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中国铁建

CRCC High-Tech Equipment Corporation Limited

中國鐵建高新裝備股份有限公司

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

(Stock Code: 1786)

**ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

The Board of Directors of the Company is pleased to announce the audited results of the Company and its subsidiaries for the year ended 31 December 2022. This announcement complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcement of annual results. The printed version of the Company's 2022 annual report will be dispatched to the holders of H shares of the Company and available for viewing on the websites of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk and of the Company at www.crcce.com.cn on or before 30 April 2023.

FINANCIAL HIGHLIGHTS

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME HIGHLIGHTS

	Year ended 31 December				
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Revenue	2,821,918	2,185,946	1,558,054	2,125,294	2,437,921
Gross profit	663,248	545,004	446,625	597,143	607,837
Profit before tax	123,666	44,545	22,137	142,628	172,389
Profit for the year	115,672	50,376	22,157	122,163	156,360
Profit attributable to:					
Owners of the parent	115,635	50,376	22,157	122,163	156,360
Non-controlling interests	36	–	–	–	–
Basic earnings per share (RMB/share)	0.08	0.03	0.01	0.08	0.10

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION HIGHLIGHTS

	As at 31 December				
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Total assets	8,577,712	8,273,340	7,324,557	7,397,162	7,468,152
Total liabilities	2,658,752	2,391,821	1,872,883	1,928,618	1,972,713
Net assets	5,918,961	5,881,519	5,451,674	5,468,544	5,495,439
Equity attributable to owners of the parent	5,903,924	5,881,519	5,451,674	5,468,544	5,495,439

Note: Pursuant to the “Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong” (《有關接受在香港上市的內地註冊成立公司採用內地的會計及審計準則以及聘用內地會計師事務所的諮詢總結》) published by the Hong Kong Stock Exchange in December 2010 and amendments to the corresponding Listing Rules, upon approval by the Shareholders at the general meeting of the Company held on 28 June 2021, the Company resolved to prepare financial statements according to the China Accounting Standards for Business Enterprises for information disclosure on the Hong Kong Stock Exchange commencing from financial year 2021. Relevant data for 2018 to 2020 have been restated based on the China Accounting Standards for Business Enterprises.

CHAIRMAN'S STATEMENT

Dear Shareholders,

The year of 2022 marked a critical milestone along the Company's new journey towards quality development. Leveraging the concerted efforts of the Board, management members and all the employees, the Company further promoted reform and transformation to stimulate vitality for technological innovation, proactively expanded market presence to enhance business performance, and maintained overall steady and quality growth, thus securing sound progress in operation.

We could not have made such accomplishments over the past year without unremitting support from our Shareholders. On behalf of the Board, I would like to extend sincere gratitude to all the Shareholders, the public, our customers and all the employees for your care and support!

Throughout 2022, the Company remained dedicated to its established goals, pooled painstaking efforts from all sides to expedite business growth, and achieved an improvement in operating indicators against market headwinds. During the year, the Company recorded revenue of RMB2.822 billion, representing a year-on-year increase of 29.09%, and net profit of RMB116 million, representing a year-on-year increase of 129.62%, suggesting significant growth from the previous two years.

The Company has been committed to self-reform and management reinforcement, focused on the principle of "political construction + solid business performance", continued to press ahead with in-depth three-system reform, and justified itself with results and achievements, aspiring to foster a horizontally and vertically omnipresent high-efficiency working mechanism, and realize scientific, systematic and normalized operation of refined management.

The Company upheld the philosophy of driving business momentum with practicalism and innovation, and expedited the independent research and development of advanced technologies. It successfully rolled out new products such as bridge and tunnel screeners, turnout screeners, and railway dirt-sucking cars, and concentrated efforts to overcome key technological difficulties such as AGC, asymmetric rail milling, imitation turnout polishing, and electric traction system, achieving fresh breakthroughs in new products and technologies.

CHAIRMAN'S STATEMENT

The Company stressed the role of marketing and promotion in fueling business growth. Drawing upon constant marketing and promotion efforts, the Company tapped on regional synergy in the domestic market, focused on its principal business of large-scale track maintenance machines, strengthened operations in the railway market, expanded presence in the urban rail market, and grasped opportunities in the overseas market to forge a quality development pattern boosting equal momentum for small, middle and large track maintenance machines, as well as progress in related diversified industries.

In 2023, the Company will continue to forge ahead with the commitment to its strategic layout of “growing stronger, better and bigger”, and maintain its growth resilience. Besides, it will uphold the concept of “strengthening principal business and diversifying operations”, and strive to broaden development path. Furthermore, the Company will pursue independent technological innovations and develop more key technologies, so as to invigorate the drive for corporate development. In addition, it will promote manufacturing transformation and upgrading, consolidate development foundation, stick to the quality growth principle, and make unremitting efforts to forge the Company into “a world-leading overall solution provider for large and intelligent track maintenance equipment promising corporate prosperity, employee felicity, social respect and high-value innovation capacity”!

Liu Feixiang

Chairman

Kunming, Yunnan Province, the PRC

24 March 2023

GENERAL MANAGER'S STATEMENT

Dear Directors,

I am pleased to present the consolidated results of the Company for the year ended 31 December 2022, and I would like to express my most sincere gratitude to all Directors for your continual care and support to the Company.

In 2022, the Company witnessed a significant improvement in its major operating indicators, and achieved revenue of RMB2,822 million and profit of RMB116 million. Throughout the year, we remained dedicated to our aspirations of being responsible to the society, Shareholders and our employees. Under the correct leadership of the Board, we committed ourselves to the established goal of seeking quality growth, spared no effort in fulfilling key production and operating tasks, and secured noticeable progress in business operations, thereby laying a solid foundation for the Company to expedite the successful accomplishment of various tasks set for the "14th Five-year period".

Leveraging strategic business presence, we focused on our principal business of large railway track maintenance machinery, advanced amid stability in the railway market, achieved rapid expansion in the urban rail market, and secured breakthroughs in the overseas market, thus gaining equal momentum for small, middle and large-scale railway track maintenance machinery, making progress in relevant industries and embracing an overall improvement in operating quality. Besides, we spearheaded in innovation, successfully obtained certificates and launched commercial sales of side-cutting screen cleaner, tunnel bridge screen cleaner and other models, and put new products, including rail milling and grinding car and ballast bed sewage suction car, into operation, suggesting gradually improving product portfolio and increasingly mature customized research, development and design services. Furthermore, we leveraged management empowerment, continued to press ahead with the "three-system" reform, optimized the incentive mechanism, materialized cost reduction and efficiency enhancement, strengthened risk management and control, focused on efficient production, guaranteed supply with quality products and promoted the intensive development of the Company. Meanwhile, we made constant efforts in fulfilling our environmental and social responsibilities, and proactively participated in voluntary activities, such as blood donation and poverty relief, thereby satisfactorily fulfilling our social responsibilities.

The year of 2023 will mark a crucial milestone for overall implementation of the State strategies and in-depth promotion of economic globalization, and will also represent a critical year for the Company to expedite transformation and scale new heights in terms of quality development. As China raises the goal of building a manufacturing giant to a new historical height, it is expected that the high-end equipment manufacturing industry will embrace great development potential. In line with the expectations of the Directors, the Company will focus on the large railway track maintenance machinery to reinforce our principal business, optimize and improve industry chain, tap on new cooperation models, seek fresh business opportunities, remain dedicated to technological innovation and development, foster core competitive strengths, continue to expedite management upgrade, and boost quality and efficiency, so as to achieve our goal of becoming a world-leading overall solution provider for large and intelligent track maintenance equipment.

GENERAL MANAGER'S STATEMENT

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

Luo Jianli
General Manager

Kunming, Yunnan Province, the PRC
24 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE

	Twelve months ended 31 December	
	2022 (RMB million)	2021 (RMB million)
Sales of machinery	1,203.06	1,157.33
Sales of parts and components	698.89	439.16
Maintenance of railway track maintenance machinery	571.87	401.6
Railway line maintenance services	238.73	72.05
Mechanical design services	100.52	87.91
Revenue from other business	8.84	27.9
Total revenue	2,821.92	2,185.95

In 2022, the Group enhanced market penetration to boost operating quality. It stayed focused on R&D innovation, commercialization of technological achievements and promotion of new products. Besides, it expedited resource integration in the parts and components market, reinforced the value-added service capacity of the re-manufacturing business, and strengthened synergy with the design services. Over the year, the Group recorded revenue of RMB2,821.92 million, representing a year-on-year increase of 29.09%.

Committed to the principal business of large railway track maintenance machinery, the Group promoted commercialization of R&D achievements and marketing of new products, and recorded revenue from sales of new products of RMB290.83 million. The Group facilitated the obtaining of manufacturing certificates for side-cut screeners and tunnel screeners and secured sales contracts. In 2022, the Group's revenue from sales of machinery increased by RMB45.73 million, or 3.95%, from the corresponding period last year.

The Group optimized technical services, continued to improve response speed and service quality, and pressed ahead with in-depth resource integration on China Railway Mall platform, thus effectively expanding market share in the parts and components market. In 2022, the Group's revenue from sales of parts and components increased by RMB259.73 million, or 59.14%, from the corresponding period last year.

The Group was dedicated to enhancing the value-added service capacity of its re-manufacturing business, and achieved a historical record in terms of quantity of railway track maintenance machinery maintenance business secured by it. In 2022, the Group's revenue from maintenance of railway track maintenance machinery increased by RMB170.27 million, or 42.4%, from the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group strove for business opportunities with equal momentum in China's railway, energy and metro markets, expedited the transformation of maintenance approaches to realize "professional maintenance staff, mechanized maintenance process and refined maintenance and management", and achieved fresh breakthroughs in railway line maintenance services. In 2022, the Group's revenue from railway line maintenance services increased by RMB166.68 million, or 231.34%, from the corresponding period last year.

In 2022, the Group reinforced management over its design services, and enhanced business sharing and synergy. The Group's revenue from mechanical design services increased by RMB12.61 million, or 14.34%, from the corresponding period last year.

COST OF SALES

The Group's cost of sales increased by RMB517.73 million, or 31.55%, from RMB1,640.94 million for the year ended 31 December 2021 to RMB2,158.67 million for the year ended 31 December 2022, primarily attributable to a corresponding significant increase in revenue.

GROSS PROFIT

The Group's gross profit increased by RMB118.24 million, or 21.7%, from RMB545.01 million for the year ended 31 December 2021 to RMB663.25 million for the year ended 31 December 2022. In 2022, the Group's gross profit margin was 23.5%, representing a decrease of 1.43 percentage points from 24.93% for the corresponding period last year, mainly due to an increase in cost of raw materials and unexpected increase in the cost of railway line maintenance services due to the COVID-19 pandemic.

OTHER GAINS

The Group's other gains increased by RMB5.66 million, or 24.79%, from RMB22.83 million for the year ended 31 December 2021 to RMB28.49 million for the year ended 31 December 2022, mainly due to R&D subsidies granted by government authorities as the Group was committed to initiating R&D projects falling in fields encouraged by government authorities.

SELLING EXPENSES

The Group's selling expenses increased by RMB17.00 million, or 15.1%, from RMB112.6 million for the year ended 31 December 2021 to RMB129.6 million for the year ended 31 December 2022, primarily due to the increase in the Group's after-sales service fees incurred in overseas market and the increase in sales investment to match the growth of sales volume.

MANAGEMENT DISCUSSION AND ANALYSIS

ADMINISTRATIVE EXPENSES

The Group's administrative expenses increased by RMB7.62 million, or 4.26%, from RMB178.9 million for the year ended 31 December 2021 to RMB186.52 million for the year ended 31 December 2022, mainly due to a slight increase in remunerations of management members as the Group adopted remuneration incentive measures.

RESEARCH AND DEVELOPMENT EXPENSES

The Group's research and development expenses increased by RMB80.9 million, or 44.91%, from RMB180.15 million for the year ended 31 December 2021 to RMB261.05 million for the year ended 31 December 2022, as the Group continued to increase investment in research and development. In 2022, the Group had approximately 500 personnel in its R&D team. The Group secured the integrated sleeper replacement and second-generation tamping car development projects from China Railway, and was awarded the "National New Generation Railway Large-scale Maintenance Equipment Key Technology Research and Industrialization Demonstration" project in Yunnan Province.

FINANCE GAINS

The Group's finance gains increased by RMB9.98 million, or 38.68%, from RMB25.8 million for the year ended 31 December 2021 to RMB35.78 million for the year ended 31 December 2022, primarily due to the increase in net foreign exchange gains from fluctuations in exchange rate of US dollars.

IMPAIRMENT LOSSES

The Group recorded impairment losses of RMB5.67 million for the year ended 31 December 2022, mainly due to successful collection of trade receivables as the Group recovered business arrears of substantial amounts incurred in previous years and accordingly reversed the bad debt provided thereon in 2022.

NET OTHER BUSINESS EXPENSES

The Group's net other business expenses increased by RMB16.35 million from RMB-0.98 million for the year ended 31 December 2021 to RMB-17.33 million for the year ended 31 December 2022.

PROFIT BEFORE TAX

The Group's profit before tax increased by RMB79.13 million, or 177.66%, from RMB44.54 million for the year ended 31 December 2021 to RMB123.67 million for the year ended 31 December 2022, which was the combined effects of the increase in sales volume following the Group's enhanced marketing efforts, strengthened internal management measures and earnest implementation of the cost reduction and efficiency enhancement initiatives.

MANAGEMENT DISCUSSION AND ANALYSIS

INCOME TAX EXPENSE

For the year ended 31 December 2022, the Group's income tax expense was RMB7.99 million, representing an increase of RMB13.82 million from RMB-5.83 million for the corresponding period last year. The increase in income tax expense was mainly due to the increase in total profit of the Group, leading to an increase in tax payment as the Group fulfilled its tax obligations according to the tax law.

The Company was entitled to the preferential tax policy of the western development and was subject to the preferential enterprise income tax rate of 15%.

Ruiweitong Company was accredited as a high and new technology enterprise in 2021 and received approvals from the relevant government authorities for being entitled to the preferential enterprise income tax rate of 15%.

Other subsidiaries established by the Group in mainland China were subject to the enterprise income tax rate of 25%.

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

For the year ended 31 December 2022, profit attributable to owners of the Company reached RMB115.64 million, representing an increase of RMB65.26 million, or 129.54%, from RMB50.38 million for the corresponding period last year. The increase in the profit attributable to owners of the Company was mainly due to the combined effects of the increase in sales volume following the Group's enhanced marketing efforts, strengthened internal management measures and earnest implementation of the cost reduction and efficiency enhancement initiatives.

PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

In 2022, profit attributable to non-controlling interests was RMB0.04 million, representing an increase of RMB0.04 million from the corresponding period last year. In 2022, the Group and Zhengzhou Railway Equipment Manufacturing Co., Ltd. (鄭州鐵路裝備製造有限公司) jointly established Zhengzhou CRCC Equipment Technology Co., Ltd. (鄭州鐵建裝備科技有限公司), and Zhengzhou Railway Equipment Manufacturing Co., Ltd., as a non-controlling interest holder, was entitled to its share of profit in Zhengzhou CRCC Equipment Technology Co., Ltd.

BASIC EARNINGS PER SHARE

Basic earnings per share increased from RMB0.03 for the year ended 31 December 2021 to RMB0.08 for the year ended 31 December 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND SOURCE OF CAPITAL

Cash flows and working capital

The Group's needs for working capital were mainly satisfied by cash generated from operations. For the year ended 31 December 2022, the closing balance of the Group's cash and cash equivalents amounted to RMB1,163.15 million and the net decrease in cash and cash equivalents was RMB15.38 million, which was mainly due to the increase in cash paid for the purchase of goods and acceptance of services in 2022.

Net cash inflow from operating activities

For the year ended 31 December 2022, the Group's net cash inflow from operating activities was RMB22.44 million, primarily due to the Group's enhanced efforts in recovery of loans.

Net cash outflow from investing activities

For the year ended 31 December 2022, the Group's net cash outflow from investing activities was RMB49.07 million. The cash outflow from investing activities was mainly due to the amount paid for acquisition and construction of fixed assets, intangible assets and other long-term assets.

Net cash outflow from financing activities

For the year ended 31 December 2022, the Group's net cash outflow from financing activities was RMB0.24 million, including investment of RMB15 million in Zhengzhou CRCC Equipment Technology Co., Ltd. (鄭州鐵建裝備科技有限公司), a company jointly established by the Group and Zhengzhou Railway Equipment Manufacturing Co., Ltd. (鄭州鐵路裝備製造有限公司), and dividend paid of RMB15.24 million.

Liquidity

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

MANAGEMENT DISCUSSION AND ANALYSIS

COMMITMENTS

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

Capital commitments

	31 December 2022 (RMB million)	31 December 2021 (RMB million)
Contracted but not provided for	12.13	13.91

INDEBTEDNESS

The Group had no interest-bearing debts as at 31 December 2022.

PLEDGE

The Group had no pledge as at 31 December 2022.

GEARING RATIO

The Group monitors capital management by using the gearing ratio, which is net debt divided by the adjusted capital plus net debt. Net debt includes bank borrowings and other borrowings, trade and bills payables, financial liabilities included in other payables and accruals less cash and cash equivalents and pledged deposits. Capital includes equity attributable to owners of the Company. The Group's gearing ratio was 13.91% as at 31 December 2021 and 16.54% as at 31 December 2022.

CONTINGENT LIABILITIES

The Group had no material contingent liability as of 31 December 2022.

MARKET RISKS

The Group is subject to various market risks, including foreign exchange risks and inflation risks in the course of daily business operation.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE RISKS

The majority of the Group's businesses are located in the PRC and most of the transactions are settled in RMB, with certain sales, procurement and German subsidiaries settled in foreign currencies including Euro and CHF. The fluctuation in exchange rates of these foreign currencies against RMB would have an impact on the operating results of the Group. The Group did not enter into any hedging transactions for the purpose of mitigating its foreign exchange risks.

POLICY RISKS

Products of the Group are primarily applied in China's railway, urban rail and energy markets, where changes in policies will have an impact on the operation of the Company. The Group mitigated or eliminated possible adverse policy risks through measures such as strengthening macroeconomic analysis and proactively expanding market share.

PENSION SCHEME

Employees engaged by the Company and its PRC-incorporated subsidiaries participate in the social insurance and housing provident fund schemes established by local PRC governments. The Company and its PRC-incorporated subsidiaries are required to contribute to such schemes subject to a certain percentage of the employees' salaries, and are not liable for post-retirement benefits.

DISMISSAL OF ACCOUNTING FIRM

Upon resolution at the annual general meeting of the Company held on 30 June 2022, the auditor of the Company was changed from Deloitte Touche Tohmatsu Certified Public Accountants LLP to BDO China SHU LUN PAN Certified Public Accountants LLP, who is the sole auditor of the Company to audit the financial statements of the Company under the China Accounting Standards for Business Enterprises, and also assumes responsibilities of overseas auditors as required under the Listing Rules. BDO China SHU LUN PAN Certified Public Accountants LLP audited the financial statements of the Company for the year ended 31 December 2022 in accordance with the Auditing Standards for the Certified Public Accountants of China. For details, please refer to the circular of the Company dated 13 May 2022 and the announcement dated 30 June 2022, respectively published by the Company on the website of the Hong Kong Stock Exchange (www.hkex.com.hk).

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. **Liu Feixiang (劉飛香)**, aged 59, has been the Chairman and an executive Director of the Company since April 2019. He graduated from the department of mechanics of Southwest Jiaotong University with a bachelor's degree of engineering in August 1983, majoring in engineering machinery. He is a professor level senior engineer who has 38 years of experience in research, development and manufacturing of high-end equipment in China. From May 1997 to November 2001, he successively served as deputy factory manager and manager of Zhuzhou Bridge Factory under the Ministry of Railways. From November 2001 to April 2005, he successively served as factory manager of Zhuzhou Bridge Factory of China Railway 11th Bureau Group Co., Ltd., chairman and general manager of China Railway Zhuzhou Bridge Company* (中鐵株洲橋樑有限公司). From April 2005 to May 2007, he served as deputy general manager of China Railway 11th Bureau Group Co., Ltd. From May 2007 to January 2015, he served as chairman and general manager of CRCHI, and has been the chairman of CRCHI since January 2015.
2. **Tong Pujiang (童普江)**, aged 45, has been an executive Director of the Company since September 2017. He graduated from Southwest Jiaotong University in July 1999, majoring in machinery engineering and automation, and graduated from the Party School of the CPC Central Committee in June 2014 with a master's degree in economic management. He is a senior engineer who has 23 years of experience in manufacturing and repair of railway large track maintenance machinery. From August 2005 to January 2015, he successively served as deputy director and director of the office, assistant to general manager, head of human resources department, and manager of the general manufacturing factory of the Company. He successively served as deputy general manager and general manager of the Company from June 2015 to April 2022.
3. **Luo Jianli (羅建利)**, aged 48, has been the general manager of the Company since April 2022 and an executive Director of the Company since October 2022. He obtained a doctorate in Computer Science and Technology from Tsinghua University in July 2010, a senior engineer. From July 2010 to July 2015, he successively served as deputy general manager of technology, directors of key technology research institute and pump truck electric control technology research institute of electrical ancillary branch office of Zoomlion Heavy Industry Science and Technology Development Co., Ltd. From July 2015 to February 2020, he successively served as chief researcher, deputy dean of Central Research Institute, dean of research management institute, director of experimental center, researcher of special grade, deputy commander of the R&D and operation system, dean of new transportation equipment research and design institute of the R&D and operation system of electrical branch institute of Central Research Institute of CRCHI. He served as a standing deputy general manager of the Company from February 2020 to March 2023.
4. **Chen Yongxiang (陳永祥)**, aged 56, has been an executive Director of the Company since July 2017. He obtained a master's degree in international economic and trade relations jointly set up by Nankai University and Flinders University, Australia in June 2013. He is an engineer who has 33 years of experience in manufacturing and repair of railway track maintenance machinery. From November 1998 to January 2010, he successively served as the deputy director at the production preparation workshop, manager at the metal materials processing company, and manager at the machining company of the Company. From January 2010 to April 2021, he successively served as a deputy general manager and an executive Director of the Company.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

5. **Zhao Hui (趙暉)**, aged 50, has been a non-executive Director of the Company since July 2019. He graduated from the department of environmental engineering in Lanzhou Railway University with a bachelor's degree in July 1995, majoring in water supply and drainage. He is a senior engineer who has 26 years of experience in research, development and manufacturing of high-end equipment in China. From September 2005 to March 2023, he successively served as assistant to general manager and deputy general manager of China Railway Zhuzhou Bridge Co., Ltd., head of marketing department, assistant to general manager, marketing director, deputy general manager and director of CRCHI. Since March 2023, he has been the general manager and a director of CRCHI. From September 2017 to July 2019, he served as an executive Director of the Company.
6. **Bai Yunfei (白雲飛)**, aged 53, has been a non-executive Director of the Company since October 2022. He served as the director of engineering management department of CRCCG from December 2005 to March 2008. From March 2008 to June 2009, he served as the director of engineering management department of CRCC. From June 2009 to June 2019, he served as the deputy director of the equipment and material department of CRCC. He was the deputy general manager of the development planning department of CRCC from July 2019 to March 2022; and has been the deputy general manager of the operation management department of CRCC since March 2022. He has been a director of CRCHI since April 2019.
7. **Wu Yuntian (吳雲天)**, aged 64, has been an independent non-executive Director of the Company since October 2022. From 1983 to 2003, he successively served as a trainee, assistant engineer, engineer and director of the department of engineering of Shenyang Railway Bureau. From 2003 to 2004, he successively served as the assistant to the director of the safety supervision department and deputy director of the basic department of the transport command center (transport bureau) of the Ministry of Railways. He also successively served as the deputy director and director of Lanzhou Railway Bureau from 2004 to 2014, and the general manager and chairman of the board of directors of China Railway Container Transportation Co., Ltd. from 2014 to 2019.
8. **Na Pengjie (納鵬傑)**, aged 58, has been an independent non-executive Director of the Company since October 2022. He holds a doctorate degree and is a professor and doctoral supervisor of Yunnan University of Finance and Economics. From 2000 to 2014, he successively served as the deputy director of the Investment Research Institute of Yunnan Institute of Finance and Trade, the director of the Investment Research Institute, the dean of the MBA Education School and the secretary of the party committee of the Business School of Yunnan University of Finance and Economics, and a director of Yunnan Baiyao Group Co., Ltd. He has been an independent non-executive Director of the Company since October 2022. He currently serves as an independent director of Sino-platinum Metal Co., Ltd. and an independent director of Yunnan Copper Co., Ltd.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

9. **Chu Ching (朱晴)**, aged 47, has been an independent non-executive Director of the Company since October 2022. She holds a master's degree in business administration and is a chartered financial analyst (CFA). From 2002 to 2019, she successively served as an analyst in technology and chip industries in the securities research department of J.P. Morgan, a director of Asia data management in the securities research department of Citibank, and a senior manager of data management in the research department of Fidelity International. She has been the research director of eFusion Capital since 2019.
10. **Liang Zhijian (梁智堅)**, aged 55, has been the secretary of the committee for discipline inspection of the Company since November 2021, and chairman of the Supervisory Committee of the Company since October 2022. He graduated from the Central Party School in December 1997 and obtained a bachelor's degree in economic management. He is a senior economist. From February 2005 to May 2019, he successively served as assistant economist and economist in CRCC Zhuzhou Bridge Co., Ltd., principal staff of human resources department and principal staff of labor union department, secretary of committee for discipline inspection of special equipment division and chairman of labor union, and secretary of committee for discipline inspection of turnout branch and chairman of labor union in CRCHI.
11. **Wang Huaming (王華明)**, aged 53, served as a shareholders representative Supervisor of the Company since June 2015. He graduated from the Party School under Anhui Provincial Communist Party Committee in July 2011 with a master's degree, majoring in economic management. Mr. Wang has 29 years of experience in corporate economic management. From June 2002 to July 2004, he was a member of the finance department and a deputy director of the investment audit department under Anhui Engineering Co., Ltd. of Shanghai Railway Construction Group. From August 2004 to December 2012, he served as the chief accountant of Anhui Engineering Co., Ltd. of Shanghai Railway Construction Group (renamed as "Anhui Engineering Co., Ltd. of China Railway 24th Bureau"). From July 2011 to December 2012, he concurrently served as the general counsel of Anhui Engineering Co., Ltd. of China Railway 24th Bureau. From January 2013 to August 2014, he served as the financial director and general counsel of China Railway Zhanjiang Development Co., Ltd. From September 2014 to November 2018, he served as the general manager of the supervision and audit department of China Railway Construction Investment Group. In December 2018, he served as the general manager of the finance and capital department of China Railway Construction Investment Group.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

12. **Zhong Xiangjun (鍾祥軍)**, aged 43, has been a shareholders representative Supervisor of the Company since October 2020. He graduated from the School of Humanities and Social Sciences of Southwest Jiaotong University in July 2003 with a bachelor's degree, majoring in political science and public administration. He has 18 years of work experience in corporate management and disciplinary inspection and supervision. From July 2003 to July 2009, he successively served as a trainee, secretary, office director and assistant political engineer of the project department of China Railway 17th Bureau Yuantong Engineering Co., Ltd.* (中鐵十七局遠通工程有限公司). From July 2009 to July 2012, he successively served as the deputy secretary of party working committee of the fundamental project department of China Railway 17th Bureau 6th Engineering Co., Ltd.* (中鐵十七局六公司), the secretary of party working committee, deputy manager, office director, deputy head of the human resources department, assistant political engineer and political engineer of the project department of Section II of Phase 1 of Civil Engineering Work of Line II of Changsha Rail Transit* (長沙軌道交通II號線一期土建工程II標段項目部). Since July 2012, he has successively served as the principal staff member of the working department under the Communist Party Committee, deputy office director and director of the committee for discipline inspection and deputy director of the inspection office of the Communist Party Committee of CRCHI. He currently serves as the office director of the committee for discipline inspection and deputy director of the inspection office of the Communist Party Committee of CRCHI.
13. **Mo Bin (莫斌)**, aged 53, has been a deputy general manager of the Company since December 2018. He graduated from Southwest Jiaotong University with a bachelor's degree majoring in welding technology and equipment in July 1992, and is a senior engineer. From August 2001 to January 2010, he successively served as factory secretary, secretary of the Board of Directors and office director of the Company; from January 2010 to July 2017, he served as secretary of committee for discipline inspection of the Company and chairman of Supervisory Committee; and from April 2018 to December 2018, he served as the deputy inspector and head of union work department of CRCHI.
14. **Zhang Baoming (張寶明)**, aged 58, has been a deputy general manager and chief engineer of the Company since April 2018. He graduated from the Department of Electronic Engineering of Changsha Railway Institute with a bachelor's degree in automation in July 1987, and is a professor level senior engineer. From August 1991 to April 2018, he successively served as an inspector, engineer, deputy director, director of the large road maintenance machinery inspection and acceptance office of the Company under the Ministry of Railways; director of the project supervision and construction department; president of the Research and Design Institute and director of the Test Center of the Company. From April 2018 to December 2020, he served as deputy general manager, chief engineer and president of the Research and Design Institute of the Company.

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15. **E Baosheng (鄂寶生)**, aged 56, has been a deputy general manager of the Company since April 2018. He graduated from Shijiazhuang Railway Institute with a bachelor's degree in bridge engineering in June 1989, and is a professor level senior engineer. From August 1990 to November 2014, he served as deputy director of the total quality management division, and deputy director of the technical division, deputy director of the second bridge workshop, deputy manager and engineer, deputy chief engineer, manager of the bridge plant; assistant to manager and manager of the bridge plant of Fangshan Bridge Factory under the Control Department of the Ministry of Railway* (鐵指房山橋樑廠); general manager, chairman and general manager of Beijing Fangqiao China Railway Co., Ltd.; and assistant to general manager of China Railway 14th Bureau Group Co., Ltd.* (中鐵十四局集團公司). From November 2014 to April 2019, he served as assistant to general manager of the Company; an executive director of Beijing Ruiweitong Company* (北京瑞維通公司); general manager of the general manufacturing factory, a deputy general manager and chief economist of the Company.
16. **Kang Yanjun (康彥君)**, aged 53, has been a deputy general manager of the Company since April 2018. She graduated from Nanchang Aviation and Industry Institute with a bachelor's degree in metal materials and heat treatment in July 1992, and is a senior engineer. From August 1993 to April 2018, she successively served as alternate deputy director and deputy director of the heat treatment workshop of Shaoguan Excavator Factory* (韶關挖掘機製造廠); primary deputy director, office director, director of the quality assurance department, secretary of the board of directors, head of the oxygen station, and deputy director of the technical quality department of Shaoguan Xinyu Construction Machinery Co., Ltd.* (韶關新宇建設機械有限公司); deputy director of the technical department, deputy director of the quality control department of the heavy equipment branch company, director of the quality control department of the tunnel equipment branch company, and deputy general manager of the general equipment manufacturing factory of China Railway Track System Group* (中鐵軌道系統集團); deputy general manager and general manager of the general manufacturing factory; general manager of the production and supply center; deputy general manager of the supply chain operation center; standing deputy general manager of the general boring machine manufacturing factory, deputy executive director of the tendering and commerce department and director of the tendering and commerce department of CRCHI. From April 2018 to April 2019, she served as a deputy general manager and director of the tendering and commerce department of the Company.

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17. **Wang Shuchuan (王淑川)**, aged 51, has been the chief accountant of the Company since November 2020. He graduated from Business Administration Department of Hunan University of Finance and Economics with a bachelor's degree in July 1995, majoring in corporate management, and is a senior economist. Mr. Wang has 27 years of experience in accounting and financial management. From March 2003 to December 2020, he successively served as the head of risk management department of Zhuzhou Jinqiao Small-to-medium Enterprise Guarantee Co., Ltd.* (株洲金橋中小企業擔保有限公司), head of finance department of Zhuzhou Tianhua Real Estate Co., Ltd.* (株洲天華房地產有限公司), deputy head of finance department of China Railway Zhuzhou Bridge Co., Ltd.* (中鐵株洲橋樑有限公司), member of the turnout construction team of China Railway Construction 11th Bureau Group, deputy head of financial asset department of China Railway Track System Group Co., Ltd., the vice chief accountant and head of finance department of branch office of Express Turnout Company* (高速道岔分公司), the chief accountant of China Railway Zhuzhou Bridge Co., Ltd. and the chief accountant of turnout company, head of finance department, chief financial officer of research, development and marketing service center, and deputy director of project reporting platform of CRCHI, general manager and executive deputy director of the finance department of Special Equipment Engineering Co., Ltd. He served as a shareholders representative Supervisor of the Company from September 2017 to October 2020.
18. **Zhou Huipeng (周慧鵬)**, aged 51, has been a deputy general manager of the Company since April 2021. He graduated from Yunnan University of Finance and Economics in December 2014 with a master's degree in business administration, and is a senior engineer. Mr. Zhou has 27 years of experience in the field of railway maintenance machinery manufacturing and repair. From March 2008 to April 2021, he successively served as deputy director of the marketing department, deputy general manager of Beijing Marketing Branch, deputy general manager and manager of the marketing company, head of the strategic investment department, head of safety and environmental protection department, director of lean promotion office and head of asset management department of the Company.

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19. **Li Hongda (李宏達)**, aged 39, has been a deputy general manager of the Company since April 2021. He graduated from Yunnan University in July 2010 with a master's degree in international law. Mr. Li has 8 years of experience in the field of railway maintenance machinery manufacturing and repair. From February 2015 to April 2021, he successively served as deputy general manager, deputy head of information system department, head of the intelligent system department, head of logistics department, and general manager of the overseas business department of Hengyuan Business Service Co., Ltd.* (恆源商務服務有限公司) of the Company. From April 2021 to April 2022, he served as a deputy general manager of the Company and general manager of the overseas business department of the Company.
20. **Li Guo (李果)**, aged 40, has been a deputy general manager of the Company since April 2021. He graduated from Kunming University of Science and Technology in April 2010 with a master's degree in machinery manufacturing and automation, and is a senior engineer. Mr. Li has 12 years of experience in the field of railway maintenance machinery manufacturing and repair. From July 2010 to April 2021, he successively served as assistant engineer of Beijing Marketing Branch of the Company, deputy general manager of the marketing company, deputy general manager of the No. 1 operation branch, and general manager of the No. 1 operation branch of the Company.
21. **Ma Changhua (馬昌華)**, aged 49, has been the secretary of the Board of the Company since February 2015 and director of the working department of the Board of the Company since July 2019. He obtained a master's degree in international economic and trade relations jointly set up by Nankai University and Flinders University, Australia in June 2014 and is an engineer who has 25 years of experience in the field of railway maintenance machinery manufacturing and repair. From March 2005 to February 2015, he successively served as deputy head and head of information management department, office director, assistant to general manager, and commander at construction instruction department of the northern base of the Company. From February 2015 to November 2021, he successively served as secretary of the Board of Directors, office director of the Board, and director of the strategic investment department, securities department and asset management department of the Company.

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report of the Company contained in the annual report for the year ended 31 December 2022 (the “Year”). During the reporting period, the Company remains committed to maintaining compliant operation, constantly improving its corporate governance system, and continuously implementing comprehensive risk management and internal control, with a view to improve its management efficiency and corporate governance.

I. OVERVIEW OF CORPORATE GOVERNANCE

The Board has reviewed documents related to corporate governance and is of the view that the requirements of such documents comply with the code provisions set out in the CG Code of the Stock Exchange. For the year ended 31 December 2022, the Company has fully complied with the code provisions of the CG Code.

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

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

II. SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

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

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

CORPORATE GOVERNANCE REPORT

III. BOARD OF DIRECTORS

The Board of Directors is primarily responsible for monitoring and supervising the management of business affairs and overall performance of the Company. The Board of Directors establishes the Company's values and standards, and ensures that the requisite financial and human resources support are in place for the Group to achieve its objectives. The functions performed by the Board of Directors include, but are not limited to, formulating the Company's business plans and strategies, reviewing the Company's financial results and performance and approving its interim and annual results; approving the appointment, dismissal or reappointment of Board members after obtaining the recommendations of the Nomination Committee; approving the remuneration packages of Directors and senior management of the Company after obtaining the recommendations of the Remuneration Committee, and determining all major financial (including major capital expenditures) and operational issues; formulating, monitoring and reviewing the corporate governance of the Company; and all other functions reserved by the Board of Directors according to the Articles of Association. The Board of Directors may delegate certain functions to the senior management of the Company from time to time when necessary. The senior management is mainly responsible for implementing the business plans, strategies and policies adopted by the Board of Directors and delegated to it from time to time.

1. Composition of the Board

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

As at the date of this report, the Board consisted of nine Directors, of whom Mr. Liu Feixiang, Mr. Tong Pujiang, Mr. Chen Yongxiang and Mr. Luo Jianli were appointed as the executive Directors of CRCCE upon the nomination by the nomination committee, and the consideration and approval at the twenty-eighth meeting of the second session of the Board and the 2022 first extraordinary general meeting of the Company. Mr. Liu Feixiang was elected as the chairman of the third session of the Board, upon the nomination by the controlling Shareholder and the consideration and approval at the first meeting of the third session of the Board.

The Company currently has two non-executive Directors, namely Mr. Zhao Hui and Mr. Bai Yunfei; and three independent non-executive Directors, namely Mr. Wu Yuntian, Mr. Na Pengjie and Ms. Chu Ching.

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

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

CORPORATE GOVERNANCE REPORT

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

2. Meetings of the Board and Directors' attendance record

During the reporting period, the Company convened a total of 9 Board meetings and 2 general meetings. The following sets forth the Directors' attendance of the Board meetings and the general meetings:

Name	Title	Board meetings	General meetings
Liu Feixiang	Chairman and executive Director	9/9	2/2
Tong Pujiang	Executive Director	9/9	2/2
Chen Yongxiang	Executive Director	9/9	2/2
Luo Jianli	Executive Director	2/2	0/0
Zhao Hui	Non-executive Director	9/9	2/2
Bai Yunfei	Non-executive Director	2/2	0/0
Wu Yuntian	Independent non-executive Director	2/2	0/0
Na Pengjie	Independent non-executive Director	2/2	0/0
Chu Ching	Independent non-executive Director	2/2	0/0
Sha Mingyuan	Non-executive Director	7/7	2/2
Wong Hin Wing	Independent non-executive Director	7/7	2/2
Sun Linfu	Independent non-executive Director	7/7	2/2
Yu Jiahe	Independent non-executive Director	7/7	2/2

Note: Mr. Sha Mingyuan was a non-executive Director of the second session of the Board, and Mr. Sun Linfu, Mr. Yu Jiahe and Mr. Wong Hin Wing were independent non-executive Directors of the second session of the Board. They ceased to serve on the third session of the Board upon expiry of their term on 21 October 2022, and therefore did not attend the two Board meetings held thereafter. As Mr. Luo Jianli served as an executive Director of the third session of the Board commencing from 21 October 2022, Mr. Bai Yunfei served as a non-executive Director of the third session of the Board commencing from 21 October 2022, and Mr. Wu Yuntian, Mr. Na Pengjie and Ms. Chu Ching served as independent non-executive Directors of the third session of the Board commencing from 21 October 2022, they did not attend the seven Board meetings and two general meetings held before 21 October 2022.

CORPORATE GOVERNANCE REPORT

3. Continuous training and development schemes for Directors

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

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

During the reporting period, the Company has provided the appropriate continuous training and professional development courses for the Directors, including engaging the Company's counsel to carry out the training about "Practice of Compliance Management System Construction in State-owned Enterprises", etc. All Directors and Supervisors have attended the related trainings, and were made aware of and carefully read the relevant documents. Moreover, the Company has received the letters of confirmation for attending the continuous professional trainings from each Director.

