	-	207	633	70	55	965
Mr. Xu Zongxiang	-	184	608	70	55	917
Sub-total	-	391	1,241	140	110	1,882
Non-executive director:						
Mr. Liu Zhiyong (Note 1)	-	-	-	-	-	-
Independent non-executive directors:						
Mr. Li Guo'an	60	-	-	-	-	60
Mr. Wu Zhuo	60	-	-	-	-	60
Mr. Xin Dinghua	150	-	-	-	-	150
Mr. Chan Ka Keung, Peter (Note 3)	64	-	-	-	-	64
Sub-total	334	-	-	-	-	334
Supervisors:						
Mr. Wan Jun	-	186	622	70	55	933
Mr. Chen Fangping	-	389	370	70	55	884
Mr. Qiu Wei	-	390	370	70	55	885
Sub-total	-	965	1,362	210	165	2,702
Total	334	1,356	2,603	350	275	4,918

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

### 4. Related party transactions (continued)

#### (7) Compensation for key management personnel (continued)

##### (i) Directors', supervisors' and chief executive's emoluments (continued)

Note 1: Mr. Liu Hualong holds the legal representative and the chairman of CRRCG and his remuneration has been borne by CRRCG. Mr. Liu Zhiyong holds the external director of the Company, his remuneration has been borne by SASAC of the State Council.

Note 2: Mr. Sun Yongcai has been the president of the company since October 2017, and the disclosure period of aforementioned includes the remuneration for services rendered as president.

Note 3: Mr. Chan Ka Keung, Peter ceased to hold his position with the Company as an independent non-executive director of the Company upon expiry of his term of office on 1 May 2018.

The executive directors', supervisors' and chief executive's emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

No emoluments were paid by the Group to any of the directors, the supervisors or the chief executive of the Company as an inducement to join or upon joining the Group or as compensation for loss of office during the 2019 and 2018; there was no arrangement under which the directors, the supervisors or the chief executive of the Company waived or agreed to waive any remuneration during the 2019 and 2018.

##### (ii) Five highest paid employees

The five highest paid employees of the Group during the year are neither directors, supervisors nor chief executive.

Details of the remuneration of the highest paid employees during the year are as follows:

	RMB'000	
	2019	2018
Salaries	1,697	1,715
Performance-related bonuses	8,212	8,540
Social security contribution other than pension scheme contributions	387	347
Pension scheme contributions	343	310
Total	10,639	10,912

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

### 4. Related party transactions *(continued)*

#### (7) Compensation for key management personnel *(continued)*

##### (ii) Five highest paid employees *(continued)*

The number of five highest paid employees whose remuneration fell within the following band is as follows:

	2019	2018
HK\$2,000,001 to HK\$2,500,000	4	1
HK\$2,500,001 to HK\$3,000,000	1	4

#### (8) Other related party transactions

		RMB'000	
Related party	Content of related party transaction	2019	2018
CRRC Group and its subsidiaries	Financial service and interest income (Note)	254,398	181,963
Associates	Financial service and interest income	9,118	–
Joint ventures	Interest expenses	44	61
Associates	Interest expenses	412	195
CRRC Group and its subsidiaries	Interest expenses	48,896	27,479
Total		312,868	209,698

Note: The amount that constitutes a continuous related party transaction as defined in Chapter 14A of the Listing Rules of the Stock Exchange of Hong Kong Ltd. is RMB443,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

### 5. Amounts due from/to related parties

#### (1) Receivables

RMB'000

Item	Related party	31 December 2019		31 December 2018	
		Book value	Loss allowance	Book value	Loss allowance
Bills receivable	Joint ventures	7,816	–	649	–
Bills receivable	Associates	390,185	3,436	486,649	3,946
Bills receivable	CRRC Group and its subsidiaries	58,567	11	93,748	201
Accounts receivable	Joint ventures	781,124	109,947	611,639	67,675
Accounts receivable	Associates	1,285,470	117,656	698,013	10,257
Accounts receivable	CRRC Group and its subsidiaries	273,831	21,381	524,713	26,634
Receivables at FVTOCI	Joint ventures	1,945	–	–	–
Receivables at FVTOCI	Associates	100,753	–	4,943	–
Receivables at FVTOCI	CRRC Group and its subsidiaries	212,003	4,165	762,259	19
Prepayments	Joint ventures	261,698	–	155,979	546
Prepayments	Associates	125,128	–	26,586	–
Prepayments	CRRC Group and its subsidiaries	1,427	–	1,082	–
Other receivables	Joint ventures	38,778	54	36,175	2
Other receivables	Associates	47,102	23	59,229	3
Other receivables	CRRC Group and its subsidiaries	221,151	2,080	607,453	1,316
Contract assets	Joint ventures	342	7	2,262	45
Contract assets	Associates	171,631	3,020	90,326	800
Contract assets	CRRC Group and its subsidiaries	49,222	28	24,448	2
Non-current assets due within one year	Joint ventures	–	–	416	–
Non-current assets due within one year	Associates	756,784	374,125	362,910	181,455
Non-current assets due within one year	CRRC Group and its subsidiaries	7,401,208	162,333	4,753,604	71,157
Loans and advances to customers	CRRC Group and its subsidiaries	–	–	1,714,600	25,759
Long-term receivables	Joint ventures	–	–	297	–
Long-term receivables	Associates	247,781	209,330	205,896	102,948
Long-term receivables	CRRC Group and its subsidiaries	128,019	128,019	153,623	768
Other non-current assets	Joint ventures	4,884	96	2,970	–
Other non-current assets	Associates	173,670	1,723	22,048	–
Other non-current assets	CRRC Group and its subsidiaries	6,405	7	2,073	–
<b>Total</b>		<b>12,746,924</b>	<b>1,137,441</b>	<b>11,404,590</b>	<b>493,533</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

### 5. Amounts due from/to related parties *(continued)*

#### (2) Payables

		RMB'000	
Item	Related party	31 December 2019	31 December 2018
Short-term borrowings	CRRC Group and its subsidiaries	1,090,420	1,109,669
Due to customers	Joint ventures	6,709	5,160
Due to customers	Associates	76,924	25,061
Due to customers	CRRC Group and its subsidiaries	5,481,773	2,761,519
Bills payable	Joint ventures	56,846	235,276
Bills payable	Associates	23,597	78,324
Bills payable	CRRC Group and its subsidiaries	103,830	390,636
Accounts payable	Joint ventures	2,119,637	2,271,059
Accounts payable	Associates	1,611,856	1,487,131
Accounts payable	CRRC Group and its subsidiaries	1,658,522	1,533,885
Receipts in advance	CRRC Group and its subsidiaries	2,000	–
Contract liabilities	Joint ventures	11,558	359
Contract liabilities	Associates	452,301	1,498,402
Contract liabilities	CRRC Group and its subsidiaries	529,638	432,098
Other payables	Joint ventures	3,358	73,014
Other payables	Associates	50,368	29,861
Other payables	CRRC Group and its subsidiaries	115,438	541,692
Non-current liabilities due within one year	CRRC Group and its subsidiaries	39,291	–
Lease liabilities	CRRC Group and its subsidiaries	94,961	–
<b>Total</b>		<b>13,529,027</b>	<b>12,473,146</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

### 6. Related party commitments

(1) *Commitments relating to related parties that have been entered into but not necessary to be presented in the financial statements are as follows*

		RMB'000	
Item	Related party	31 December 2019	31 December 2018
Selling goods to related parties	Joint venture	–	968
Selling goods to related parties	Associate	14,370	25,756
Selling goods to related parties	CRRC Group and its subsidiaries	21,105	–
Purchasing goods from related parties	Associate	2,329	200,510
Purchasing goods from related parties	CRRC Group and its subsidiaries	46,253	7,422
Total		84,057	234,656

## XI. COMMITMENTS AND CONTINGENCIES

### 1. Capital commitments

		RMB'000	
Item		31 December 2019	31 December 2018
Construction in progress, fixed assets and land use rights		3,047,826	3,633,088
Other intangible assets		14,237	20,544
Investment commitment		64,367	50,000
Total		3,126,430	3,703,632

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## XI. COMMITMENTS AND CONTINGENCIES

### 2. Contingencies

#### (1) External guarantees

RMB'000

Related unit	Warrantee	Amount of guarantee	Type of guarantee
The Company	Wuhu Yunda	4,613,318	Guarantee for performance, financing and profit or loss
Subsidiary of CRRC Construction Engineering			

#### (2) Others

In the course of its normal operations, the Group, due to various factors, may be exposed to potential legal proceedings or investigations in connection with its sales or services.