Major trainings provided for the Directors in 2022 are as follows:

Name	Training 1	Training 2
Executive Directors		
Liu Feixiang	✓	✓
Tong Pujiang	✓	✓
Chen Yongxiang	✓	✓
Luo Jianli		✓
Non-executive Directors		
Zhao Hui	✓	✓
Bai Yunfei		✓
Sha Mingyuan (resigned)	✓	
Independent non-executive Directors		
Wu Yuntian		✓
Na Pengjie		✓
Chu Ching		✓
Yu Jiahe (resigned)	✓	
Sun Linfu (resigned)	✓	
Wong Hin Wing (resigned)	✓	

Note: Training 1 includes the practice of compliance management system construction of state-owned enterprises and the interpretation of the latest Listing Rules of the Stock Exchange; and training 2 includes duty performance trainings for Directors and Supervisors.

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4. Operation of the Board

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

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

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

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

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

- (I) to convene general meetings and report its work to the general meetings;
- (II) to implement the resolutions of the general meetings;
- (III) to make decisions on business plans and investment plans of the Company;
- (IV) to formulate the Company's proposed annual financial budget and final financial reports;
- (V) to formulate the Company's profit distribution plans and plans for making up for losses;
- (VI) to formulate the Company's plans for increasing or reducing the registered capital, issuing shares, bonds or other securities and listing;
- (VII) to formulate the Company's plans for major acquisitions, repurchase of the Company's shares or merger, division, dissolution or change in corporate form;

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- (VIII) to decide matters of the Company such as external investment, purchase and sales of assets, pledge of assets, external guarantee, entrusted finance and connected transactions within the scope of authorization of general meetings;
- (IX) to decide the setting of internal administrative organizations of the Company;
- (X) to appoint or dismiss the general manager and the secretary to the Board, to appoint or dismiss any senior management, including vice general manager and financial controller of the Company according to the nomination by the general manager, and to decide their remuneration and rewards and punishments;
- (XI) to formulate the basic management system of the Company;
- (XII) to formulate proposals for any modifications to the Articles;
- (XIII) to manage the disclosure of information of the Company;
- (XIV) to propose on the general meetings the appointment or change of the accounting firm that provides the Company with the audit service of annual financial statements and to determine its audit fee;
- (XV) to listen to work reports of the general manager of the Company and to review his/her work;
- (XVI) to decide the establishment and composition of specialized committees of the Board of Directors;
- (XVII) to consider and approve change in use of proceeds raised;
- (XVIII) other functions and authorities as specified by laws, regulations and the listing rules of the stock exchange on which shares of the Company are listed and as granted by the general meeting and the Articles.

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

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

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

5. Special committees of the Board

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

a. *Strategy and investment committee*

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

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

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In 2022, the strategy and investment committee held 2 meetings to mainly consider the following issues:

Session of the strategy and investment committee's meeting

Session of the strategy and investment committee's meeting	Date	Major issues considered
The first meeting of the strategy and investment committee of the second session of the Board in 2022	30 March 2022	(I) To consider the Resolution on 2022 Bank Credit Facilities of the Company; (II) To consider the Resolution on Production and Operating Plan of 2022 of the Company; (III) To consider the Resolution on Annual Investment Plans of 2022 of the Company; (IV) To consider the Resolution on the Performance Report of the Strategy and Investment Committee of the Company in 2021.
The second meeting of the strategy and investment committee of the second session of the Board in 2022	6 April 2022	To consider the Resolution on Adjustment of the Organizational Structure and Positioning of the Company.

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Attendance of each member at the meetings is as follows:

No.	Name	Position	Attendance/ Meeting
1	Liu Feixiang	Chairman of the committee	2/2
2	Wu Yuntian	Member	0/0
3	Na Pengjie	Member	0/0
4	Sun Linfu	Member	2/2
5	Yu Jiahe	Member	2/2

Note: Mr. Sun Linfu and Mr. Yu Jiahe were independent non-executive Directors of the second session of the Board and they ceased to serve on the third session of the Board and special committees of the Board upon expiry of their term on 21 October 2022. Mr. Wu Yuntian and Mr. Na Pengjie served as independent non-executive Directors of the third session of the Board commencing from 21 October 2022, and therefore they did not attend the two meetings of the strategy and investment committee held before 21 October 2022.

b. Audit and risk management committee

The audit and risk management committee of the Company was established in June 2015. It currently consists of three independent non-executive Directors. Due to the change of the session of the Board, Mr. Na Pengjie was appointed as the chairman of the audit and risk management committee upon the consideration and approval at the first meeting of the third session of the Board, and other members of the committee include Mr. Wu Yuntian and Ms. Chu Ching.

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

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

CORPORATE GOVERNANCE REPORT

- to supervise the internal audit system and its implementation, to review the Company's financial and accounting policies and practices;
- to ensure the communication and coordination between internal audit and external audit agencies;
- to supervise the Company's financial information and its disclosure, and to review the major opinions on financial reporting as set out in the statements and reports;
- to review the Company's financial control, risk management and internal control system, to review major connected transactions, and to discuss the risk management and internal control system with the management to ensure that the management has discharged its duty to establish an effective internal control system;
- to ensure the Company's arrangements for staff of the Company, in confidence, to report or raise concerns about possible improprieties in financial reporting, risk management, internal control or other matters;
- to submit the annual report on overall risk management to the Board, to consider the Company's risk management strategies and the solutions for major risk management, to consider the establishment of the risk management organization, and proposals of their responsibilities, and to consider the comprehensive report on the supervision, assessment and audit of risk management submitted by the internal audit department.

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

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

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

During the reporting period, the audit and risk management committee reviewed 2021 annual results announcement and annual report, 2022 interim results announcement and interim report, auditing planning of external auditor, and the auditors' report for 2021 prepared by Deloitte and the 2022 interim review report prepared by BDO.

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In 2022, the audit and risk management committee held 5 meetings, to mainly consider the following issues:

Session of the audit and risk management committee's meetings

Session of the audit and risk management committee's meetings	Date	Major issues considered
The first meeting of the audit and risk management committee of the second session of the Board in 2022	30 March 2022	(I) To consider the Resolution on the Company's 2021 Annual Report and Results Announcement;
		(II) To consider the Resolution on the Company's Final Financial Report for 2021;
		(III) To consider the Resolution on the Company's Profit Distribution Plan for 2021;
		(IV) To consider the Resolution on 2021 Report of Internal Risk Control;
		(V) To consider the Resolution on the Performance Report of Audit and Risk Management Committee of the Board for 2021;
		(VI) To consider the Resolution on Summary for Work of 2021 Internal Audit and Planning of 2022 Internal Audit.

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Session of the audit and risk management committee's meetings

Session of the audit and risk management committee's meetings	Date	Major issues considered
The second meeting of the audit and risk management committee of the second session of the Board in 2022	10 May 2022	To consider the Resolution on 2021 Auditing Fee Payment and Appointing Auditing Firm of the Company for 2022.
The third meeting of the audit and risk management committee of the second session of the Board in 2022	29 July 2022	(I) To Consider the Resolution on Entering into the Continuing Connected Transaction in Relation to Machinery Equipment and Accessories Sales Framework Agreement; (II) To Consider the Resolution on Entering into the Continuing Connected Transaction in Relation to Financial Services Framework Agreement.
The fourth meeting of the audit and risk management committee of the second session of the Board in 2022	26 August 2022	To consider the Resolution on the Company's 2022 Interim Results Announcement and Interim Report.
The first meeting of the audit and risk management committee of the third session of the Board in 2022	30 November 2022	To Consider the Resolution on Entering into the Continuing Connected Transaction in Relation to Financial Services Framework Agreement.

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Attendance of each member at the meetings is as follows:

No.	Name	Position	Attendance/ Meeting
1	Na Pengjie	Chairman of the committee	1/1
2	Wu Yuntian	Member	1/1
3	Chu Ching	Member	1/1
4	Yu Jiahe	Chairman of the committee	4/4
5	Sun Linfu	Member	4/4
6	Wong Hin Wing	Member	4/4

Note: Mr. Yu Jiahe, Mr. Sun Linfu and Mr. Wong Hin Wing were independent non-executive Directors of the second session of the Board and they ceased to serve on the third session of the Board and special committees of the Board upon expiry of their term on 21 October 2022. Therefore, they did not attend the one meeting of the audit and risk management committee thereafter. Mr. Na Pengjie, Mr. Wu Yuntian and Ms. Chu Ching served as independent non-executive Directors of the third session of the Board commencing from 21 October 2022, and therefore they did not attend the four meetings of the audit and risk management committee held before 21 October 2022.

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c. Nomination committee

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

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

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

CORPORATE GOVERNANCE REPORT

In 2022, the nomination committee held 4 meetings, to mainly consider the following issues:

Session of the nomination committee's meetings	Date	Major issues considered
The first meeting of the nomination committee of the second session of the Board in 2022	30 March 2022	To consider the Resolution on the Performance Report of Nomination Committee of the Board of Directors of the Company for 2021.
The second meeting of the nomination committee of the second session of the Board in 2022	6 April 2022	To consider the Resolution on Appointment of General Manager of the Company.
The third meeting of the nomination committee of the second session of the Board in 2022	29 July 2022	To consider the Resolution on Nomination of Directors to the Third Session of the Board of the Company.
The first meeting of the nomination committee of the third session of the Board in 2022	21 October 2022	To consider the Resolution on Appointment of Senior Management Members of the Company.

- Attendance of each member at the meetings is as follows:

No.	Name	Position	Attendance/ Meeting
1	Liu Feixiang	Chairman of the committee	4/4
2	Wu Yuntian	Member	1/1
3	Chu Ching	Member	1/1
4	Sun Linfu	Member	3/3
5	Yu Jiahe	Member	3/3

Note: Mr. Yu Jiahe and Mr. Sun Linfu were independent non-executive Directors of the second session of the Board and they ceased to serve on the third session of the Board and special committees of the Board upon expiry of their term on 21 October 2022. Therefore, they did not attend the one meeting of the nomination committee thereafter. Mr. Wu Yuntian and Ms. Chu Ching served as independent non-executive Directors of the third session of the Board commencing from 21 October 2022, and therefore they did not attend the three meetings of the nomination committee held before 21 October 2022.

CORPORATE GOVERNANCE REPORT

d. Remuneration and evaluation committee

The remuneration and evaluation committee of the Company was established in June 2015. It currently consists of three Directors, including one executive Director and two independent non-executive Directors. Due to the change of the session of the Board, Ms. Chu Ching was appointed as the chairlady of the remuneration and evaluation committee upon the consideration and approval at the first meeting of the third session of the Board. The other members of the committee are Mr. Liu Feixiang and Mr. Na Pengjie.

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

- to make recommendations to the Board on the Company's policies and structure for the remuneration of Directors and senior management;
- to study the performance assessment management measures for the Company's Directors and senior management, to formulate assessment standards, and to determine the assessment objectives;
- to review and approve the compensation payable to executive Directors and senior management for any loss or termination of office or appointment, to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct;
- to develop formal, fair, reasonable and transparent remuneration system, to supervise the effective implementation of the Company's remuneration system, and to consider the Company's share incentive plan(s) and provide recommendations thereon.

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

CORPORATE GOVERNANCE REPORT

In 2022, the remuneration and evaluation committee held 2 meetings to mainly consider the following issues:

Session of the remuneration and evaluation committee's meeting

Session of the remuneration and evaluation committee's meeting	Date	Major issues considered
The first meeting of the remuneration and evaluation committee of the second session of the Board in 2022	30 March 2022	<ul style="list-style-type: none">(I) To consider the Resolution on the Remuneration for the Directors and Supervisors of the Company in 2021;(II) To consider the Resolution on the Remuneration for the Senior Management of the Company in 2021;(III) To consider the Resolution on the Performance Report of Remuneration and Evaluation Committee of the Board of Directors of the Company for 2021.
The first meeting of the remuneration and evaluation committee of the third session of the Board in 2022	30 November 2022	To consider the Resolution on the Implementation of Tenure-based System and Contract-based Management Plan for the Management of the Company and Supporting Documents and Verifying the Evaluation Results for 2021.

CORPORATE GOVERNANCE REPORT

Attendance of each member at the meetings is as follows:

No.	Name	Position	Attendance/ Meeting
1	Chu Ching	Chairlady of the committee	1/1
2	Liu Feixiang	Member	2/2
3	Na Pengjie	Member	1/1
4	Yu Jiahe	Chairman of the committee	1/1
5	Sun Linfu	Member	1/1

Note: Mr. Yu Jiahe and Mr. Sun Linfu were independent non-executive Directors of the second session of the Board and they ceased to serve on the third session of the Board and special committees of the Board upon expiry of their term on 21 October 2022. Therefore, they did not attend the two meetings of the remuneration and evaluation committee thereafter. Ms. Chu Ching and Mr. Na Pengjie served as independent non-executive Directors of the third session of the Board commencing from 21 October 2022, and therefore they did not attend the one meeting of the remuneration and evaluation committee held before 21 October 2022.

CORPORATE GOVERNANCE REPORT

e. Corporate governance functions

The Board is responsible for the following corporate governance functions:

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

During the reporting period, the Board reviewed and supervised from time to time the implementation of a series of corporate governance documents; reviewed and actively organized training and continuing professional development for Directors and senior management; reviewed and monitored whether there was any violation of laws and regulatory requirements by the Company; approved the Corporate Governance Report of the Company for the year 2021, and approved the disclosure on the website of the Stock Exchange and the Company's website of the same; and formulated, reviewed and supervised Shareholder communications policy to ensure its effectiveness.

CORPORATE GOVERNANCE REPORT

IV. CHAIRMAN AND GENERAL MANAGER

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

(I) Chairman

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

- (1) to preside at general meetings, and to convene and preside at Board meetings;
- (2) to supervise and check the implementation of general meeting resolutions and Board resolutions;
- (3) to sign important documents of the Board and other documents that should be signed by the legal representative of the Company;
- (4) to exercise certain functions and powers of the Board in accordance with authorization of the Board during intermissions of the meetings of the Board;
- (5) to sign the securities issued by the Company;
- (6) to organize the formulation of relevant systems relating to the Board and to coordinate with its operation;
- (7) in case of emergency circumstances of force majeure events such as war, extraordinary natural disasters, to exercise special discretion and power of disposition which comply with legal provisions and are in the interests of the Company on matters of the Company and provide post-event reports to the Board and the general meeting;
- (8) to listen to the reports of the general manager, other senior management and persons in charge of the invested enterprises of the Company;
- (9) other functions and powers granted by the Board.

CORPORATE GOVERNANCE REPORT

(II) General Manager

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

- (1) to take charge of the production, operation and management of the Company, to organize implementation of resolutions of the Board, and to report his/her work to the Board;
- (2) to organize the implementation of annual operation plans and investment plans of the Company;
- (3) to establish plans for establishment of the Company's internal management structure;
- (4) to establish the Company's basic management system;
- (5) to formulate the basic rules and regulations of the Company;
- (6) to propose to the Board of Directors the appointment or dismissal of any vice general manager, chief accountant, chief engineer and chief economist of the Company;
- (7) to appoint or dismiss of management members other than those whose appointment or dismissal shall be decided by the Board of Directors;
- (8) to propose the convening of interim meetings of the Board;
- (9) other functions and powers granted by the Board.

V. INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

CORPORATE GOVERNANCE REPORT

VI. BOARD DIVERSITY POLICY

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

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

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

In addition, as of 31 December 2022, female employees accounted for approximately 21.46% of all employees (including senior management members) of the Company. The Company aims at the goal of 25% females of all employees by 2025, so as to achieve sustainable gender diversity.

VII. NOMINATION OF DIRECTORS

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

CORPORATE GOVERNANCE REPORT

VIII. REMUNERATION OF SENIOR MANAGEMENT

According to paragraph E.1.5 of the CG Code, the range of annual remuneration in 2022 of the members of the senior management whose particulars are contained in the section headed “Directors, Supervisors and Senior Management” in this report is set out below:

For the year ended 31 December 2022

Remuneration band (RMB)	Number of individuals
RMB1,000,000 and above	3
RMB700,000 (inclusive) to RMB1,000,000	6
Below RMB700,000	1
Total	10

IX. REMUNERATION OF THE AUDITORS

BDO China SHU LUN PAN Certified Public Accountants LLP is the auditor of the Company in 2022. For the year ended 31 December 2022, the services provided and the remuneration received by BDO China SHU LUN PAN Certified Public Accountants LLP are as follows:

Services	Fee (RMB'000)
Auditing fee for 2022 financial statements	700
2022 interim review	300
Total	1,000

CORPORATE GOVERNANCE REPORT

X. DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors confirm that they are responsible for the preparation of financial statements for the financial year ended 31 December 2022, to give a true and fair report of the Company's financial position and financial performance.

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

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

XI. JOINT COMPANY SECRETARIES

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

Mr. Law Chun Bui, aged 49, serves as one of the joint company secretaries of the Company. He joined the Company and was appointed as a joint company secretary in November 2015. From March 2000 to December 2002, Mr. Law worked for Harbor Ring Management Limited as an assistant accounting manager. From March 2003 to October 2006, he was a senior accountant of Tonic Electronics Ltd. From October 2006 to April 2007, he was a finance manager of Fuji Kon Industrial Co. Ltd. Since December 2007, he has been a joint company secretary of China Railway Construction Corporation Limited. Mr. Law is a member of Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Law obtained a bachelor's degree from Hong Kong University of Science and Technology in 1997, majoring in business administration. He obtained a master's degree from Hong Kong Polytechnic University in 2006, majoring in information systems.

Details of biography of Mr. Ma Changhua are set out in the section of "Directors, Supervisors and Senior Management".

The Company confirms that during the reporting period, Mr. Law Chun Bui and Mr. Ma Changhua have received no less than 15 hours of relevant professional trainings in compliance with Rule 3.29 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

XII. CONSTITUTIONAL DOCUMENTS

The Company's first extraordinary general meeting of 2015 was convened on 24 June 2015 to consider and approve the resolution on Adoption of the Articles after Issuance and Listing of H Shares of CRCC High-Tech Equipment Corporation Limited, and to approve the applicable Articles (Draft) after issuance and listing of H Shares. Those Articles came into force since the listing date of H Shares on the Main Board of the Stock Exchange. The Company was approved to make amendments to the Articles upon the consideration and approval at the 2017 annual general meeting on 29 June 2018 in accordance with relevant requirements and regulations of the State-owned Assets Supervision and Administration Commission of the State Council, China Securities Regulatory Commission and relevant national regulatory authorities. On 28 June 2019, with the approval from the Company's 2018 annual general meeting, the Company, as an enterprise controlled by the Central Government, made certain amendments to the Articles under relevant requirements and regulations. On 27 March 2020, with the approval from the Company's first extraordinary general meeting of 2020, the Company made certain amendments to the Articles according to the amendments of relevant laws and regulations and based on the Company's actual situation. On 23 June 2020, with the approval from the Company's 2019 annual general meeting, the Company made certain amendments to the Articles according to the changes in the Company's business scope and based on the Company's actual situation. On 28 June 2021, according to the changes in the Company's business scope and based on the Company's actual situation, the Company made certain amendments to the Articles. On 21 October 2022, according to the changes in the Company's business scope and based on the Company's actual situation, the Company made certain amendments to the Articles.

XIII. SYSTEM REFORM AND CORPORATE GOVERNANCE CONSTRUCTION

In order to implement the three-year action plan for the reform of state-owned enterprises and speed up the improvement of the modern enterprise system with Chinese characteristics, the Company formulated the Work Plan for CRCC High-Tech Equipment Corporation Limited to Improve the Modern Enterprise System and Standardize the Construction of the Board of Directors (hereinafter referred to as the "**Work Plan**"), adhered to the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, and upheld the working principles of "seeking truth from facts, committed to integrity and innovation, and making progress amid stability". According to the working philosophy of "step-by-step implementation and specific policy implementation", the Company established and improved the modern enterprise system characterized by standardizing the Board of Directors, clarified powers and responsibilities, fully tapped into the functional role, enhanced the effectiveness of governance, coordinated reform and development, and achieved "statutory powers and responsibilities, transparent powers and responsibilities, coordinated operation and effective checks and balances" in a real sense.

CORPORATE GOVERNANCE REPORT

Under the guidance of the Work Plan, the Company further formulated the Implementation Plan for CRCC High-Tech Equipment Corporation Limited to Implement the Authority of the Board of Directors, the Work Plan for Safeguarding the Performance of External Directors of CRCC High-Tech Equipment Corporation Limited, the Investigation Work System for External Directors of CRCC High-Tech Equipment Corporation Limited and the Authorization Management System for the Board of Directors of CRCC High-Tech Equipment Corporation Limited. The Company continuously standardized and improved the operation of the Board of Directors from the following aspects: implementing the functions and powers of the Board of Directors (including but not limited to the power to make business decisions regarding medium and long-term development, select and engage management members, evaluate the performance of management members, manage the remunerations of management members, manage the salary distribution of employees, manage major financial issues, etc.), strengthening the performance of external Directors, and implementing the delegation of the Board of Directors, further standardized the performance of Directors, improved the operation mechanism, and continued to build up and improve the modern enterprise system, so as to enhance the Company's independent operation.

XIV. RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

CORPORATE GOVERNANCE REPORT

XV. SHAREHOLDERS' RIGHTS

1. Convening extraordinary general meetings

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

2. Putting enquiries to the Board

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

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

3. Putting proposals at general meetings

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

CORPORATE GOVERNANCE REPORT

XVI. INVESTOR RELATIONS

The Company is of the view that effective communication with Shareholders is critical for strengthening investor relation and attracting investors. In 2022, the Company upheld the principles of openness, fairness and impartiality and maintained timely and thorough communication with its investors.

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

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

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

CORPORATE GOVERNANCE REPORT

XVII. DIVIDEND POLICY

The Company's profit available for distribution in cash is expected to be approximately 20% to 40% of the distributable profit of the year. The amount of dividend to be declared and paid after the Global Offering shall depend on the following factors:

- general business conditions;
- results of operations, financial results/conditions;
- working capital;
- capital requirements and future prospects;
- cash flows;
- any other factors which the Board deems relevant.

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

As confirmed by BDO China SHU LUN PAN Certified Public Accountants LLP, net profit attributable to the owners of the Company in 2022 as set out in the consolidated financial statements prepared under the China Accounting Standards for Business Enterprises amounted to RMB115,635,117.62.

The distributable profit of the Company as of 31 December 2022 will be allocated in the following priority:

1. RMB10,269,554.19, being 10% of the net profit achieved in 2022, will be appropriated as statutory surplus reserve, upon which, profit available for distribution in the consolidated financial statements for the Year will be RMB623,145,385.08;
2. Cash dividends of RMB0.025 per share (tax inclusive), totaling RMB37,997,100.00 based on the total share capital of 1,519,884,000 as at 31 December 2022, upon which, the balance of RMB585,148,285.08 will be brought forward to the next year.

DIRECTORS' REPORT

The Board hereby presents to the Shareholders the Directors' Report and the audited financial statements of the Company prepared in accordance with the China Accounting Standards for Business Enterprises for the year ended 31 December 2022.

PRINCIPAL BUSINESS

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

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

OPERATING RESULTS

The financial and operating results of the Company for the year ended 31 December 2022 can be found in the section headed "Management Discussion and Analysis".

MAJOR RISKS AND UNCERTAINTIES

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

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

Regulatory risks

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

- Railway Law of the PRC promulgated by the Standing Committee of the National People's Congress on 7 September 1990 and amended on 27 August 2009 and 24 April 2015;
- Regulation on Administration of Railway Safety promulgated by the State Council on 17 August 2013 and enforced on 1 January 2014;
- Measures for Railway Engineering Machinery Parts Management (《鐵路工務機械車配件管理辦法》) promulgated by China State Railway Group Co., Ltd. on 31 August 2017 and implemented on 1 March 2018;
- Measures for License for Design, Manufacture, Maintenance and Import of Railway Locomotives and Vehicles promulgated by the Ministry of Transport on 3 February 2019 and enforced on 5 March 2019;

DIRECTORS' REPORT

- Rules for the Implementation of License for Design, Manufacture, Maintenance and Import of Railway Locomotives and Vehicles promulgated and enforced by the State Railway Administration on 28 April 2019.

In 2022, the Company also paid close attention to the legislative developments of the industry while operating in compliance with the regulatory requirements under the abovementioned laws, regulations and departmental rules. Throughout the year and up to the date of this report, the Group has complied with relevant laws and regulations that have a significant impact on the business and operations of the Group in material aspects. If there are any changes to applicable laws, rules and regulations, the Group will notify relevant employees and relevant operating units of the same from time to time.

Policy risks

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

Market risks

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

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

The largest supplier of the Company is Zhuzhou Times Electronic Technology Co., Ltd.* (株洲時代電子技術有限公司), the purchase from whom is attributable to approximately 13.88% of the Company's total purchase for this year, and the purchase attributable to our five largest suppliers amounted to approximately 33.95% of our total purchase for this year. Significant changes in the relationship between the Company and its major suppliers may have a material adverse impact on the business of the Company.

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

Operating risks

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

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

ENVIRONMENTAL POLICY

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

BUSINESS MODEL AND DIRECTION OF STRATEGY

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

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

DIRECTORS' REPORT

RESULTS AND DIVIDENDS (RESERVE AVAILABLE FOR DISTRIBUTION)

For results of the Company for the year ended 31 December 2022 prepared in accordance with the China Accounting Standards for Business Enterprises, please refer to the audited financial statements of this report. The annual results for the year ended 31 December 2022 of the Company have been reviewed by the audit and risk management committee of the Company.

As at 31 December 2022, reserve available for distribution of the Group (before distribution of the final dividend) amounted to RMB623.15 million. The Board proposed to distribute final dividend in cash of RMB0.025 per share (applicable tax inclusive) for the current year, totaling RMB38.00 million.

The proposed dividend is subject to approval by the shareholders at the 2022 annual general meeting of the Company to be held in 2023. Upon consideration and approval, final dividend for the year ended 31 December 2022 is expected to be paid on or around 22 August 2023.

PROPERTY, PLANT AND EQUIPMENT

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

SHORT-TERM BORROWINGS

The Group had no short-term borrowings as at 31 December 2022.

LONG-TERM BORROWINGS

The Group had no long-term borrowings as at 31 December 2022.

SHARE CAPITAL

As of 31 December 2022, the share capital of the Company was 1,519,884,000 shares, of which 531,900,000 shares were H Shares.

USE OF PROCEEDS OF THE COMPANY

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

- construction of our "International Technology Cooperation Center" Project: approximately 40% of the net proceeds from the global offering would be used for the construction of our "International Technology Cooperation Center" Project, including acquisition of land, construction of infrastructure and purchase of equipment;
- development of regional business network platform: approximately 10% of the net proceeds from the global offering would be used for upgrading the Company's business network by developing our sales offices into 4S stores that integrate functions of sales, service, spare parts and survey, so as to provide comprehensive customer services and systemic solutions to the Company's large railway track maintenance machine customers;
- general domestic and overseas mergers and acquisitions: approximately 5.46% of the net proceeds from the global offering would be used for general domestic and overseas acquisitions related to the large railway track maintenance machinery industry, and will enable us to strengthen and complement the Company's core value chain;
- working capital: no more than approximately 44.54% of the net proceeds from the global offering would be used to supplement working capital.

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

DIRECTORS' REPORT

The following table sets forth the actual use of proceeds of the Company as at 31 December 2022:

Planned use	Budgeted usage amount (RMB)	Amount unutilized as at the beginning of the period (RMB)	Amount utilized during the reporting period (RMB)	Amount unutilized as at the end of the period (RMB)
Construction of our "International Technology Cooperation Center" Project	908,026,526.81	39,764,043.39	39,764,043.39	0
Development of regional business network platform	227,006,631.7	149,793,294.58	149,793,294.58	0
General domestic and overseas mergers and acquisitions	123,962,631.67	4,606,432.99	0	4,606,432.99
Working capital	1,011,070,526.84	1,595,256.58	80,571.40	1,514,685.18
Total (excluding interest)	2,270,066,317.02	195,759,027.54	189,637,909.37	6,121,118.17

As at 31 December 2022, the balance of the proceeds from H Shares issuance of the Company was approximately RMB14 million (including interest income). The Company will use the balance of the proceeds at the appropriate time according to future development plans and actual needs. The Company expects that the proceeds will be fully utilized by 31 December 2023. The Company utilized the proceeds in line with the purposes previously disclosed.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

PRE-EMPTIVE RIGHTS

According to the relevant laws of the PRC, the Shareholders have no pre-emptive right to subscribe for shares on a pro rata basis.

MAJOR CUSTOMERS AND SUPPLIERS

The Company's major customers include China State Railway Group Co., Ltd. and its affiliated enterprises, local railway operators and railway construction companies. During the year, the revenue from the sales of goods and provision of services in aggregate attributable to China State Railway Group Co., Ltd. and its affiliated enterprises was approximately 49.02% of the Group's total operating revenue while the revenue from the sales of goods and provision of services in aggregate attributable to our five largest customers was approximately 31.65% of the Group's total revenue. Except for CRCHI, all of the other four customers out of the Group's largest five customers were independent third parties. CRCHI is one of the Group's largest five customers, and is also a connected person of the Company.

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

The largest supplier of the Company is Zhuzhou Times Electronic Technology Co., Ltd.* (株洲時代電子技術有限公司), the purchase from whom is attributable to approximately 13.88% of the Company's total purchase, and the purchase attributable to our five largest suppliers amounted to approximately 33.95% of our cost for the year. Significant changes in the relationship between the Company and our major suppliers may have a material adverse impact on our business.

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

DIRECTORS' REPORT

DIRECTORS AND SUPERVISORS OF THE COMPANY

The Directors and Supervisors of the Company in 2022 and up to the date of this report are as follows:

1. Composition of the Board

The Directors of the Company throughout the year and up to the date of this report are as follows:

Name	Position in the Company	Commencement date of serving as Director of the Company
Liu Feixiang	Executive Director and Chairman of the Board	29 June 2018
Luo Jianli	Executive Director and General Manager	21 October 2022
Tong Pujiang	Executive Director	29 June 2018
Chen Yongxiang	Executive Director	29 June 2018
Zhao Hui	Non-executive Director	29 June 2018
Bai Yunfei	Non-executive Director	21 October 2022
Wu Yuntian	Independent Non-executive Director	21 October 2022
Na Pengjie	Independent Non-executive Director	21 October 2022
Chu Ching	Independent Non-executive Director	21 October 2022
Sha Mingyuan	Non-executive Director	
Sun Linfu	Independent Non-executive Director	29 June 2018 to 21 October 2022
Yu Jiahe	Independent Non-executive Director	
Wong Hin Wing	Independent Non-executive Director	

2. Composition of the Supervisory Committee

The Supervisors of the Company throughout the year and up to the date of this report are as follows:

Name	Position in the Company	Commencement date of serving as Supervisor of the Company
Liang Zhijian	Chairman of the Supervisory Committee and Employee Representative Supervisor	21 October 2022
Zhong Xiangjun	Shareholder Representative Supervisor	23 October 2020
Wang Huaming	Shareholder Representative Supervisor	29 June 2018
Yu Qiuhua	Chairman of the Supervisory Committee and Employee Representative Supervisor	24 May 2018 to 21 October 2022

DIRECTORS' REPORT

BIOGRAPHIES OF DIRECTORS AND SUPERVISORS

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

POSITIONS HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

REMUNERATION OF DIRECTORS AND SUPERVISORS

Details of the remuneration of the Directors and Supervisors of the Company for the year ended 31 December 2022 are set out in Note X(IV) to the consolidated financial statements.

SERVICE CONTRACTS WITH DIRECTORS AND SUPERVISORS

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

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

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

During the year and as at 31 December 2022, none of the Directors nor Supervisors had a material interest, whether directly or indirectly, in any contract of significance to the business of the Company to which the Company, its holding company or any of its subsidiaries was a party.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and as at 31 December 2022, none of the Directors, directly or indirectly, had an interest in any business which competes or may compete with the business of the Company and/or its subsidiaries.

DIRECTORS' REPORT

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

During the year and as at 31 December 2022, none of the Directors, Supervisors and the general manager or their respective associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or any interests or short positions required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or any personal, family, corporate or other interests or short positions required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

PERMITTED INDEMNITY PROVISIONS

During the reporting period and as at 31 December 2022, the Company has purchased liabilities insurance for the Directors and Supervisors, which provides appropriate insurance for the Directors and Supervisors.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

EMPLOYEES AND REMUNERATION POLICY

The Company's remuneration policy for its employees takes into account the individuals' post value, work performance and competence. The Company places great emphasis on the provision of on-the-job-training and development of its employees. Each staff member is required to participate in training organized by the Company and its department prior to the commencement of his or her employment. The Company formulates training plans according to its staff position and career development needs and releases its annual training plan at the beginning of year pursuant to which all departments need to organize staff training. The management and other employees are required to undertake training for enhancing work ability as specified by the Company. The Company has established channels for career development of employees. Employees have opportunities of promotion and development according to the orders of different positions within the Company. As at 31 December 2022, the Company had 2,009 full-time employees, and the total amount of remuneration (including salaries and additions) for employees in 2022 was approximately RMB553.38 million.

DIRECTORS' REPORT

Remunerations of Directors are proposed by the remuneration and evaluation committee of the Board, which will be submitted to the Board for consideration and subject to approval by the shareholders of the Company at the general meeting. Remunerations of Directors are determined based on the experience and position held by Directors, the Company's performance, industry benchmark remunerations and market condition. For details of remunerations of Directors, please refer to Note X(IV) in the financial statements. As of 31 December 2022, the Company did not formulate any long-term incentive schemes.

MANAGEMENT CONTRACT

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

SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

Structure of Share Capital

The Company's share capital structure as at 31 December 2022 was as follows:

Shareholder	Class	Number of Shares	% of issued share capital as at 31 December 2022
China Railway Construction Corporation Limited	Domestic shares	968,224,320	63.70%
China Railway Construction Investment Group Co., Ltd.	Domestic shares	4,939,920	0.325%
China Railway Construction International Group Co., Ltd.	Domestic shares	4,939,920	0.325%
China Civil Engineering Construction Corporation	Domestic shares	4,939,920	0.325%
CRCC China-Africa Construction Limited	Domestic shares	4,939,920	0.325%
Shares in public hands	H Shares	531,900,000	35.00%
Total		1,519,884,000	100%

DIRECTORS' REPORT

Interests and Short Positions of Substantial Shareholders Disclosed According to the SFO

To the knowledge of the Directors, as of 31 December 2022, except for the Directors, Supervisors or the chief executive of the Company, the interests and short positions of any person in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of Part XV of the SFO are set out as follows:

Unit: share

Name of substantial Shareholder	Number of shares held ^{Note 1}	Capacity	Approximate percentage of Domestic Share capital	Approximate percentage of H Share capital	Approximate percentage of issued share capital
China Railway Construction Corporation Limited ^{Note 2}	968,224,320 (L)	Beneficial owner	98.00%	–	63.70%
	19,759,690 (L)	Interest of controlled corporation	2.00%	–	1.30%
	987,984,000 (L)	Interest of controlled corporation	100.00%	–	65.00%
China Railway Construction Group Corporation ^{Note 3}					
CSR Zhuzhou Electric Locomotive Research Institute (Hong Kong) Co., Limited ^{Note 4}	44,285,500 (L)	Beneficial owner	–	8.33% (L)	2.91%
	44,285,500 (L)	Interest of controlled corporation	–	8.33% (L)	2.91%
CRRC Zhuzhou Institute Co., Ltd. ^{Note 4}	44,285,500 (L)	Interest of controlled corporation	–	8.33% (L)	2.91%
CRRC Corporation Limited ^{Note 4}	44,285,500 (L)	Interest of controlled corporation	–	8.33% (L)	2.91%
CRRC Group Co., Ltd. ^{Note 4}					

Note 1: L – Long Position, S – Short Position.

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

Note 3: As at 31 December 2022, China Railway Construction Group Corporation directly held approximately 51.13% shares of China Railway Construction Corporation Limited, while China Railway Construction Corporation Limited directly or indirectly held 987,984,000 domestic shares of the Company. Therefore, China Railway Construction Group Corporation was deemed to be interested in these shares.

DIRECTORS' REPORT

Note 4: As at 31 December 2022, CRRC Zhuzhou Institute Co., Ltd. held 100% equity interest in CSR Zhuzhou Electric Locomotive Research Institute (Hong Kong) Co., Limited and was a wholly-owned subsidiary of CRRC Corporation Limited. CRRC Group Co., Ltd. held 50.73% shares of CRRC Corporation Limited. CSR Zhuzhou Electric Locomotive Research Institute (Hong Kong) Co., Limited held 44,285,500 H Shares of the Company. Thus, CRRC Zhuzhou Institute Co., Ltd., CRRC Corporation Limited and CRRC Group Co., Ltd. were deemed to be interested in these shares.

PUBLIC FLOAT

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

CONTINUING CONNECTED TRANSACTIONS

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

Non-exempt continuing connected transactions

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

The Machinery Equipment and Accessories Sales Framework Agreement with CRCC

The Company entered into the Machinery Equipment and Accessories Sales Framework Agreement with CRCC on 26 April 2019, pursuant to which, the Company agreed to provide the following to CRCC and/or its associates:

- (i) to sell various kinds of large railway track maintenance machines;
- (ii) to sell machinery and track equipment, equipment and materials;
- (iii) to provide other related or ancillary products and services.

The term of the agreement commenced from 1 January 2020 and will end on 31 December 2022, subject to early termination by either party giving at least three months' prior written notice to the other party. For details, please refer to the circular of the Company dated 13 June 2019.

DIRECTORS' REPORT

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

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

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

As of 31 December 2022, CRCC directly and indirectly held approximately 65% issued share capital of the Company and was the controlling Shareholder of the Company. Therefore, CRCC and its associates constituted connected persons of the Company, transactions under the Machinery Equipment and Accessories Sales Framework Agreement constituted continuing connected transactions of the Company.

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

The Company convened its 2022 first extraordinary general meeting on 21 October 2022, on which it considered and approved the resolution in relation to the Machinery Equipment and Accessories Sales Framework Agreement and the annual caps thereunder, agreed on the renewal of the Machinery Equipment and Accessories Sales Framework Agreement and set out the annual caps for the continuing connected transactions under the agreement to RMB1,100 million, RMB1,100 million and RMB1,100 million for the years of 2023, 2024 and 2025, respectively. For details, please refer to the circular of the Company dated 5 October 2022.

For the year ended 31 December 2022, the amount of products and services provided by the Group to CRCC and/or its associates under the Machinery Equipment and Accessories Sales Framework Agreement was RMB481.80 million, not exceeding the annual cap of RMB1,100 million for the year of 2022 as approved by the general meeting.

Financial Services Framework Agreement with CRCC Finance Company Limited

On 21 December 2021, the Company renewed the financial services framework agreement (the “**Financial Services Framework Agreement**”) with CRCC Finance Company Limited (a subsidiary of CRCC), pursuant to which, CRCC Finance Company Limited would provide deposit services to the Group till 31 December 2022. For details, please refer to the announcement and notice of the Company dated 21 December 2021.

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

Pursuant to the Financial Services Framework Agreement, CRCC Finance Company Limited shall accept deposits from the Group at interest rates not lower, and thus no less favorable to the Group, than the rates offered by commercial banks for deposits of the same category.

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

As of 31 December 2022, CRCC Finance Company Limited was a connected person of the Company by virtue of being a subsidiary of CRCC. Therefore, the transactions contemplated under the Financial Services Framework Agreement constituted continuing connected transactions of the Company.

The Company convened the 22nd meeting of the second session of the Board on 21 December 2021, on which it considered and approved the resolutions on the continuing connected transactions in relation to the Financial Services Framework Agreement, agreed on the renewal of the Financial Services Framework Agreement between the Company and CRCC Finance Company Limited and the maximum daily balance of deposits (including accrued interest) under the agreement to be placed by the Group with CRCC Finance Company Limited for the year of 2022 to be RMB36 million. For details, please refer to the announcement of the Company dated 21 December 2021.

The Company convened the 28th meeting of the second session of the Board on 29 July 2022, on which it considered and approved the resolutions on the continuing connected transactions in relation to the Financial Services Framework Agreement, agreed on the renewal of the Financial Services Framework Agreement between the Company and CRCC Finance Company Limited and the maximum daily balance of deposits (including accrued interest) under the agreement to be placed by the Group with CRCC Finance Company Limited for the three years of 2023, 2024 and 2025 to be RMB220 million. The aforesaid resolutions were not approved upon consideration at the Company's 2022 first extraordinary general meeting held on 21 October 2022.