On 25 January 2018, a Judicial Commission of Inquiry in South Africa into Allegations of State Capture, Corruption and Fraud in the Public Sector was established. In this context, media reports in South Africa also make reference to violation of laws related to multiple procurements for the supply of locomotives by South African train operator, Transnet. The Group has not been contacted as a subject of inquiry by any governmental authorities in relation to this matter other than as described below.

As disclosed in note V. 1, bank balance totalling RMB2.2 billion (2018: RMB600 million) held in three bank accounts of the Group's subsidiary in South Africa are the subject of freezing orders issued by the SARB relating to alleged contraventions of the Exchange Control Regulations in South Africa in relation to overseas remittances by the Group's subsidiary in South Africa during the period 1 April 2014 to 20 January 2017 in respect to certain locomotive procurements involving Transnet. The Group is currently in the process of responding to enquiries from the SARB. These bank balances may be subject to forfeiture under the Exchange Control Regulations in South Africa.

Based on the information known to the Group at this time, the Group considers that it is not practicable to estimate the Group's financial exposures in relation to the matters described above. The Group will continue to monitor the development of above matters and their potential effects, if any.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## XII. EVENTS AFTER THE BALANCE SHEET DATE

### 1. Profit distribution

On March 30, 2020, the Company convened the 17th meeting of the second session of the Board of Directors to consider and approve the "Proposal on the 2019 Profit Distribution Plan of CRRC". The total share capital of 28,698,864,000 shares is the base, and a cash dividend of RMB 0.15 (including tax) is distributed to all shareholders. The profit distribution plan still needs to be reviewed and approved by the company's 2019 annual general meeting.

### 2. Issue of bonds

Approved by the China Interbank Market Dealers Association's Zhongshi Xie No.[2019] SCP89, the company issued ultra short-term financing bonds on March 12, 2020, with an issued amount of RMB 3 billion.

With the approval of the CSRC's "CSRC License [2019] No. 495" document, the company may issue corporate bonds not exceeding RMB 20 billion. The bond is issued in installments. The initial issuance is scheduled to take place on March 30, 2020. The issue size will not exceed RMB 1 billion (including RMB 1 billion).

### 3. Other events subsequent to the balance sheet date

After the pandemic of novel coronavirus pneumonia (the "pandemic") in January 2020, at present, it has been spread to more than 100 countries or regions around the world. Since February 2020, the Group has continued to resume work and production in an orderly manner in accordance with the requirements of local governments to ensure that important orders are delivered as scheduled. As there are still uncertainties about the pandemic, the Group will continue to assess the impact of the pandemic on the Group.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## XIII. OTHER SIGNIFICANT EVENTS

### 1. Debt restructuring

As a creditor, the Group performed debt restructuring with the debtor in 2019 in the following ways:

RMB'000

Type of debt restructuring	Item	Debt restructuring	
		Book value	Gain/(losses) on debt restructuring
Debt restructuring by transferring financial assets (Note 1, 2)	Accounts receivable	168,020	(2,688)
	Other receivables	46,582	(745)
	Long-term receivables – finance lease (including due within one year)	39,354	(412)
	Total	253,956	(3,845)
Debt restructuring by transferring assets other than financial assets (Note 3)	Long-term receivables – finance lease (including due within one year)	653,774	57,202
Total	/		53,357

Note 1: Certain debtors of the Group were subjected to bankruptcy reorganization in 2019, where the Group's debts were converted into equity in the debtors ("Debt-to-Equity"). Upon completion of debt to equity, the Group has no control, common control or significant influence on the debtors, designates the equity obtained as financial assets at FVTOCI, and initially recognises and subsequently measures such assets in accordance with the regulations of the Accounting Standards for Business Enterprises No.22 – Recognition and Measurement of Financial Instruments.

Note 2: In 2019, the Group entered into Debt-to-Equity Agreements with certain debtors. Pursuant to the relevant agreements, the debts held by the Group were converted into equity in the debtors. Additionally, such agreements specify that, the period in which the Group holds equity is fixed, and the Group is entitled to obtain a fixed rate of return. When the shareholding period expires, the shareholders of the debtors or their designated related parties shall repurchase the equity held by the Group at a fixed amount. The Group initially recognises the aforesaid equity obtained and subsequently measures at amortised cost in accordance with the Accounting Standards for Business Enterprises No.22 – Recognition and Measurement of Financial Instruments.