DIRECTORS' REPORT

The Company convened the 2nd meeting of the third session of the Board on 30 November 2022, on which it considered and approved the resolutions on the continuing connected transactions in relation to the Financial Services Framework Agreement, agreed on the renewal of the Financial Services Framework Agreement between the Company and CRCC Finance Company Limited and the maximum daily balance of deposits (including accrued interest) under the agreement to be placed by the Group with CRCC Finance Company Limited for the three years of 2023, 2024 and 2025 to be RMB30 million.

During the year ended 31 December 2022, the maximum daily balance of deposits (including accrued interest) placed by the Group with CRCC Finance Company Limited under the Financial Services Framework Agreement was RMB29.51 million, not exceeding the annual cap of RMB36 million as approved by the Board.

Product Sales and Paid Services Framework Agreement with CRCC

The Company entered into the Product Sales and Paid Services Framework Agreement dated 31 July 2020 with CRCC, pursuant to which, CRCC and/or its associates shall provide products and services to the Company and/or its subsidiaries, including:

- (i) materials required by the Company and/or its subsidiaries in their productions and sales;
- (ii) construction services;
- (iii) property leasing services;
- (iv) railway line usage services;
- (v) maintenance services;
- (vi) other paid services.

The term of the agreement commenced on 1 January 2021 and will end on 31 December 2023, subject to early termination by either party giving at least three months' prior written notice to the other party. For details of this agreement, please refer to the circular of the Company dated 9 September 2020.

DIRECTORS' REPORT

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

- (i) Where there are market prices for the relevant products and services, the prices shall be determined with reference to the prevailing market prices, which are the prices charged by CRCC and/or its associates for providing the same type of products and services to an independent third-party customer on normal commercial terms. In determining the prevailing market prices for the relevant products and services, the Company will make reference to the quotations offered by at least two independent third party suppliers for providing the same or similar products or services. The Company will also take into account the following factors to ensure that the prices offered by CRCC and/or its associates will be no less favorable than those available to the Company from the independent third party suppliers for purchasing the same type of products or services, including the costs of the relevant products or services, quality requirements, market conditions and time arrangement.
- (ii) Where there are no market prices for the relevant products and services that are aimed at meeting the Company's specific business requirements, the prices shall be determined according to the agreed prices between the parties. The agreed prices will be calculated based on the actual costs incurred in providing such products and services, which include the costs of raw materials, accessories, depreciation, salary, energy, required technology and equipment maintenance, plus reasonable profits. CRCC and/or its associates will charge a mark-up rate, taking into consideration of the specific types of products and services, for the transactions on a cost-plus basis. Such mark-up rate charged to the Company is generally not higher than 15% for all transactions under the Product Sales and Paid Services Framework Agreement, which is the same mark-up rate charged to an independent third-party customer.

As at 31 December 2022, CRCC was the controlling Shareholder of the Company which directly and indirectly held approximately 65% of the issued share capital of the Company, and thus CRCC and its associates constituted connected persons of the Company. Therefore, the transactions under the Product Sales and Paid Services Framework Agreement constituted continuing connected transactions of the Company.

The Company convened the twelfth meeting of the second session of the Board on 31 July 2020, on which it considered and approved the resolutions on the continuing connected transactions, agreed on the renewal of the Products and Services Procurement Framework Agreement between the Company and CRCC and the maximum annual transaction amounts of the Group under the Products and Services Procurement Framework Agreement for each of the three years of 2021, 2022 and 2023 to be RMB350 million. The aforesaid resolutions were approved after consideration on the second extraordinary general meeting of 2020 held by the Company on 23 October 2020. For details, please refer to the circular of the Company dated 9 September 2020.

As at 31 December 2022, the amount paid by CRCC and/or its associates to the Company in respect of the products and services under the Product Sales and Paid Services Framework Agreement was RMB129.86 million, not exceeding the annual cap of RMB350 million for the year of 2022 as approved by the Board.

DIRECTORS' REPORT

ANNUAL REVIEW FOR CONTINUING CONNECTED TRANSACTIONS

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

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms or better or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Company than terms available to or from (as appropriate) independent third parties;
- (3) in accordance with the terms of relevant agreements governing the transactions whose terms are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

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

- (1) nothing has come to the auditor's attention that causes the auditor of the Company to believe that the disclosed continuing connected transactions have not been approved by the Board;
- (2) nothing has come to the auditor's attention that causes the auditor of the Company to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;
- (3) nothing has come to the auditor's attention that causes the auditor of the Company to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (4) nothing has come to the auditor's attention that causes the auditor of the Company to believe that the disclosed continuing connected transactions have exceeded the annual caps set by the Company.

RELATED PARTY TRANSACTIONS

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

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

NON-COMPETITION AGREEMENT

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

During the year ended 31 December 2022, the Company's independent non-executive Directors reviewed the compliance with the Non-Competition Agreement as well as relevant information provided by CRCC and China Railway Construction Group Co., Ltd.. In the opinions of the independent non-executive Directors, CRCC and China Railway Construction Group Co., Ltd. complied with the relevant provisions under the Non-Competition Agreement in 2022; their respective operations were independent of the Group's business, without any mutual competition conduct with the Group. The Board was able to independently operate and manage the Company's business well on the premise of the overall interests of the Company and the Shareholders.

EVENTS AFTER THE BALANCE SHEET DATE

As disclosed in note XII to the financial statements, on 24 March 2023, the Board proposed the payment of a final dividend of RMB0.025 per share (tax inclusive) for the year ended 31 December 2022. The proposed final dividend is subject to approval by the shareholders of the Company at the forthcoming annual general meeting of the Company.

DIRECTORS' REPORT

TAXATION

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

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

DIRECTORS' REPORT

AUDITORS

The financial statements for the current year have been audited by BDO China SHU LUN PAN Certified Public Accountants LLP.

At the 19th meeting of the second session of the Board held on 6 May 2021, the Resolution on Preparing Financial Statements and Disclosing Corresponding Financial Report only Subject to the China Accounting Standards for Business Enterprises and the Resolution on 2020 Auditing Fee Payment and Appointing Auditing Firm of the Company for 2021 were considered and approved, pursuant to which, the Company was approved to align in preparation of financial statements and disclosure of corresponding financial report in accordance with the China Accounting Standards for Business Enterprises.

At the 2021 annual general meeting held on 30 June 2022, the Resolution on 2021 Auditing Fee Payment and Appointing Auditing Firm of the Company for 2022 was considered and approved, pursuant to which, the Company was approved not to reappoint Deloitte Touche Tohmatsu Certified Public Accountants LLP as the auditors of the Company for 2022 under China Accounting Standards for Business Enterprises, and to appoint BDO China SHU LUN PAN Certified Public Accountants LLP as the auditors of the Company for 2022 under China Accounting Standards for Business Enterprises to audit the Company's 2022 annual financial statements.

By order of the Board of Directors

Liu Feixiang

Chairman

Kunming, Yunnan, the PRC

24 March 2023

SUPERVISORY COMMITTEE'S REPORT

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

I. DETAILS OF MEETINGS OF THE SUPERVISORY COMMITTEE

During the year, the Company held 4 Supervisory Committee meetings. The notices, convening, holding and passing of resolutions of the meetings were in compliance with the requirements of the relevant laws and regulations and the Articles. Details of the relevant meetings are as follows:

Session of meeting	Date	Matters considered
The 11th meeting of the second session of the Supervisory Committee	30 March 2022	<ol style="list-style-type: none">1. Resolution on the Company's 2021 Annual Report and Results Announcement;2. Resolution on the Company's 2021 Supervisory Committee Work Report;3. Resolution on the Company's Final Financial Report for 2021;4. Resolution on the Company's Profit Distribution Plan for 2021;5. Resolution on the Company's 2021 Report of Internal Risk Control.
The 12th meeting of the second session of the Supervisory Committee	29 July 2022	Resolution on Nomination of Shareholder Representative Supervisors for the Third Session of the Supervisory Committee
The 13th meeting of the second session of the Supervisory Committee	26 August 2022	Resolution on the Company's 2022 Interim Results Announcement and Interim Report
The first meeting of the third session of the Supervisory Committee	21 October 2022	Resolution on Election of the Chairman of the Third Session of the Supervisory Committee

SUPERVISORY COMMITTEE'S REPORT

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

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

The year of 2022 marked a crucial year for the implementation of the 14th Five-Year Plan, and also for the comprehensive promotion of the new development pattern. The Company adhered to the guiding role of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, fully implemented the spirit of the 20th CPC Party Congress, persisted in innovation, reform empowerment, and quality and efficiency improvement, earnestly promoted reform and innovation-driven development, and achieved breakthroughs in business performance. The Supervisory Committee is satisfied with the Company's accomplishments.

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

1. Compliance operation of the Company

In 2022, in accordance with relevant laws and regulations of the PRC and under the authority conferred by the Articles, the Supervisory Committee reviewed the procedures adopted in the convening, passing of resolutions, decision-making procedures, results of voting of the Company's general meetings and the Board meetings, implementation of resolutions of general meetings and Board meetings by the Board, the performance of duties of senior management and the management system of the Company.

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

SUPERVISORY COMMITTEE'S REPORT

2. Financial reports gave a true and accurate view

The Supervisory Committee seriously and thoroughly reviewed the Group's financial system and financial position, and considered that the Group's 2022 financial report gave a true, accurate and fair view of the financial position and operation performance of the Group, and that the audit opinion issued and the evaluation of the relevant matters by BDO China SHU LUN PAN Certified Public Accountants LLP were also true and fair.

3. Implementation of resolutions of the general meetings

During the year, members of the Supervisory Committee attended 9 Board meetings and 2 general meetings, had no objection to various reports and resolutions submitted by the Board for consideration at the general meetings, and are of the view that the Board of Directors seriously carried out the resolutions approved at the general meetings.

4. Connected transactions

The Supervisory Committee considers that the connected transactions between the Group and CRCC during the year were entered into in the ordinary and usual course of our business. The transactions were on the principles of openness, fairness and justness and were entered into in the interests of the Group and the shareholders as a whole. After its review, the Supervisory Committee considers that the Group's procedures of connected transactions in 2022 were in compliance with the relevant laws and regulations of the PRC and the Listing Rules and is not aware of any impairment to the interest of the Company and its Shareholders by means of connected transactions.

SUPERVISORY COMMITTEE'S REPORT

5. Implementation of Non-Competition Agreement

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

In 2023, the Supervisory Committee will continue to fulfill its supervisory duties faithfully and diligently in strict compliance with the Company Law, the Articles and relevant provisions, and strive to fulfill its work with an aim to protect the interests of the Company and its Shareholders.

Liang Zhijian

Chairman of the Supervisory Committee

Kunming, Yunnan, the PRC

24 March 2023

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We are pleased to present this Environmental, Social and Governance (ESG) Report, which demonstrates the updates on sustainable development of the Company and its subsidiaries from 1 January 2022 to 31 December 2022 (the “**reporting period**”). In order to determine the ESG reporting scopes, the key management personnel has discussed internally and identified the environmental, social and operating items, and assessed their importance to the shareholders and the Company. This section has been prepared based on the ESG Reporting Guide issued by the Hong Kong Stock Exchange, with a purpose of reporting on employment and labor practice, operating practice, community and environment and so on.

This report covers the Company and its controlling subsidiaries, and does not cover its investee companies and overseas companies.

REPORTING PRINCIPLE

Materiality: The content disclosed in this ESG report is sufficient to represent material issues related to the environmental and social factors of the Company and assist our investors or shareholders in understanding the performance of the Company.

Quantitative: Key performance indicators for environmental aspects are explained and evaluated in a measurable method which can showcase the effectiveness of ESG policies and management systems.

Balance: The Company ensures that the information is presented in an unbiased manner which can reflect a comprehensive picture of the Company’s sustainability performance and avoid inappropriate influence on report readers.

Consistency: Consistent methodologies were used to conduct meaningful comparisons of relevant ESG data.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

PART I CORPORATE SOCIAL RESPONSIBILITY GOVERNANCE

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

The Company has set up a comprehensive management system, including four levels of management system, namely ISO9001 quality management system, GB/T24001-2016 environmental management system, GB/T45001-2020 occupational health and safety management system and ISO/TS 22163 (i.e. IRIS) operating management system. Through the comprehensive management system and providing trainings to employees, the various internal business units within the Company are guided to integrate corporate social responsibility into their operations and activities.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

PART II EMPLOYMENT AND LABOR PRACTICE

I. Our Staff

1. Overview of staff

As at 31 December 2022, the Company had a total of 2,009 employees, representing a decrease of 1.5% as compared to the year of 2021.

Indicator	Number of employees in 2022	Number of employees in 2021	Turnover rate
By gender			
Male	1,654	1,671	3.23%
Female	355	369	2.44%
By employment type			
Middle and senior management	102	109	–
Production and relevant staff	871	900	–
Technical staff	1,036	1,031	–
By age group			
≤30	330	377	9.02%
30 to 50	1,451	1,445	2.01%
≥50	228	218	0.00%
By education background			
Doctor	3	2	–
Master	230	218	–
Bachelor	867	848	–
Junior college and below	909	972	–
By geographic region			
China	2,009	2,040	1.52%
Fulltime or part-time			
Fulltime	2,009	2,040	
Part-time	0	0	

Note: Turnover rate = number of resigned employees/number of employees as at the beginning of 2022 of a given category.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2. *Staff recruitment*

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

During the reporting period, the Company recruited talents through following ways:

- (i) Internal recruitment: select suitable employees from the human resources reserve of the Company through internal promotion, job designation, job rotation, orientation training, etc., to engage in vacant or urgently needed jobs.
- (ii) External recruitment: absorb high-caliber management talent, professional and technical talent and craftsmen required for the business through recruitment from campus and society, mass media, recruitment by headhunters, introduction of high-caliber talents, etc.

3. *Remuneration and benefits*

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

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

II. Employee Occupational Health and Safety

1. Occupational health and safety management system

In light of the business characteristics of the Company, the occupational health and safety of employees is considered to be an important social responsibility. The Company passed the GB/T28001-2011 certification of Occupational Health and Safety Management System in 2013 and has been improving and perfecting the system. The Company updated the system in accordance with the new standard of ISO45001-2018 Occupational Health and Safety Management System and passed the audit of external certification authority in 2019, obtaining the Occupational Health and Safety Management System Certificate for GB/T45001-2020 Standard in 2020. The Company has developed a number of occupational health and safety management regulations which passed domestic certification and complied with international standards, implemented manuals and internal policies on safety control processes and standards, and required all employees to comply with relevant regulations.



Occupational Health and Safety Management System Certificate for GB/T45001-2020

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2. *Safety production management*

To protect the occupational health and safety of employees, the Company strictly complies with the policies, laws, administrative regulations, local regulations, rules and standards relating to safety production and occupational health which safeguard safety production and employee health, such as the Opinions of the Central Committee of CPC and the State Council on Promoting the Reform and Development in the Field of Safety Production, the Circular of the State Council on Further Strengthening Enterprise Safety Production, the Production Safety Law of the PRC and the Law on Prevention and Control of Occupational Disease of the PRC and adheres to the principal of “joint responsibility between party and government, one position bearing two kinds of responsibility, and joint control and management among various departments”. The Company has established a production safety (including occupational health) responsibility system, specifying the safety production and occupational health responsibility of all levels and all posts. The leading and management groups of safety production (including occupational health) were set up with full-time safety production and occupational health management personnel. The Company has also developed 17 program documents, 32 safety management regulations, 6 comprehensive special emergency plans, 22 on-site disposal plans, 26 work instructions and 150 work safety regulations such as the Management Regulations on Safety Production Education and Training, Regulations on the Administration of Labor Protective Equipment, the Procedures for Controlling Information Exchange and Communication, the Procedures for Monitoring and Controlling the Performance of Environmental and Occupational Health and Safety, and the Approval Process for the Demand Plans for Labor Protective Equipment. The Company guarantees to devote resources to safety production (including occupational health) in strict compliance with applicable laws and regulations and the Company’s systems and rules, and provides employees with labor protective equipment that meets national standards and the actual requirements of their posts in sufficient quantities on time. Our employees were also urged to wear the labor protective equipment correctly, to prevent safety accidents and occupational disease hazards from happening effectively.

In 2022, safety production expense of the Company amounted to RMB7,260,000, including occupational health expense of RMB3,570,675, of which RMB131,675 was incurred for employee physical examination; occupational hazards inspection and evaluation expense of RMB279,000; and labor protection articles expenses of RMB3,160,000, aiming to provide necessary protective equipment and medical security in all its business or business which may cause harm to employees. The Company has also established a safety education and training system, and conducted regular safety reviews, making sure that all employees are aware of hazards and conducts prevention and treatment. We also supported the development of occupational health and safety in the industry.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company achieved the following key safety indicators in 2022: 1. the Company recorded zero case of work-related casualties in 2020. In each of 2021 and 2022, the Company recorded one case of work-related casualty, accounting for 0.05% of total employees as at the end of 2022; 2. there was no hazardous event such as fire disaster, explosion and special equipment accident; 3. all new employees received three-level safety education, all special operation staff held qualification certificates and all potential safety hazards were rectified; 4. no applicable laws or regulations relating to safe work environment and the avoidance of occupational hazards were violated.

During the reporting period, the Company lost 293 working days due to work-related injuries.

3. Occupational health and safety assessment

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Dedicated to the “people-oriented” principle, the Company leveraged onsite occupational hazards inspection and evaluation to effectively control the harm of noise, dust, hazardous gases and toxic substances to employees. In 2022, the Company entrusted Yunnan Chemical Industry Research Institute Co., Ltd. to conduct three tests on the Company’s highly toxic substances which constitute occupational hazards, including 1,262 test items of seven categories. Occupational hazards are tested once on an annual basis regarding 1,091 test items of 20 categories, and the qualification rate of all the tests exceeded 80%. Besides, the Company entrusted the Second Affiliated Hospital of Yunnan College of Traditional Chinese Medicine to conduct physical examination for employees of the Company exposed to occupational hazards, including 368 during employment, 55 before employment and 25 upon termination of employment, and 13 of them received reexamination. Employees are provided with physical examination results, and urged to rectify issues found in the reexamination. The Company did not record any case of occupational disease in 2022.

III. Care for Staff

1. *Development and training*

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

Employee training is the Company’s primary means for human resource development. In this regard, the Company collects the training requirements for its subordinate units and its employees every year and proposes and implements training plans accordingly. The categories of training plans include qualification training and adaptive training while the programs include enterprise management, marketing, overseas services, professional technique, skill enhancement, safety production, quality management, knowledge, property management, internal trainer development, curriculum development, mentoring, failure cases, key job skills and other aspects. The Company was recognized as the “Training Base for Skillful Talents in Kunming”, “Kunming Cross-border Talent Exchange and Training Base” and “High-tech Equipment Industry College”. As of 31 December 2022, the Company completed 143 internal and external training programs with 4,789 trainees, 69,312 hours in total and employee training expenses of RMB1.87 million.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Information on trainings provided to employees

	Category total	Employees trained	Employees trained as a percentage of total employees	Average training hours per employee
By gender				
Male	1,721	1,589	92.3%	46.2
Female	354	311	87.8	46.2
By employee type				
Senior management	14	14	100%	47.6
Middle-level management	88	88	100%	42.1
General staff	2,075	1,900	91.5%	46.2

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

During the reporting period, the employees training activities organized by the Company included but not limited to:

- (i) Orientation and three-level safety education and training for new employees
- (ii) Core curriculum development project
- (iii) Mentoring program
- (iv) New enterprise mentorship program
- (v) Skill enhancement operation and technical competition
- (vi) Construction of large machinery + online service platform
- (vii) Large machinery industry fault case competition

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Some of the key projects are as follows:

(1) *Cultivation of core talents*

The Company conducted systematic training for employees who have been recruited to the R&D system and management system, especially for those who have been recruited to such fields in the past three years. The Company introduced learning roadmaps, and carried out a series of activities such as task analysis, learning content analysis, comprehensive learning design, curriculum design and development technology, mentoring technology, guiding technology, performance improvement technology and transformation management, and established the learning roadmaps of each system in stages and developed software and hardware resources according to different professional divisions.

(2) *Skills improvement project*

The Company continued to carry out mentoring activities for new employees in R&D system and production system. It selected and cultivated 12 internal lecturers to develop special courses on safety and quality, conducted special training on “improving safety and quality awareness” for all employees, and launched “Support Campaign” to offer four types of courses, including those offered to senior nutritionists, e-commerce engineers, baristas and tea artists, and 691 employees received relevant trainings.

(3) *Construction of online platform*

The Company launched an online service platform with independent intellectual property rights for employees and industry users in October, which provided the functions of “training station, toolbox and service window”, and simultaneously developed and uploaded more than 100 video-based courses on basic theory, standard operation and troubleshooting, providing technical support for the Company’s operation, R&D and production debugging, and offering guidance for users’ on-site application, maintenance and emergency response. In December, the Company launched the “Large Machine Fault Case Competition” on the online platform, and invited industry experts to give “technical lectures” via live broadcasting.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

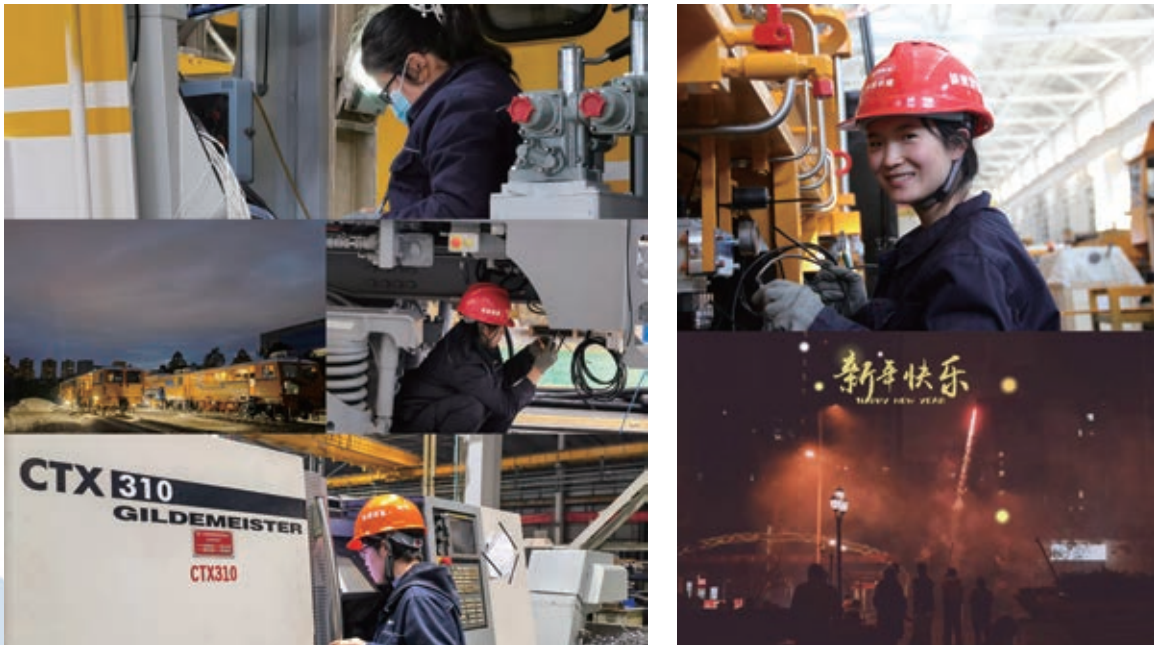
(4) *Integration of production and education*

Making use of the funds allocated by the government and its internal resources, the Company invested in the construction of mechanical and electrical training classrooms, the development of virtual and physical integrated teaching aids, functional display anatomy teaching aids and teaching platforms, trained lecturers and developed training courses to improve the theoretical and practical level of skilled talents. Meanwhile, as a “high-tech equipment” secondary college of Kunming Railway Vocational and Technical College, the Company joined hands with it to carry out the training of students in junior college classes majoring in mechanical engineering.

2. *Colorful leisure activities*

During the reporting period, the leisure activities organized by the Company included but not limited to:

- (i) In February, the Company held the seventh employee photo contest themed “Spending the Chinese New Year Back at my Hometown”, and received 96 photos, of which 18 were granted a prize.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- (ii) In March, female worker unions of the Company independently launched the theme activity of “Celebrating the Women’s Day (8 March) with Self-made Sushi”, the “Embracing Ice and Snow” skating activity, the “Beautiful Blossoms” flower arrangement activity, the physique lessons and knowledge training for protection of female workers’ rights and interests to celebrate the Women’s Day.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- (iii) In July, in memory of the 70th anniversary since Comrade Mao Zedong's epigraph "Promote physical culture and build up the people's health", and to celebrate the successful convening of the 20th CPC National Congress, the Company launched the 2022 staff balloon volleyball competition (mixed sex system), and a total of 96 employees from 12 teams participated.



- (iv) From January to December, the Company conducted the "CRCCE Health Initiative" online walking activity, and simultaneously launched online knowledge contest to popularize the Company's new products, corporate culture, safety knowledge, quality management and other information to employees. More than 1,800 employees accessed the mini program to upload steps and participate in the activity.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

IV. Labor Standards

The Company considers compliance as our minimum responsibility. In 2022, the Company collected and conducted risk assessment on a total of 46 laws and regulations applicable to human resource systems, including national laws, administrative regulations, national and industrial standards and normative requirements. The Company also conducted compliance evaluation, and translated into various rules and regulations and well-defined working procedures in a specific form. During the reporting period, the Company has complied with the relevant laws and regulations in relation to employment and labor practices that have a significant impact on the Company.

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

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

PART III OPERATION PRACTICE

I. Supply Chain Management

1. *Supplier management*

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

2. *Identification of environmental and social risks of suppliers*

In the process of identifying suppliers, the Company maintains stringent audit over the quality management system, environmental management system and occupational health and safety management system of suppliers, and gives priority to suppliers with three-system certification qualifications (within the validity period). In principle, manufacturing enterprises without three-system certification will not be admitted as qualified suppliers of the Company. In case of special industries, suppliers should hold the qualification certificates issued by relevant national departments (such as national industrial product production license, hazardous chemicals production license, business license, special equipment manufacturing license and road transportation license), and such qualification certificates must be true and valid.

In the process of supplier admission and selection, the Company will inspect and verify their credit rating, business nature, business scope, information of Shareholders and capital contributions, information of directors, supervisors and executives, registration information of industrial and commercial changes, registration information of equity pledge, publicity information in annual reports throughout the years, major litigation or dispute, preservation measures taken by the court, administrative punishment and major noncompliance or default, and make judgements over their contract performance risk, so as to obtain the latest updates of partners and conduct dynamic assessment and management over the credit standing and risks of partners.

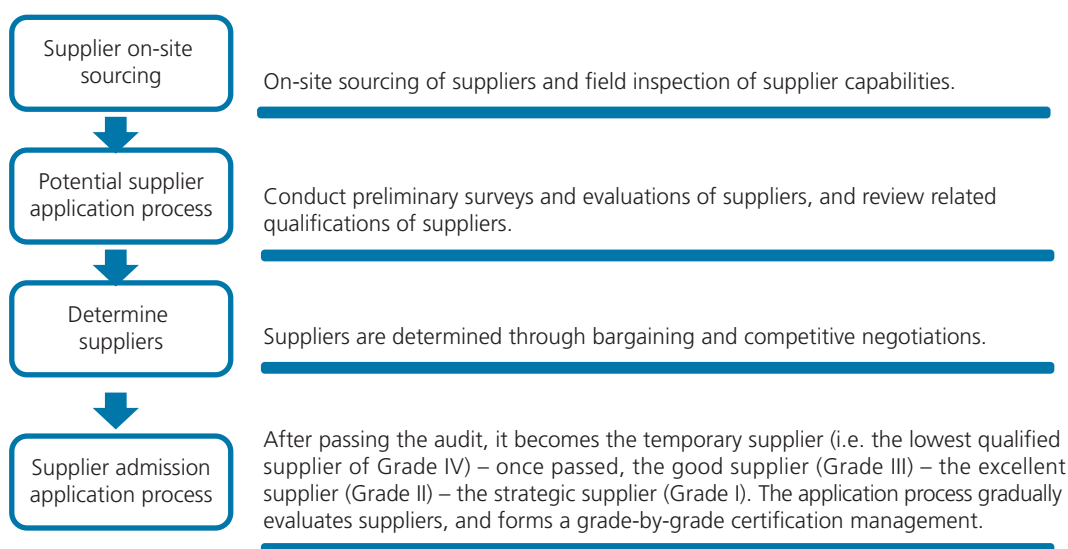
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. Selection of environmentally friendly products and services of suppliers

The Company supports and encourages suppliers to provide environmentally friendly products and services. In the process of entering into contracts with suppliers, the Company requires them to execute safety and environmental protection agreements to guarantee that they provide environmentally friendly products and services.

In the process of supplier evaluation, the Company randomly designates certain suppliers for on-site evaluation each year, and attaches importance to their environmental protection commitment. The Company integrates the sustainable development concept into the supply chain, advocates green procurement and production, and strives to achieve consistency between suppliers and the Company in terms of corporate social responsibility, so as to improve the overall performance of the industry. The Company will terminate cooperation with suppliers who violate the environmental or social policies of the Company or the contractual requirements until they make improvements.

4. Supplier selection and engagement



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company implements the above selection process for all suppliers and conducts performance evaluation every year, and it also conducts semi-annual or irregular evaluations according to the situation. In order to form a positive cycle, the admission and exit channels of suppliers are established based on the results of performance evaluation. This improves the quality of the Company's qualified suppliers and guarantees that the materials, projects and services purchased by the Company meet the requirements of quality, technology, service, delivery, cost, environment and occupational health. We gradually improve the self-management capability of our suppliers through establishing specific systems, thus promoting mutual development.

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

Potential suppliers:	507
Temporary suppliers:	901
Grade III good suppliers:	377
Grade II excellent suppliers:	48
Grade I strategic supplier:	1

Based on the locations of suppliers, the breakdown of existing suppliers by region is as follows:

Eastern China:	over 193 (including Shandong, Jiangsu, Anhui, Zhejiang, Fujian, Shanghai);
Southern China:	over 40 (including Guangdong, Guangxi, Hainan);
Central China:	over 170 (including Jiangxi, Hunan, Hubei, Henan);
Northern China:	over 380 (including Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia);
Northwest China:	16 (including Ningxia, Xinjiang, Qinghai, Shaanxi, Gansu);
Southwest China:	over 450 (including Sichuan, Yunnan, Guizhou, Tibet, Chongqing);
Northeast China:	over 8 (including Liaoning, Jilin, Heilongjiang);
Hong Kong, Macau, Taiwan, Europe and America:	over 30 (including Taiwan, Hong Kong, Macau, Europe and America).

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

II. Product Liability

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

1. Quality certification

The Company attaches great importance to the standardization and systematization of quality management, and conducts continuous improvement and operation. In 1998, the Company introduced and continued to implement ISO9001 quality management standards, established a quality management system covering the whole process of production, business operation and management development of its product portfolios and accessories, and promoted constant and effective operation. In 2012, the Company introduced the EN15085-2 international welding quality standard, ISO/IEC 17025 and CNAS – CL01 laboratory accreditation standard, and extended to the whole quality control process of the Company's welding and quality testing, so as to improve the process capability and product quality. In 2020, the Company established and operated a quality assurance system covering the Company's small track maintenance machinery products according to the requirements of railway CRCC-14W-003, 005 and CRCC-00W-001 standards, standardized and improved the quality control of industry-certified products to ensure product quality. In October 2020, the Company launched and implemented ISO/TS 22163 (formerly known as IRIS) management system standard for railway and rail transit industry, so as to further improve the quality assurance level of the Company's railway and rail transit maintenance machinery products, ensure market access and competition of products, and enhance the comprehensive competitiveness, build the standardized management and control platform, align the Company's quality management with international and domestic standards, and continuously improve the quality management level and guarantee the product quality.

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In order to fully ensure and verify the Company's capacity to constantly provide products and services that meet the needs of the market and users, the Company strictly complies with the national system certification and supervision requirements, and regularly receives the examination of qualification accreditation authorities each year. It obtained and maintained professional system certificates, thereby providing strong support and guarantee for the Company's product admission and participation in domestic and international market competition, enhancing the comprehensive competitiveness and promoting the healthy and sustainable development of the Company.



ISO 9001 Quality Management System Certificate

CRCC Product Certificate:



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2. Quality assurance

The Company insists on the quality principle of “seeking increasing perfection to make the best machinery; striving for excellence to build a first-class brand”. The Company upheld implementing “integrated” quality control systems such as ISO/TS 22163 (IRIS) railway and rail transit industry management system, ISO9001 quality system, CRCC product certification system, EN15085 welding system and CNAS laboratory certification system. Innovation was made on quality management mode based on the actual conditions of the Company, and was promoted and implemented. The Company has established a quality management system integrating group management and control and developed over 100 documents relating to management and control system, such as management and control manual, process management standards and relevant quality management system. The Company also improved and perfected the quality management department, established a management mechanism for quality targets, organized the signing of quality assurance and responsibility letters, and assigned the targets level by level and then conducted performance appraisal on each level. The Company carried out standardized management of the processes involving the Company’s products which include marketing, material and component purchase, production organisation and control, quality testing and acceptance, complete machine acceptance, product delivery and service in strict compliance with the requirements of the system, and conducted quality control during the whole processes, making sure that the products manufactured by the Company can meet quality requirements and the requirements of users. The Company has established a quality safety risk management system based on the standard of Guidelines on Comprehensive Risk Management of Enterprises Controlled by Central Government and developed an operation and management mechanism for quality safety risks covering the processes such as product design, supply chain management, manufacturing, after-sales services, quality monitoring and assessment. The control of quality risk point in respect of key working procedures, special processes and the “eight prevention” of products (e.g. the prevention of crack, the prevention of separation, the prevention of burning/hot bearing, the prevention of breakage, the prevention of explosion, the prevention of fire, the prevention of split and the prevention of runaway train) were strengthened. Guidance on operation process was followed strictly, and innovative mode for spot check and control was required for critical quality monitoring. The Company improved exception reporting of process quality and the emergency management mechanism of railway traffic accidents and comprehensively promoted quality safety risk management and control, ensuring the quality safety of complete machines and the safety of railway transportation, as well as the consistent fulfilment of its mission of “providing solid support to railway”.



ISO/TS 22163 Management System Certificate

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In order to ensure the control over unqualified products, the Company has formulated the Control Procedure for Unqualified Products to control the entire process of identification, review, recall and disposal of unqualified products, so as to prevent unexpected use and delivery, and ensure the quality inspection of production raw and auxiliary materials, purchased materials (including purchased and outsourced parts), self-made parts, various finished products, semi-finished products and final products, as well as control over the unqualified products identified by users after delivery.

During the reporting period, the Company did not identify any cases of sold or shipped products subject to recall for safety and health reasons.

3. Management method

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

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

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4. *Service system*

Under the service concept of “leaving no regret to customers”, the Company strengthens user training and after-sales service, provides customers with product use training and perfect after-sales services, and enhances customer satisfaction. The Company established a user training management system, and set up a training center for large railway track maintenance machinery. The Company organizes user training according to product services and customer needs, and provides complete machine product operation, use, maintenance management and other business training for all railway system users, ensuring the operation safety and construction effect of large railway track maintenance machinery and equipment. Adhering to the principle of “responding quickly and taking immediate action”, the Company formed professional teams for after-sales services and arranged full-time service personnel, established an efficient and high-quality service mechanism, united personnel of research and development, production and process technicians to jointly provide customers with a full range of services such as completion acceptance, services within and out of warranty period, technical guidance, etc. The Company implemented full life cycle management of the ex-factory complete machinery products, fulfilling the service needs of the customers. The Company has a sound customer complaint handling mechanism in place, to act as a smooth user information communication and feedback channel and to receive user information in a timely manner with active response and handling. The Company conducts unscheduled user visits and exchanges and regular customer satisfaction surveys, investigating on the Company’s overall service, product supply, training services and after-sales services, product performance, product quality, supply of important parts and other services, in order to capture the customer needs in time, collect user opinions or suggestions extensively and handle the issues. The Company keeps improving the product quality and services, maintains a good quality reputation of the Company and enhances customer satisfaction.

In order to improve the customer complaint acceptance and handling mechanism, the Company has established a customer complaint channel covering complaint lodging, acceptance, classification, handling, follow-up and settlement, to clear up the communication and feedback channels for users, and accept user information in a timely manner and provide positive response and handling. The Company organizes occasional user visits and exchanges and regular customer satisfaction surveys to investigate the Company’s overall service, product supply, training service and after-sales service, product performance, product quality, supply of crucial components and other services, timely cater for customer demand, extensively collect and handle user opinions or suggestions, continuously improve the Company’s product quality and service, maintain its sound quality reputation and enhance customer satisfaction. The Company has established the control procedure over customer property (including customer property, intellectual property rights, personal data, etc.) to strictly control the whole process covering identification, verification, use and disposal of customer property, so as to ensure the effective control of the customer property used by the Company.

During the reporting period, the Company did not record any customer complaint.

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5. *Protection and safeguarding of intellectual property rights*

The Company attaches great importance to the protection and maintenance of intellectual property rights. It has formulated the Measures for the Administration of Intellectual Property Rights, set up a flexible group for intellectual property rights, and adopted the following measures: Firstly, it conducts thorough collection of scientific and technological information and cutting-edge technologies, regularly monitors the patent dynamics of competitors, develops analysis reports, conducts risk analysis on risky patents and R&D personnel, and puts forward plans for prevention. Secondly, it strengthens special assignment in early warning, layout and protection of intellectual property rights. Thirdly, it conducts search and analysis of intellectual property rights throughout the whole process of R&D projects (including project initiation, R&D and after-sales stages), gains insight into existing technologies in advance, evades infringement in product design, and prepares dispute response measures in advance. Fourthly, it carries out patent exploration and layout in the R&D stage of key products, and applies for patent protection for innovative technologies in time. Fifthly, it holds special trainings on intellectual property rights in a systemic and hierarchical manner each year to improve the intellectual property protection for independently developed products. Sixthly, it investigates into the laws and policies of intellectual property rights in the overseas market where products are sold, searches for the intellectual property rights of related products, and conducts early warning analysis to establish the intellectual property rights layout and protection in the overseas market. Seventhly, relevant departments launch cooperation in terms of production, office equipment and software to timely monitor and prevent infringement.

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PART IV ANTI-CORRUPTION

I. Implementing Supervision Responsibility

In 2022, the Discipline Inspection Committee of the Company upheld the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, adhered to the Party's political construction, focused on the primary responsibilities of supervision and discipline accountability, leveraged the functions of supervision, guarantee and implementation, as well as improvement and development, and continued to optimize its capabilities and working style through sound party style, thus laying a solid discipline guarantee for the Company's high-quality development.

Firstly, the Company implemented the annual work log method of "one post with dual responsibilities" for the management members, who not only fulfilled their required responsibilities, but also strengthened the educational supervision function in scientifically tackling the safety, risk control, key tasks, integrity and accountability of their responsible departments.

Secondly, the Company organized all management at middle level or above to make annual income declaration, report on accountability and integrity, and sign an annual commitment letter on integrity.

Thirdly, the Company clearly defined the list of responsibilities for building a clean and honest party style in the responsibility letter signed by the party committee of the Company and its affiliated party organizations, which not only helped the affiliated party organizations to better complete the construction of a clean and honest party style according to the list, but also greatly improved the efficiency of building a clean and honest party style and anti-corruption of the Company.

Fourthly, the Company regularly carried out reminder and supervision. It paid close attention to important holidays, and launched education reminders, supervision and inspection for party members in terms of integrity, pandemic prevention and control, the spirit of the eight regulations issued by the CPC Central Committee, and the implementation of the duty system. It also forwarded the "Anti-corruption Learning Guide" of the Group on a monthly basis, and circulated and lectured the information to employees.

Fifthly, the Company improved the integrity files of newly promoted middle-level management, maintained dynamic control over the integrity of the management at middle level or above, and required them to declare major family events and arrangement for weddings and funerals.

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Sixthly, the Company continued to improve the integrity risk prevention and control system and mechanism. It carried out systematic supervision and inspection of integrity risks and “chain-type” integrity co-construction activities in areas with concentrated power, such as bidding and purchasing, assets and equipment, and logistics management, and evaluated the integrity risk prevention and control of the inspected units from the aspects of the application of the Integrity Risk Prevention and Control Manual and the construction of the party style and integrity, which involved 22 posts and 48 integrity risks.

Seventhly, the Company continued to carry out dynamic special rectification. It launched special rectification for circumstances including “employees running businesses” and “business dealings between the Company and enterprises run by relatives of employees and other specific stakeholders”, “illegal affiliation” and “appropriating public resources for personal benefits” on a quarterly basis, required all employees to declare regarding “employees running businesses” and “business dealings between the Company and enterprises run by relatives of employees and other specific stakeholders”, and organized subordinate units and departments to report the self-check list for “illegal affiliation” each quarter. According to the declaration, the Discipline Inspection Committee of the Company requested and urged the business units to terminate cooperation with four suppliers, so as to avoid the integrity risk in time.

Eighthly, the Company implemented the integrity contract mechanism, and continued to make call-back visits to certain suppliers to learn whether the business departments and personnel of the Company complied with integrity requirements. All suppliers who have business dealings with the Company are required to sign the integrity contract.

Ninthly, the Company strengthened the daily supervision of management business, including personnel promotion, selection of candidates for bidding negotiation and evaluation, supplier admission, and use of funds.

Tenthly, the Company received whistleblowing through the report box and e-mail box of the Discipline Inspection Committee, attached importance to the handling of reports, and strove for effective settlement for each and every report. It strictly implemented the accountability mechanism, and reported wrongdoings throughout the Company to inform everyone and exert pressures.

Eleventhly, the Company paid close attention to the issues of “formalism, bureaucracy, hedonism and extravagance” during holidays. It published the notice on integrity discipline requirements, carried out special supervision and inspection of internal canteens, official reception and sealing of official vehicles during holidays, and reminded management of integrity disciplines before holidays.

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II. The Internal Monitoring System of the Enterprise

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

The disciplinary inspection and supervision agency of the Company includes the Discipline Inspection Committee (5 members), the Discipline Inspection Committee Work Department (3 full-time personnel), three disciplinary committees of subsidiaries, and part-time disciplinary personnel.

According to the requirements of the new situation, the Company revised the Measures for the Administration of Anti-Fraud, the Measures for the Administration of Letters and Whistleblowing, the Measures for Investigating the Responsibility of Management for Dereliction of Duty and other work regulations, publicized the Company's anti-corruption policies and related measures in various ways, advocated a loyal and diligent corporate culture, and assisted employees to correctly handle conflicts of interest and resist the temptation of illegitimate interests. The Company also conducts education and training on state laws, regulations and integrity ethics for all employees each year, requiring them to abide by state laws and regulations, industry standards, professional ethics norms and regulations of the Company.

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

- (i) Organizing a meeting on building a clean and honest party style and anti-corruption campaign, discussing the key work of building a clean and honest party style in 2022, conveying the spirit and work requirements put forward at the meeting of the Central Committee and superior disciplinary committees, and setting goals, priorities and measures for building a clean and honest party style and anti-corruption campaign of the Company. It closely combined the focus and obstacles in the Company's production and operation, focused on prevention of integrity risks, formulated the annual work highlights of party style building and anti-corruption, political inspection and supervision work plan, continued to improve and optimize the supervision system, and strengthened the long-term mechanism of "neither dare, can, nor even think of being corruptible";

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- (ii) Carrying out anti-corruption education month series activities, including visiting the integrity education base, watching education videos, launching integrity special party classes, knowledge contests, and preparing integrity culture publicity and education exhibition boards;
- (iii) Promoting the procedure-based and standardized publicity of integrity education, and developed the integrity education into the annual Key Points of Party Conduct Construction and Anti-corruption, the key control targets of the subordinate party organizations and the party branches; and employing new media approaches, such as OA system, WeChat and SMS to publicize the integrity education;
- (iv) Establishing integrity records for cadres, implementing the dynamic management for the integrity of cadres of the middle-level and higher-level, requiring members of the leadership team and cadres above the middle level to sign a “committee letter on integrity”, sending anti-corruption notices via WeChat to management (of middle level and above) before important festivals and holidays;
- (v) Focusing on the supervision and discipline innovation, establishing integrity contracts to prevent the violations of disciplines and laws, requiring agents and suppliers of all businesses to sign integrity contract with the Company, and terminating cooperation with those breaching regulations and disciplines immediately; and
- (vi) Receiving whistleblowing letters, attaching importance to handling reports, and striving for effective settlement for each report; strictly implementing the accountability mechanism, and reporting wrongdoings throughout the Company to inform everyone and exert pressure.

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During the reporting period, the Company prevented the occurrence of litigation cases related to corruption through the following measures:

- (i) Enhancing the red line awareness of the laws and regulations. The Company organized Directors and management personnel and employees to learn the Regulations of the Communist Party of China on Disciplinary Actions and the Regulations on Letters and Whistleblowing, and organized all the staff in the Company to study the “Regulations on Violations of Disciplines and Rules of Employees” by group company, and the secretary of the Discipline Inspection Committee gave special learning sessions on education on anti-corruption for the leaders and cadre;
- (ii) Enhancing the warning education for key personnel. We regularly organized key personnel such as leaders and cadres of the middle-level and above, personnel of finance, bidding and procurement, marketing and logistics, to give warning education;
- (iii) Enhancing daily supervision. Taking the control of the Party Committee as the center, we promoted the implementation of the “Two Responsibilities” under the principle of strict governance of the Party. We delegated responsibility and imposed pressure at all levels; urged the functional departments to strengthen the supervision on the business in their responsibility and held the responsible functional departments accountable for problems causing serious impacts and major losses due to their insufficient supervision; and timely updated prevention and control manual on anti-corruption risks to enhance the daily supervision on anti-corruption risks arising from key sections and key personnel;
- (iv) Establishing integrity records for middle-level cadres. We collected the basic information, the resume, the main members of the family, the audits involved, the clues and handling of the whistleblowing-related issues of the leaders and cadres of the middle-level above, and implemented the dynamic management to effectively strengthen the daily supervision on leaders and cadres, and consolidate the foundation of anti-corruption work;
- (v) Seriously implementing the system of discipline and accountability and strengthening the investigation and punishment of violations of disciplines. We formed a high-pressure environment of discipline and accountability, and issued effective warnings to prevent the occurrence of litigation cases related to corruption.

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2. *Establishment and implementation of internal supervision system*

The Company revised and improved the Measures for the Supervision and Management of Bidding and Procurement, the Measures for the Management of Letters and Whistleblowing, the Measures for Investigating the Responsibility of Management for Dereliction of Duty and other work regulations, and conducted online and offline training and learning activities in the form of central group learning at Party Committee, "Three Meetings and One Lesson" at Party branch, team meetings, departmental meetings, etc., and strengthened publicity and education to inform every employee and strictly implemented the rules and regulations.

3. *Corruption litigation cases*

During the reporting period, there was no case of corruption lawsuit against the Company or its employees.

PART V COMMUNITY

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

During the reporting period, the Company took part in community activities for 28 hours, and incurred RMB24,109.

The Company took part in community construction mainly in the following three ways:

- (i) Offering support to employees and encouraging and arranging them to participate in volunteer activities, such as visiting nursing homes and senior apartments regularly, organizing blood donation, and etc.;
- (ii) Making donations in the form of money, goods and materials or services to directly support and fund various public welfare projects. While making donations by ourselves, the Company also called on related parties for donations;
- (iii) Sharing responsibilities in community construction, promoting interaction with community members by offering shuttle bus services and establishing entertainment centers for the elderly.

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During the reporting period, the Company organized the following community co-construction activities, including but not limited to:

- (i) In March, the Company's female worker unions joined hands with the Happy Neighborhood Community to hold the "Spring Flower Basket Weaving" theme activity. More than 40 female workers and residents of the Happy Neighborhood Community participated in the activity.



- (ii) In March, the Company launched the "Youth Volunteering Activity", and conducted a thorough cleaning on the green belts and roads in the central business district to create a clean and tidy living environment for employees and nearby residents.



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- (iii) In May, worker unions of the Company and the Happy Neighborhood Community launched the “Promoting Traditional Culture and Celebrating Dragon Boat Festival” theme activity. More than 50 personnel from the Company’s grass-roots worker unions, employee representatives, family members of overseas employees, united front candidates and community volunteers, and members of Kunming Hexu Folk Custom Studio participated in the activity.



- (iv) In June, the Company’s basketball team participated in the first “Golden Horse Cup” staff basketball game in the Kunming Staff Recreation and Sports Carnival on behalf of the Happy Neighborhood Community. 32 teams from the community participated, and after fierce competition, the Company won the fifth place.



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- (v) In July, the School of Materials of Southwest Jiaotong University visited the Company for investigation, toured the corporate culture exhibition hall, engineering test center and production workshop of the Company, and learned about the Company's historical evolution, development history, product categories, business scope and strategic layout, which strengthened cooperation and integration between schools and enterprises.



- (vi) In August, the Company's Youth League organized more than 20 youth from the Company to participate in the 2022 "Happy Match on Qixi Festival" singles fellowship activity held by Jinma Street.



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PART VI ENVIRONMENTAL PROTECTION

I. Environmental Management

1. Environmental management system certification

The Company established and passed the environmental management system certification according to the GB/T24001:2004 environmental management system standard in 2013. The Company updated the system according to the ISO14001:2015 version and passed the certification in 2016. In 2022, the Company passed the GB24001-2016/ISO14001: 2015 system re-certification and continuously obtained the environmental management system certification certificate.



**Environmental Management
System Certificate for
GB24001-2016/ISO14001: 2015
Standard**

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2. *Establishment of environmental management system*

The Company collects, identifies and obeys the requirements of national laws and regulations, and incorporates applicable provisions into its own management system based on actual operation. The Company has established various systems in respect of wastewater, waste gas and waste discharge, such as "Management and Control Procedures of Pollutant Emission", "Management System on Waste Goods and Materials", "Monitoring & Measuring Control Procedures of Environmental and Occupational Health and Safety Performance", "Control Procedures of Environmental Resources" and so on. The Company complies with "Integrated Emission Standard of Air Pollutants", "Integrated Wastewater Discharge Standard" and "Emission Standard for Industrial Enterprises Noise at Boundary" respectively in respect of the emission of waste gas, wastewater and noise at boundary. Companies with monitoring qualification were commissioned to monitor the discharge of pollutants, and found all discharges comply with relevant standards.

No unexpected environmental incident and environmental pollution accident occurred during the reporting period.

3. *Measures on environmental management*

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

- (i) Establishing an environmental management system, conducting regular internal inspection and audit on an annual basis and engaging external certification institution to inspect and audit the environmental management of the Company and ensure the effectiveness of the system. The Company passed the supervision and audit on the environmental management system by China Classification Society Quality Assurance Center in 2022.
- (ii) Continuing to promote the acceptance of clean production qualified enterprises.
- (iii) Attaching importance to the emergency management of environmental emergencies. The Company has established a comprehensive emergency management system comprising comprehensive plan, special emergency plan and on-site disposal plan. The Emergency Plan for Environmental Emergencies formulated by the Company has been filed with Kunming Ecological Environment Bureau. It carried out emergency drills each year to improve the Company's emergency response capability for environmental emergencies.

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- (iv) Implementing standardized management of hazardous wastes. The Company focused on monitoring hazardous wastes, put hazardous wastes at a fixed point, and assigned special personnel to be in charge. In 2022, the Company's management satisfied with the assessment requirements of standardized management of hazardous wastes of Kunming Environmental Protection Bureau.
- (v) Disclosing the Company's pollutant discharge data and information, regularly publishing the environmental monitoring results on the national pollutant monitoring platform, and accepting public supervision;

During the reporting period, there were no major environmental or climate-related issues that had or might have an impact on the Company.

II. Emission Management

1. Waste discharge

The Company strictly complies with the requirements of national laws and regulations. The Company has established various systems in respect of wastewater, waste gas and waste discharge. Compliance assessment is conducted annually, the results of which are in compliance with laws and regulations. In 2022, the Company renewed the pollutant discharge permit. Three wastes discharge met with relevant standards, with emissions (concentration) falling within the scope of the pollutant discharge permit as approved.

During the reporting period, the Company proposed to achieve standard discharge of wastewater, waste and noise, and recycle no less than 90% of wastewater.

The major pollutants discharged from the Company's waste gas are benzene, toluene and xylene. The major pollutants discharged from wastewater are chemical oxygen demand, ammonia nitrogen and total phosphorus. In 2022, wastewater disposed of, recycled and discharged by the Company was 188,120 tons, 186,906 tons and 11,717 tons, respectively. The Company discharged 0.033089 tons of chemical oxygen demand, 0.002217362 tons of ammonia nitrogen, 0.0621142 kg of benzene, 0.0621142 kg of toluene, 15.66246 kg of xylene, and 58.60252 kg of total non-methane hydrocarbon.

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Statistics of total greenhouse gas generated from the consumption of gasoline and diesel oil during the Company's production process in 2022 are summarized as follows:

Category	Active data	Type of greenhouse gas	Emission (tCO ₂ e)
Diesel oil	541.85 tons	CO ₂	1685.51
		CH ₄	0.97
		N ₂ O	21.99
Gasoline	0 ton	CO ₂	0
		CH ₄	0
		N ₂ O	0

Statistics of various kinds of waste goods and materials during the Company's production process in 2022 are summarized as follows:

General waste (non-hazardous):

Category	Weight (ton)
Steel scrap	874.314
Iron scurf	374.55
Aluminium scrap	4.99
Waste wire	15.03
Oxidizing slag	128.71
Waste wooden boards	22 vehicle trips
Waste oil barrels	594

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Hazardous waste (harmful):

Category	Weight (ton)
Waste spongy filter	10.12
Emulsion	18.4
Waste paints	23.2
Waste paint pot	22.79
Mineral oils	117.61
Resin barrel	15.9
Activated carbon	2.25
Waste battery	5.41

Pursuant to the requirements under its pollutant discharge permit, the Company organises environmental monitoring annually, and the results of each emission and the total amount of emission met relevant standards. The Company complied with first class A standard of the “Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant” for the emission of pH, SS, COD, BOD, NH₃-N, PO₄-P, LAS of wastewater and gasoline, the second class standard of “Integrated Emission Standard of Air Pollutants” for the emission of dust and benzene series of waste gas, and type II standard of “Emission Standard for Industrial Enterprises Noise at Boundary” for noise at boundary.

2. *Waste prevention measures and technology*

The Company predominately adopts advanced waste discharge treatment equipment, and introduces large-scale ventilation and dust removal system, welding smoke purifier, sewage treatment and reclaimed water recycling system to ensure that the environmental performance of products and systems meet high requirements and relevant operating standards, and pays constant attention to the research and development of environmental protection equipment and technologies. It implements 6S management in production site and strengthens the management of materials or wastes. The Company is informed of and supervises the environmental impact of our daily operations by continuously monitoring and publishing waste emissions. The Company also requires and encourages all employees to take responsible actions and promotes environmental protection concepts to the Company's supply chain and related markets.

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During the reporting period, the Company mainly conducted the followings with respect to discharge:

(i) Wastewater treatment

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

(ii) Waste gas treatment

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

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

(iii) Noise treatment

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

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During the reporting period, the Company adopted the following methods to dispose of waste materials:

General waste materials: Firstly, the Company strengthened the training of waste materials management personnel, learned about state laws and regulations, relevant systems and operating procedures, and mastered emergency measures. Secondly, the Company signed letter of responsibility with key units regarding environmental protection, clarified the assessment content and rewards and punishments, and organized the assessment. Thirdly, the Company maximized classification and recycling of recyclable waste materials to reduce the number of new raw materials to be purchased and mitigate the environmental burden caused by processing waste. Fourthly, the Company engages a third-party organization to regularly monitor and publicize the Company's important environmental indicators and occupational hazards each year.

Hazardous materials: Firstly, the Company implemented clean production, adopted clean energy, advanced technology and equipment, and purchased emulsion, mineral oil and filter cotton with good quality and in line with national environmental protection requirements, so as to prolong the service life of materials and control the generation of hazardous wastes from the source. Secondly, the Company improved the conversion rate of materials, and reduced and replaced the use of hazardous substances to cut down on the amount of hazardous waste. Thirdly, the Company adopted the approach of classified collection, fixed-point storage, and special management to prevent leakage of hazardous wastes. Fourthly, the Company established hazardous waste storage system to standardize the storage of hazardous wastes. Fifthly, the Company entrust qualified units to dispose of hazardous wastes in a timely manner: it signed a disposal agreement with Yunnan Dadi Fengyuan Environmental Protection Co., Ltd. for non-hazardous disposal of waste paint barrels, waste paint, waste paint residue, waste emulsion, waste filter cotton, waste activated carbon and waste asbestos; signed a disposal agreement with Yunnan Tonglei Renewable Resources Co., Ltd. for non-hazardous disposal of waste mineral oil and oily waste; signed a disposal agreement with Yunnan Haizhou Renewable Resources Co., Ltd. for non-hazardous disposal of waste batteries; and signed the Sales Contract for Waste Materials with Yunnan Rongting Trading Co., Ltd. to dispose of scrap iron and scrap renewable resources generated in the production process. Sixthly, the Company organizes company-level emergency handling drills regularly each year or under the guidance of local government departments to improve the Company's response capability for environmental emergencies.

During the reporting period, there were no environmental emergencies for which the Company was held accountable.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

III. Management on Use of Energy

1. Energy conservation and consumption reduction

Adhering to the aim of constructing a resource-saving and eco-friendly enterprise, the Company actively made efforts towards energy saving and emissions reduction, with focus on limiting production of high energy consumption and high pollutant while developing energy-saving and eco-friendly industries as well as promoting uses of energy-saving products. The Company vigorously developed new high-tech and high value-added products of high-end underground equipment series to facilitate continuous reduction in energy consumption per unit of output value and energy consumption per unit product of the enterprise. In compliance with national and industrial requirements such as the Environmental Protection Law of the People's Republic of China, Energy Conservation Law of the People's Republic of China, Air Pollution Prevention Law of the People's Republic of China, Water Law of the People's Republic of China, Water Pollution Prevention Law of the People's Republic of China, Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Wastes and Measures for the Administration of Energy Efficiency Labels, the Company rolled out reasonable adjustment to corporate structure, product structure and energy consumption structure, eliminated backward production capacity and reduced pollutant discharge in order to become a green corporation.

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

Statistics of total energy consumption during the production process of the Company in 2022 are summarized as follows:

Category	Total consumption	Unit consumption
Electricity	12.1309 million kWh	56,400 kwh/set
Gasoline	0 ton	0
Diesel oil	541.85 tons	2.52 tons/set
Lubricating oil	66.355 tons	0.31 tons/set
Water	271,359 m ³	1,262.13 m ³ /set

(Note: The above statistics are in accordance with Yunnan Province Energy Statistical Report System, and the data of water and electricity represent consumption during core production, auxiliary production and subsidiary production.)

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Statistics of total consumption of packaging materials during the production process of the Company in 2022 are summarized as follows:

No.	Material	Model and Specification	Unit	Consumption
1	Wooden box for export	1100*950*950	piece	1,210
2	Ordinary carton	250mm × 150mm × 200mm	piece	740
3	Packaging plywood	12mm	square meter	4,230
4	Packaging plywood	18mm	square meter	4,990
5	Ink graffiti remover (ZEP)	WRITE AWAY	barrel	95
6	Scotch tape	60mm	roll	460
7	Tin strap	18mm*50KG	roll	24
8	Rustproof bag	1150 × 1150 × 1550	box	112
9	Steel nail row	ST-64	box	205
10	Woven bag with double inner membrane	120*152	piece	400
11	Composite vapor phase antirust protective film TL-024	1m × 100m	roll	100
12	Canvas guard	2400 × 1100 × 1100	piece	240
13	Canvas guard	300 × 100	piece	110
14	Ordinary carton	600 × 300 × 300	piece	460
15	Rust remover (ZEP)	147024 (3.78KG//barrel)	barrel	48
16	Long-acting anticorrosive coating (ZEP)	13OZ/bottle	barrel	153
17	Powerful oil remover for aviation	200Z/bottle	barrel	22
18	Compressed carton	150 × 100 × 100	piece	850

Note: The Company produces customized products, so it is impossible to count the quantity of packaging materials per production unit.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2. *Comprehensive management*

In strict accordance with the requirements of relevant documents of local government, the Company submits statements and summary reports to the Statistics Bureau of Guandu District of Kunming as scheduled, and accepts irregular inquiries from the Economic and Trade Bureau/Statistics Bureau and Water Saving Office of Kunming and Guandu District. It actively organizes the National Energy Conservation Publicity Week and the National Low Carbon Day each year, and formulates summary report and submits as required. The Company prepared and issued the Notice on Energy Saving Control Target in the 14th Five-Year Period and the Management Measures for Energy Conservation and Emission Reduction of the Company. All energy-consuming units shall submit energy consumption reports every month as required, so as to monitor the whole process of energy consumption. The Company's energy management personnel will inspect the safety of energy equipment and facilities and the energy conservation of key energy-consuming equipment in each production and energy-consuming unit on an ad hoc basis, severely punish the responsible person for the situation found in the inspection that affected the Company's power consumption safety and caused energy waste, and impose assessment on the units causing energy waste for several times.

The Company is committed to developing energy-saving and environment-friendly industries and promoting the use of energy-saving products and clean energy. It makes full use of Kunming's geographical advantages and rich solar energy resources, and introduces photovoltaic power generation projects to significantly reduce the Company's electricity consumption. The newly developed WED-400 battery electric engineering vehicle is powered by electric energy, with high energy conversion efficiency, and each vehicle can reduce carbon emissions by more than 2,000 tons. The mechanical compensation power recovery technology is adopted in the hydraulic comprehensive test bench, walking test bench and other equipment procured by the Company, which can effectively reduce water consumption. The Company also called upon the staff to actively participate in tree planting and protection activities. At present, the greening rate of the Company's domicile reached 30%, and 9,070 trees with a crown of more than 5 meters have been planted, winning the titles of "Kunming Garden Unit" and "Yunnan Garden Unit" for the Company.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. Management results

(i) Achievement of energy-saving indicators

As of 31 December 2022, the Company's comprehensive energy consumption was 2,454.73 tons of standard coal, and the comprehensive energy consumption was 0.008540 tons of standard coal/RMB10,000 output, representing a decrease of 26.59% as compared with the comprehensive energy consumption of 0.011633 tons of standard coal/RMB10,000 output in 2021 (base period), and a decrease of 38.46% from the goal of comprehensive energy consumption of 0.013877 tons of standard coal/RMB10,000 output set for 2022.

In 2022, the Company achieved the goal of comprehensive energy consumption of 0.013877 tons of standard coal/RMB10,000 output.

(ii) Achievement of total carbon emission control target

The Company's total carbon emission control target for 2022 is 1,748.39 tons. As of 31 December 2022, the Company's total carbon emission was 1,644.67 tons, after deducting carbon assets of 4,406.996 tons from photovoltaic power plants, the Company's actual carbon emission was -2,762.33 tons (surplus).

As of 31 December 2022, the photovoltaic power station of the Company generated electricity of 7,223,400 kWh, accounting for 30% of the total electricity consumption of the Company, creating 4,406.996 tons of carbon assets for the Company and saving approximately RMB2.2 million of electricity charges. The Company also actively promoted the technical transformation of road lighting. In 2022, it invested RMB80,000 to replace the traditional metal halide lamp (480W) with energy-saving LED lamp (200W) in an aggregate of 160 sets, and retrofit and installed 8 solar street lamps.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(iii) Achievement of water efficiency target

As of 31 December 2022, the Company consumed 65,116 tons of production water, and the water efficiency was 0.227 tons of production water/RMB10,000 output, reaching the water efficiency target of 0.3 tons of production water/RMB10,000 output set for 2022.

The Company established 3 sewage treatment stations, of which the daily processing capacity of the stations in district 44 of the Company's headquarters in Kunming, Kunming Xishan branch station and Beijing Ruiweitong Company are 800 tons, 200 tons and 50 tons respectively. The effluent satisfies the water quality standards of first class A standard of the "Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant" (GB18918-2002) and "The Reuse of Urban Recycling Water – Water Quality Standard for Urban Miscellaneous Water Consumption" (GB/T18920-2002).

The Company actively promoted the implementation of reuse of grey water, which was mainly for large-scale road maintenance machinery raining test, cleaning, dust reduction as well as greening, etc. As of 31 December 2022, a total of 186,946 m³ of grey water was used, and a reclaimed water utilization fund subsidy of RMB41,398 was received from the Kunming Municipal Water Conservation Office.

During the "14th Five-Year Plan" period, the Company will continue to strengthen environmental protection, further enhance the sense of responsibility and mission of ecological civilization construction required of listed companies, and resolutely win the battle of pollution prevention and control.

During the reporting period, the Company did not encounter any difficulties in searching water fit for purpose.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

PART VII COVID-19 PREVENTION AND CONTROL

During the reporting period, the Company launched the following anti-COVID-19 measures:

- (i) paid close attention to the sudden outbreak of COVID-19 pandemic across regions, implemented dynamic supervision, timely carried out stage-by-stage pandemic prevention and control measures according to the national and local anti-COVID-19 requirements, and issued 43 corporate bulletins on pandemic prevention and control.
- (ii) continued to follow up vaccination of the staff, and strove for vaccination for all employees. In 2022, 2,506 employees of the Company were vaccinated, accounting for 99.2%, and 2,304 employees were vaccinated the booster dose, accounting for 91.9%.
- (iii) implemented filing management for employees before business trips, and for visitors before accessing the Company. In 2022, the Company recorded 2,418 filings for business trips and 1,019 filings from visitors.
- (iv) established and improved the information ledger of 326 employees in Beijing according to Beijing's requirements on pandemic prevention and control, and reported the information of staff leaving for and leaving (returning) Beijing and the changes in the ledger on a daily basis for real-time dynamic management;
- (v) actively coordinated social resources, engaged nucleic acid testing team to serve at the Company, and organized employees to undergo nucleic acid testing for 10 times, generating a total of more than 16,900 nucleic acid testing samples.

AUDITOR'S REPORT

Xin Kuai Shi Bao Zi [2023] No. ZG10031

TO THE SHAREHOLDERS OF CRCC HIGH-TECH EQUIPMENT CORPORATION LIMITED

I. OPINION

We have audited the accompanying financial statements of CRCC High-Tech Equipment Corporation Limited ("CRCCE"), which comprise the consolidated and company's balance sheets as at 31 December 2022, the consolidated and company's income statements, the consolidated and company's statements of cash flows, and the consolidated and company's statements of changes in owners' equity for the year then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position as at 31 December 2022, and the consolidated and company's financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises.

II. BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing ("CSAs"). 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 CRCCE in accordance with the code of ethics for professional Accountants of the Chinese Institute of Certified Public Accountants ("CICPA Code") and we have fulfilled our other ethical responsibilities in accordance with the CICPA 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 of 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.

AUDITOR'S REPORT

The key audit matter we identified in our audit is summarized as follows:

Key audit matters	How these matters were addressed in the audit
<p>(I) Recognition of revenue</p>	
<p>For accounting policies on revenue recognition, please refer to Note III (XXIV); and for a disclosure on revenue, please refer to Note V (XXXVI). As shown in Note V (36) of the financial statements regarding operating revenue and operating costs, the revenue of CRCCE mainly comes from the sales of track maintenance machinery, maintenance of track maintenance machinery, sales of parts and components and railway line construction maintenance services. The operating revenue of CRCCE in 2022 was RMB2.822 billion, an increase of 29.09% from the operating revenue of RMB2.186 billion in the same period last year. Single sales contracts entered into by CRCCE involves significant amount, and recognition of revenue requires judgement from the management, the authenticity and completeness of which has a significant impact on its operating results and financial statements. Therefore, we consider revenue recognition as a key audit matter.</p>	<p>Our audit procedures for the revenue recognition mainly include:</p> <ol style="list-style-type: none"> 1. Understood and evaluated the design and effectiveness of operation of the key internal control by the management relevant to revenue recognition; 2. Selected samples to review the sales contracts, judged the composition of the contract performance obligations and the timing of transfer of control rights, to assess whether the policy and timing to recognise the Company's sales revenue meet the requirements under the accounting standards; 3. Based on procedures of external confirmations for accounts receivable and revenue, selected samples of revenue transactions recorded for the current period, checked the supportive documents relevant to revenue recognition, checked the sales contracts, sales order, machinery ex-factory hand-over letters, customer's receipt, export customs declaration, etc. in order to check the authenticity of revenue recognised; 4. Performed analytical procedures on revenue and cost, including: analysis on fluctuation in revenue, cost, gross profit margin for each month of the current period, in order to check the reasonableness of revenue recognised; 5. Analyzed major revenue resources based on revenue sources and fluctuations in gross profit margin, and inspected whether such fluctuations were in line with the actual operating condition of the Company; 6. Selected samples of revenue transactions recorded around the balance sheet date and checked the sales order, receipt form and other supportive documents, in order to evaluate whether the revenue is recorded in an appropriate accounting period.

AUDITOR'S REPORT

IV. OTHER INFORMATION

Management of CRCCE (management) is responsible for the other information. The other information comprises all of the information included in the 2022 annual report of CRCCE, other than 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 the 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 is responsible for the preparation and fair presentation of the financial statements in accordance with the requirements of Accounting Standards for Business Enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

AUDITOR'S REPORT

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

- (1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (2) Obtain an understand of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CRCCE's internal control.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- (4) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on CRCCE'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 CRCCE to cease to continue as a going concern.
- (5) Evaluate the overall presentation (including the disclosures), structure and contents of the financial statements, 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 CRCCE to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S REPORT

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

BDO CHINA Shu Lun Pan
Certified Public Accountants LLP

Shanghai, China

Certified Public Accountant of China: Cui Yungang
(Engagement Partner)

Certified Public Accountant of China: Song Xiaoni
24 March 2023

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

(Amounts expressed in RMB unless otherwise specified)

ASSETS	<i>Note V</i>	31 December 2022	31 December 2021
Current assets:			
Cash and bank balances	(I)	1,163,149,863.13	1,178,533,467.98
Settlement reserve		–	–
Placements with banks and other financial institutions		–	–
Held-for-trading financial assets		–	–
Derivative financial assets		–	–
Bills receivable	(II)	285,735,821.29	212,859,419.01
Accounts receivable	(III)	2,050,241,490.90	2,049,473,797.45
Receivables at FVTOCI	(IV)	104,157,088.53	29,681,169.19
Prepayments	(V)	37,939,419.83	48,361,630.71
Premium receivables		–	–
Reinsurance premium receivables		–	–
Reserves for reinsurance contract receivables		–	–
Other receivables	(VI)	34,138,090.38	29,427,316.59
Financial assets acquired for resale		–	–
Inventories	(VII)	2,179,715,217.79	2,218,239,921.60
Contract assets	(VIII)	30,113,812.55	18,929,596.95
Assets held for sale	(IX)	58,872,747.29	–
Non-current assets due within one year	(X)	–	50,024,030.00
Other current assets	(XI)	3,456,088.92	79,353,253.09
Total current assets		5,947,519,640.61	5,914,883,602.57

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

(Amounts expressed in RMB unless otherwise specified)

ASSETS	<i>Note V</i>	31 December 2022	31 December 2021
Non-current assets:			
Loans and advances		–	–
Debt investments		–	–
Other debt investments		–	–
Long-term receivables		–	–
Long-term equity investments		–	–
Other equity instrument investments	<i>(XII)</i>	534,786,000.00	628,866,000.00
Other non-current financial assets		–	–
Investment property	<i>(XIII)</i>	25,379,171.23	–
Fixed assets	<i>(XIV)</i>	1,622,329,044.63	1,192,502,910.49
Construction in progress	<i>(XV)</i>	35,907,179.42	74,916,742.41
Productive biological assets		–	–
Oil and gas assets		–	–
Right-of-use assets	<i>(XVI)</i>	19,170,964.36	–
Intangible assets	<i>(XVII)</i>	330,090,905.51	389,560,996.78
Development expenditure		–	–
Goodwill	<i>(XVIII)</i>	34,694,242.97	43,732,466.28
Long-term deferred expenses		–	–
Deferred income tax assets	<i>(XIX)</i>	8,682,829.68	9,725,395.55
Other non-current assets	<i>(XX)</i>	19,152,330.00	19,152,330.00
Total non-current assets		2,630,192,667.80	2,358,456,841.51
Total assets		8,577,712,308.41	8,273,340,444.08

The accompanying notes to the financial statements shall be an integral part of the financial statements.

Person in charge of the Company:
Liu Feixiang

CFO:
Wang Shuchuan

Head of the Finance Department:
Kong Deming

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

(Amounts expressed in RMB unless otherwise specified)

Liabilities and owners' equity	<i>Note V</i>	31 December 2022	31 December 2021
Current liabilities:			
Short-term borrowings		–	–
Borrowing from central bank		–	–
Placement from banks and other financial institutions		–	–
Held-for-trading financial liabilities		–	–
Derivative financial liabilities		–	–
Bills payable	(XXI)	790,002,056.73	1,030,117,754.13
Accounts payable	(XXII)	1,236,184,594.39	827,700,341.89
Advance received	(XXIII)	589,403.67	497,110.55
Contract liabilities	(XXIV)	183,148,936.83	162,027,131.82
Financial assets sold under repurchase agreements		–	–
Deposit taking and interbank deposit		–	–
Securities brokering		–	–
Securities underwriting		–	–
Employee benefits payable	(XXV)	18,515,438.81	16,184,797.66
Taxes payable	(XXVI)	74,082,969.32	14,437,003.76
Other payables	(XXVII)	290,600,132.62	271,159,367.99
Handling fee and commissions payable		–	–
Reinsurance amount payable		–	–
Liabilities held for sale		–	–
Non-current liabilities due within one year	(XXVIII)	14,950,895.66	25,794,639.20
Other current liabilities		–	–
Total current liabilities		2,608,074,428.03	2,347,918,147.00

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

(Amounts expressed in RMB unless otherwise specified)

Liabilities and owners' equity	<i>Note V</i>	31 December 2022	31 December 2021
Non-current liabilities:			
Insurance policy reserve		–	–
Long-term borrowings		–	–
Bonds payable		–	–
Including: Preferred stock		–	–
Perpetual bonds		–	–
Lease liabilities	(XXIX)	17,038,770.31	–
Long-term payables		–	–
Long-term employee benefits payable		–	–
Estimated liabilities		–	–
Deferred income		–	–
Deferred income tax liabilities	(XIX)	33,638,429.11	43,902,584.01
Other non-current liabilities		–	–
Total non-current liabilities		50,677,199.42	43,902,584.01
Total liabilities		2,658,751,627.45	2,391,820,731.01

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

(Amounts expressed in RMB unless otherwise specified)

Liabilities and owners' equity	Note V	31 December 2022	31 December 2021
Owners' equity:			
Share capital	(XXX)	1,519,884,000.00	1,519,884,000.00
Other equity instruments		–	–
Including: Preferred stock		–	–
Perpetual bonds		–	–
Capital reserve	(XXXI)	3,224,727,994.03	3,224,727,994.03
Less: Treasury shares		–	–
Other comprehensive income	(XXXII)	400,267,531.49	478,299,284.33
Special reserve	(XXXIII)	–	–
Surplus reserve	(XXXIV)	135,899,327.25	125,629,773.06
General risk reserve		–	–
Undistributed profit	(XXXV)	623,145,385.08	532,978,661.65
Total equity attributable to owners of parent company		5,903,924,237.85	5,881,519,713.07
Non-controlling interests		15,036,443.11	–
Total owners' equity		5,918,960,680.96	5,881,519,713.07
Total liabilities and owners' equity		8,577,712,308.41	8,273,340,444.08

The accompanying notes to the financial statements shall be an integral part of the financial statements.

Person in charge of the Company:
Liu Feixiang

CFO:
Wang Shuchuan

Head of the Finance Department:
Kong Deming

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

(Amounts expressed in RMB unless otherwise specified)

Items	Note V	2022	2021
I. Total operating revenue		2,821,917,529.32	2,185,945,979.00
Including: Operating revenue	(XXXVI)	2,821,917,529.32	2,185,945,979.00
Interest income		—	—
Premium earned		—	—
Handling fee and commissions income		—	—
II. Total operating cost		2,719,178,322.94	2,106,591,702.57
Including: Operating cost	(XXXVI)	2,158,669,086.96	1,640,942,446.77
Interest expenses		—	—
Handling fee and commissions expenses		—	—
Cash surrender amount		—	—
Net expenses of claim settlement		—	—
Net provisions for insurance contract reserves		—	—
Policy dividend expenses		—	—
Reinsurance expenses		—	—
Taxes and surcharges	(XXXVII)	19,126,023.74	19,805,730.50
Selling expenses	(XXXVIII)	129,599,720.18	112,597,861.12
Administrative expenses	(XXXIX)	186,518,311.32	178,901,675.23
Research and development expenses	(XL)	261,048,649.52	180,145,551.93
Finance expenses	(XLI)	-35,783,468.78	-25,801,562.98
Including: Interest expenses		—	—
Interest income		22,199,449.51	38,677,182.49
Add: Other income	(XLII)	28,493,980.34	22,831,535.35
Investment income ("—" for losses)	(XLIII)	3,840,483.00	4,118,970.76
Including: Investment income from associates and joint ventures		—	—
Revenue from derecognition of financial assets measured at amortized cost		—	—
Foreign exchange gains ("—" for losses)		—	—
Net exposure hedging returns ("—" for losses)		—	—
Gain from fair value changes ("—" for losses)		—	—
Credit impairment losses ("—" for losses)	(XLIV)	24,009,707.82	-35,951,776.32
Impairment losses on assets ("—" for losses)	(XLV)	-18,340,806.06	-25,242,409.21
Gains on disposal of assets ("—" for losses)	(XLVI)	254,433.56	414,978.26

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

(Amounts expressed in RMB unless otherwise specified)

Items	Note V	2022	2021
III. Operating profit ("-" for losses)		140,997,005.04	45,525,575.27
Add: Non-operating income	(XLVII)	1,264,850.90	3,836,074.26
Less: Non-operating expenses	(XLVIII)	18,596,127.87	4,816,836.40
IV. Profit before tax ("-" for losses)		123,665,728.07	44,544,813.13
Less: Income tax expenses	(XLIX)	7,994,167.34	-5,831,340.45
V. Net profit ("-" for net losses)		115,671,560.73	50,376,153.58
(I) Classification by continuity of business operation		–	–
1. Net profit from continuing operations ("-" for net losses)		115,671,560.73	50,376,153.58
2. Net profit from discontinued operations ("-" for net losses)		–	–
(II) Classification by ownership		–	–
1. Net profit attributable to owners of the parent company ("-" for net losses)		115,635,117.62	50,376,153.58
2. Net profit attributable to non-controlling interests ("-" for net losses)		36,443.11	–
VI. Other comprehensive income after tax		-78,031,752.84	379,470,059.65
Other comprehensive income after tax attributable to owners of the parent company		-78,031,752.84	379,470,059.65
(I) Other comprehensive income that cannot be reclassified subsequently to profit or loss		-79,968,000.00	380,507,479.44
1. Changes in remeasurement of the defined benefit plan		–	–
2. Other comprehensive income that cannot be reclassified to profit and loss under equity method		–	–
3. Changes in fair value of other equity instrument investments		-79,968,000.00	380,507,479.44
4. Fair value changes in enterprise's own credit risk		–	–

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

(Amounts expressed in RMB unless otherwise specified)

Items	Note V	2022	2021
(II) Other comprehensive income that will be reclassified subsequently to profit or loss		1,936,247.16	-1,037,419.79
1. Other comprehensive income that may be reclassified to profit or loss under equity method		—	—
2. Changes in fair values of other debt investments		—	—
3. The amount of financial assets reclassified into other comprehensive income		-168,360.05	1,875,093.20
4. Provision for credit impairment of other debt investments		—	—
5. Reserve for cash flow hedging		—	—
6. Translation difference of financial statements in foreign currencies		2,104,607.21	-2,912,512.99
7. Others		—	—
Other comprehensive income after tax attributable to non-controlling interests		—	—
VII. Total comprehensive income		37,639,807.89	429,846,213.23
Total comprehensive income attributable to the owners of the parent company		37,603,364.78	429,846,213.23
Total comprehensive income attributable to non-controlling interests		36,443.11	—
VIII. Earnings per share:	(L)	—	—
(I) Basic earnings per share (RMB/share)		0.08	0.03
(II) Diluted earnings per share (RMB/share)		—	—

The accompanying notes to the financial statements shall be an integral part of the financial statements.