Note 3: In 2019, certain debtors of the Group repaid the debts held by the Group with buildings in accordance with court decisions. The Group initially recognises the underlying assets at the fair value of the relevant debts waived and other costs such as the taxes attributable to the underlying assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## XIII. OTHER SIGNIFICANT EVENTS (continued)

### 2. Segment information

#### (1) Basis for determining reporting segment and accounting policies

Based on the requirements of operation management, the Group's operating activities are classified into one separate operating segment, mainly supplying the market with rail transit equipment and extended products and services, therefore the Group has no other operating segment.

#### (2) Financial information of reporting segment

##### (i) External revenue

RMB'000

Item	2019	2018
Products and services information:		
Rail transit equipment and extended products and services	<b>229,010,833</b>	219,082,641
Total	<b>229,010,833</b>	219,082,641
Geographical information:		
Mainland China	<b>209,144,275</b>	199,716,484
Other countries and regions	<b>19,866,558</b>	19,366,157
Total	<b>229,010,833</b>	219,082,641

##### (ii) Total non-current assets

RMB'000

Item	31 December 2019	31 December 2018
Geographical information:		
Mainland China	<b>106,051,906</b>	105,757,840
Other countries and regions	<b>7,275,516</b>	6,445,353
Total	<b>113,327,422</b>	112,203,193

The non-current assets are attributable to the regions where such assets are located, Finance lease receivables, and do not include financial assets, finance lease receivables and deferred tax assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## XIII. OTHER SIGNIFICANT EVENTS (continued)

### 2. Segment information (continued)

#### (2) Financial information of reporting segment (continued)

##### (iii) Major customers

The Group's revenue from the major customer China Railway (from which the revenue reaches or exceeds 10% of the Group's revenue) is RMB116,305,501,000 (2018: RMB113,238,818,000). Except for China Railway, the Group has no other single customer from which the revenue accounts for over 10% of the Group's revenue.

### 3. Net current assets and total assets less current liabilities

#### (1) Net current assets

	RMB'000	
Item	31 December 2019	31 December 2018
Current assets	251,215,115	227,512,128
Less: Current liabilities	200,164,511	187,661,488
Net current assets	51,050,604	39,850,640

#### (2) Total assets less current liabilities

	RMB'000	
Item	31 December 2019	31 December 2018
Total assets	383,572,485	357,523,050
Less: Current liabilities	200,164,511	187,661,488
Total assets less current liabilities	183,407,974	169,861,562

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## XIII. OTHER SIGNIFICANT EVENTS (continued)

### 4. Basic earnings per share and the calculation of diluted earnings per share

#### (1) Basic earnings per share

Basic earnings per share is calculated at net profit attributable the Company's ordinary shareholders divided by the weighted average number of outstanding ordinary shares:

	RMB'000	
Item	2019	2018
Net profit attributable to ordinary shareholders (RMB'000)	<b>11,794,929</b>	11,305,044
Outstanding ordinary shares in the current period (thousand shares)	<b>28,698,864</b>	28,698,864
Basic earnings per share (RMB/share)	<b>0.41</b>	0.39

#### (2) Diluted earnings per share

The diluted earnings per share is calculated at net profit attributable to the Company (as adjusted) divided by the weighted average number of outstanding ordinary shares based on the assumption that all the diluted potential ordinary shares have been converted. The Company's diluted potential ordinary shares are 2016 convertible bonds.

	RMB'000	
Item	2019	2018
Net profit attributable to ordinary shareholders (RMB'000)	<b>11,794,929</b>	11,305,044
Add: Effect of convertible bonds (RMB'000)	<b>(122,290)</b>	40,200
Net profit used to calculate diluted earnings per share (RMB'000)	<b>11,672,639</b>	11,345,244
Outstanding ordinary shares in the current period (thousand shares)	<b>28,698,864</b>	28,698,864
Add: Effect of convertible bonds (thousand shares)	<b>329,102</b>	507,395
Number of outstanding ordinary shares used to calculate diluted earnings per share (thousand shares)	<b>29,027,966</b>	29,206,259
Diluted earnings per share (RMB/share)	<b>0.40</b>	0.39

Assuming that all the Group's outstanding convertible bonds have been converted to ordinary shares at the date of issuance, the earnings per share will decrease and the convertible bonds are diluted.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## XIV. NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS

### 1. Cash and bank balances

	RMB'000	
Item	31 December 2019	31 December 2018
Cash on hand	318	318
Bank deposits	11,369,481	7,469,978
Other currency funds	1,005,362	1,002,309
<b>Total</b>	<b>12,375,161</b>	<b>8,472,605</b>

#### (i) Cash and bank balances with restriction of ownership:

	RMB'000	
	31 December 2019	31 December 2018
Deposits for acceptance bills	1,005,362	1,002,309
<b>Total</b>	<b>1,005,362</b>	<b>1,002,309</b>

As at 31 December 2019, there is no term deposits that have not been pledged or restricted for use for three months or over three months (as at 31 December 2018: none).

### 2. Other receivables

#### (1) Presentation by categories

	RMB'000	
Item	31 December 2019	31 December 2018
Interests receivable	–	208,065
Dividends receivable	2,169,484	2,820,458
Other receivables	14,911,669	20,167,131
<b>Total</b>	<b>17,081,153</b>	<b>23,195,654</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

### 2. Other receivables (continued)

#### (2) Other receivables

##### (i) Disclosure by aging analysis

	31 December 2019	31 December 2018
RMB'000		
<b>Aging</b>		
Within 1 year	10,465,167	10,524,272
1 to 2 years	3,155,287	5,140,672
2 to 3 years	68,251	3,445,477
Over 3 years	1,223,274	1,056,759
Sub-total	14,911,979	20,167,180
Less: Credit loss allowance	(310)	(49)
Total	14,911,669	20,167,131

##### (ii) Categories of other receivables by nature

	31 December 2019	31 December 2018
RMB'000		
<b>Nature</b>		
Balances with subsidiaries	14,738,543	20,089,318
Export rebate receivable	17,277	21,998
Others	155,849	55,815
Total	14,911,669	20,167,131

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

### 2. Other receivables (continued)

#### (2) Other receivables (continued)

(iii) Top five entities with the largest balances of other receivables at 31 December 2019.

RMB'000

Name	31 December 2019	Proportion	Credit loss allowance at 31 December 2019
		to total other receivables at 31 December 2019 (%)	
Top five	9,372,729	62.85	/

### 3. Long-term equity investments

RMB'000

Item	31 December 2019			31 December 2018		
	Book value	Provision for impairment	Carrying amount	Book value	Provision for impairment	Carrying amount
Investments in subsidiaries	97,542,547	–	97,542,547	94,317,195	–	94,317,195
Investments in associates and joint ventures	6,009,429	–	6,009,429	5,837,319	–	5,837,319
Total	103,551,976	–	103,551,976	100,154,514	–	100,154,514

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

### 3. Long-term equity investments (continued)

#### (1) Investments in subsidiaries

RMB'000

Investee	1 January 2019	Additions	Decreases	31 December 2019
CRRC Changchun Railway Vehicles	11,538,846	–	–	11,538,846
CRRC Zhuzhou Institute	11,007,032	106,130	–	11,113,162
CRRC Zhuzhou Locomotive	5,072,792	141,210	–	5,214,002
CRRC Qingdao Sifang	4,649,445	–	–	4,649,445
CRRC Tangshan	8,421,549	7,850	–	8,429,399
CRRC Dalian	6,171,771	16,530	–	6,188,301
CRRC Qiqihaer Rolling Stock Co., Ltd.	7,894,071	–	–	7,894,071
CRRC Yangtze Transportation vehicles Group Co., Ltd.	5,400,000	261,409	–	5,661,409
CRRC Investment & Leasing	3,214,106	–	–	3,214,106
CRRC Qishuyan	2,368,270	–	–	2,368,270
CRRC Qishuyan Institute	2,145,966	–	–	2,145,966
CRRC Capital	2,511,188	–	–	2,511,188
CRRC Nanjing Puzhen	2,189,037	87,720	–	2,276,757
CRRC Hong Kong Capital Management	2,508,426	–	–	2,508,426
CRRC Construction Engineering	1,690,747	–	–	1,690,747
CRRC Yongji Moto	2,405,461	6,400	145,423	2,266,438
CRRC Sifang Institute	2,705,717	413,960	–	3,119,677
CRRC Finance	2,434,613	–	–	2,434,613
CRRC Zhuzhou Moto	1,347,877	3,850	–	1,351,727
CRRC Ziyang	1,522,173	–	–	1,522,173
CRRC Beijing Nankou	524,412	–	–	524,412
CRRC Datong	1,313,207	–	–	1,313,207
CRRC Hong Kong	672,054	–	–	672,054