Person in charge of the Company:
Liu Feixiang

CFO:
Wang Shuchuan

Head of the Finance Department:
Kong Deming

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

(Amounts expressed in RMB unless otherwise specified)

Items	Note V	2022	2021
I. Cash flows from operating activities			
Cash received from sale of goods and rendering of services		2,867,521,792.21	2,116,083,947.92
Net increase in customer deposits and deposits in other banks		-	-
Net increase in borrowings from the central bank		-	-
Net increase in borrowings from other financial institutions		-	-
Cash received from receiving insurance premiums of original insurance contracts		-	-
Net cash received from reinsurance business		-	-
Net increase in deposits and investments from policyholders		-	-
Cash received from interest, handling charge and commission		-	-
Net increase in loans from banks and other financial institutions		-	-
Net capital increase in repurchase business		-	-
Net cash received from acting sale and purchase of securities		-	-
Refund of taxes and surcharges		66,601,005.04	6,272,364.14
Cash received from other operating activities	(LI)	56,532,900.75	97,436,223.27
Sub-total of cash inflows from operating activities		2,990,655,698.00	2,219,792,535.33
Cash paid for goods purchased and services received		2,133,628,186.75	1,749,498,701.53
Net increase in loans and advances to customers		-	-
Net increase in deposits with central bank and with banks and other financial institutions		-	-
Cash paid for original insurance contract claims		-	-
Net increase in lending funds		-	-
Cash paid for interest, handling charge and commission		-	-
Cash paid for policy dividend		-	-
Cash paid to and for employees		592,414,388.48	529,901,697.62
Cash paid for taxes and surcharges		48,007,273.23	64,463,944.08
Cash paid for other operating activities	(LI)	194,170,075.00	283,837,148.94
Sub-total of cash outflows from operating activities		2,968,219,923.46	2,627,701,492.17
Net cash flow from operating activities		22,435,774.54	-407,908,956.84

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

(Amounts expressed in RMB unless otherwise specified)

Items	Note V	2022	2021
II. Cash flows from investing activities			
Cash received from disinvestment		–	–
Cash received from return on investments		4,410,000.00	4,410,000.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		659,884.31	12,640,884.00
Net cash received from disposal of subsidiaries and other business units		–	–
Cash received from other investing activities		–	–
Sub-total of cash inflows from investing activities		5,069,884.31	17,050,884.00
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		54,144,663.80	136,041,623.25
Cash paid for investment		–	–
Net increase in pledged loans		–	–
Net cash paid for acquisition of subsidiaries and other business units		–	–
Cash paid for other investing activities		–	–
Sub-total of cash outflows from investing activities		54,144,663.80	136,041,623.25
Net cash flows from investing activities		-49,074,779.49	-118,990,739.25

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

(Amounts expressed in RMB unless otherwise specified)

Items	Note V	2022	2021
III. Cash flows from financing activities			
Cash received from absorbing investments		15,000,000.00	—
Including: Cash received from non-controlling interests' investment in subsidiaries		15,000,000.00	—
Cash received from borrowings		—	—
Cash received from other financing activities		—	—
Sub-total of cash inflows from financing activities		15,000,000.00	—
Cash paid for repayment of borrowings		—	—
Cash paid for distribution of dividends, profits or payment of interest		15,240,620.75	—
Including: Payments for distribution of dividends or profit to non-controlling interests by subsidiaries		—	—
Cash paid for other financing activities		—	—
Sub-total of cash outflows from financing activities		15,240,620.75	—
Net cash flows from financing activities		-240,620.75	—
IV. Effect of foreign exchange rate changes on cash and cash equivalents		11,496,020.85	-2,902,604.77
V. Net increase in cash and cash equivalents		-15,383,604.85	-529,802,300.86
Add: Opening balance of cash and cash equivalents		1,178,533,467.98	1,708,335,768.84
VI. Closing balance of cash and cash equivalents		1,163,149,863.13	1,178,533,467.98

The accompanying notes to the financial statements shall be an integral part of the financial statements.

Person in charge of the Company:
Liu Feixiang

CFO:
Wang Shuchuan

Head of the Finance Department:
Kong Deming

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2022

(Amounts expressed in RMB unless otherwise specified)

Items	2022												
	Share capital	Preferred stock	Other equity instruments	Capital reserve	Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profit	Sub-total	Non-controlling interests	Total owners' equity
I. Closing balance at the end of last year	1,519,884,000.00	-	-	3,224,727,994.03	-	478,293,284.33	-	125,639,773.06	-	532,278,661.65	5,881,519,713.07	-	5,881,519,713.07
II. Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
III. Correction of accounting errors in prior period	-	-	-	-	-	-	-	-	-	-	-	-	-
Business combination involving entities under common control	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
IV. Opening balance for the year	1,519,884,000.00	-	-	3,224,727,994.03	-	478,293,284.33	-	125,639,773.06	-	532,278,661.65	5,881,519,713.07	-	5,881,519,713.07
MOvements in the current period (decrease is represented by "-")													
(I) Total comprehensive income	-	-	-	-	-	-78,031,752.84	-	10,269,554.19	-	90,166,723.43	22,404,524.78	15,036,443.11	37,440,967.89
(II) Capital contributed or reduced by owners	-	-	-	-	-	-78,031,752.84	-	-	-	115,635,117.62	37,893,384.78	36,443.11	37,638,807.89
1. Ordinary shares contributed by owners	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Capital contributed by owners of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	15,000,000.00	15,000,000.00
3. Amount of share-based payment recognized in owners' equity	-	-	-	-	-	-	-	-	-	-	-	15,000,000.00	15,000,000.00
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(III) Profit distribution	-	-	-	-	-	-	-	-	-	-25,468,384.19	-15,198,840.00	-	-15,198,840.00
1. Appropriation of surplus reserve	-	-	-	-	-	-	-	10,269,554.19	-	-	-	-	-
2. Appropriation of general risk reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Appropriation of profit to owners (or shareholders)	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-15,198,840.00	-15,198,840.00	-	-15,198,840.00
(IV) Internal carry-over of owners' equity	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer of capital reserve to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer of surplus reserve to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserve to cover losses	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Defined benefit plan changes carried forward to related earnings	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Other comprehensive income carried forward to related earnings	-	-	-	-	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(V) Special reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Appropriations in the current period	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Utilization in the current period	-	-	-	-	-	-	-	-	-	-	-	-	-
(VI) Others	-	-	-	-	-	-	-	-	-	-	-	-	-
IV. Closing balance for the current period	1,519,884,000.00	-	-	3,224,727,994.03	-	400,261,531.49	-	135,899,327.25	-	622,145,385.08	5,903,924,237.85	15,036,443.11	5,918,960,680.96

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2022

(Amounts expressed in RMB unless otherwise specified)

Items	2021													
	Share capital	Preferred stock	Other equity instruments	Others	Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profit	Sub-total	Non-controlling interests	Total owners' equity
I. Closing balance at the end of last year	1,519,884,000.00	-	-	-	3,224,727,994.03	-	98,823,224.68	-	118,814,594.37	-	488,417,686.76	5,451,673,489.84	-	5,451,673,489.84
II. Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. Corrections of accounting errors in prior period	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IV. Business combination involving entities under common control	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VI. Opening balance for the year	1,519,884,000.00	-	-	-	3,224,727,994.03	-	98,823,224.68	-	118,814,594.37	-	488,417,686.76	5,451,673,489.84	-	5,451,673,489.84
VII. Movements in the current period (decreases is represented by "-")	-	-	-	-	-	-	379,470,659.65	-	5,815,178.69	-	44,540,974.89	429,846,213.23	-	429,846,213.23
VIII. Total comprehensive income	-	-	-	-	-	-	379,470,659.65	-	5,815,178.69	-	50,276,153.58	429,846,213.23	-	429,846,213.23
IX. Capital contributed or reduced by owners	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X. Capital contributed by owners	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI. Capital contributed by owners of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII. Amount of state-based payment recognized in owners' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV. Profit distribution	-	-	-	-	-	-	-	-	5,815,178.69	-	-	-	-	-
XV. Appropriation of surplus reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI. Appropriation of general risk reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVII. Appropriation of profit to owners (or shareholders)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVIII. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIX. Internal carry-over of owners' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XX. Transfer of capital reserve to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XXI. Transfer of surplus reserve to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XXII. Surplus reserve to cover losses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XXIII. Defined benefit plan changes carried forward to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XXIV. Other comprehensive income earned forward to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XXV. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XXVI. Special reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XXVII. Appropriations in the current period	-	-	-	-	-	-	-	8,811,613.20	-	-	-	8,811,613.20	-	8,811,613.20
XXVIII. Utilization in the current period	-	-	-	-	-	-	-	8,811,613.20	-	-	-	8,811,613.20	-	8,811,613.20
XXIX. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XXX. Closing balance for the current period	1,519,884,000.00	-	-	-	3,224,727,994.03	-	478,293,884.33	-	125,629,773.06	-	532,578,661.65	5,881,519,713.07	-	5,881,519,713.07

The accompanying notes to the financial statements shall be an integral part of the financial statements.

Person in charge of the Company:
Liu Feixiang

CFO:
Wang Shuchuan

Head of the Finance Department:
Kong Deming

THE COMPANY'S STATEMENT OF FINANCIAL POSITION

31 December 2022

(Amounts expressed in RMB unless otherwise specified)

Assets	<i>Note XV</i>	31 December 2022	31 December 2021
Current assets:			
Cash and bank balances		1,038,023,740.27	1,103,258,024.58
Held-for-trading financial assets		–	–
Derivative financial assets		–	–
Bills receivable	<i>(I)</i>	276,084,321.29	212,361,919.01
Accounts receivable	<i>(II)</i>	1,952,642,104.69	1,927,747,019.69
Receivables at FVTOCI	<i>(III)</i>	87,785,388.23	28,031,169.19
Prepayments		35,000,264.53	46,389,028.16
Other receivables	<i>(IV)</i>	216,580,728.84	225,947,343.16
Inventories		2,032,712,894.52	2,027,163,908.66
Contract assets		4,419,077.12	12,379,788.46
Assets held for sale		58,872,747.29	–
Non-current assets due within one year		–	50,024,030.00
Other current assets		3,337,422.49	78,290,668.22
Total current assets		5,705,458,689.27	5,711,592,899.13

THE COMPANY'S STATEMENT OF FINANCIAL POSITION

31 December 2022

(Amounts expressed in RMB unless otherwise specified)

Assets	Note XV	31 December 2022	31 December 2021
Non-current assets:			
Debt investments		–	–
Other debt investments		–	–
Long-term receivables		–	–
Long-term equity investments	(V)	396,876,012.32	381,876,012.32
Other equity instrument investments		534,786,000.00	628,866,000.00
Other non-current financial assets		–	–
Investment property		25,379,171.23	–
Fixed assets		1,510,589,383.06	1,076,164,001.61
Construction in progress		35,907,179.42	74,916,742.41
Productive biological assets		–	–
Oil and gas assets		–	–
Right-of-use assets		–	–
Intangible assets		175,636,039.42	229,729,963.32
Development expenditure		–	–
Goodwill		–	–
Long-term deferred expenses		–	–
Deferred income tax assets		–	–
Other non-current assets		19,152,330.00	19,152,330.00
Total non-current assets		2,698,326,115.45	2,410,705,049.66
Total assets		8,403,784,804.72	8,122,297,948.79

The accompanying notes to the financial statements shall be an integral part of the financial statements.

Person in charge of the Company:
Liu Feixiang

CFO:
Wang Shuchuan

Head of the Finance Department:
Kong Deming

THE COMPANY'S STATEMENT OF FINANCIAL POSITION

31 December 2022

(Amounts expressed in RMB unless otherwise specified)

Liabilities and owners' equity	<i>Note XV</i>	31 December 2022	31 December 2021
Current liabilities:			
Short-term borrowings		–	–
Held-for-trading financial liabilities		–	–
Derivative financial liabilities		–	–
Bills payable		790,002,056.73	1,030,117,754.13
Accounts payable		1,280,935,081.52	823,400,963.12
Advance received		264,403.67	330,443.89
Contract liabilities		170,024,383.27	144,862,765.95
Employee benefits payable		10,785,409.35	11,378,415.71
Taxes payable		45,089,130.03	3,794,650.56
Other payables		282,796,544.39	268,398,082.15
Liabilities held for sale		–	–
Non-current liabilities due within one year		10,257,708.54	23,558,577.73
Other current liabilities		–	–
Total current liabilities		2,590,154,717.50	2,305,841,653.24
Non-current liabilities:			
Long-term borrowings		–	–
Bonds payable		–	–
Including: Preferred stock		–	–
Perpetual bonds		–	–
Lease liabilities		–	–
Long-term payables		–	–
Long-term employee benefits payable		–	–
Estimated liabilities		–	–
Deferred income		–	–
Deferred income tax liabilities		33,638,429.11	43,902,584.01
Other non-current liabilities		–	–
Total non-current liabilities		33,638,429.11	43,902,584.01
Total liabilities		2,623,793,146.61	2,349,744,237.25

THE COMPANY'S STATEMENT OF FINANCIAL POSITION

31 December 2022

(Amounts expressed in RMB unless otherwise specified)

Liabilities and owners' equity	<i>Note XV</i>	31 December 2022	31 December 2021
Owners' equity:			
Share capital		1,519,884,000.00	1,519,884,000.00
Other equity instruments		-	-
Including: Preferred stock		-	-
Perpetual bonds		-	-
Capital reserve		3,271,445,482.07	3,271,445,482.07
Less: Treasury shares			
Other comprehensive income		399,002,647.61	479,061,402.92
Special reserve			
Surplus reserve		135,899,327.25	125,629,773.06
Undistributed profit		453,760,201.18	376,533,053.49
Total owners' equity		5,779,991,658.11	5,772,553,711.54
Total liabilities and owners' equity		8,403,784,804.72	8,122,297,948.79

The accompanying notes to the financial statements shall be an integral part of the financial statements.

Person in charge of the Company:
Liu Feixiang

CFO:
Wang Shuchuan

Head of the Finance Department:
Kong Deming

THE COMPANY'S STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

(Amounts expressed in RMB unless otherwise specified)

Items	Note XV	2022	2021
I. Operating revenue	(VI)	2,704,527,442.34	2,041,646,093.49
Less: Operating cost	(VI)	2,131,876,545.69	1,575,671,963.78
Taxes and surcharges		15,853,299.58	15,617,821.42
Selling expenses		118,954,224.61	100,442,020.59
Administrative expenses		144,701,560.89	140,519,617.71
Research and development expenses		253,050,784.68	170,247,343.11
Finance expenses		-35,570,175.51	-26,771,122.91
Including: Interest expenses			
Interest income		21,881,474.21	38,425,171.01
Add: Other income		28,481,620.02	22,801,202.50
Investment income ("-" for losses)	(VII)	7,494,796.08	4,118,970.76
Including: Investment income from associates and joint ventures		—	—
Revenue from derecognition of financial assets measured at amortized cost		—	—
Net exposure hedging returns ("-" for losses)		—	—
Gain from fair value changes ("-" for losses)		—	—
Credit impairment losses ("-" for losses)		21,377,117.36	-37,030,194.15
Impairment losses on assets ("-" for losses)		-9,511,921.27	-1,216,175.53
Gains on disposal of assets ("-" for losses)		161,971.98	414,978.26
II. Operating profit ("-" for losses)		123,664,786.57	55,007,231.63
Add: Non-operating income		589,073.68	828,590.82
Less: Non-operating expenses		17,694,457.62	4,438,056.11
III. Profit before tax ("-" for losses)		106,559,402.63	51,397,766.34
Less: Income tax expenses		3,863,860.75	-6,754,020.52
IV. Net profit ("-" for net losses)		102,695,541.88	58,151,786.86
(I) Net profit from continuing operations ("-" for net losses)		102,695,541.88	58,151,786.86
(II) Net profit from discontinued operations ("-" for net losses)		—	—

THE COMPANY'S STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

(Amounts expressed in RMB unless otherwise specified)

Items	Note XV	2022	2021
V. Other comprehensive income after tax		-80,058,755.31	382,164,411.51
(I) Other comprehensive income that cannot be reclassified subsequently to profit or loss		-79,968,000.00	380,507,479.44
1. Changes in remeasurement of defined benefit plan		-	-
2. Other comprehensive income that cannot be reclassified to profit and loss under equity method		-	-
3. Changes in fair value of other equity instrument investments		-79,968,000.00	380,507,479.44
4. Fair value changes in enterprise's own credit risk		-	-
(II) Other comprehensive income that will be reclassified subsequently to profit or loss		-90,755.31	1,656,932.07
1. Other comprehensive income that may be reclassified to profit or loss under equity method		-	-
2. Changes in fair values of other debt investment		-	-
3. The amount of financial assets reclassified into other comprehensive income		-90,755.31	1,656,932.07
4. Provision for credit impairment of other debt investments		-	-
5. Reserve for cash flow hedging		-	-
6. Translation difference of financial statements in foreign currencies		-	-
7. Others		-	-
VI. Total comprehensive income		22,636,786.57	440,316,198.37
VII. Earnings per share:		-	-
(I) Basic earnings per share (RMB/share)		-	-
(II) Diluted earnings per share (RMB/share)		-	-

The accompanying notes to the financial statements shall be an integral part of the financial statements.

Person in charge of the Company:
Liu Feixiang

CFO:
Wang Shuchuan

Head of the Finance Department:
Kong Deming

THE COMPANY'S STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

(Amounts expressed in RMB unless otherwise specified)

Items	Note XV	2022	2021
I. Cash flows from operating activities			
Cash received from sale of goods and rendering of services		2,669,230,073.46	1,830,946,243.11
Refund of taxes and surcharges		63,537,235.62	6,265,617.23
Cash received from other operating activities		71,165,987.35	109,819,914.97
Sub-total of cash inflows from operating activities		2,803,933,296.43	1,947,031,775.31
Cash paid for goods purchased and services received		2,120,215,439.55	1,637,111,193.74
Cash paid to and for employees		479,014,562.96	407,658,134.18
Cash paid for taxes and surcharges		33,427,116.92	25,249,971.54
Cash paid for other operating activities		174,526,726.89	267,081,075.89
Sub-total of cash outflows from operating activities		2,807,183,846.32	2,337,100,375.35
Net cash flow from operating activities		-3,250,549.89	-390,068,600.04
II. Cash flows from investing activities			
Cash received from disinvestment		-	-
Cash received from return on investments		8,064,313.08	18,967,089.34
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		537,038.00	12,564,668.00
Net cash received from disposal of subsidiaries and other business units		-	-
Cash received from other investing activities			
Sub-total of cash inflows from investing activities		8,601,351.08	31,531,757.34
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		51,570,986.56	135,760,636.03
Cash paid for investment		15,000,000.00	-
Net cash paid for acquisition of subsidiaries and other business units		-	-
Cash paid for other investing activities		-	-
Sub-total of cash outflows from investing activities		66,570,986.56	135,760,636.03
Net cash flows from investing activities		-57,969,635.48	-104,228,878.69

THE COMPANY'S STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

(Amounts expressed in RMB unless otherwise specified)

Items	Note XV	2022	2021
III. Cash flows from financing activities			
Cash received from absorbing investments		–	–
Cash received from borrowings		–	–
Cash received from other financing activities		–	–
Sub-total of cash inflows from financing activities		–	–
Cash paid for repayment of borrowings		–	–
Cash paid for distribution of dividends, profits or payment of interest		15,240,620.75	–
Cash paid for other financing activities		–	–
Sub-total of cash outflows from financing activities		15,240,620.75	–
Net cash flows from financing activities		-15,240,620.75	–
IV. Effect of foreign exchange rate changes on cash and cash equivalents		11,226,521.81	-2,416,942.67
V. Net increase in cash and cash equivalents		-65,234,284.31	-496,714,421.40
Add: Opening balance of cash and cash equivalents		1,103,258,024.58	1,599,972,445.98
VI. Closing balance of cash and cash equivalents		1,038,023,740.27	1,103,258,024.58

The accompanying notes to the financial statements shall be an integral part of the financial statements.

Person in charge of the Company:
Liu Feixiang

CFO:
Wang Shuchuan

Head of the Finance Department:
Kong Deming

THE COMPANY'S STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2022

(Amounts expressed in RMB unless otherwise specified)

Items	2022											
	Share capital	Preferred stock	Other equity instruments Perpetual bonds	Others	Capital reserve	Treasury shares	Less:	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit	Total owners' equity
I. Closing balance at the end of last year	1,519,884,000.00	-	-	-	3,271,445,482.07	-	-	479,061,402.92	-	125,629,773.06	376,533,053.49	5,772,553,711.54
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Correction of accounting errors in prior period	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-
II. Opening balance for the year	1,519,884,000.00	-	-	-	3,271,445,482.07	-	-	479,061,402.92	-	125,629,773.06	376,533,053.49	5,772,553,711.54
III. Movements in the current period (decrease is represented by "-")	-	-	-	-	-	-	-	-80,058,755.31	-	10,269,554.19	77,227,147.69	7,437,546.57
(i) Total comprehensive income	-	-	-	-	-	-	-	-80,058,755.31	-	-	102,695,541.88	22,636,786.57
(ii) Capital contributed or reduced by owners	-	-	-	-	-	-	-	-	-	-	-	-
1. Ordinary shares contributed by owners	-	-	-	-	-	-	-	-	-	-	-	-
2. Capital contributed by owners of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
3. Amount of share-based payment recognized in owners' equity	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-
(iii) Profit distribution	-	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation of surplus reserve	-	-	-	-	-	-	-	-	-	10,269,554.19	-25,468,394.19	-15,198,840.00
2. Appropriation of profit to owners (or shareholders)	-	-	-	-	-	-	-	-	-	10,269,554.19	-10,269,554.19	-
3. Others	-	-	-	-	-	-	-	-	-	-	-15,198,840.00	-15,198,840.00
(iv) Internal carry-over of owners' equity	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer of capital reserve to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer of surplus reserve to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserve to cover losses	-	-	-	-	-	-	-	-	-	-	-	-
4. Defined benefit plan changes carried forward to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
5. Other comprehensive income carried forward to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-	-	-	-
IV. Closing balance for the current period	1,519,884,000.00	-	-	-	3,271,445,482.07	-	-	399,002,647.61	-	135,899,327.25	453,760,201.18	5,779,991,658.11
Special reserve	-	-	-	-	-	-	-	4,837,452.54	-	-	-	4,837,452.54
1. Appropriations in the current period	-	-	-	-	-	-	-	4,837,452.54	-	-	-	4,837,452.54
2. Utilization in the current period	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	4,837,452.54	-	-	-	4,837,452.54

THE COMPANY'S STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2022

(Amounts expressed in RMB unless otherwise specified)

Items	2021										
	Share capital	Preferred stock	Other equity instruments	Reserve	Capital reserve	Treasury shares	Less:	Special reserve	Surplus reserve	Undistributed profit	Total owners' equity
I. Closing balance at the end of last year	1,519,884,000.00	-	-	-	3,271,445,482.07	-	-	-	119,814,594.37	324,196,445.32	5,332,237,513.17
Adj: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-
Correction of accounting errors in prior period	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
II. Opening balance for the year	1,519,884,000.00	-	-	-	3,271,445,482.07	-	-	-	119,814,594.37	324,196,445.32	5,332,237,513.17
III. Movements in the current period (decrease is represented by "-")	-	-	-	-	-	-	-	-	5,815,178.69	52,336,608.17	440,316,198.37
(I) Total comprehensive income	-	-	-	-	-	-	-	-	5,815,178.69	58,151,786.86	440,316,198.37
(II) Capital contributed or reduced by owners	-	-	-	-	-	-	-	-	-	-	-
1. Ordinary shares contributed by owners	-	-	-	-	-	-	-	-	-	-	-
2. Capital contributed by owners of other equity instruments	-	-	-	-	-	-	-	-	-	-	-
3. Amount of state-based payment recognized in owners' equity	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(III) Profit distribution	-	-	-	-	-	-	-	-	5,815,178.69	-5,815,178.69	-
1. Appropriation of surplus reserve	-	-	-	-	-	-	-	-	5,815,178.69	-5,815,178.69	-
2. Appropriation of profit to owners (or shareholders)	-	-	-	-	-	-	-	-	-	-	-
3. Others	-	-	-	-	-	-	-	-	-	-	-
(IV) Internal carry-over of owners' equity	-	-	-	-	-	-	-	-	-	-	-
1. Transfer of capital reserve to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-
2. Transfer of surplus reserve to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserve to cover losses	-	-	-	-	-	-	-	-	-	-	-
4. Defined benefit plan changes carried forward to retained earnings	-	-	-	-	-	-	-	-	-	-	-
5. Other comprehensive income carried forward to retained earnings	-	-	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-	-	-
(V) Special reserve	-	-	-	-	-	-	-	-	-	-	-
1. Appropriations in the current period	-	-	-	-	-	-	-	5,566,397.55	-	-	5,566,397.55
2. Utilization in the current period	-	-	-	-	-	-	-	5,566,397.55	-	-	5,566,397.55
(VI) Others	-	-	-	-	-	-	-	-	-	-	-
IV. Closing balance for the current period	1,519,884,000.00	-	-	-	3,271,445,482.07	-	-	-	125,629,773.06	376,533,053.49	5,772,553,711.54

The accompanying notes to the financial statements shall be an integral part of the financial statements.

Person in charge of the Company:

Liu Feixiang

CFO:

Wang Shuchuan

Head of the Finance Department:

Kong Deming

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

I. INFORMATION ABOUT THE COMPANY

(I) Company profile

CRCC High-Tech Equipment Corporation Limited (Original name: “Kunming China Railway Large Maintenance Machinery Group Co., Ltd.”, the “**Company**”) is a joint stock company with limited liability registered in Kunming in the People’s Republic of China (the “**PRC**”), transformed from Kunming China Railway Large Maintenance Machinery Group Co., Ltd. after an overall restructuring in 2015. On 16 December 2015, the Company issued a total of 531,900,000 H shares with a nominal value of RMB1.00 each in Hong Kong and listed the same on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”). As of 31 December 2022, the Company cumulatively issued a total of 531,900,000 shares, and the registered share capital was RMB1,519,884,000. The registered address of the Company is located at No. 384 Yangfangwang, Jinma Town, China (Yunnan) Pilot Free Trade Zone.

The principal activities of the Company and its subsidiaries (collectively referred to as the “**Group**”) mainly consist of repair and manufacturing of large railway track maintenance machinery, provision of annual inspection services and extended services for track maintenance machinery; production, manufacturing and sales of accessories, repair of components, and production, manufacturing and sales of small railway track maintenance machinery; mechanized maintenance and repair services for railway line; casting manufacturing and machining manufacturing; production and processing of railway materials, equipment and accessories, and sales, import and export business of railway machinery, equipment and accessories, construction materials, hardware and electric products, mechanical and electronic equipment.

The Company’s parent company is China Railway Construction Corporation Limited (“**CRCC**”) and the ultimate controller is China Railway Construction Group Corporation.

These financial statements were approved and authorised for issue by the Board of Directors of the Company on 24 March 2023.

(II) The scope of consolidated financial statements

For information of the subsidiaries of the Company, please refer to Note “VII. Interests in Other Entities”.

For the change in the scope of consolidation during the reporting period, please refer to Note “VI. Change in the Scope of Consolidation”.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(I) Basis of preparation

These financial statements were prepared in accordance with the Accounting Standards for Business Enterprises—Basic Standards and various specific accounting standards, the Application Guidance for Accounting Standards for Business Enterprises, interpretations of the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance (together referred to as the “**Accounting Standards for Business Enterprises**”), as well as relevant requirements under the Hong Kong Companies Ordinance and the Listing Rules of the Hong Kong Stock Exchange.

In accordance with the Consultation Conclusions on 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, the corresponding amendments to the Listing Rules, as well as the relevant documents issued by the Ministry of Finance and China Securities Regulatory Commission, the Company adopted the China Accounting Standards for Business Enterprises for the preparation of financial statements from the year of 2021 with the approval of the Company’s general meeting of shareholders.

(II) Going concern

The financial statements are presented on a going-concern basis.

The Company has the going-concern capability for at least 12 months from the end of the current reporting period, and there is no major issues that have an impact on the Company’s going-concern capability.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(I) Statement on compliance with the Accounting Standards for Business Enterprises

The financial statements are in compliance with the requirements of the Accounting Standards for Business Enterprises issued by the Ministry of Finance, and give a true and complete view of both consolidated and the parent company’s financial position as at 31 December 2022, and both consolidated and the parent company’s operating results and cash flows for January to December 2022.

(II) Accounting period

The accounting year adopts the calendar year from 1 January to 31 December each year.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(III) Operating Cycle

The Company's operating cycle is 12 months.

(IV) Functional currency

The Company adopts Renminbi (“**RMB**”) as its functional currency. RMB is the currency of the primary economic environment in which the Company and its domestic subsidiaries operate. Therefore, the Company and its domestic subsidiaries choose RMB as their functional currency. The overseas subsidiaries of the Company may determine their own functional currencies based on their specific economic environments. The Group adopts RMB to prepare its financial statements.

(V) Accounting treatment of business combinations under common control and not under common control

Business combinations under common control: The assets and liabilities acquired by acquirer through business combination shall be measured at the carrying value of the assets, liabilities (including goodwill arising from the acquisition of the acquiree by ultimate controlling party) of the acquiree in the consolidated financial statements of the ultimate controlling party at the date of combination. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or total nominal value of the issued shares) is adjusted to capital premium in capital reserve. If the capital reserve is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Business combinations not under common control: The cost of combination is the assets paid, the liabilities incurred or committed and fair value of the equity securities issued by the acquirer for acquisition of control over the acquiree on the date of acquisition. Where the cost of combination is higher than the fair value of the identifiable net assets acquired from the acquirer in business combination, such difference shall be recognized as goodwill; where the cost of combination is less than the fair value of the identifiable net assets acquired from the acquiree in business combination, such difference shall be charged to current profit or loss. Each of the identifiable assets, liabilities and contingent liabilities of the acquiree, which are acquired in the combination and meet the criteria for recognition, shall be measured at fair value on the date of acquisition.

The direct relevant expenses incurred for the business combinations are recognized as the profit or loss in the period when the costs are incurred; the transaction costs for the equity securities or debt securities issued for business combination shall be recognized as the initial recognition amount of equity securities or debt securities.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(VI) Preparation method of consolidated financial statements

1. *Scope of consolidation*

The scope of consolidation of the consolidated financial statements is determined on the basis of control, and the scope of consolidation comprises the Company and all of its subsidiaries. Control refers to the power of a company over the investee, the rights to enjoy variable returns from its involvement in relevant activities of the investee, and the ability to use its power over the investee to affect the amount of its returns.

2. *Consolidation procedures*

When preparing the consolidated financial statements, the Company considers the entire enterprise group as a single accounting entity and presents the overall financial position, operating results and cash flows of the enterprise group based on the consistent accounting policies. The impact of internal transactions between the Company and its subsidiaries, and among its subsidiaries, shall be offset. If internal transactions indicate impairment losses on relevant assets, such losses shall be recognized in full. Any inconsistent accounting policies and accounting period adopted by a subsidiary will be subject to necessary adjustments to align with those of the Company when preparing the consolidated financial statements.

Owners' equity, net profit or loss of the current period and comprehensive income attributable to minority shareholders of the current period of subsidiaries are stated separately under owners' equity in the consolidated balance sheet, net profit in the consolidated income statement and total comprehensive income respectively. Loss of the current period assumed by minority shareholders of a subsidiary in excess of minority shareholders' share of owners' equity in that subsidiary at the beginning of the period is offset against minority interests.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(VI) Preparation method of consolidated financial statements (continued)

2. Consolidation procedures (continued)

(1) Addition of subsidiary of business

During the reporting period, if there is an addition of subsidiary or business due to business combination under common control, the operating results and cash flow of the subsidiary or business combination from the beginning of the period to the end of the reporting period will be included in the consolidated financial statements, and the amounts at the beginning of the period in the consolidated financial statements and relevant items in the comparative statements will also be adjusted as if the reporting entity after combination had been existing since the control of the ultimate controlling party started.

Where control over the investee under common control is obtained due to reasons such as increase in investments, for equity investment held before the control over the acquiree is obtained, profit or loss, other comprehensive income and other changes in net assets recognized from the later of the acquisition of the original equity interest and the date when the acquirer and the acquiree are placed under common control until the date of combination are offset against retained profit at the beginning of the period of the comparative financial statements or profit or loss of the period respectively.

During the reporting period, if there is an addition of subsidiary or business due to business combination not under common control, it shall be included, from the date of purchase, in the consolidated financial statements based on the fair value of each of the identifiable assets, liabilities or contingent liabilities determined on the date of purchase.

Where control over the investee not under common control is obtained due to reasons such as increase in investments, for the equity interest of the acquiree held before the date of purchase, the Company re-measures the equity interest at its fair value as at the date of purchase, and any difference between the fair value and its book value will be accounted for as investment gains of the period. Other comprehensive income that will be reclassified into losses and profits and other changes in owners' equity under equity accounting with respect to the equity interest in the acquiree held before the date of purchase are transferred to investment gains of the period to which the date of purchase belongs.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(VI) Preparation method of consolidated financial statements (continued)

2. Consolidation procedures (continued)

(2) Disposal of subsidiaries

1 General treatment for disposal

When control over the investee is lost due to the disposal of part of the equity investment or other reasons, the Company re-measures the remaining equity investment after the disposal at fair value as at the date on which control is lost. The difference between the sum of the consideration received from equity disposal and the fair value of the remaining equity interest and the sum of the net assets of the subsidiary proportionate to the original shareholding accumulated from the date of purchase or combination and goodwill is included in investment gains of the period during which the control is lost. Other comprehensive income that will be reclassified into losses and profits and other changes in owners' equity under equity accounting with respect to the equity investment in the original subsidiary are transferred to investment gains of the period during which the control is lost.

2 Stepwise disposal of subsidiary

In respect of stepwise disposal of equity investment in a subsidiary through multiple transactions until control is lost, if the terms, conditions and economic effects of the transactions of equity investment in the subsidiary satisfy one or more of the following conditions, the transactions are normally accounted for as a package of transactions:

- i. these transactions are entered into simultaneously or after considering the effects of each other;
- ii. these transactions constitute a complete commercial result as a whole;
- iii. one transaction is conditional upon at least one of the other transactions;
- iv. one transaction is not economical on its own but is economical when considering together with other transactions.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(VI) Preparation method of consolidated financial statements (continued)

2. Consolidation procedures (continued)

(2) Disposal of subsidiaries (continued)

2 Stepwise disposal of subsidiary (continued)

Where the transactions constitute a package of transactions, the Company accounts for the transactions as a transaction of disposal of a subsidiary resulting in the loss of control; the difference between the amount received each time for disposal before control is lost and the net assets of such subsidiary corresponding to the disposal of investment is recognized as other comprehensive income in the consolidated financial statements, and upon loss of control, is transferred to profit or loss of the period during which control is lost.

Where the transactions do not constitute a package of transactions, before the loss of control, the transactions are accounted for based on partial disposal of equity investment in a subsidiary that does not involve loss of control; when control is lost, they are accounted for using the general method for disposal of subsidiaries.

(3) Purchase of non-controlling interests in subsidiaries

For the difference between the long-term equity investment newly acquired due to the purchase of minority interests and the share of net assets of the subsidiary that the Company is entitled to calculated according to the new shareholding accumulated from the date of purchase or date of combination, share premium of the capital reserve in the consolidated balance sheet will be adjusted; where share premium of the capital reserve is insufficient for the write-down, retained profit will be adjusted.

(4) Partial disposal of equity investment in subsidiaries without loss of control

For the difference between the consideration received from disposal and the net assets of the subsidiary that the Company is entitled to corresponding to the long-term equity investment disposed accumulated from the date of purchase or date of combination, share premium of the capital reserve in the consolidated balance sheet will be adjusted; where share premium of the capital reserve is insufficient for the write-down, retained profit will be adjusted.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(VII) Classification of joint arrangements and accounting treatment for joint operations

Joint arrangements can be classified into joint operations and joint ventures.

Joint operations represent the joint arrangement that a party to a joint arrangement has rights to the assets, and obligations for the liabilities, relating to such arrangement.

The Company recognizes the following items in relation to its share of benefits in joint operations:

- (1) the assets held solely by the Company and those jointly held on a pro-rate basis;
- (2) the liabilities assumed solely by the Company and those jointly assumed on a pro-rata basis;
- (3) the income generated from the sale of the products of the joint operation attributable to the Company;
- (4) the income generated by the joint operation from the sale of products on a pro-rata basis;
- (5) the expenses incurred solely by the Company and those incurred by the joint operation on a pro-rata basis.

The Company's investment in joint ventures are accounted for using equity method, please refer to note "III. (XIV) Long-term Equity Investments".

(VIII) Recognition standard for cash and cash equivalents

Cash represents the Company's cash on hand and deposits that can be used readily for payments. Cash equivalents represent investments that satisfy four conditions, namely short-term, highly liquid, readily convertible to known amounts of cash, and subject to an insignificant risk of changes in value.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(IX) Foreign currency transactions and translation of financial statements denominated in foreign currency

1. *Foreign currency transactions*

Foreign currency transactions shall be translated into RMB at the spot exchange rate on the day when the transactions occurred.

Balance sheet date foreign currency monetary items shall be translated using the spot exchange rate at the balance sheet date. The resulting exchange difference are recognized in profit or loss for the current period, except for those differences related to a specific-purpose borrowing denominated in foreign currency for acquisitions and construction of the qualified assets, which should be capitalized as cost of the borrowings.

2. *Translation of financial statements denominated in foreign currency*

For the translation of financial statements of foreign operation denominated in foreign currency, the assets and liabilities in the balance sheets are translated at the spot exchange rates on the balance sheet date; except for "Undistributed profit" items, all items under owner's equity are translated at the spot exchange rates when incurred. The income and expense items in the income statement are translated at the spot exchange rates on the transaction dates.

On disposal of foreign operations, exchange differences in financial statements denominated in foreign currencies related to the foreign operation shall be transferred from owner's equity items to profit or loss from disposal for the current period.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(X) Financial Instruments

One of the financial asset, financial liabilities or equity instrument is recognized when the Company becomes a party to the contract of the financial instruments.

1. *Classification of financial instruments*

According to the business model of the Company for management of financial assets and the contractual cash flow characteristics of financial assets, financial assets are classified at the initial recognition as financial assets measured at amortized cost, or financial assets measured at fair value through other comprehensive income, or other financial assets that are measured at fair value through current profit or loss.

The Company shall classify financial assets that meet the following conditions and are not designated as financial assets at fair value through current profit or loss as financial assets measured at amortized cost:

- The objective of the business model is to collect contractual cash flows;
- The contractual cash flows are solely payment of the principal and the interest based on the outstanding principal amount.

The Company shall classify financial assets that meet the following conditions and are not designated as financial assets at fair value through current profit or loss as financial assets (debt instruments) measured at fair value through other comprehensive income:

- The objective of the business model for managing such financial assets is both to collect contractual cash flows and to dispose of the financial assets;
- The contractual cash flows are solely payment of the principal and the interest based on the outstanding principal amount.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(X) Financial Instruments (continued)

1. Classification of financial instruments (continued)

For an investment in equity instruments not held for trading purposes, the Company may irrevocably designate it as financial assets (equity instruments) measured at fair value through other comprehensive income at the initial recognition. This designation is made on an investment-by-investment basis and the relevant investment meets the definition of equity instrument from the perspective of the issuer.