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

### 3. Long-term equity investments (continued)

#### (1) Investments in subsidiaries (continued)

RMB'000

Investee	1 January 2019	Additions	Decreases	31 December 2019
CRRC Dalian R&D	392,414	–	196,208	196,206
CRRC Dalian Institute	713,907	–	–	713,907
CRRC Sifang	593,645	–	–	593,645
CRRC Logistics Co., Ltd.	630,196	–	–	630,196
CRRC Industrial Institute	200,000	–	–	200,000
CRRC International	682,337	–	–	682,337
CRRC Information Technology	31,565	87,610	–	119,175
CRRC Financial Leasing	–	2,430,000	–	2,430,000
Indirect shareholding subsidiaries	1,364,371	4,314	–	1,368,685
<b>Total</b>	<b>94,317,195</b>	<b>3,566,983</b>	<b>341,631</b>	<b>97,542,547</b>

#### (2) Investments in associates and joint ventures

RMB'000

Investee	1 January 2019	Additional investment	Reduction in investment	Changes for the year		Changes in other equity	Cash dividend or profits declared	31 December 2019
				Investment income or loss under equity method	Adjustments to other comprehensive income			
I. Joint ventures								
Wuhu Yunda	35,000	49,000	–	–	–	–	–	84,000
Sub-total	35,000	49,000	–	–	–	–	–	84,000
II. Associates								
China United Insurance	4,974,497	–	–	151,094	21,662	(1,910)	–	5,145,343
Others	827,822	–	–	(45,076)	–	1,392	(4,052)	780,086
Sub-total	5,802,319	–	–	106,108	21,662	(518)	(4,052)	5,925,429
<b>Total</b>	<b>5,837,319</b>	<b>49,000</b>	<b>–</b>	<b>106,108</b>	<b>21,662</b>	<b>(518)</b>	<b>(4,052)</b>	<b>6,009,429</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

### 4. Revenue and operating costs

#### (1) Revenue and operating costs

RMB'000

Items	2019		2018	
	Income	Costs	Income	Costs
Principal operating activities	219,544	190,027	172,611	167,764
Other operating activities	397,756	2,827	394,898	–
Total	617,300	192,854	567,509	167,764

#### (2) Revenue from contracts

RMB'000

Contract type	Rail transit equipment and extended products and services	Total
Categorized by sales region		
Mainland China	447,459	447,459
Other countries and regions	169,841	169,841
Total	617,300	617,300

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

### 5. Investment income

	RMB'000	
Item	2019	2018
Income from long-term equity investment under cost method	4,886,407	5,588,615
Income from long-term equity investment under equity method	106,018	125,766
Investment income (losses) on disposal of long-term equity investments	109,336	(1,314,250)
Investment income from held-for-trading financial assets during the holding period	–	8,525
Investment income on disposal of held-for-trading financial assets	3,868	291,869
Others	–	–
<b>Total</b>	<b>5,105,629</b>	<b>4,700,525</b>

### 6. Supplementary information to the cash flow statement

#### (1) Supplementary information to the cash flow statement

	RMB'000	
Supplementary information	2019	2018
1. Reconciliation of net profit to cash flow from operating activities:		
Net profit	5,353,382	4,584,295
Impairment losses of credit	7,908	1,734
Depreciation of fixed assets	9,401	8,971
Amortization of intangible assets	19,874	18,694
Depreciation of right-of-use assets	12,533	–
Financial expenses	(180,214)	418,616
Investment income	(5,105,629)	(4,700,525)
Gains from changes in fair value	(155,048)	(355,348)
Decrease (Increase) in operating receivables	(51,543)	75,883
(Decrease) Increase in operating payables	(484,247)	215,303
Net cash flow (used in) from operating activities	(573,583)	267,623
2. Net changes in cash and cash equivalents:		
Closing balance of cash	11,369,799	7,470,296
Less: Opening balance of cash	7,470,296	17,729,651
Net (decrease) increase in cash and cash equivalents	3,899,503	(10,259,355)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

### 6. Supplementary information to the cash flow statement (continued)

#### (2) Composition of cash and cash equivalents

ITEM	31 December 2019	31 December 2018
I. Cash	11,369,799	7,470,296
Including: Cash on hand	318	318
Bank deposits	11,369,481	7,469,978
II. Cash equivalents	–	–
III. Closing balance of cash and cash equivalents	11,369,799	7,470,296

## XV. SUPPLEMENTARY INFORMATION

### 1. Breakdown of non-recurring profit or loss

Item	2019	2018
Profit or loss on disposal of non-current assets	1,753,202	1,008,776
Government grants recognised in profit or loss (other than grants which are closely related to the Company's business and are either in fixed amounts or determined under quantitative methods in accordance with the national standard)	1,605,325	1,365,438
Gains or losses on debt restructuring	53,357	–
Restructuring expense, such as expenses for staff placement, integration, etc.	(416,778)	(383,090)
Net profit or loss of the subsidiary from the beginning of the year to the acquisition date arising from business combination under common control	–	(11,623)
Profit or loss on changes in the fair value of held-for-trading financial assets, derivative financial assets, held-for-trading financial liabilities and derivative financial liabilities, and investment income on disposal of held-for-trading financial assets, derivative financial assets, held-for-trading financial liabilities, derivative financial liabilities and receivables at fair value through other comprehensive income, other than those used in the effective hedging activities relating to normal operating business	533,128	915,446
Other non-operating income or expenses other than the above	199,204	72,575
Investment income from disposal of subsidiaries	1,294,486	1,169,889
Income from disposal of subsidiaries' rest equity re-measured at fair value	456,952	284,005
Other profit or loss that meets the definition of non-recurring profit or loss	126	(454,137)
Tax effects	(986,566)	(574,592)
Effects attributable to minority interests	(276,313)	(231,818)
Total	4,216,064	3,160,869

RMB'000

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## XV. SUPPLEMENTARY INFORMATION *(continued)*

### 1. Breakdown of non-recurring profit or loss *(continued)*

Reason for defining items as non-recurring profit or loss items according to Information Disclosure and Presentation Rules for Companies Making Public Offering of Securities No. 1 — Non-recurring Profit or Loss, and reasons for defining non-recurring profit or loss items illustrated in Information Disclosure and Presentation Rules for Companies Making Public Offering of Securities No. 1 — Non-recurring Profit or Loss as recurring profit or loss items should be specified.

### 2. Return on net assets and earnings per share ("EPS")

Profit for the reporting period	Weighted average return on net assets (%)	EPS	
		Basic EPS	Diluted EPS
Net profit attributable to ordinary shareholders of the Company	8.92	0.41	0.40
Net profit after deduction of non-recurring profits or losses attributable to ordinary shareholders of the Company	5.73	0.26	0.26

## DEFINITION

Articles of Association	the Articles of Association of the Company
A Share(s)	the Company's domestic share(s) listed on the Shanghai Stock Exchange
Board	the board of directors of the Company, unless the context requires otherwise
BOGE	BOGE Rubber & Plastics
China United Insurance	China United Insurance Holding Corporation ( 中華聯合保險集團股份有限公司 )
City Investment Fund Management Company	CRRC (Beijing) City Development Equity Investment Fund Management Co., Ltd. ( 中車(北京)城市發展股權投資基金管理有限公司 )
CNR	former China CNR Corporation Limited ( 中國北車股份有限公司 )
CNRG	former China Northern Locomotive & Rolling Stock Industry (Group) Corporation ( 中國北方機車車輛工業集團公司 )
Construction and Investment Company	CRRC Rail Transit Construction and Investment Co., Ltd. ( 中車軌道交通建設投資有限公司 )
CRRC Changchun	CRRC Changchun Railway Vehicles Co., Ltd. ( 中車長春軌道客車股份有限公司 )
CRRC Financial and Securities	CRRC Financial and Securities Investment Co., Ltd. ( 中車金證投資有限公司 )
CRRCG or CRRC GROUP	CRRC GROUP Co., Ltd. ( 中國中車集團有限公司 )
CRRC or Company	CRRC Corporation Limited ( 中國中車股份有限公司 )
CRRC Sifang	CRRC Qingdao Sifang Co., Ltd. ( 中車青島四方機車車輛股份有限公司 )
CRRC Tangshan	CRRC Tangshan Co., Ltd. ( 中車唐山機車車輛有限公司 )
CRRC ZELRI	CRRC Zhuzhou Electric Locomotive Research Institute Co., Ltd. ( 中車株洲電力機車研究所有限公司 )
CRRC Zhuzhou	CRRC Zhuzhou Locomotive Co., Ltd. ( 中車株洲電力機車有限公司 )
CSR	former CSR Corporation Limited ( 中國南車股份有限公司 )
CSR and CNR	CSR and CNR
CSRC	China Securities Regulatory Commission ( 中國證券監督管理委員會 )