All financial assets not classified as measured at amortized cost and fair value through other comprehensive income as described above are classified as financial assets measured at fair value through current profit or loss. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at fair value through other comprehensive income as at fair value through current profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

Financial liabilities, at initial recognition, are classified into financial liabilities at fair value through current profit or loss and financial liabilities measured at amortized cost.

When meeting any of the following criteria, the Company may, at initial recognition, designate a financial liability as measured at fair value through current profit or loss:

- 1) Such designation would eliminate or significantly reduce a measurement or recognition inconsistency.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(X) Financial Instruments (continued)

1. Classification of financial instruments (continued)

- 2) A group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.
- 3) The financial liabilities include embedded derivatives which can be split separately.

2. Recognition basis and measurement method of financial instruments

(1) Financial assets measured at amortized cost

Financial assets measured at amortized cost, including bills receivable and accounts receivable, other receivables, long-term receivables, and debt investments, are initially measured at fair value plus relevant transaction costs. Accounts receivable that do not contain significant financing components and accounts receivable that the Company has decided not to consider for a financing component of no more than one year are initially measured at the contractual transaction price.

Interest calculated under the effective interest method during the period of holding is included in current profit or loss.

When recovering or disposing, the difference between the price obtained and the book value of the financial asset is included in current profit or loss.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(X) Financial Instruments (continued)

2. Recognition basis and measurement method of financial instruments (continued)

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

Financial assets (debt instruments) measured at fair value through other comprehensive income, including financing receivables and other debt investments, are initially measured at fair value plus relevant transaction costs. These financial assets are subsequently measured at fair value, with changes in fair value are included in other comprehensive income except for interest, impairment losses or gains and exchange gains or losses calculated using the effective interest method.

On derecognition, the accumulated gain or loss previously recognized in other comprehensive income is transferred out from other comprehensive income and recognized in current profit or loss.

(3) *Financial assets (equity instruments) measured at fair value through other comprehensive income*

Financial assets (equity instruments) measured by fair value through other comprehensive income, including other equity instruments, are initially measured at fair value plus relevant transaction costs, and subsequently measured at fair value through other comprehensive income. The dividends received are included in current profit or loss.

When derecognized, the accumulated gain or loss previously recognized in other comprehensive income is transferred from other comprehensive income to retained earnings.

(4) *Financial assets at fair value through current profit or loss*

Financial assets measured at fair value through current profit or loss, including held-for-trading financial assets, derivative financial assets and other non-current financial assets, are initially measured at fair value with relevant transaction costs included in current profit or loss, such financial assets are subsequently measured at fair value through current profit or loss.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(X) Financial Instruments (continued)

2. Recognition basis and measurement method of financial instruments (continued)

(5) Financial liabilities measured at fair value through current profit or loss

Financial liabilities measured at fair value through current profit or loss, including held-for-trading financial liabilities, derivative financial liabilities, etc., are initially measured at fair value with relevant transaction costs recognized in current profit or loss. Such financial liabilities are subsequently measured at fair value. Changes in fair value are recognized in current profit or loss.

On derecognition, the difference between the carrying amount and the consideration paid is recognized in current profit or loss.

(6) Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost, including short-term loans, bills payable, accounts payable, other payables, long-term borrowings, bonds payable and long-term payables, are initially measured at fair value plus relevant transaction costs.

Interest calculated under the effective interest method during the period of holding is included in current profit or loss.

On derecognition, the difference between the consideration paid and the carrying amount of the financial liability is recognized in current profit or loss.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(X) Financial Instruments (continued)

3. *Derecognition of financial asset and financial asset transfers*

The Company derecognizes a financial asset if it meets one of the following conditions:

- the contractual rights to receive the cash flows from the financial asset expire;
- the financial asset has been transferred, and substantially all the risks and rewards of ownership of the financial asset have been transferred to the transferee;
- the financial asset has been transferred, and the Company neither transferred nor retained substantially all rewards related to the ownership of the financial assets, but did not retain its control over the said financial assets.

When transferring a financial asset, if the Company retains substantially all risks and rewards of ownership of the financial asset, the Company shall continue to recognize such asset.

When judging whether the transfer of a financial asset meets the above criteria for derecognition, the substance-over-form principle shall be applied.

The Company differentiates the transfer of a financial asset as full transfer or partial transfer. If the full transfer of a financial asset meets the criteria for derecognition, then the difference between the following two included in current profit or loss:

- (1) the book value of the financial asset transferred;
- (2) the sum of the consideration received from the transfer and the total amount of the fair value changes that is directly charged or credited to owners' equity (if the asset transferred is a financial asset (debt instruments) at fair value through other comprehensive income).

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(X) Financial Instruments (continued)

3. *Derecognition of financial asset and financial asset transfers (continued)*

When the partial transfer of a financial asset meets the criteria for derecognition, the entire book value of the financial asset transferred shall be allocated between the part derecognized and the part to be recognized based on their respective fair value, with the difference between the following two included in current profit or loss:

- (1) The book value of the part that is derecognized;
- (2) The sum of the consideration attributable to the part derecognized and the total amount of the fair value changes that is directly charged or credited to owners' equity and attributable to the part derecognized (if the asset transferred is a financial asset (debt instruments) at fair value through other comprehensive income).

If the transfer of a financial asset does not meet the criteria for derecognition, the financial asset shall continue to be recognized and the consideration received is recognized as a financial liability.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(X) Financial Instruments (continued)

4. *Derecognition of financial liabilities*

If all or part of the current obligations of a financial liability have been discharged, the financial liability or part of it will be derecognized; if the Company signs an agreement with the creditor to replace the existing financial liability with new financial liability of substantially different contractual terms, the existing financial liability shall be derecognized while the new financial liability shall be recognized.

If substantial changes are made to the contractual terms (in whole or in part) of the existing financial liability, the existing financial liability (or part of it) shall be derecognized, and the financial liability after the modification of terms shall be recognized as a new financial liability.

When a financial liability is derecognized in whole or in part, the difference between the book value of the financial liability derecognized and the consideration paid (including the non-cash assets transferred out or the new financial liability assumed) shall be included in current profit or loss.

If the Company repurchases part of a financial liability, the book value of the entire financial liability is allocated between the part that continues to be recognized and the part that is derecognized on the repurchase date based on their respective relative fair value. The difference between the book value assigned to the part derecognized and the consideration paid (including the non-cash assets transferred out or the new financial liability assumed) shall be included in current profit or loss.

5. *Determination of fair value of financial assets and financial liabilities*

As for financial instruments with an active market, their fair values are determined by quoted prices in the active market. As for financial instruments without an active market, their fair values are determined by using valuation techniques. At the time of valuation, the Company adopts valuation techniques that are applicable in the current circumstances and sufficiently supported by available data and other information, and selects inputs that are consistent with the characteristics of the assets or liabilities considered by the market participants in the transactions of the relevant assets or liabilities, and prioritizes the use of relevant observable inputs. Unobservable inputs are used only if the relevant observable inputs are unavailable or not reasonably available.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(X) Financial Instruments (continued)

6. *Test and accounting methods for impairment of financial assets*

The Company estimates financial assets measured at amortized cost by way of single or combination, or the expected credit losses of financial assets (debt instruments) measured at fair value through other comprehensive income and the financial guarantee contract, etc.

The probability-weighted amount of the difference in present value between the contractual cash flow of receivable from contracts and the cash flow expected to be received, weighted with the risk of default, will be measured by taking into account of reasonable and valid information on, among other things, past events, current status and the forecast of future economic conditions to recognize the expected credit losses.

If the credit risk of a financial instrument has increased significantly since the initial recognition, the Company measures the loss provisions according to the lifetime expected credit loss of the financial instrument; if the credit risk on a financial instrument has not increased significantly since the initial recognition, the Company measures the loss provisions at an amount equal to 12-month expected credit losses of the financial instrument. The resulting increase in or reversal of loss provision shall be included in current profit or loss as impairment losses or gains.

In determining changes in the risk of default during the expected lifetime of a financial instrument and assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Company compares the risk of default occurring on the financial instrument assessed at the balance sheet date with that assessed at the date of initial recognition. Usually, if it is overdue for more than 30 days, the Company will consider that the credit risk of the financial instrument has increased significantly, unless there is conclusive evidence to prove that the credit risk on a financial instrument has not increased significantly since initial recognition.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(X) Financial Instruments (continued)

6. *Test and accounting methods for impairment of financial assets (continued)*

For a financial instrument with lower credit risk on the balance sheet date, the Company assumes that its credit risk on a financial instrument has not increased significantly since the initial recognition.

If there is objective evidence that a financial asset has been credit impaired, the Company shall make individual provision for the impairment of the financial asset.

For accounts receivable and contract asset formed by the transactions regulated in the Accounting Standards for Business Enterprises No. 14—Revenue (2017) whether contain significant financing components or otherwise, the Company always measures the loss provision at the lifetime expected credit loss.

For lease receivables, the Company chooses to always measures the loss provisions at the lifetime expected credit loss.

Where the Company no longer reasonably expects contractual cash flows of a financial asset to be fully or partially recoverable, the book balance of the financial asset is directly written down.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XI) Inventories

1. *Classification and costs for inventories*

Inventories are classified into goods in transit, raw materials, turnover materials, goods in stock, goods in process, finished goods, distributed goods and commissioned processing materials.

Inventories are initially measured at cost, which comprises purchase costs, processing costs and other expenses incurred in bringing the inventories to their current location and condition.

2. *Measurement for inventories delivered*

Upon delivery, inventories are measured with the weighted average method.

3. *Basis for the determination of net realizable value of different types of inventories*

On the balance sheet date, inventories are stated at the lower of cost and net realizable value. When the cost of inventories was higher than their net realizable value, the provision decline in value of inventories shall be made. Net realizable value is the estimated selling price of the inventories in the ordinary course of business deducting the estimated costs upon completion, the estimated selling expenses and the related taxes.

Net realizable value of commodity stocks directly held for sale including finished goods, goods-in-stock and held-for-sale raw materials, during the normal course of production and operation, shall be determined by their estimated selling prices less estimated selling expenses and relevant tax fee; the net realizable value of inventory materials which needed to be processed, during the normal course of production and operation, shall be determined by the estimated selling price of the finished products which are produced during operation less the estimated costs to be incurred upon completion, estimated selling costs and relevant tax fees; the net realizable value of inventories held for fulfillment of the sales contracts or labor contracts shall be calculated based on the contracted price. If the quantity of inventories held exceeds the ordered quantity under the sales contract, the net realizable value of the excess of the inventories is generally calculated based on the normal selling prices.

If the net realizable value of the inventory is higher than its book value due to the disappearance of the factors that previously wrote down the value of the inventory after the withdrawal of the inventory depreciation provision, it shall be reversed within the amount of the inventory depreciation provision that has been originally withdrawn, and the reversed amount shall be recorded into the current profit and loss.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XI) Inventories (continued)

4. *Inventory system*

The perpetual inventory system is adopted.

5. *Amortization of low-value consumables and packaging materials*

- (1) Low-value consumables are amortized using the immediate write-off method.
- (2) Packaging materials are amortized using the immediate write-off method.

(XII) Contract assets

1. *Recognition and standard of contract assets*

The Company presents contract assets or contract liabilities in the balance sheet based on the relationship between performance obligations and customer payments. The consideration that the Company has the right (and this right depends on factors other than passage of time) to receive for goods transferred to customers is listed as contract assets. Contract assets and contract liabilities under the same contract shall be shown on a net basis. The right of the Company to charge the customer unconditionally (only depends on the passage of time) is listed as a receivable individually.

2. *Determination method and accounting method for expected credit loss of contract assets*

Details of determination method and accounting method for expected credit loss of contractual assets, please refer to the note "III. (X) Test and accounting methods for impairment of financial assets".

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XIII) Assets classified as held-for-sale

A non-current asset or disposal group is classified as asset held-for-sale when the book amount of the asset is recovered principally through a disposal (including an exchange of non-monetary assets with commercial substance) rather than through continuing use.

The Company recognizes non-current assets or disposal groups which meet the following conditions as assets held for sale:

- (1) The assets or disposal groups must be available for sale immediately under the current conditions according to the usual terms of the sale of such assets or disposal groups in similar transactions;
- (2) The assets are highly likely to be sold, namely, the Company has been offered a resolution with one disposition of the assets and obtained a firm purchase commitment and the disposition will be completed within 1 year. If regulation needs to be approved by the relevant authorities or supervision department of the Company, such approval has been obtained.

For non-current asset (excluding financial asset, deferred income tax asset and asset formed by employee benefits) or disposal group which are classified as held-for-sale, if the book value of the non-current asset or disposal group is higher than the net amount after deducting the disposal cost from its fair value, the book value is reduced to the net amount after deducting the disposal cost from its fair value. The reduced amount is recognized as an asset impairment loss and accounted for as profit and loss for the current period, with provision for impairment loss on held-for-sale assets.

(XIV) Long-term equity investments

1. *Judgment criteria for joint control and significant influence*

Joint control refers to the control shared over an arrangement in accordance with the relevant stipulations, and the decision-making of related activities of the arrangement shall not be made before the party sharing the control right agrees the same. Where the Company exercises joint control over the investee with other parties to the joint venture and enjoys the right on the investee's net assets, the investee is a joint venture of the Company.

Significant influence refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but not the power to control, or jointly control with other parties, the formulation of such policies. Where the Company is able to exert significant influence over the investee, the investee is its associate.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XIV) Long-term equity investments (continued)

2. Determination of initial investment cost

(1) Long-term equity investments acquired through business combination

For a long-term equity investment in subsidiaries resulting from a business combination involving entities under common control, the initial investment cost of long-term equity investments is its share of the book value of the own' equity of the acquiree in the financial statements of the ultimate controlling party on the date of combinations. The difference between initial investment cost of long-term equity investment and the carrying value of paid consideration is to adjust share premium in the capital reserve. If the balance of share premium in the capital reserve is insufficient, any excess is adjusted to retained earnings. In connection with imposing control over the investee under joint control as a result of additional investment and other reasons the difference between initial investment cost of long-term equity investment according to the aforesaid principle, and the sum of the carrying value of long-term equity investment before combination and the carrying value of newly paid consideration for additional shares acquired on the date of combination is to adjust share premium. If the balance of share premium is insufficient, any excess is adjusted to retained earnings.

For a long-term equity investment in subsidiaries resulting from a business combination involving entities not under common control, the cost of the combination determined on the date of acquisition shall be taken as the initial investment cost of the long-term equity investment. In connection with imposing control over the investee not under joint control as a result of additional investment and other reasons, the initial investment cost shall be the sum of the carrying value of the equity investment originally held and the newly increased investment cost.

(2) Long-term equity investments acquired by other means other than business combination

The initial investment cost of a long-term equity investment obtained by the Company by cash payment shall be the purchase cost which is actually paid.

The initial investment cost of a long-term equity investment obtained by the Company by means of issuance of equity securities shall be the fair value of the equity securities issued.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XIV) Long-term equity investments (continued)

3. *Subsequent measurement and recognition of profit or loss*

(1) *Long-term equity investment accounted for by cost method*

Long-term equity investments in subsidiaries are accounted for using cost method unless the investments meet the conditions of held-for-sale. Except for the actual consideration paid for the acquisition of investment or the declared but not yet distributed cash dividends or profits which are included in the consideration, investment gains are recognized as the Company's share of the cash dividends or profits declared by the investee.

(2) *Long-term equity investment accounted for by equity method*

Long-term equity investments in associates and jointly controlled entities are accounted for using equity method. Where the initial investment cost of a long-term equity investment exceeds the Company's share of the fair value of the investee's identifiable net assets at the acquisition date, no adjustment shall be made to the initial investment cost; where the initial investment cost is less than the Company's share of the fair value of the investee's identifiable net assets at the acquisition date, the difference shall be charged to current profit or loss and the cost for long-term equity investment shall be adjusted.

The Company recognizes the investment income and other comprehensive income according to its shares of net profit or loss and other comprehensive income realized by the investee respectively, and simultaneously makes adjustment to the carrying value of long-term equity investments. The carrying value of long-term equity investment shall be reduced by attributable share of the profit or cash dividends for distribution declared by the investee. In relation to other changes of owner's equity (the "**Other Changes of Owner's Equity**") except for net profits and losses, other comprehensive income and profit distribution of the investee, the carrying value of long-term equity investment shall be adjusted and included in owner's equity.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XIV) Long-term equity investments (continued)

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

(2) *Long-term equity investment accounted for by equity method (continued)*

The Company's share of net profit or loss, other comprehensive income and Other Changes of Owner's Equity of an investee is determined based on the fair value of identifiable assets of the investee at the time when the investment is obtained, and according to the accounting policies and accounting period of the Company, recognition shall be made to the net profit of the investee after the adjustment and other comprehensive income, etc.

The unrealized profit or loss resulting from transactions between the Company and its associates or joint venture shall be eliminated in, based on which investment income or loss shall be recognized. Any losses resulting from transactions, which are attributable to impairment of assets, shall be fully recognized, except for the disposal of assets that consist of operations.

The Company discontinues recognizing its share of net losses of the investee after the carrying amount of the long-term equity investment and any long-term interest that is in substance forms part of the Company's net investment in the associate or the joint venture is reduced to zero, except to the extent that the Company has an obligation to assume additional losses. Where net profits are subsequently made by the associate or joint venture, the Company resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XIV) Long-term equity investments (continued)

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

(3) Disposal of long-term equity investments

For disposal of long-term equity investments, the difference between the book value and the actual price shall be included into the current profit or loss.

For partial disposal of long-term equity investment accounted by equity method, if the remaining equity is still accounted by equity method, the other comprehensive income recognized by the original equity method shall be carried forward on the same basis as the corresponding proportion of invested unit's direct disposal of relevant assets or liabilities. and other changes in owner's equity shall be carried forward to the current profit and loss according to the proportion.

In case the joint control or significant influence over the investee is lost for disposing part of equity investments or other reasons, the remaining equity will be changed to be accounted for according to the recognition and measurement principles of financial instruments. The difference between the fair value and the book value on the date of the loss of joint control or significant influence shall be included in the current profit and loss. As other comprehensive income recognized based on measurement of the original equity investment under the equity method, accounting treatment shall be made on the same basis as would be required if the investee had directly disposed of the assets or liabilities related thereto when measurement under the equity method is terminated. Owner's equity recognized from the investee's changes in other owner's equity other than net profit or loss, other comprehensive income and profit distribution shall all transferred to the current profit and loss when the equity method confirmed is no longer adopted.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XIV) Long-term equity investments (continued)

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

(3) *Disposal of long-term equity investments (continued)*

Where the Company loses the control over the investee on account of the disposal of partial equity and any other reason, at the preparation of any single financial statements, if the remaining equity has the common control over or significant influence on the investee, the accounting shall be made by the equity method, and an adjustment shall be made as if the remaining equity was accounted for by the equity method at acquisition; other comprehensive income recognized before the control over the investee is obtained shall be carried forward on the basis same with that for the direct disposal of relevant assets or liabilities by the investee, and other changes in owners' equity recognized on account of the accounting by the equity method shall be carried forward to the current profit or loss in proportion; if the remaining equity has no common control over or significant influence on the investee, relevant financial assets shall be recognized, the difference between the fair value on the day of losing control of such remaining equity and the book value of the same shall be included in the current profit or loss, and other comprehensive income and other changes in owners' equity which have been recognized before the control over the investee is obtained shall be carried forward in full.

Where the disposal of subsidiaries' equity investments till the loss of control by stages through multiple transactions belongs to a package deal, the accounting treatment shall be made by taking each transaction as the transaction where the subsidiaries' equity investments are disposed and the corresponding control is lost; before the loss of control, the difference between the disposal price and the book value of the long-term equity investment corresponding to the equity disposed shall be firstly recognized as other comprehensive income in the individual financial statements, and at the loss of control, all transferred to the profit or loss for the period when the control is lost. Where the aforesaid disposal does not belong to a package deal, the accounting treatment shall be made respectively for each transaction.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XV) Investment property

Investment property is held to earn rentals or for capital appreciation or both which include leased land use rights; land use rights held for sale after appreciation; leased buildings (including buildings after self-completion of construction or development for the purpose of leasing and buildings that is being constructed or developed for the purpose of leasing in future).

Subsequent expenses related to the investment property shall be included in the cost of the investment property, if the related economic benefits are likely to flow into the enterprise, and the cost can be reliably measured. Otherwise, they should be included in the current profit and loss upon occurrence.

The Company's existing investment property is measured at cost. The investment property measured at cost – buildings held for leasing shall adopt the same depreciation policy for fixed assets of the Company, land use rights held for leasing shall adopt the same amortization policy for the intangible assets.

(XVI) Fixed assets

1. Recognition and initial measurement of fixed assets

Fixed assets are tangible assets that are held for use in production or supply of goods or services, for rental to others, or for administrative purposes, and have a useful life of more than one accounting year. Fixed asset is recognized when it meets the following conditions:

- (1) it is probable that the economic benefits associated with the fixed asset will flow to the enterprise;
- (2) its cost can be reliably measured.

Fixed assets are initially measured at cost (and taking into account the effect of estimated costs of disposal).

For subsequent expenses related to fixed assets, if the related economic benefits are likely to flow into the enterprise and its cost could be reliably measured, such expenses are included in the cost of the fixed asset; and the carrying amount of the replaced part will be derecognized. All other subsequent expenses are included in current profit or loss upon occurrence.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XVI) Fixed assets (continued)

2. Methods for depreciation

Fixed assets are depreciated by categories using the straight-line method or other methods, and the annual depreciation rates are determined by categories based upon their estimated useful lives and their estimated residual values. Where the parts of a fixed asset have different useful lives or cause economic benefits for the enterprise in different ways, different depreciation rates or depreciation methods shall apply, and each part is depreciated separately.

The depreciation methods, useful life of depreciation, residual value rate and annual depreciation rate of each category of fixed assets are as follows:

Category	Depreciation methods	Useful life (Years)	Residual value rate (%)	Annual depreciation rate (%)
House and buildings	Straight-line method	35	5	2.71
Engineering equipment	Straight-line method, unit of production method	10-20	5	4.75-9.5
Motor vehicles	Straight-line method	5	5	19
Production equipment	Straight-line method	5-10	5	9.5-19
Measurement and experimental equipment	Straight-line method, double-declining balance method	5	5	19
Other fixed assets	Straight-line method	3-5	5	19-31.67

3. Disposal of fixed assets

A fixed asset is derecognized on disposal or when no future economic benefits are expected from using or disposal. The amount of proceeds on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognized in current profit or loss.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XVII) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalization and other costs necessary to bring the construction in progress ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month.

(XVIII) Borrowing costs

1. *Criteria for recognition of capitalized borrowing costs*

The Company's borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized into the cost of relevant assets. Other borrowing costs are recognized as expenses in profit or loss in the period in which they are incurred.

Qualifying assets include fixed assets, investment property and inventories that necessarily take a substantial period of time for acquisition, construction or production to get ready for their intended use or sale.

2. *Capitalization period of borrowing costs*

The capitalization period refers to the period beginning from the commencement of capitalizing borrowing costs to the date of ceasing capitalization, excluding the period of suspension of capitalization.

Capitalization of borrowing costs begins when the following three conditions are fully satisfied:

- (1) expenditures for the assets (including cash paid, non-currency assets transferred or interest-bearing liabilities assumed for the acquisition, construction or production of qualifying assets) have been incurred;
- (2) borrowing costs have been incurred;
- (3) acquisition, construction or production that are necessary to enable the asset get ready for their intended use or sale have commenced.

Capitalization of borrowing costs shall cease when the qualifying asset under acquisition, construction or production gets ready for intended use or sale.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XVIII) Borrowing costs (continued)

3. *Suspension of capitalization period*

Capitalization of borrowing costs shall be suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally, and the interruption is for a continuous period of more than 3 months; if the interruption is a necessary step for making the qualifying asset under acquisition, construction or production ready for the intended use or sale, the capitalization of the borrowing costs shall continue. The borrowing costs incurred during such period of interruption shall be recognized in current profit or loss. When the acquisition, construction or production of the asset resumes, the capitalization of borrowing costs continues.

4. *Capitalization rate and calculation of capitalization amount of borrowing costs*

As to specific borrowings for the acquisition, construction or production of qualifying assets, borrowing costs from the specific borrowings actually incurred in the current period minus the interest income earned on the unused borrowing loans as a deposit in the bank or the investment income earned from temporary investment will be used to determine the amount of borrowing costs for capitalization.

As to general borrowings for the acquisition, construction or production of qualifying assets, the to-be-capitalized amount of borrowing costs on the general borrowing shall be calculated and determined by multiplying the weighted average asset disbursement of the part of the accumulative asset disbursements minus the specific borrowings and the capitalization rate of the said general borrowings. The capitalization rate shall be calculated and determined according to the weighted average actual interest rate of general borrowings.

During the capitalization period, exchange differences related to the principal and interest on a specific-purpose borrowing denominated in foreign currency are capitalized as part of the cost of the qualifying asset. The exchange differences related to the principal and interest on foreign currency borrowings other than a specific-purpose borrowing are included in the current profits and losses when incurred.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XIX) Intangible assets

1. Measurement of intangible assets

(1) *Intangible assets are initially measured at cost upon acquisition by the Company*

The costs of an externally purchased intangible asset include the purchase price, relevant tax expenses, and other expenditures directly attributable to bringing the asset ready for its intended use.

(2) *Subsequent measurement*

The Company shall analyze and judge the useful life of intangible assets upon acquisition.

As for intangible assets with a finite useful life, they are amortized over the term in which economic benefits are brought to the firm; if the term in which economic benefits are brought to the firm by an intangible asset cannot be estimated, the intangible asset shall be taken as an intangible asset with indefinite useful life, and shall not be amortized.

2. Estimate of useful life for the intangible assets with finite useful life

Items	Estimated useful life (Years)	Amortization method	Residual value rate (%)	Basis
Land Use Rights	40-50	Straight-line method	0	Useful life indicated on the land use certificate
Software Use Rights	2-10	Straight-line method	0	Estimated useful life
Non-Patented Technology	2	Straight-line method	0	Estimated useful life
Others	7-10	Straight-line method	0	Useful life agreed in the contract, etc.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of each period.

Upon review, there is no difference between the useful life and amortisation method of intangible assets as at the end of the current period and previous estimation.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XIX) Intangible assets (continued)

3. *Basis for determining intangible assets with indefinite useful life and procedure for reviewing its useful life*

As of the balance sheet date, the Company had no intangible assets with indefinite useful life.

4. *Specific criteria for the division of research phase and development phase*

The expenses for internal research and development projects of the Company are divided into expenses in the research phase and expenses in the development phase.

Research phase: a phase in which innovative and scheduled investigations and research activities are conducted to obtain and understand new scientific or technological knowledge.

Development phase: a phase in which the research outcomes or other knowledge are applied for a plan or a design prior to the commercial production or use in order to produce new or substantially improved materials, devices, products, etc.

5. *Specific conditions for capitalization of expenditure incurred in development phase*

Expenditures incurred in the research stage are recognized in profit or loss for the period. Expenditures incurred in the development stage are recognized as intangible assets only when all of the following conditions are satisfied, and the expenditures in the development stage that does not meet all of the following conditions are recognized in profit or loss for the period:

- (1) the technical feasibility of completing the intangible asset so that it will be available for use or for sale;
- (2) the intention to complete the intangible asset for use or for sale;
- (3) the ways in which the intangible asset generates economic benefits, including there is evidence that the products produced using the intangible asset has a market or the intangible asset itself has a market, or if the intangible asset is for internal use, there is evidence that proves its usefulness;

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XIX) Intangible assets (continued)

5. *Specific conditions for capitalization of expenditure incurred in development phase (continued)*

- (4) the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset;
- (5) the expenditures attributable to the development phase of the intangible asset could be reliably measured.

If the expenditures cannot be distinguished between the research phase and development phase, all of which should be included in the current profit or loss.

(XX) Impairment of long-term assets

Long-term assets such as long-term equity investments, investment property measured under cost method, fixed assets, construction in progress, right-to-use assets, use of intangible assets and oil and gas assets with a finite useful life are tested for impairment if there is any indication that such assets may be impaired at the balance sheet date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Goodwill formed by business merger, intangible assets with indefinite useful lives and intangible assets that are not yet ready for use are tested for impairment at least at the end of each year regardless of whether there is any sign of impairment.

When the Company performs impairment test on goodwill, the Company shall, as of the purchase day, allocate on a reasonable basis the carrying value of the goodwill formed by merger of enterprises to the relevant asset groups, or if there is a difficulty in allocation, to allocate it to the set of asset groups. The related asset groups or the set of asset groups refers to these ones that can benefit from the synergies of a business combination.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XX) Impairment of long-term assets (continued)

For the purpose of impairment test on the relevant asset groups or the set of asset groups containing goodwill, if any evidence shows that the impairment of asset groups or set of asset groups related to goodwill is possible, an impairment test will be made firstly on the asset groups or set of asset groups not containing goodwill, thus calculating the recoverable amount and comparing it with the relevant carrying value so as to recognize the corresponding impairment loss. Then, the Company will conduct impairment tests on the asset groups or set of asset groups that includes goodwill and compare its carrying value against its recoverable amount. If the recoverable amount is lower than its carrying value, the amount of impairment loss is first offset against the carrying value of the goodwill allocated to the asset groups or set of asset groups, then, based on the proportion of the carrying value of other assets in the asset groups or set of asset groups other than goodwill, offset against the carrying value of other assets proportionally.

Once the above asset impairment loss is recognized, it will not be reversed in subsequent accounting periods.

(XXI) Contract liabilities

The Company has presented contract assets or contract liabilities in the balance sheet based on the connection between the fulfilment of performance obligations and payment of the customers. A contract liability represents the obligation to transfer goods or services to a customer for which the Company has received a consideration or an amount of consideration that is due from the customer. A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXII) Employee benefits

1. *Accounting treatment methods of short-term benefits*

In the accounting period in which employees provide service for the Company, short-term benefits actually incurred are recognized as liabilities and charged to current profit or loss or cost of relevant assets.

With regard to the social insurance and housing provident funds contributed and labour union expenses and employee education expenses paid as required by regulations, the Company should calculate and recognize the corresponding employee benefits payables according to the appropriation basis and proportion as stipulated by relevant requirements in the accounting period in which employees provide service.

At the time of actual occurrence, the Company's employee benefits are recorded in the current profit or loss or costs of relevant assets as incurred. The non-currency welfare expenses are measured at fair value.

2. *Accounting for post-employment benefits*

(1) *Defined contribution plan*

The Company will pay basic pension insurance and unemployment Insurance for the staff in accordance with the relevant provisions of the local government. During the accounting period when the staff provided service, the Company will calculate the amount payable in accordance with the local stipulated basis and proportions which will be recognized as liabilities, and the liabilities would be charged into current profit or loss or costs of relevant assets. In addition, the Company will participate in the corporate annuity scheme and supplementary pension insurance approved by the local government. The Company will make annuity contributions in proportion to its employees' total salaries to the annuity scheme or local social institutes. The payment would be charged into current profit or loss or costs of relevant assets.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXII) Employee benefits (continued)

2. Accounting for post-employment benefits (continued)

(2) Defined benefit plan

In respect of the defined benefit scheme, the Company shall attribute the welfare obligations under the defined benefit scheme in accordance with the estimated accrued benefit method to the service period of relevant employee, and record the obligation in profit loss for the current period or costs of related assets.

The deficit or surplus generated from the present value of obligations of the defined benefit scheme minus the fair value of the assets of defined benefit scheme is recognized as net liabilities or net assets of a defined benefit scheme. When the defined benefit Scheme has surplus, the Company will measure the net assets of the defined benefit scheme at the lower of the surplus of defined benefit scheme and the upper limit of the assets.

All defined benefit plans obligations, including the expected duty of payment within 12 months after the end of annual reporting period during which the staff provided service, are discounted based on the market yield of government bonds matching the term and currency of defined benefit plan obligations or corporate bonds of high quality in the active market on the balance sheet date.

The service cost incurred by the defined benefit scheme and the net interest of the net liabilities and net assets of the defined benefit scheme would be charged to current profit or loss or relevant costs of assets. The changes arising from the re-measurement of the net liabilities or net assets of the defined benefit scheme would be included in other comprehensive income and are not reversed to profit or loss in a subsequent accounting period; when the previously defined benefits plan is terminated, such amount previously included in other comprehensive income shall be transferred to undistributed profit.

When the defined benefit scheme is settled, the gain or loss is recognized based on the difference between the present value of obligations under the defined benefit scheme and the settlement price at the balance sheet date.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXII) Employee benefits (continued)

3. Accounting treatment of termination benefits

When the Company provides employees with termination benefits, the staff remuneration liabilities arising from termination benefits are recognized and recorded in current profit or loss whichever of the following is earlier: when the Company cannot unilaterally revoke such termination benefits provided due to dissolution of labour relationship plan or layoff proposal; when the Company recognizes such cost or expenses associated with the restructuring involving the payment of termination benefits.

(XXIII) Estimated liabilities

The Company recognizes the obligation related to contingencies which meeting the following conditions at the same time as liabilities:

- (1) such obligation is the present obligation of the Company;
- (2) the performance of such obligation is likely to lead to an outflow of economic benefits of the Company;
- (3) the amount of such obligation can be reliably measured.

The estimated liabilities are initially measured at the best estimate of expenditure required for the performance of relevant present obligations.

The Company shall take into consideration the risks, uncertainties, time value of money and other factors relating to the contingencies in determining the best estimate. If the time value of money is significant, the best estimates shall be determined after discount of relevant future cash outflows.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXIII) Estimated liabilities (continued)

If there is a successive range of the required expenditure, and the likelihood of occurrence of various results within the range is the same, the best estimate is determined by the intermediate value. In other cases, the best estimate is handled as follows:

- Where the contingency is related to individual item, the best estimate should be determined as the most likely amount.
- Where the contingency is related to a number of items, the best estimate should be calculated and determined according to the various possible results and the relevant probabilities.

When all or part of the expenditures necessary for the settlement of an estimated liability is expected to be compensated by a third party, the compensation should be separately recognized as an asset only when it is virtually certain that the compensation will be received. The amount recognized for the compensation should not exceed the carrying amount of estimated liabilities.

The Company reviews the carrying amount of estimated liabilities on 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.

(XXIV) Revenue

1. *Accounting policies for revenue recognition and measurement*

The Company recognizes revenue when the performance obligation in a contract is fulfilled, namely the customer obtains control of relevant goods or services. Control of a good or service refers to the ability to direct the use of the good or service, and obtain substantially all of the benefits from the goods or services.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXIV) Revenue (continued)

1. *Accounting policies for revenue recognition and measurement (continued)*

If a contract contains two or more performance obligations, at the commencement of the contract, the Company allocates the transaction price into each individual performance obligation according to the relative proportion of each individual selling price of goods or services committed by individual performance obligation, and measures the revenue according to the transaction price allocated to each individual performance obligation.

The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties and those expected to be refunded to the customer. The Company considers the terms of the contract and its customary business practices to determine the transaction price. When determining the transaction price, the Company considers the effects of variable consideration, the existence of a significant financing component in the contract, non-cash consideration and consideration payable to a customer. The Company determines the transaction price that includes variable considerations based on the amount not exceeding the revenue accumulatively recognized which is not likely to be significantly reversed when the relevant uncertainty disappears. Where there are significant financing elements in the contract, the Company recognizes the transaction price at an amount that reflects the price that a customer would have paid for the promised goods or services if the customer had paid cash for those goods or services when (or as) they transfer to the customer. The difference between the transaction price and the amount of contract consideration is amortized using an effective interest method over the contract term.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXIV) Revenue (continued)

1. Accounting policies for revenue recognition and measurement (continued)

When one of the following conditions is satisfied, the Company is considered to have fulfilled an obligation within a certain period of time. Otherwise, the Company is considered to have fulfilled an obligation at a certain point in time:

- At the same time when the Company fulfills the obligation, the customer immediately obtains and consumes the economic benefits brought about by the Company's performance.
- The customers can control the goods under construction in the course of the Company's performance.
- Goods produced in the course of the Company's performance are irreplaceable. In addition, during the entire contract period, the Company has the right to collect the payments for the cumulatively completed parts of performance.

Where fulfillment of a performance obligation takes place over a certain period of time, revenue should be recognized as performance takes place, excluding the stage of performance cannot be determined. The Company considers the nature of the goods or services and adopts the output method or the input method to determine the fulfillment progress of the performance. When the fulfillment progress of the performance cannot be determined reasonably, but is expected to recover the costs incurred, the Company should recognize revenue only to the extent of the cost until a reliable measure of fulfillment progress can be made.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXIV) Revenue (continued)

1. *Accounting policies for revenue recognition and measurement (continued)*

For a performance obligation satisfied at a point in time, the Company shall recognize revenue when the customer obtains control of relevant goods or services. In judging whether customers obtain control of promised goods or services, the Company considers the following Indications:

- The Company enjoys the right to collect cash on the goods or services, that is, the customer has the obligation to pay for the goods or services at the present time.
- The Company has transferred the legal ownership of the commodity to the customer, that is, the customer has the legal ownership of the commodity.
- The Company has transferred the goods in kind to the customers, that is, the customers have actually taken possession of the goods.
- The Company has transferred the main risks and rewards in the ownership of the commodity to its customers, that is, the customers have acquired the main risks and rewards in the ownership of the commodity.
- The customer has accepted the goods or services.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXIV) Revenue (continued)

2. *Specific revenue recognition policies*

Sales of mechanical equipment:

For the sales of large railway track maintenance machinery, the Group recognises revenue at the time when the control of the good is transferred. The quality assurance obligations related to the sales of machine provided by the Group cannot be purchased separately, aiming to guarantee that the goods sold meet the established standards, the Group therefore accounts for it in accordance with the Accounting Standards for Business Enterprises No. 13 – Contingencies.

Maintenance of large railway track maintenance machinery:

The revenue from the maintenance of large railway track maintenance machinery of the Group is mainly derived from the maintenance and overhaul of large railway track maintenance machinery. For the maintenance of large railway track maintenance machinery, the Group recognises revenue when all services are provided to customers and recognised by customers. The quality assurance obligations related to the maintenance of large railway track maintenance machinery provided by the Group cannot be purchased separately, aiming to guarantee that the services rendered meet the established standards, the Group therefore accounts for it in accordance with the Accounting Standards for Business Enterprises No. 13 – Contingencies.

Accessories sales:

The Group's revenue from the sales of accessories is mainly derived from the sales of accessories for large railway track maintenance machinery. For the sales of accessories for large railway track maintenance machinery, the Group recognises revenue when the control of the goods is transferred, i.e., when the accessories are delivered to customers.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXIV) Revenue (continued)

2. *Specific revenue recognition policies (continued)*

Railway line maintenance services:

Revenue from railway line maintenance services is mainly derived from maintenance and construction services for railway lines. For railway line maintenance services, the Group adopts the input method to determine the progress of contract performance and recognises revenue over time.

Mechanical design services:

Revenue from mechanical design services is mainly derived from design services for railway vehicles. For mechanical design services, the Group adopts the output method to determine the progress of contract performance and recognises revenue over time.

(XXV) Contract costs

Contract costs comprise contract performance costs and contract acquisition costs.

The costs incurred by the Company for the performance of the contract which does not fall under the scope of the standards relating to inventories, fixed assets and intangible assets are recognized as an asset as contract performance costs when the following conditions are met:

- This cost is directly related to a current or expected contract.
- This cost increases the resources of the Company to fulfill its performance obligations in the future.
- The cost is expected to be recovered.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXV) Contract costs (continued)

If the incremental cost incurred by the Company in obtaining the contract can be expected to be recovered, the contract acquisition cost shall be recognized as an asset.

Assets related to the cost of the contract are amortized on the same basis as the revenue recognition of the goods or services related to the asset; however, if the amortization period of the contract acquisition cost is less than one year, the Company will include it into the current profit or loss when it incurs.

For assets related to contract costs whose carrying amount is higher than the difference between the following two items, the Company will make provision for impairment for the excess and recognize it as asset impairment loss:

1. The remaining consideration expected to be obtained by the transfer of goods or services related to the asset;
2. The cost expected to be incurred for the transfer of the relevant goods or services.