CSRG	former CSR Group ( 中國南車集團公司 )
Director(s)	director(s) of the Company, unless the context requires otherwise
Finance Company	CRRC Finance Co., Ltd. ( 中車財務有限公司 )
Financial Leasing Company	CRRC Financial Leasing Co., Ltd. ( 中車金融租賃有限公司 )
Group	the Company and its subsidiaries
Hong Kong Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
H Share(s)	the Company's foreign share(s) listed on the Stock Exchange
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
Qiqihar Group	CRRC Qiqihar Group Co., Ltd. ( 中車齊車集團有限公司 )
SASAC	State-owned Asset Supervision and Administration Commission of the State Council ( 國務院國有資產監督管理委員會 )
Senior Management	senior management of the Company, unless the context requires otherwise
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
SMD	Soil Machine Dynamics Ltd
SSE	Shanghai Stock Exchange
State Railway Group	China State Railway Group Co., Ltd. ( 中國國家鐵路集團有限公司 )
Stock Exchange	The Stock Exchange of Hong Kong Limited
Supervisor(s)	supervisor(s) of the Company, unless the context requires otherwise
Supervisory Committee	the supervisory committee of the Company, unless the context requires otherwise
Times Electric	Zhuzhou CRRC Times Electric Co., Ltd. ( 株洲中車時代電氣股份有限公司 )
Times New Material	Zhuzhou Times New Material Technology Co., Ltd. ( 株洲時代新材料科技股份有限公司 )

## COMPANY PROFILE

CHINESE NAME	中國中車股份有限公司
ENGLISH NAME	CRRC Corporation Limited
REGISTERED OFFICE	No. 16 Central West Fourth Ring Road, Haidian District, Beijing 100036, the PRC
BUSINESS ADDRESS OF THE HEAD OFFICE	No. 16 Central West Fourth Ring Road, Haidian District, Beijing 100036, the PRC
PRINCIPAL PLACE OF BUSINESS IN HONG KONG	Unit H, 41/F., Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong
LEGAL REPRESENTATIVE	Liu Hualong
EXECUTIVE DIRECTORS	Liu Hualong Sun Yongcai Lou Qiliang
INDEPENDENT NON-EXECUTIVE DIRECTORS	Li Guo'an Wu Zhuo Sun Patrick
AUTHORIZED REPRESENTATIVE	Sun Yongcai TANG Tuong Hock
JOINT COMPANY SECRETARIES	Xie Jilong TANG Tuong Hock
SECRETARY TO THE BOARD	Xie Jilong
SECURITIES REPRESENTATIVE	Jin Yonggang
TELEPHONE FOR INFORMATION INQUIRY	(8610) 5186 2188
FAX	(8610) 6398 4785
WEBSITE	<a href="http://www.crrcgc.cc/">http://www.crrcgc.cc/</a>
E-MAIL ADDRESS	crrc@crrcgc.cc
H SHARE REGISTRAR	Computershare Hong Kong Investor Services Limited 17M Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong



PLACES OF LISTING	The Stock Exchange of Hong Kong Limited Shanghai Stock Exchange
STOCK NAME	中國中車 (CRRC)
STOCK CODE	1766 (Hong Kong) 601766 (Shanghai)
PRC INDEPENDENT AUDITORS	Deloitte Touche Tohmatsu Certified Public Accountants LLP Certified Public Accountants 30th Floor, Bund Center 222 Yan An Road East Shanghai the PRC
INTERNATIONAL INDEPENDENT AUDITOR	Deloitte Touche Tohmatsu Certified Public Accountants 35th Floor, One Pacific Place 88 Queensway, Admiralty Hong Kong
LEGAL ADVISERS	As to Hong Kong laws: Baker & McKenzie 14th Floor, One Taikoo Place 979 King's Road Quarry Bay Hong Kong  As to PRC laws: Jia Yuan Law Firm F408 Ocean Plaza 158 Fuxing Men Nei Avenue Beijing the PRC