If the above-mentioned excess is higher than the book value of such assets as a result of any subsequent change of impairment factors in the previous period, the provision for impairment of assets previously made shall be reversed and included in profit or loss for the period as incurred to the extent the book value of the reversed asset shall not exceed the book value of the asset on the date of the reverse assuming no provision for impairment is made.

(XXVI) Government grants

1. Types

Government grants are monetary assets and non-monetary assets obtained by the Company from the government for free, and are divided into government grants related to assets and government grants related to revenue.

Government grants related to assets are those obtained by the Company for the purposes of acquisition, construction or other project that forms a long-term asset. Government grants related to revenue refer to the government grants other than those related to assets.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXVI) Government grants (continued)

2. *Timing for recognition*

Government grants are recognized when the Company can comply with the conditions attached to it and when it can be received.

3. *Accounting treatment*

Asset-related government grants shall be used to offset the carrying amount of relevant asset or recognized as deferred income. The amount recognized as deferred income shall be recorded in current profit or loss by installments in a reasonable and systematic way over the useful life of the relevant assets (the government grants related to the Company's daily activities shall be included in other income; and the government grants unrelated to the Company's daily activities shall be included in non-operating income);

Government grants related to revenue that are used to compensate relevant costs or losses of the Company in subsequent periods are recognized as deferred income and recorded in current profit or loss when such costs and losses are recognized (government grants related to the Company's daily activities shall be included in other income; government grants unrelated to the Company's daily activities shall be included in non-operating income) or offset relevant costs or losses; and the grants used to compensate relevant costs or losses that have incurred by the Company are recorded directly in current profit or loss (government grants related to the Company's daily activities shall be included in other income; government grants unrelated to the Company's daily activities shall be included in non-operating income) or offset relevant costs or losses.

The interest subsidies for policy-related preferential loans obtained by the Company are divided into two types and subject to accounting treatment separately:

- (1) Where the interest subsidies are appropriated from the fiscal funds to the lending bank and then the bank provides loans to Company at a policy-based preferential interest rate, the Company will recognize the amount of borrowings received as the initial value and calculate the borrowing costs according to the principal amount and the policy-based preferential interest rate.
- (2) Where the interest subsidies are paid directly to the Company, the Company will use such interest subsidies to offset the corresponding borrowing costs.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXVII) Deferred income tax assets and deferred income tax liabilities

Income tax comprises current and deferred income tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to a business combination or items recognized directly in equity (including other comprehensive income).

Deferred tax assets and deferred tax liabilities are recognized based on the temporary differences between the tax bases and the carrying amount of assets and liabilities.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized. For deductible losses and tax credits that can be reversed in the future period, deferred tax assets shall be recognized to the extent that it is probable that taxable profit will be available in the future to offset the deductible losses and tax credits.

Save for exceptions, deferred income tax liabilities shall be recognized for the taxable temporary difference.

The exceptions for not recognition of deferred income tax assets and liabilities include:

- the initial recognition of the goodwill;
- other transactions or matters other than business combinations in which neither profit nor taxable income (or deductible loss) will be affected when transactions occur.

Deferred tax liabilities are recognized for temporary differences arising from investments in subsidiaries, joint ventures and associates, except where the Company is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, joint ventures and associates will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilised, the corresponding deferred tax assets are recognized.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXVII) Deferred income tax assets and deferred income tax liabilities (continued)

On the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the applicable tax rates during the period when the relevant assets are expected to be recovered or the relevant liabilities are expected to be settled in accordance with the provisions of the tax law.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date, and is reduced to the extent that it is no longer probable that the related tax benefits will be utilized. Such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

When the Group has a legally enforceable right to set-off and intends either to settle on a net basis or to acquire the income tax asset and settle the income tax liability simultaneously, current income tax assets and current income tax liabilities shall be presented as the net amount after offsetting.

At the balance sheet date, deferred tax assets and deferred tax liabilities are offset if all of the following conditions are met:

- When the taxable entity has the legal right to set off current income tax assets and current income tax liabilities on a net basis;
- When the deferred income tax assets and deferred income tax liabilities are related to income tax to be paid by the same entity liable to pay tax to the same tax authority, or related to different entities liable to pay tax but the relevant entities intend to settle on a net basis or to acquire the income tax assets and settle the income tax liabilities simultaneously in the future period in which significant deferred income tax assets and liabilities would be reversed.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXVIII) Lease

A lease is a contract that conveys the right to use an asset for a period of time in exchange for consideration. At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of one or more identified asset(s) for a period of time in exchange for consideration.

For a contract that contains multiple separate lease, the Company separates and accounts for each lease component as a lease separately. For a contract that contains lease and non-lease components, the lessee and lessor separates the lease and non-lease components.

For rent reductions, exemptions, deferred payments, and other rental reductions directly caused by the COVID-19 epidemic and reached on existing lease contracts, if the following conditions are met at the same time, the Company adopts a simplified method for all lease selections, and does not evaluate whether there is a lease change, also lease classification is not reassessed:

- The lease consideration after the concession is reduced or basically unchanged from that before the concession. The lease consideration may be undiscounted or discounted at the discount rate before the concession;
- No significant change in other terms and conditions of the lease after comprehensive consideration of qualitative and quantitative factors.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXVIII) Lease (continued)

1. The Company as a lessee

(1) Right-of-use assets

At the commencement date of lease term, the Company recognizes right-of-use assets for leases (excluding short-term leases and leases of low-value assets). Right-of-use assets are measured initially at cost. Such cost comprises:

- The amount of the initial measurement of lease liability;
- Lease payments made at or before the inception of the lease less any lease incentives already received (if there is a lease incentive);
- Initial direct costs incurred by the Company;
- The costs of the Company expected to be incurred for dismantling and removing the leased asset, restoring the site on which the leased asset is located or restoring it to the condition as agreed in the terms of the lease, except those incurred for the production of inventories.

The Company subsequently depreciates right-of-use assets using the straight-line method. If there is reasonable certainty that the Company will obtain the ownership of a leased asset at the end of the lease term, the Company depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset; otherwise, the Company depreciates the leased asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Company determines whether the right-of-use assets have been impaired in accordance with the principles described in the Note "III. (XX) Impairment of Long-term Assets" and conducts accounting treatment for impairment loss identified.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXVIII) Lease (continued)

1. The Company as a lessee (continued)

(2) Lease liabilities

At the commencement date of lease term, the Company recognizes lease liabilities for leases (excluding short-term leases and leases of low-value assets). Lease liabilities are initially measured based on the present value of outstanding lease payment. Lease payment includes:

- Fixed payments (including in-substance fixed payments), less any lease incentives (if there is a lease incentive);
- Variable lease payment that are based on an index or a rate;
- Amounts expected to be payable under the guaranteed residual value provided by the Company;
- The exercise price of a purchase option if the Company is reasonably certain to exercise that option;
- Payments of penalties for terminating the lease option, if the lease term reflects that the Company will exercise that option.

The Company adopts the interest rate implicit in the lease as the discount rate. If that rate cannot be determined reasonably, the Company's incremental borrowing rate is used.

The Company shall calculate the interest expenses of lease liabilities over the lease term at the fixed periodic interest rate, and include it into profit or loss in the period or cost of relevant assets.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXVIII) Lease (continued)

1. The Company as a lessee (continued)

(2) Lease liabilities (continued)

Variable lease payments not included in the measurement of lease liabilities are charged to profit or loss in the period or cost of relevant assets in which they actually arise.

After the commencement date of lease term, if the following circumstances occur, the Company re-measures the lease liability and adjusts the carrying value of the right-of-use asset accordingly. If the carrying value of the right-of-use asset has been reduced to zero, the lease liability still needs to be further reduced. The Company accounts for the difference in the current profit or loss:

- When there is a change in the assessment results of the purchase, extension or termination option, or when the actual exercise of the aforementioned options is inconsistent with the original valuation result, the Company re-measures the lease liabilities in accordance with the lease payments after changes and the present value calculated using the revised discount rate;
- When there is a change in substance fixed payments, the amount expected to be payable under the guaranteed residual value or the index or rate arising from the confirmation of lease payments, the Company re-measures the lease liabilities in accordance with the lease payments after changes and the present value calculated using the initial discount rate. However, if the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXVIII) Lease (continued)

1. The Company as a lessee (continued)

(3) Short-term leases and leases of low-value assets

The right-of-use asset and lease liability are not recognized by the Company for short-term leases and leases of low-value assets, and the relevant lease payments are included in profit or loss in the period or costs of relevant assets in each period of the lease term on a straight-line basis. Short-term leases are defined as leases with a lease term of not more than 12 months from the commencement date and excluding a purchase option. Leases of low-value assets are defined as leases with underlying low value when new. Where the Company subleases or expects to sublease a leased asset, the original lease shall not belong to a lease of low value asset.

(4) Lease change

The Company will account for the lease change as a separate lease if the lease changes and meets the following conditions:

- The lease change expands the scope of lease by increasing the rights to use one or more leased assets;
- The increased consideration and the individual price of the expanded part of the lease are equivalent to the amount adjusted for the contract.

If the lease change is not accounted for as a separate lease, the Company shall re-allocate the consideration of a changed contract, re-determine the lease term, and re-measure the lease liabilities by the present value calculated from the changed lease payments a revised discount rate on the effective date of the lease change.

If the lease change results in a narrower lease or a shorter lease term, the Company reduces the carrying value of the right-of-use asset accordingly, and recognises the related gains or losses that partially terminate or completely terminate the leases into the current profit and loss. For other lease change that cause the lease liabilities to be remeasured, the Company adjusts the carrying value of the right-of-use assets accordingly.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXVIII) Lease (continued)

2. *The Company as a lessor*

At the commencement date of lease term, the Company classifies leases as financing leases and operating leases. A financing lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset, irrespective of whether the ownership of the asset is eventually transferred. An operating lease is a lease other than a finance lease. As a sub-leasing lessor, the Company classifies the subleases based on the right-of-use assets of the original leases.

(1) *Accounting treatment of operating leases*

The lease payments derived from operating leases are recognized as rental income on a straight-line basis over the respective lease terms. Initial direct costs relating to operating leases to be incurred by the Company shall be capitalized and then included in the current income by stages at the same base as the recognition of rental income over the lease term. The variable lease payments not included in the measurement of lease payments shall be recognized in profit or loss in the period in which they are occurred. Where there is a modification in an operating lease, the Company accounts for it as a new lease from the effective date of the modification, and the amount of lease receipts received or receivable in advance relating to the pre-modification lease is treated as receipts under the new lease.

(2) *Accounting treatment of financing leases*

At the commencement date of lease term, the Company recognizes financing lease receivable and derecognizes the underlying assets. The Company initially measures financing lease receivable in the amount of net investment in the lease. Net investment in the lease is the sum of present value of unguaranteed residual value and the lease payments receivable at the commencement date of lease term, discounted at the interest rate implicit in the lease.

The Company calculates and recognizes interest income in each period during the lease term, based on a constant periodic interest rate. The derecognition and impairment of financing lease receivable are accounted for in accordance with the Note "III. (X) Financial Instruments".

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXVIII) Lease (continued)

2. The Company as a lessor (continued)

(2) Accounting treatment of financing leases (continued)

Variable lease payments not included in the measurement of the net investment in the lease are included in profit or loss in the period in which they are occurred.

Accounting treatment of lease changes when a financial lease is changed and the following conditions are simultaneously met, the Company accounts for the lease change as a separate lease:

- The change expands the scope of lease by adding the right to use one or more leased assets;
- The consideration and the separate price of the expanded scope of lease are equivalent to the amount adjusted according to the contract.

Where a change in a financial lease is not accounted for as a separate lease, the Company deals with the lease after the change according to the following situation:

- In case where the lease would have been classified as an operating lease assuming the modification became effective at the commencement date of the lease, the Company accounts for it as a new lease from the effective date of the modification and the net investment in the lease prior to the effective date of the modification is taken as the carrying amount of the leased assets;
- In case where the lease would have been classified as a finance lease assuming the modification became effective at the commencement date of the lease, the Company conducts accounting treatment in accordance with the policy regarding the modification or renegotiation of contracts described in this note "III. (X) Financial instruments".

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXVIII) Lease (continued)

3. *Sale and leaseback transactions*

The Company determines whether the asset transfer in the sale and leaseback transaction is a sale in accordance with principles described in Note "III. (XXIV) Revenue".

(1) *As a lessee*

If the asset transfer in the sale and leaseback transaction is a sale, the Company, as a lessee, measures the right-of-use assets formed by the sale and leaseback based on the part of the book value of the original assets related to the use rights obtained from the leaseback, and recognize relevant gains or losses only for the right to transfer to the lessor; if the transfer of assets in the sale and leaseback transaction is not a sale, the Company, as a lessee, continues to recognize the transferred assets and recognizes a financial liability equal to the transfer income. For details of accounting treatment for financial liabilities, please see Note "III. (X) Financial Instruments".

(2) *As a lessor*

If the transfer of assets in the sale and leaseback transaction is a sale, the Company, as a lessor, accounts for asset purchase, and accounts for asset lease in accordance with policies in the aforementioned "2. The Company as a lessor"; if the transfer of assets in the sale and leaseback transaction is not a sale, the Company, as a lessor, does not recognize the transferred assets, but recognizes a financial asset equal to the transfer income. For details of accounting treatment for financial assets, please see Note "III. (X) Financial instruments".

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXIX) Fair value measurement

The Group measures the relevant assets and liabilities at fair value based on the following assumptions:

- The sales of assets or transfer of liabilities by the market participant on the measurement date belongs to the orderly transaction under the current market conditions.
- Such orderly transaction is carried out in the major market of relevant assets or liabilities. If the major market does not exist, it is assumed that such transaction is carried out in the market most beneficial to relevant assets or liabilities.
- The assumption used by the market participant in order to maximize the benefits at the time of pricing such assets or liabilities.

According to the property of the said transaction and the characteristic of the said assets or liabilities, the Group recognizes the transaction value as the fair value of initial recognition.

If other relevant accounting standards require or permit the Company to conduct initial measurement on the relevant assets or liabilities at the said fair value, and the transaction value is different from the fair value, the Company will include relevant gains or losses in the current profit or loss, unless otherwise specified in other relevant accounting standards.

For the measurement of non-financial assets at fair value, the capability of the market participant in bringing about economic interest via the best use of such assets, or the capability in selling such assets to the other market participant for bringing about economic interest with the best use of such assets should be taken into account.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXIX) Fair value measurement (Continued)

The valuation techniques which are applicable to the current situation and have sufficient usable data and other information support are taken into account by the Group for the adoption of valuation technique. Relevant observable input values are preferentially adopted for valuation techniques, and the unobservable input values can be used only when the observable input values are unable or impractical to be obtained.

Input values used in the fair value measurement are divided into three levels:

- Level 1 input values are unadjusted quoted prices in the active market of identical assets or liabilities accessible on the measurement date.
- Level 2 input values refer to input values that are directly or indirectly observable for relevant assets or liabilities, other than Level 1 input values.
- Level 3 input values are unobservable input values for relevant assets or liabilities.

The fair value measurement is categorized in its entirety based on the lowest level where the input values that are significant to the entire measurement stand.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXX) Discontinued operations

A discontinued operation is a clearly distinguished component of an entity, that either has been disposed of, or is classified as held for sale, and meets any of the following criteria:

- (1) represents a separate major line of business or geographical area of operations;
- (2) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations;
- (3) is a subsidiary acquired exclusively with a view to resale.

The profits or losses from continuing operations and discontinued operations are presented in the income statement, respectively. The profits or losses from discontinued operations such as impairment losses and reversed amounts, and the profits or losses of disposal shall be presented as the profits or losses from discontinued operations. For discontinued operations presented in the current period, the information originally presented as the profits or losses from continuing operations in the current financial statements shall be presented as the profits or losses from discontinued operations during comparable accounting periods again.

(XXXI) Segment reporting

The Company determines operating segments based on its internal organizational structure, management requirements and internal reporting system, and determines reportable segments and disclose segment information by operating segments.

The operating segments refer to the Company's components that simultaneously meet the following conditions: (1) the components can generate income and incur expenses in daily activities; (2) The Management of the Company can regularly evaluate the operating results of this component to decide the allocatable resources and assess its performance; (3) The Company can obtain relevant accounting information such as the financial positions, operating results and cash flows of this component. If two or more operating segments have similar economic characteristics and meet certain conditions, they can be merged into one operating segment.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXXII) Safety expense and maintenance expense

The Group provided for safety expense and maintenance expense according to the relevant regulations of the Notice on Printing and Distributing the “Administrative Measures for the Provision and Utilization of Safety production expenses” (Cai Zi [2022] No. 136), issued by the Ministry of Finance.

Provisions for safety production expenses and maintenance expense are included in the cost of related products or profit or loss of the current period and included in the “special reserve” account correspondingly.

When the provisions are utilized within the prescribed scope, if the expenditures are revenue in nature, those expenditures are offset directly against the special reserve; if the fixed assets are formed, the expenditures will be accumulated in “construction in progress” and transferred to fixed assets when the relevant safety project is completed and ready for its intended use. At the same time, the special reserve is reduced according to the cost of the fixed asset formed and the accumulated depreciation of the same amount is provided. The fixed asset will no longer be depreciated in future periods.

(XXXIII) Significant accounting estimates and judgments

When using the accounting policies stated above, due to uncertainty of operating activities, the Group needs to make judgment, estimation and assumption on the book value of reporting items could not be calculated accurately. These judgments, estimation and assumptions are based on past experience of the Group’s management while considering other related factors. The actual result may differ from the Group’s estimation.

The Group regularly reviews the aforesaid judgment, estimation and assumption on the basis of continuous operation. Where the changes in accounting estimation only impact the current period, the impact shall be recognized during the current period; where such changes impact both the current and future period, the impact shall be confirmed during the current or future period when such changes occur.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXXIII) Significant accounting estimates and judgments (Continued)

The key assumptions and uncertainties adopted in accounting estimates

The 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 amount of assets and liabilities in future periods are mainly:

Useful lives and residual values of fixed assets

The useful lives of fixed assets are estimated based on the actual useful lives of fixed assets of similar nature and function in the past, based on historical experience. To determine the useful life and estimated net residual value of fixed assets, the Group regularly reviews changes in market conditions, the actual wear and tear of assets and asset maintenance. If the useful life of fixed assets is reduced, the Group will increase the depreciation rate and retire those assets that are idle or technically obsolete. The Group reviews the useful lives and estimated net residual values of fixed assets at the end of the year in the light of changes in circumstances.

Impairment of trade receivables

The Group measures loss allowance for trade receivables arising from transactions regulated by Revenue Standard based on the amount of full lifetime ECL. For receivables that are individually significant and for which credit impairment has occurred, the management determines the credit loss by estimating the cash flows expected to be collected based on objective evidence that credit impairment has occurred and taking into account forward-looking information. For receivables other than those mentioned above, the Group divides the items into different portfolios based on the common risk characteristics, and employs impairment matrix on the basis of portfolios to determine the credit loss of related items. The expected credit loss rate is determined based on the Group's historical actual loss rate taking into account the forward-looking information. The determination of expected credit losses involves the estimates and judgement of the management and if the re-estimated results differ from existing estimates, such differences will impact the profit and carrying value of trade receivables in the period in which the estimates are changed.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXXIII) Significant accounting estimates and judgments (Continued)

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

Impairment of goodwill

The impairment testing of goodwill requires the calculation of the present value of the estimated future cash flows of the relevant asset group comprising the goodwill and requires the estimation of the future cash flows of that asset group and the determination of a pre-tax rate that appropriately reflects the current market time value of money and the risks specific to the asset. Further impairment may occur if actual future cash flows are less than expected.

Income tax and deferred tax assets

The Company and its subsidiaries are subject to enterprise income tax in their respective locations due to their geographical locations. In providing for enterprise income tax, reliable estimates and judgments are required based on current tax regulations and other relevant policies as certain matters relating to enterprise income tax have not been confirmed by the competent tax authorities. Where the final tax outcome of such matters differs from the amounts recognized, such differences will have an impact on the current income tax for the period.

Deferred tax assets relating to certain deductible temporary differences and tax losses are recognized to the extent that the management believes it is probable that sufficient taxable income will be available against which deductible temporary differences or deductible losses can be utilized in the future. If the estimate differs from the original estimate, such differences will have an impact on the deferred tax assets and tax recognized in the period of change.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXXIV) Changes in significant accounting policies and accounting estimates

1. Changes in significant accounting policies

(1) Implementation of the Interpretation No. 15 to the Accounting Standards for Business Enterprises

On 30 December 2021, the Ministry of Finance issued the Interpretation No. 15 of Accounting Standards for Business Enterprises (Cai Kuai [2021] No. 35) (hereinafter referred to as “**Interpretation No. 15**”).

1 Accounting treatment for trial operation sales

Interpretation No. 15 stipulates the accounting treatment and presentation of the products or by-products produced by an enterprise before the fixed assets reach the intended usable state or during the research and development process, and stipulates that the net amount arrived after offsetting cost with the trial operation sales related income should not be used to offset the cost of fixed assets or research and development expenditure. The regulation came into effect on 1 January 2022, and the trial operation sales occurring between the beginning of the earliest financial statement presentation period and 1 January 2022 shall be adjusted retrospectively. The Company’s implementation of the regulation did not have an impact on the financial statements.

2 Judgment of loss-making contracts

Interpretation No. 15 clarifies that the “cost of performing the contract” considered by an enterprise when judging whether the contract constitutes a loss-making contract should include both the incremental cost of performing the contract and the apportionment of other costs directly related to the performance of the contract. The regulation came into effect on 1 January 2022. Enterprises should implement the regulation for contracts that have not fulfilled all the obligations on 1 January 2022 with the accumulative amount adjusted in the retained earnings and other related financial statement items at the beginning of the year of implementation of the regulation, and comparative figures in previous financial statements will not be adjusted. The Company’s implementation of the regulation did not have an impact on the financial statements.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXXIV) Changes in significant accounting policies and accounting estimates (continued)

1. Changes in significant accounting policies (continued)

(3) Implementation of Accounting Standards for Business Enterprises Interpretation No. 16

On 30 November 2022, the Ministry of Finance issued the Accounting Standards for Business Enterprises Interpretation No. 16 (Cai Kuai [2022] No.31, hereinafter referred to as “**Interpretation No.16**”).

1 Accounting treatment of income tax effects related to dividends on financial instruments classified as equity instruments

Interpretation No.16 stipulates that for financial instruments classified as equity instruments, the income tax effects related to dividends should be recognized when recognizing dividends payable if the related dividend expense is deducted before tax in accordance with relevant tax policies. The income tax effects of dividends should be recorded in the current profit and loss or owner’s equity (including other comprehensive income) in the manner consistent with the accounting treatment adopted for transactions or events that generated distributable profits in the past.

The regulation came into effect on the date of issue. If the dividends payable occur between 1 January 2022 and the effective date, adjustment shall be made according to the regulation, and if the dividends payable occur before 1 January 2022 and the related financial instruments has not yet been derecognized on 1 January 2022, adjustment shall be made retrospectively. The implementation of the regulation did not have any material impact on the Company’s financial position and operating results.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(XXXIV) Changes in significant accounting policies and accounting estimates (continued)

1. Changes in significant accounting policies (continued)

(3) *Implementation of Accounting Standards for Business Enterprises Interpretation No. 16 (continued)*

2 Accounting treatment for modifying cash-settled share-based payments to equity-settled share-based payments

Interpretation No.16 clarifies that if the terms and conditions of cash-settled share-based payment agreements are modified to change the cash-settled share-based payments into equity-settled share-based payments, the equity-settled share-based payments should be measured at the fair value of the equity instruments granted on the modification date (whether occurring during or after the vesting period). The services already received should be recognized in capital reserves, and the liability for cash-settled share-based payments that has been recognized as of the modification date should be derecognized, and any difference between the two should be recognized in the current profit and loss.

The regulation is effective from the date of issue. For new transactions occurring between 1 January 2022 and the effective date, adjustments should be made in accordance with the regulation. For relevant transactions occurring before 1 January 2022 which were not treated in accordance with the regulation, adjustments should be made retrospectively with the cumulative impact adjusted to retained earnings and other related items as of 1 January 2022, and comparative figures in previous financial statements will not be adjusted. The implementation of the regulation did not have any material impact on the Company's financial position and operating results.

2. Changes in significant accounting estimates

There were no changes in significant accounting estimates in the reporting period.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

IV. TAXES

(I) Main taxes and tax rates

Tax types	Tax basis	Tax rate
Value-added tax	The value-added tax payable is the difference between output tax (calculated based on the revenue from sales of goods and taxable service income under the tax laws) and net of the input tax that is allowed to be deducted in the current period	6%, 9%, 13%
City maintenance and construction tax	Based on value-added tax and consumption duty paid	5%, 7%
Enterprise income tax	Based on taxable profits	The Company and its subsidiary, Beijing Ruiweitong Engineering Machinery Co., Ltd., are entitled to a preferential tax rate of 15% and the enterprise income tax of other domestic subsidiaries of the Group is calculated at 25% of the taxable income. The subsidiaries of the Company established overseas shall provide enterprise income tax according to the local income tax laws and regulations of the places of registration.
Education surcharge	Based on value-added tax and consumption duty paid	3%
Local education surcharge	Based on value-added tax and consumption duty paid	2%

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

IV. TAXES (continued)

(II) Tax concession

1. *Deduction of research and development expenses incurred*

Pursuant to the Announcement on Further Improving the Policy on Pre-tax Deduction of Research and Development Expenses (Announcement No. 13 of 2021 of the Ministry of Finance and the State Administration of Taxation), starting from 1 January 2021, the Company and its subsidiaries are entitled to a pre-tax deduction of 100% of the actual amount incurred for research and development expenses that meet the aforesaid requirements when calculating taxable income.

2. *Tax preferential policy for the Western Region Development*

Pursuant to the Announcement of the Ministry of Finance, the State Administration of Taxation and the National Development and Reform Commission on Continuing the Enterprise Income Tax Policies for Western Development Strategies (Cai Shui [2020] No. 23), the tax preferential policy for the Western Region Development are valid until 2030. The document stipulates that: "from 1 January 2021 to 31 December 2030, enterprise income tax shall be levied at a reduced rate of 15% on enterprises in the encouraged industries located in the western region. Enterprises in the encouraged industries as referred to in this article are those whose main business is in the industries specified in the Catalogue of Industries Encouraged to Develop in the Western Region and whose main business revenue accounts for more than 60% of the total revenue of the enterprise. The Catalogue of Industries Encouraged to Develop in the Western Region is formulated under the leadership of the Development and Reform Commission. If the catalogue is amended within the implementation period of this announcement, the new version will be implemented from the date of implementation of the amended version".

In 2021 and 2022, the Company satisfies the condition of "being located in the western region, whose main business is the projects in the encouraged industries as stipulated by the State, and with its main business revenue accounting for more than 60% of the total revenue of the enterprise in the year" as stipulated in the aforesaid document, the Company is eligible for the preferential tax policy for the Western Region Development, and is applicable to preferential income tax rate of 15%.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

IV. TAXES (continued)

(II) Tax concession (continued)

3. Preferential policy for high and new technology enterprises

The Company applied to Yunnan Science and Technology Department, Yunnan Finance Department and Yunnan Taxation Bureau of the State Administration of Taxation in 2019 and 2022, and was recognized as a high-tech enterprise. From 2019 to 2021 and from 2022 to 2024, the Company paid enterprise income tax at the preferential rate of 15%.

The Company's subsidiary, Beijing Ruiweitong Engineering Machinery Co., Ltd., applied to the Beijing Science and Technology Commission, Beijing Municipal Finance Bureau, and Beijing Municipal Tax Service, State Taxation Administration in 2021 and was finally recognized as a high-tech enterprise, and is entitled to a preferential enterprise income tax rate of 15% from 2021 to 2024.

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(I) Cash and bank balances

Item	Balance as at 31 December 2022	Balance as at 31 December 2021
Cash on hand	8,928.89	12,083.65
Digital currency	–	–
Bank deposits	1,163,140,934.24	1,178,521,384.33
Other cash and bank balances	–	–
Total	1,163,149,863.13	1,178,533,467.98
Including: Total amount of deposits overseas	65,646,742.55	47,415,643.64
Deposit in finance company	29,511,346.65	35,022,775.18

Note: As at 31 December 2022, the Group had no restricted cash and bank balances due to mortgage, pledge or freezing, due to centralized management or which are placed overseas and subject to repatriation restrictions.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(II) Bills receivable

1. Bills receivable shown as classification

Item	Balance as at 31 December 2022	Balance as at 31 December 2021
Commercial acceptance bills	287,055,937.86	213,564,809.30
Less: Bad debt provision	1,320,116.57	705,390.29
Total	285,735,821.29	212,859,419.01

2. Bills receivable pledged as at 31 December 2022

Item	Amount pledged as at 31 December 2022
Commercial acceptance bills	8,732,922.00
Total	8,732,922.00

Note: As at 31 December 2022, the Group had no bills receivable with restricted ownership or that were transferred to accounts receivable due to non-performance by the drawers. The bill pledged is a guarantee for the issuance of a bank acceptance bill to the bill pool.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(II) Bills receivable (continued)

3. Bills receivable by bad debt provision method

Type	Balance of carrying amount		Closing balance Bad debt provision		Book value	Closing balance of the previous year Balance of carrying amount		Closing balance of the previous year Bad debt provision		Book value
	Amount	Proportion (%)	Amount	Proportion of provision (%)		Amount	Proportion (%)	Amount	Proportion of provision (%)	
Bills receivable with provision for the bad debt based on an individual basis										
Bills receivable with the provision for bad debt based on a portfolio basis	287,055,937.86	100.00	1,320,116.57	0.46	285,735,821.29	213,564,809.30	100.00	705,390.29	0.33	212,859,419.01
Including:										
Related party portfolio	28,790,780.62	10.03	28,790.78	0.10	28,761,989.84	90,408,438.00	42.33	90,408.44	0.10	90,318,029.56
Aging portfolio	258,265,157.24	89.97	1,291,325.79	0.50	256,973,831.45	123,156,371.30	57.67	614,981.85	0.50	122,541,389.45
Total	287,055,937.86	100.00	1,320,116.57		285,735,821.29	213,564,809.30	100.00	705,390.29		212,859,419.01

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(III) Accounts receivable

1. Accounts receivable based on invoice dates shown by aging

Aging	Balance as at 31 December 2022	Balance as at 31 December 2021
Within 1 year	1,716,701,870.31	1,676,993,884.36
1–2 years	231,052,779.97	159,046,488.69
2–3 years	60,757,349.44	139,999,200.62
3–4 years	45,701,162.63	65,092,515.70
4–5 years	51,461,696.20	27,906,869.10
Over 5 years	72,254,533.77	169,345,408.17
Sub-total	2,177,929,392.32	2,238,384,366.64
Less: Bad debt provision	127,687,901.42	188,910,569.19
Total	2,050,241,490.90	2,049,473,797.45

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(III) Accounts receivable (continued)

2. Classification of accounts receivable by basis of bad debt provisions made

Type	Balance as at 31 December 2022					Balance as at 31 December 2021				
	Balance of carrying amount		Bad debt provision		Book value	Balance of carrying amount		Bad debt provision		Book value
	Amount	Proportion (%)	Amount	Proportion of provision (%)		Amount	Proportion (%)	Amount	Proportion of provision (%)	
Accounts receivable with provision for the bad debt based on an individual basis	30,814,716.62	1.41	30,814,716.62	100.00		131,574,716.62	5.88	96,400,678.16	73.27	35,174,038.46
Accounts receivable with the provision for bad debt based on a portfolio basis	2,147,114,675.70	98.59	96,873,184.80	4.51	2,050,241,490.90	2,106,809,650.02	94.12	92,509,891.03	4.39	2,014,299,758.99
Including:										
The portfolio of related parties	266,051,185.04	12.39	258,302.82	0.10	265,792,882.22	411,358,900.18	19.53	411,358.87	0.10	410,947,541.31
The portfolio of aging	1,881,063,490.66	87.61	96,614,881.98	5.14	1,784,448,608.68	1,695,450,749.84	80.47	92,098,532.16	5.43	1,603,352,217.68
Total	2,177,929,392.32	100.00	127,687,901.42	-	2,050,241,490.90	2,238,384,366.64	100.00	188,910,569.19	-	2,049,473,797.45

Provision for bad debts on an individual basis:

Name	Balance as at 31 December 2022			
	Balance of carrying amount	Bad debt provision	Proportion of provision (%)	Reason for provision
Unit 1	28,640,000.00	28,640,000.00	100.00	Long aging
Unit 2	2,174,716.62	2,174,716.62	100.00	With relatively higher expected credit risks
Total	30,814,716.62	30,814,716.62	-	-

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(III) Accounts receivable (continued)

2. Classification of accounts receivable by basis of bad debt provisions made (continued)

Provision for bad debts on a portfolio basis:

Items provided based on portfolio:

Name	Balance as at 31 December 2022		
	Accounts receivable	Bad debt provision	Proportion of provision (%)
The portfolio of related parties	266,051,185.04	258,302.82	0.10
The portfolio of aging	1,881,063,490.66	96,614,881.98	5.14
Total	2,147,114,675.70	96,873,184.80	–

3. Accrued, reversed or recovered provision for bad debts in the period

Type	Balance as at 31 December 2021	Movement during the period			Balance as at 31 December 2022
		Provision accrued	Recovered or reversed	Charged off or written off	
Accounts receivable with provision for the bad debt based on an individual basis	96,400,678.16		65,585,961.54	–	30,814,716.62
Accounts receivable with the provision for bad debt based on a portfolio basis	92,509,891.03	31,407,415.68	27,044,121.91	–	96,873,184.80
Total	188,910,569.19	31,407,415.68	92,630,083.45	–	127,687,901.42

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(IV) Receivables at FVTOCI

1. Breakdown of receivables at FVTOCI

Item	Balance as at 31 December 2022	Balance as at 31 December 2021
Bills receivable	104,157,088.53	29,681,169.19
Accounts receivable		
Total	104,157,088.53	29,681,169.19

2. Movement and changes in fair value of receivables at FVTOCI during the period

Item	Balance as at 31 December 2021	Increase during the period	Derecognition during the period	Other movements	Balance as at 31 December 2022	Accumulated impairment losses recognized in other comprehensive income
Bank acceptance bills	29,681,169.19	105,547,256.00	30,873,266.00	-198,070.66	104,157,088.53	—
Total	29,681,169.19	105,547,256.00	30,873,266.00	-198,070.66	104,157,088.53	—

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(V) Prepayments

1. Prepayments based on invoice dates presented by ageing

Ageing	Balance as at 31 December 2022		Balance as at 31 December 2021	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	36,260,318.34	95.57	46,940,856.03	97.06
1–2 years	544,947.71	1.44	234,915.75	0.49
2–3 years	221,311.71	0.58	229,567.00	0.47
Over 3 years	912,842.07	2.41	956,291.93	1.98
Total	37,939,419.83	100.00	48,361,630.71	100.00

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(VI) Other receivables

Item	Balance as at 31 December 2022	Balance as at 31 December 2021
Interest receivable	–	–
Dividend receivable	–	–
Other receivables	34,138,090.38	29,427,316.59
Total	34,138,090.38	29,427,316.59

1. Other receivables

(1) Other receivables based on invoice date shown by ageing

Ageing	Balance as at 31 December 2022	Balance as at 31 December 2021
Within 1 year	71,842,173.17	28,468,585.23
1–2 years	590,734.06	335,669.05
2–3 years	104,740.16	1,834,280.61
Over 3 years	1,355,864.96	–
Sub-total	73,893,512.35	30,638,534.89
Less: Bad debt provision	39,755,421.97	1,211,218.30
Total	34,138,090.38	29,427,316.59

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(VI) Other receivables (continued)

1. Other receivables (continued)

(2) Classification of other receivables by basis of bad debt provision method

Type	Balance as at 31 December 2022					Balance as at 31 December 2021				
	Balance of carrying amount		Bad debt provision		Book value	Balance of carrying amount		Bad debt provision		Book value
	Amount	Proportion (%)	Amount	Proportion of provision (%)		Amount	Proportion (%)	Amount	Proportion of provision (%)	
Other receivables with provision for the bad debt based on an individual basis	38,273,264.57	51.80	38,273,264.57	100.00	-	-	-	-	-	-
Other receivables with the provision for bad debt based on a portfolio basis	35,620,247.78	48.20	1,482,157.40	4.16	34,138,090.38	30,638,534.89	100.00	1,211,218.30	3.95	29,427,316.59
Including:										
The portfolio of related parties	1,210,000.00	3.40	6,050.00	0.50	1,203,950.00	-	-	-	-	-
The portfolio of aging	34,410,247.78	96.60	1,476,107.40	4.29	32,934,140.38	30,638,534.89	100.00	1,211,218.30	3.95	29,427,316.59
Total	73,893,512.35	100.00	39,755,421.97	-	34,138,090.38	30,638,534.89	100.00	1,211,218.30	-	29,427,316.59

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(VI) Other receivables (continued)

1. Other receivables (continued)

(2) Classification of other receivables by basis of bad debt provision method (continued)

Other receivables with the provision for bad debt based on an individual basis:

Name	Balance as at 31 December 2022			
	Balance of carrying amount	Bad debt provision	Proportion of provision (%)	Reason for provision
Unit 1	38,273,264.57	38,273,264.57	100.00	With relatively higher expected credit risks
Total	38,273,264.57	38,273,264.57	–	–

Other receivables with the provision for bad debt based on a portfolio basis:

Items provided based on a portfolio basis:

Name	Balance as at 31 December 2022		
	Other receivables	Bad debt provision	Proportion of provision (%)
The portfolio of related parties	1,210,000.00	6,050.00	0.50
The portfolio of aging	34,410,247.78	1,476,107.40	4.29
Total	35,620,247.78	1,482,157.40	–

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(VI) Other receivables (continued)

1. Other receivables (continued)

(3) Details of accrued bad debt provision

Bad debt provision	First stage Expected credit loss in the next 12 months	Second stage Expected credit loss over the duration (no credit impairment occurred)	Third stage Expected credit loss over the duration (credit impairment occurred)	Total
Balance at 31 December 2021	1,211,218.30	—	—	1,211,218.30
Balance at 31 December 2021 in the current period	1,211,218.30	—	—	1,211,218.30
– transfer to second stage	—	—	—	—
– transfer to third stage	—	—	—	—
– transfer back to second stage	—	—	—	—
– transfer back to first stage	—	—	—	—
Accrued in current period	522,775.32	—	38,273,264.57	38,796,039.89
Reversal in current period	251,836.22	—	—	251,836.22
Charged off in current period	—	—	—	—
Written off in current period	—	—	—	—
Other movements	—	—	—	—
Balance at 31 December 2022	1,482,157.40	—	38,273,264.57	39,755,421.97

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(VI) Other receivables (continued)

1. Other receivables (continued)

(3) Details of accrued bad debt provision (continued)

Changes in the balance of carrying amount of other receivables are as follows:

Balance of carrying amount	First stage Expected credit loss in the next 12 months	Second stage Expected credit loss over the duration (no credit impairment occurred)	Third stage Expected credit loss over the duration (credit impairment occurred)	Total
Balance at 31 December 2021	30,638,534.89	—	—	30,638,534.89
Balance at 31 December 2021 in the current period	30,638,534.89	—	—	30,638,534.89
– transfer to second stage	—	—	—	—
– transfer to third stage	—	—	—	—
– transfer back to second stage	—	—	—	—
– transfer back to first stage	—	—	—	—
Increase in the current period	96,703,879.37	—	38,273,264.57	134,977,143.94
Derecognition in the current period	91,722,166.48	—	—	91,722,166.48
Other movements	—	—	—	—
Balance at 31 December 2022	35,620,247.78	—	38,273,264.57	73,893,512.35

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(VI) Other receivables (continued)

1. Other receivables (continued)

(4) Accrued, reversed or recovered provision for bad debts in the period

Type	Balance as at 31 December 2021	Movement in the period			Balance as at 31 December 2022
		Provision accrued	Recovered or reversed	Charged off or written off	
Other receivables with provision for the bad debt based on an individual basis	–	38,273,264.57	–	–	38,273,264.57
Other receivables with the provision for bad debt based on a portfolio basis	1,211,218.30	522,775.32	251,836.22	–	1,482,157.40
Total	1,211,218.30	38,796,039.89	251,836.22	–	39,755,421.97

(5) Classification of other receivables by nature

Nature of receivables	Balance of carrying amount as at 31 December 2022	Balance of carrying amount as at 31 December 2021
Deposit	20,266,098.09	21,055,941.88
Others	53,627,414.26	9,582,593.01
Total	73,893,512.35	30,638,534.89

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(VII) Inventories

1. Classification of inventories

Item	Balance as at 31 December 2022			Balance as at 31 December 2021		
	Balance of carrying amount	Provision for inventory depreciation/ provision for impairment of contract performance cost	Book value	Balance of carrying amount	Provision for inventory depreciation/ provision for impairment of contract performance cost	Book value
Raw materials	670,145,133.34	23,496,855.84	646,648,277.50	711,467,832.06	22,149,389.83	689,318,442.23
Goods in transit	8,263,138.68	-	8,263,138.68	15,154,484.40	-	15,154,484.40
Goods in process	750,234,895.73	-	750,234,895.73	884,436,144.81	-	884,436,144.81
Finished products	782,463,765.36	7,894,859.48	774,568,905.88	629,330,850.16	-	629,330,850.16
Total	2,211,106,933.11	31,391,715.32	2,179,715,217.79	2,240,389,311.43	22,149,389.83	2,218,239,921.60

2. Provision for inventory depreciation and provision for impairment of contract performance cost

Item	Balance as at 31 December 2021	Increase in the current period		Decrease in the current period		Balance as at 31 December 2022
		Provision	Other	Reversal or write-off	Others	
Raw materials	22,149,389.83	2,342,252.21	-	994,786.20	-	23,496,855.84
Finished products	-	7,894,859.48	-	-	-	7,894,859.48
Total	22,149,389.83	10,237,111.69	-	994,786.20	-	31,391,715.32

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(VIII) Contract assets

1. Breakdown of contract assets

Item	Balance as at 31 December 2022			Balance as at 31 December 2021		
	Balance of carrying amount	Provision for impairment	Book value	Balance of carrying amount	Provision for impairment	Book value
Construction projects	25,827,909.88	133,174.45	25,694,735.43	6,582,722.10	32,913.61	6,549,808.49
Quality guarantee deposit	4,442,037.30	22,960.18	4,419,077.12	12,442,752.22	62,963.76	12,379,788.46
Total	30,269,947.18	156,134.63	30,113,812.55	19,025,474.32	95,877.37	18,929,596.95

2. Amount of and reason for significant change in carrying amount within the reporting period

Item	Change	Reason for change
Construction projects	19,245,187.78	Increase due to change in measurement of progress of contract performance
Quality guarantee deposit	-8,000,714.92	Transfer of contract assets recognized at the beginning of the year into accounts receivable
Total	11,244,472.86	

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(VIII) Contract assets (Continued)

3. Disclosure by category of contract assets based on the provision method for impairment

Category	Balance as at 31 December 2022					Balance as at 31 December 2021				
	Balance of carrying amount		Provision for impairment		Book value	Balance of carrying amount		Provision for impairment		Book value
	Amount	Proportion (%)	Amount	Proportion of provision (%)		Amount	Proportion (%)	Amount	Proportion of provision (%)	
Contract assets with the provision for impairment based on an individual basis	-	-	-	-	-	-	-	-	-	-
Contract assets with the provision for impairment based on a portfolio basis	30,269,947.18	100.00	156,134.63	0.52	30,113,812.55	19,025,474.32	100.00	95,877.37	0.50	18,929,596.95
Including:										
Other external entities	30,269,947.18	100.00	156,134.63	0.52	30,113,812.55	19,025,474.32	100.00	95,877.37	0.50	18,929,596.95
Total	30,269,947.18	100.00	156,134.63	-	30,113,812.55	19,025,474.32	100.00	95,877.37	-	18,929,596.95

Contract assets with the provision for impairment based on a portfolio basis:

Items provided based on a portfolio basis:

Item	Balance as at 31 December 2022		
	Contract assets	Impairment provision	Proportion of provision (%)
Other external entities	30,269,947.18	156,134.63	0.52
Total	30,269,947.18	156,134.63	-

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(VIII) Contract assets (Continued)

4. Provision for impairment of contract assets in current period

Item	Closing balance of the previous year	Accrued in current period	Reversal in current period	Charged off/ written off in current period	Closing balance	Reason
Construction projects	32,913.61	100,260.84			133,174.45	Changes with original value
Quality guarantee deposit	62,963.76		40,003.58		22,960.18	Changes with original value
Total	95,877.37	100,260.84	40,003.58		156,134.63	

(IX) Assets held for sale

Category	Balance as at 31 December 2022	Balance as at 31 December 2021
Assets classified as held-for-sale	58,872,747.29	–
Assets in disposal group classified as held-for-sale	–	–
Total	58,872,747.29	–

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(IX) Assets held for sale (continued)

1. Assets classified as held-for-sale

Category	Balance as at 31 December 2022			Expected Disposal time	Disposal approach	Reason for disposal	Segment
	Balance of carrying amount	Provision for impairment of assets held for sale	Book value				
Fixed assets held for sale	10,655,624.01	-	10,655,624.01	2023	Government-led sale	Land for Construction of Kunming West Railway Station	The Company
Intangible assets held for sale	48,217,123.28	-	48,217,123.28	2023	Government-led sale	Land for Construction of Kunming West Railway Station	The Company
Total	58,872,747.29	-	58,872,747.29				

Explanation: On 15 August 2020, the People's Government of Xishan District, Kunming City issued the Announcement No. 8 of the Xishan District People's Government of Kunming City, "The Expropriation Scope of State-owned Land and Houses for the Kunming West Railway Station Construction Project". The said expropriation was led by the government for public interest and land where the Xishan branch of the Company is located is within the scope of expropriation. On 22 December 2020, the Majie Sub-district Office of the People's Government of Xishan District, Kunming City signed the "Framework Agreement on Compensation for House Expropriation and Relocation on State-owned Land of CRCC High-Tech Equipment Corporation Limited (Xishan branch)" with the Company, expropriating the three pieces of state-owned land and buildings and attachments held by the Company. As of 31 December 2022, the related assets have reached a saleable state, and the asset delivery is expected to be completed in 2023.

(X) Non-current assets due within one year

Item	Balance as at 31 December 2022	Balance as at 31 December 2021
Long-term receivables due within one year	-	51,970,000.00
Less: Bad debt provision	-	1,945,970.00
Total	-	50,024,030.00

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XI) Other current assets

Item	Balance as at 31 December 2022	Balance as at 31 December 2021
VAT input to be deducted	30,944.15	77,903,710.41
Prepaid taxes	3,425,144.77	1,449,542.68
Total	3,456,088.92	79,353,253.09

(XII) Other equity instrument investments

1. Details of other equity instrument investments

Item	Balance as at 31 December 2022	Balance as at 31 December 2021
Zhuzhou CRRC Times Electric Co., Ltd.	534,786,000.00	628,866,000.00
Total	534,786,000.00	628,866,000.00

2. Details of equity instrument investment not held for trading

Item	Dividend income recognized in the current period	Accumulated gains	Accumulated losses	Amount transferred from other comprehensive income to retained earnings	Reason for being designated as fair value through other comprehensive income	Reason for being transferred from other comprehensive income to retained earnings
Zhuzhou CRRC Times Electric Co., Ltd.	4,410,000.00	481,814,197.19	-	-	Equity instrument investment not held for trading	-

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XIII) Investment property

1. Investment properties measured by cost

Items	Housing and buildings	Total
1. Original book value	–	–
(1) Balance as at 31 December 2021	–	–
(2) Increase in 2022	30,653,653.56	30,653,653.56
– Fixed assets/transfer from construction in progress	30,653,653.56	30,653,653.56
(3) Decrease in 2022	–	–
(4) Balance as at 31 December 2022	30,653,653.56	30,653,653.56
2. Accumulated depreciation and accumulated amortization	–	–
(1) Balance as at 31 December 2021	–	–
(2) Increase in 2022	5,274,482.33	5,274,482.33
– Provision or amortization	673,859.13	673,859.13
– Transfer from accumulated depreciation of fixed assets	4,600,623.20	4,600,623.20
(3) Decrease in 2022	–	–
(4) Balance as at 31 December 2022	5,274,482.33	5,274,482.33
3. Provision for impairment	–	–
4. Book value	–	–
(1) Book value as at 31 December 2022	25,379,171.23	25,379,171.23
(2) Book value as at 31 December 2021	–	–

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XIII) Investment property (continued)

2. Investment properties with pending certificate of title

Item	Book Value	Reasons for pending certificate of title
Basic supporting kindergarten	10,572,847.44	The certificate is in progress
Total	10,572,847.44	

(XIV) Fixed assets

1. Fixed assets and disposal of fixed assets

Item	Balance as at 31 December 2022	Balance as at 31 December 2021
Fixed assets	1,622,329,044.63	1,192,502,910.49
Disposal of fixed assets	–	–
Total	1,622,329,044.63	1,192,502,910.49

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XIV) Fixed assets (continued)

2. Breakdown of fixed assets

Item	Buildings and constructions	Construction machinery, production equipment, measuring and experimental equipment	Motor vehicles	Others	Total
1. Original book value					
(1) Balance as at 31 December 2021	884,201,713.23	964,316,270.88	27,670,668.96	126,324,996.84	2,002,513,649.91
(2) Increase in the current period	40,124,160.53	526,049,999.77	7,756,529.11	4,054,034.05	577,984,723.46
– Purchase	–	2,862,433.62	242,225.66	4,038,370.33	7,143,029.61
– Transferred from construction in progress	40,124,160.53	16,016,273.97	–	15,663.72	56,156,098.22
– Transferred from inventories	–	507,171,292.18	7,514,303.45	–	514,685,595.63
– Others	–	–	–	–	–
(3) Decrease in the current period	54,825,425.50	18,087,052.92	2,447,305.40	68,354.89	75,428,138.71
– Disposal or retirement	–	6,780,377.99	2,447,305.40	68,354.89	9,296,038.28
– Transferred to investment property	30,653,653.56	–	–	–	30,653,653.56
– Transferred to assets held for sale	24,171,771.94	11,306,674.93	–	–	35,478,446.87
(4) Balance as at 31 December 2022	869,500,448.26	1,472,279,217.73	32,979,892.67	130,310,676.00	2,505,070,234.66
2. Accumulated depreciation	–	–	–	–	–
(1) Balance as at 31 December 2021	271,058,316.87	431,561,301.00	26,118,940.84	81,272,180.71	810,010,739.42
(2) Increase in the current period	24,981,473.99	79,528,805.58	1,592,894.03	5,536,649.17	111,639,822.77
– Provision	24,981,473.99	79,528,805.58	1,592,894.03	5,536,649.17	111,639,822.77
(3) Decrease in the current period	19,355,964.01	17,166,727.74	2,322,304.54	64,375.87	38,909,372.16
– Disposal or retirement	–	6,425,386.56	2,322,304.54	64,375.87	8,812,066.97
– Transferred to investment property	5,274,482.33	–	–	–	5,274,482.33
– Transferred to assets held for sale	14,081,481.68	10,741,341.18	–	–	24,822,822.86
(4) Balance as at 31 December 2022	276,683,826.85	493,923,378.84	25,389,530.33	86,744,454.01	882,741,190.03
3. Provision for impairment	–	–	–	–	–
4. Book value	–	–	–	–	–
(1) Book value as at 31 December 2022	592,816,621.41	978,355,838.89	7,590,362.34	43,566,221.99	1,622,329,044.63
(2) Book value as at 31 December 2021	613,143,396.36	532,754,969.88	1,551,728.12	45,052,816.13	1,192,502,910.49

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XIV) Fixed assets (continued)

3. Fixed assets without title certificates

Items	Carrying amount	Reason for lack of title certificates
Plants of the engineering research center	14,832,623.31	Title certificate in application process
Office building of the engineering research center	9,832,676.94	Title certificate in application process

(XV) Construction in progress

1. Construction in progress and project materials

Item	Balance as at 31 December 2022	Balance as at 31 December 2021
Construction in progress	35,907,179.42	74,916,742.41
Project materials	-	-
Total	35,907,179.42	74,916,742.41

2. Details of construction in progress

Item	Balance as at 31 December 2022			Balance as at 31 December 2021		
	Balance of carrying amount	Provision for impairment	Book value	Balance of carrying amount	Provision for impairment	Book value
Supporting business center of industrial base	35,360,081.61	-	35,360,081.61	32,308,821.82	-	32,308,821.82
Construction project of large railway track maintenance machinery engineering research center	-	-	-	42,485,279.08	-	42,485,279.08
Commissioning workshop greenhouse construction project	-	-	-	122,641.51	-	122,641.51
Bar code management software	259,026.56	-	259,026.56	-	-	-
Big machine operation management platform	288,071.25	-	288,071.25	-	-	-
Total	35,907,179.42	-	35,907,179.42	74,916,742.41	-	74,916,742.41

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XV) Construction in progress (continued)

3. Changes in important construction in progress in the current period

Project name	Budget amount	Balance as at 31 December 2021	Increase in the current period	Amount transferred to fixed assets in the current period	Other decreases in the current period	Balance as at 31 December 2022	Proportion of accumulated project investments in budget amount (%)	Project progress (%)	Accumulated capitalized amount of interest	Including: capitalized amount of interest in the current period	Capitalization rate of interest in the current period (%)	Source of funds
Supporting business center of industrial base	69,400,000.00	32,308,821.82	14,647,018.83	11,595,759.04	-	35,360,081.61	67.66	67.66	-	-	-	Self-raised funds
Construction project of large railway track maintenance machinery engineering research center	45,000,000.00	42,485,279.08	268,321.11	42,753,600.19	-		95.01	95.01	-	-	-	Self-raised funds
Total	-	74,794,100.90	14,915,339.94	54,349,359.23	-	35,360,081.61	-	-	-	-	-	-

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XVI) Right-of-use assets

Item	Buildings and structures	Machinery and equipment	Total
1. Original book value	–	–	–
(1) Balance as at 31 December 2021	–	–	–
(2) Increase in the current period	18,451,298.32	1,044,597.64	19,495,895.96
– Additional lease	18,451,298.32	1,044,597.64	19,495,895.96
(3) Decrease in the current period	–	–	–
(4) Balance as at 31 December 2022	18,451,298.32	1,044,597.64	19,495,895.96
2. Accumulated depreciation	–	–	–
(1) Balance as at 31 December 2021	–	–	–
(2) Increase in the current period	307,521.64	17,409.96	324,931.60
– Provision	307,521.64	17,409.96	324,931.60
(3) Decrease in the current period	–	–	–
(4) Balance as at 31 December 2022	307,521.64	17,409.96	324,931.60
3. Provision for impairment	–	–	–
4. Book value	–	–	–
(1) Book balance as at 31 December 2022	18,143,776.68	1,027,187.68	19,170,964.36
(2) Book value as at 31 December 2021	–	–	–

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XVII) Intangible assets

1. Breakdowns of intangible assets

Item	Land use right	Software use right	Non-patented technology	Others	Total
1. Original book value	-	-	-	-	-
(1) Balance as at 31 December 2021	503,803,816.72	51,525,522.96	13,293,607.82	6,868,741.95	575,491,689.45
(2) Increase in the current period	-	445,615.28	-	-	445,615.28
- Purchase	-	445,615.28	-	-	445,615.28
(3) Decrease in the current period	67,652,722.49	-	-	-	67,652,722.49
- Transferred to assets held for sale	67,652,722.49	-	-	-	67,652,722.49
(4) Balance as at 31 December 2022	436,151,094.23	51,971,138.24	13,293,607.82	6,868,741.95	508,284,582.24
2. Accumulated amortization	-	-	-	-	-
(1) Balance as at 31 December 2021	116,776,346.85	49,711,737.72	13,293,607.82	6,149,000.28	185,930,692.67
(2) Increase in the current period	9,447,725.52	1,531,116.08	-	719,741.67	11,698,583.27
- Provision	9,447,725.52	1,531,116.08	-	719,741.67	11,698,583.27
(3) Decrease in the current period	19,435,599.21	-	-	-	19,435,599.21
- Transferred to assets held for sale	19,435,599.21	-	-	-	19,435,599.21
(4) Balance as at 31 December 2022	106,788,473.16	51,242,853.80	13,293,607.82	6,868,741.95	178,193,676.73
3. Provision for impairment	-	-	-	-	-
4. Book value	-	-	-	-	-
(1) Book value as at 31 December 2022	329,362,621.07	728,284.44	-	-	330,090,905.51
(2) Book value as at 31 December 2021	387,027,469.87	1,813,785.24	-	719,741.67	389,560,996.78

Explanation: The proportion of intangible assets arising from internal research and development at the end of the period to balance of total intangible assets is 0%.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XVIII) Goodwill

1. Movement of goodwill

Name of investee or reason for goodwill	Balance as at 31 December 2021	Increase in the current period Goodwill		Decrease in the current period		Balance as at 31 December 2022
		on business combination	Others	Disposal	Others	
Original book value	-	-	-	-	-	-
Acquisition of cideon	91,368,175.03	-	-	-	-	91,368,175.03
Sub-total	91,368,175.03	-	-	-	-	91,368,175.03
Provision for impairment	-	-	-	-	-	-
Acquisition of cideon	47,635,708.75	-	9,038,223.31	-	-	56,673,932.06
Sub-total	47,635,708.75	-	9,038,223.31	-	-	56,673,932.06
Book value	43,732,466.28	-	-9,038,223.31	-	-	34,694,242.97

Explanation: In February 2016, the Group purchased CE cideon engineering GmbH & Co.KG, CE cideon engineering Verwaltungs GmbH (both in Germany) and CE cideon engineering Schweiz AG (in Switzerland) (collectively referred to as “**CIDEON Company**”), and recognised goodwill of RMB91,368,175.03.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XVIII) Goodwill (continued)

1. *Movement of goodwill (continued)*

The goodwill acquired in the business combination has been allocated to the mechanical design services asset group, namely the CIDEON Company asset group (including goodwill), for impairment testing. As at 31 December 2022, the Group assessed the recoverable amount of the asset group. The recoverable amount of the asset group was determined based on the present value of the estimated future cash flows of the asset group. The future cash flows were determined on the basis of financial budgets approved by the management for a five-year period. Key assumptions used in estimating future cash flows are:

Forecast period of the mechanical design services asset group: 2023-2027, with a discount rate of 10.15%;

Growth rate in the forecast period: 2%; net profit margin in the forecast period: 3.31%;

Terminal growth rate of operating revenue: 0%;

As at 31 December 2022, the CIDEON Company asset group was impaired by RMB56,673,932.06.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XIX) Deferred tax assets and deferred tax liabilities

1. Deferred tax assets before offset

Item	Balance as at 31 December 2022		Balance as at 31 December 2021	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Provision for asset impairment	200,311,289.91	30,987,462.33	226,559,513.68	35,259,233.65
Post-leaving benefits payable	10,785,409.35	1,617,811.40	11,378,415.71	1,706,762.36
Estimated liabilities	12,493,770.01	1,874,055.51	25,794,639.20	3,869,185.89
Changes in fair value of receivables at FVTOCI	275,911.47	41,386.73	77,840.81	11,676.12
Recoverable losses and tax credits	61,702,424.62	9,255,363.69	61,702,424.62	9,255,363.69
Unrealized intra-group transactions	23,603,003.20	3,540,450.48	14,031,462.65	2,104,719.40
Total	309,171,808.56	47,316,530.14	339,544,296.67	52,206,941.11

2. Deferred tax liabilities before offset

Item	Balance as at 31 December 2022		Balance as at 31 December 2021	
	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
Changes in fair value of other equity instrument investments	481,814,197.19	72,272,129.57	575,894,197.19	86,384,129.57
Total	481,814,197.19	72,272,129.57	575,894,197.19	86,384,129.57

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XIX) Deferred tax assets and deferred tax liabilities (continued)

3. Deferred tax assets or deferred tax liabilities presented at net amount after offset

Item	31 December 2022		31 December 2021	
	Offset amount between deferred tax assets and liabilities	Balance of deferred tax assets or liabilities after offset	Offset amount between deferred tax assets and liabilities	Balance of deferred tax assets or liabilities after offset
Deferred income tax assets	38,633,700.46	8,682,829.68	42,481,545.56	9,725,395.55
Deferred income tax liabilities	38,633,700.46	33,638,429.11	42,481,545.56	43,902,584.01

4. Breakdown of unrecognized deferred tax assets

Item	Closing balance	Closing balance of the previous year
Deductible loss	103,075,315.45	30,865,806.60
Total	103,075,315.45	30,865,806.60

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XIX) Deferred tax assets and deferred tax liabilities (continued)

5. Deductible loss on unrecognized deferred tax assets will expire in the following years

Year	Closing balance	Closing balance of the previous year	Note
2031	30,865,806.60	30,865,806.60	
2032	72,209,508.85		
Total	103,075,315.45	30,865,806.60	

(XX) Other non-current assets

Item	Balance as at 31 December 2022			Balance as at 31 December 2021		
	Balance of carrying amount	Provision for impairment	Book value	Balance of carrying amount	Provision for impairment	Book value
Prepaid land acquisition amount	19,152,330.00	–	19,152,330.00	19,152,330.00	–	19,152,330.00
Total	19,152,330.00	–	19,152,330.00	19,152,330.00	–	19,152,330.00

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XXI) Bills payable

Type	Balance as at 31 December 2022	Balance as at 31 December 2021
Bank acceptance bills	788,215,194.51	1,030,117,754.13
Finance company acceptance bills	–	–
Commercial acceptance bills	1,786,862.22	–
Total	790,002,056.73	1,030,117,754.13

(XXII) Accounts payable

1. Accounts payable based on invoice dates shown by aging

Item	Balance as at 31 December 2022	Balance as at 31 December 2021
Within 1 year	1,220,582,526.83	799,708,440.67
1-2 years	11,315,035.05	21,075,824.34
2-3 years	2,580,354.26	5,529,091.13
Over 3 years	1,706,678.25	1,386,985.75
Total	1,236,184,594.39	827,700,341.89

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XXIII) Advance received

1. Breakdown of advance received

Item	Balance as at 31 December 2022	Balance as at 31 December 2021
Rental deposit received in advance	589,403.67	497,110.55
Total	589,403.67	497,110.55

(XXIV) Contract liabilities

1. Breakdown of contract liabilities

Item	Balance as at 31 December 2022	Balance as at 31 December 2021
Advances for sale of goods	171,875,900.77	145,431,889.18
Advances for labor	11,273,036.06	16,595,242.64
Total	183,148,936.83	162,027,131.82

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XXIV) Contract liabilities (Continued)

2. Amount of and reason for significant change in carrying amount within the reporting period

Item	Change	Reason for change
Amount from sale of goods	26,444,011.59	Difference between payment recovery progress and revenue recognition
Amount from provision of services	-5,322,206.58	Difference between payment recovery progress and revenue recognition
Total	21,121,805.01	

Explanation: Of the book value of contract liabilities as at 31 December 2021, contract liabilities of RMB97,753,584.76 were transferred to operating revenue in 2022, including revenue from sales of goods of RMB87,860,752.89 (2021: RMB27,014,802.31) and revenue from rendering of services of RMB9,892,831.87 (2021: RMB7,417,752.24).

(XXV) Employee benefits payable

1. Breakdown of employee benefits payable

Item	Balance as at 31 December 2021	Increase in the current period	Decrease in the current period	Balance as at 31 December 2022
Short-term benefits	4,806,381.95	545,966,020.15	543,042,372.64	7,730,029.46
Post-employment benefits – defined contribution plans		68,343,687.44	68,343,687.44	
Termination benefits	11,378,415.71	5,476,771.87	6,069,778.23	10,785,409.35
Other benefits due within one year	–	–	–	–
Total	16,184,797.66	619,786,479.46	617,455,838.31	18,515,438.81

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XXV) Employee benefits payable (continued)

2. Breakdown of short-term benefits

Item	Balance as at 31 December 2021	Increase in the current period	Decrease in the current period	Balance as at 31 December 2022
(1) Wages or salaries, bonuses, allowances and subsidies	4,581,768.52	376,037,789.32	373,011,018.08	7,608,539.76
(2) Staff welfare		23,754,559.44	23,754,559.44	
(3) Social security contributions	224,613.43	41,567,716.55	41,670,840.28	121,489.70
Including: Basic medical insurance	224,613.43	38,944,592.07	39,047,715.80	121,489.70
Work-related injury insurance	-	2,623,124.48	2,623,124.48	-
Maternity insurance	-	-	-	-
(4) Housing provident funds	-	31,606,192.20	31,606,192.20	-
(5) Labor union expenditures and employee education funds	-	8,259,530.72	8,259,530.72	-
(6) Short-term paid leave	-	-	-	-
(7) Short-term profit-sharing plan	-	-	-	-
(8) Others	-	64,740,231.92	64,740,231.92	-
Total	4,806,381.95	545,966,020.15	543,042,372.64	7,730,029.46

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XXV) Employee benefits payable (continued)

3. Breakdown of defined contribution plans

Item	Balance as at 31 December 2021	Increase in the current period	Decrease in the current period	Balance as at 31 December 2022
Basic pension insurance	–	44,268,629.12	44,268,629.12	–
Unemployment insurance	–	1,937,700.08	1,937,700.08	–
Annuity	–	22,137,358.24	22,137,358.24	–
Total	–	68,343,687.44	68,343,687.44	–

(XXVI) Taxes and surcharges payable

Taxes and surcharges	Balance as at 31 December 2022	Balance as at 31 December 2021
VAT	60,883,443.52	10,537,784.03
Enterprise income tax	3,119,164.00	965,172.82
Individual income tax	3,172,259.66	1,468,596.35
Urban maintenance and construction tax	942,766.96	493,860.99
House property tax	54,716.52	44,021.82
Education surcharges	941,536.74	449,440.98
Land use tax	1,091.22	1,007.57
Others	4,967,990.70	477,119.20
Total	74,082,969.32	14,437,003.76

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XXVII) Other payables

Item	Balance as at 31 December 2022	Balance as at 31 December 2021
Interest payable	–	–
Dividend payable	–	–
Other payables	290,600,132.62	271,159,367.99
Total	290,600,132.62	271,159,367.99

1. Other payables

(1) Breakdown of other payables by nature

Item	Balance as at 31 December 2022	Balance as at 31 December 2021
Compensation for demolition	250,000,000.00	250,000,000.00
Deposit	18,400,848.66	5,741,338.66
Others	22,199,283.96	15,418,029.33
Total	290,600,132.62	271,159,367.99

Note: The compensation for demolition represents the advance payment received from the People's Government of Xishan District in Kunming ("Xishan District Government") for demolition and relocation compensation. The Group temporarily included the advances in other payables.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XXVIII) Non-current liabilities due within one year

Item	Balance as at 31 December 2022	Balance as at 31 December 2021
Lease liabilities due within one year	2,457,125.65	–
Estimated liabilities due within one year	12,493,770.01	25,794,639.20
Total	14,950,895.66	25,794,639.20

(XXIX) Lease liabilities

Item	Balance as at 31 December 2022	Balance as at 31 December 2021
Lease payment	22,855,137.61	–
Less: financing charges unrecognized	3,359,241.65	–
Reclassified to non-current liabilities due within 1 year	2,457,125.65	–
Total	17,038,770.31	–

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XXX) Share capital

Item	Balance as at 31 December 2021	Changes in current period ("+" for increase and "-" for decrease)				Sub-total	Balance as at 31 December 2022
		New shares issued	Bonus shares	Conversion of reserves into shares	Others		
Total shares	1,519,884,000.00	—	—	—	—	—	1,519,884,000.00

(XXXI) Capital reserve

Item	Balance as at 31 December 2021	Increase in the current period	Decrease in the current period	Balance as at 31 December 2022
Capital premium (share premium)	3,224,727,994.03	—	—	3,224,727,994.03
Other capital reserve	—	—	—	—
Total	3,224,727,994.03	—	—	3,224,727,994.03

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XXXII) Other comprehensive income

Item	Balance as at 31 December 2021	Pre-tax amount incurred in current period	Amount incurred in current period		Less: Income tax expenses	Amount after tax attributable to the parent company	Amount after tax attributable to non-controlling interests	Balance as at 31 December 2022
			Less: amount previously included in other comprehensive income and currently transferred to current profits or losses	Less: amount previously included in other comprehensive income and currently transferred to the retained earnings				
1. Other comprehensive income that cannot be reclassified into profit or loss	479,127,569.61	-94,080,000.00	-	-	-14,112,000.00	-79,968,000.00	-	399,159,569.61
Including: Changes in re-measurement of the defined benefit plan	-10,382,497.94	-	-	-	-	-	-	-10,382,497.94
Changes in fair value of other equity instrument investments	489,510,067.55	-94,080,000.00	-	-	-14,112,000.00	-79,968,000.00	-	409,542,067.55
2. Other comprehensive income that will be reclassified into profit or loss	-828,285.28	1,906,536.55	-	-	-29,710.61	1,936,247.16	-	1,107,961.88
The amount of financial assets reclassified into other comprehensive income	-66,164.69	-198,070.66	-	-	-29,710.61	-168,360.05	-	-234,524.74
Translation difference of financial statements in foreign currencies	-762,120.59	2,104,607.21	-	-	-	2,104,607.21	-	1,342,486.62
Total other comprehensive income	478,299,284.33	-92,173,463.45	-	-	-14,141,710.61	-78,031,752.84	-	400,267,531.49

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XXXIII) Special reserve

Item	Balance as at 31 December 2021	Increase in the current period	Decrease in the current period	Balance as at 31 December 2022
Production safety expenses	–	8,173,567.57	8,173,567.57	–
Total	–	8,173,567.57	8,173,567.57	–

(XXXIV) Surplus reserve

Item	Balance as at 31 December 2021	Opening balance	Increase in the current period	Decrease in the current period	Balance as at 31 December 2022
Statutory surplus reserve	125,629,773.06	125,629,773.06	10,269,554.19	–	135,899,327.25
Total	125,629,773.06	125,629,773.06	10,269,554.19	–	135,899,327.25

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XXXV) Retained earnings

Item	2022	2021
Retained earnings at the end of previous year before adjustment	532,978,661.65	488,417,686.76
Adjustments to retained earnings as at beginning of the year (“+” for increase, and “-” for decrease)		
Retained earnings at the beginning of the year after adjustment	532,978,661.65	488,417,686.76
Add: Net profit attributable to owners of the parent company in the current period	115,635,117.62	50,376,153.58
Less: Appropriation of statutory surplus reserve	10,269,554.19	5,815,178.69
Withdrawal of discretionary surplus reserve	-	-
Withdrawal of general risk reserves	-	-
Dividends payable to ordinary shareholders	15,198,840.00	-
Ordinary shares dividends transferred to share capital	-	-
Retained earnings at the end of the period	623,145,385.08	532,978,661.65

Explanation: On 30 March 2022, the board of directors proposed the payment of cash dividends of RMB0.01 per share (inclusive of tax) to all the shareholders of the Company, totalling RMB15,198,840 based on the total issued number of shares of 1,519,884,000. The dividend distribution proposal was approved at the general meeting of the Company held on 30 June 2022.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XXXVI) Operating revenue and operating cost

1. Breakdown of operating revenue and operating cost

Item	2022		2021	
	Revenue	Costs	Revenue	Costs
Principal business	2,813,074,818.20	2,151,852,964.13	2,158,042,447.39	1,627,612,623.71
Other business	8,842,711.12	6,816,122.83	27,903,531.61	13,329,823.06
Total	2,821,917,529.32	2,158,669,086.96	2,185,945,979.00	1,640,942,446.77

Breakdown of operating revenue:

Item	2022	2021
Revenue from sales of mechanical equipment	1,203,063,946.47	1,157,328,376.69
Revenue from maintenance of railway track maintenance machinery	571,872,018.75	401,597,225.16
Revenue from sales of accessories	698,894,904.53	439,156,011.71
Revenue from mechanical design services	100,516,803.97	87,912,891.32
Revenue from railway line maintenance services	238,727,144.48	72,047,942.51
Others	8,842,711.12	27,903,531.61
Total	2,821,917,529.32	2,185,945,979.00

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XXXVI) Operating revenue and operating cost (continued)

2. Details of income from contracts

The income breakdown information for the period is as follows:

Contract by type	Revenue from sales of mechanical equipment	Revenue from maintenance of railway track maintenance machinery	Revenue from sales of accessories	Revenue from mechanical design services	Revenue from railway line maintenance services	Others	Total
Classified by the time of transferring goods:							
At a point in time	1,203,063,946.47	571,872,018.75	698,894,904.53	—	—	8,842,711.12	2,482,673,580.87
Over time	—	—	—	100,516,803.97	238,727,144.48	—	339,243,948.45
Total	1,203,063,946.47	571,872,018.75	698,894,904.53	100,516,803.97	238,727,144.48	8,842,711.12	2,821,917,529.32

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XXXVI) Operating revenue and operating cost (continued)

3. Transaction price allocated to the remaining performance obligations

As of 31 December 2022, the amount of transaction price corresponding to the performance obligations contracted but have not been fulfilled or have not been fully fulfilled is RMB2,443,795,153.67, which is expected to be recognized during 2023 and 2024, of which RMB2,327,541,975.25 is expected to be recognized in 2023, and RMB116,253,178.42 is expected to be recognized in 2024.

(XXXVII) Taxes and surcharges

Item	2022	2021
Urban maintenance and construction tax	1,114,577.26	1,717,284.11
Education surcharge	1,072,619.17	1,625,436.02
House property tax	8,911,756.20	9,433,265.11
Urban land use tax	5,740,249.05	5,778,629.99
Stamp duty	2,226,629.87	1,173,151.50
Others	60,192.19	77,963.77
Total	19,126,023.74	19,805,730.50

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XXXVIII) Selling expenses

<u>Item</u>	<u>2022</u>	<u>2021</u>
Employee benefits	59,516,941.99	55,518,175.24
Technical service fee	30,439,726.98	22,463,502.51
Expenses for business trips	8,897,399.45	11,303,666.84
Depreciation cost	7,734,076.79	595,738.81
Bidding expenses	7,667,553.30	6,814,017.63
Entertainment expenses	6,452,302.07	7,382,524.18
Sales service expenses	3,396,579.09	3,855,376.13
Others	5,495,140.51	4,664,859.78
Total	129,599,720.18	112,597,861.12

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XXXIX) Administrative expenses

Item	2022	2021
Employee benefits	112,379,226.59	98,015,093.43
Depreciation charge and amortization	27,193,659.78	26,724,431.44
Intermediary audit and evaluation fee	11,142,440.71	18,705,292.36
Property costs	7,182,455.75	8,959,742.56
Others	28,620,528.49	26,497,115.44
Total	186,518,311.32	178,901,675.23

Explanation The auditor of the Company for the current period is BDO China SHU LUN PAN Certified Public Accountants LLP, and the auditor's remuneration was RMB1.00 million (inclusive of tax).

(XL) Research and development expenses

Item	2022	2021
Employee benefits	142,819,860.56	113,663,180.89
Material fee	66,690,257.34	26,145,124.51
Depreciation charge	17,604,456.90	3,861,443.22
Others	33,934,074.72	36,475,803.31
Total	261,048,649.52	180,145,551.93

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XLI) Finance costs

Item	2022	2021
Interest expenses	–	–
Including: Interest expenses on lease liabilities	–	–
Less: Interest income	22,199,449.51	38,677,182.49
Foreign exchange gains and losses	-19,121,487.11	5,927,047.90
Handling fee	5,537,467.84	6,948,571.61
Total	-35,783,468.78	-25,801,562.98

(XLII) Other income

Item	2022	2021
Government grants	28,481,620.02	22,801,202.50
Handling fee for withholding individual income tax	12,360.32	6,365.02
Unemployment insurance refunds	–	23,967.83
Total	28,493,980.34	22,831,535.35

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XLIII) Investment income

Item	2022	2021
Dividend income from other equity instrument investments	4,410,000.00	4,410,000.00
Investment income from derecognition of receivables at FVTOCI	-569,517.00	-291,029.24
Total	3,840,483.00	4,118,970.76

(XLIV) Credit impairment losses

Item	2022	2021
Bad debt losses of bills receivable	614,726.28	582,890.29
Bad debt losses of accounts receivable	-61,222,667.77	34,394,046.59
Bad debt losses of other receivables	38,544,203.67	233,509.44
Bad debt losses of long-terms receivables	-1,945,970.00	741,330.00
Total	-24,009,707.82	35,951,776.32

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XLV) Impairment losses on assets

Item	2022	2021
Loss on impairment of inventories and loss on impairment of contract performance cost	9,242,325.49	1,746,531.84
Loss on impairment of contract assets	60,257.26	95,877.37
Losses from impairment of goodwill	9,038,223.31	23,400,000.00
Total	18,340,806.06	25,242,409.21

(XLVI) Gains on disposal of assets

Item	2022	2021	Amount included in the current non-recurring profit or loss
Gains on disposal of fixed assets	254,433.56	414,978.26	254,433.56
Total	254,433.56	414,978.26	254,433.56

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XLVII) Non-operating income

Item	2022	2021	Amount included in the current non-recurring profit or loss
Gains from liquidated damages	569,029.63	–	569,029.63
Government grants	563,613.55	3,284,623.61	563,613.55
Penalty income	10,142.50	417,496.59	10,142.50
Others	122,065.22	133,954.06	122,065.22
Total	1,264,850.90	3,836,074.26	1,264,850.90

(XLVIII) Non-operating expenses

Item	2022	2021	Amount included in the current non-recurring profit or loss
Liquidated damages, compensation and various fines	1,699,765.87	1,305,001.80	1,699,765.87
Loss on destruction or retirement of non-current assets	2,779.07	16,923.67	2,779.07
Others	16,893,582.93	3,494,910.93	16,893,582.93
Total	18,596,127.87	4,816,836.40	18,596,127.87

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(XLIX) Income tax expenses

1. Table of income tax expenses

Item	2022	2021
Current income tax expenses	3,074,045.76	3,091,695.61
Deferred income tax expenses	4,920,121.58	-8,923,036.06
Total	7,994,167.34	-5,831,340.45

2. Adjustment process of accounting profits and income tax expenses

Item	2022
Total profits	123,665,728.07
Income tax expenses calculated at statutory or applicable tax rate	18,549,859.21
Effect of other tax rates used by certain subsidiaries	232,581.45
Adjustments of current tax in previous periods	-
Effect of non-assessable income	-1,209,646.96
Effect of costs, expenses and losses not deductible for tax purposes	1,939,214.68
Extra tax deductions for research and development costs	-26,979,138.36
Effect of using the deductible losses related to deferred income tax assets unrecognized in prior periods	4,629,870.99
Effect of deductible temporary differences or losses from deferred income tax assets unrecognized in current period	10,831,426.33
Others	-
Income tax expenses	7,994,167.34

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(L) Earnings per share

1. Basic earnings per share

Basic earnings per share are calculated by dividing the consolidated net profit attributable to the ordinary shareholders of the parent company by the weighted average number of ordinary shares issued by the Company:

Item	2022	2021
Consolidated net profit attributable to ordinary shareholders of the parent company	115,635,117.62	50,376,153.58
Weighted average number of ordinary shares issued by the Company	1,519,884,000.00	1,519,884,000.00
Basic earnings per share	0.08	0.03
Including: Basic earnings per share of continuing operations	0.08	0.03
Basic earnings per share of discontinued operations	—	—

Note: The Company had no potentially dilutive ordinary shares in issue and therefore no diluted earnings per share are presented.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(LI) Items of statement of cash flows

1. Cash received relating to other operating activities

Item	2022	2021
Advances	3,625,565.42	45,506,621.26
Government grants	28,481,620.02	26,216,191.34
Others	2,226,265.80	2,221,417.51
Interest income	22,199,449.51	23,491,993.16
Total	56,532,900.75	97,436,223.27

2. Cash paid for other operating activities:

Item	2022	2021
Advances	56,315,275.35	133,602,511.66
Technical service fee	30,439,726.98	22,463,502.51
Office and travel expenses	12,803,786.95	15,934,296.95
After-sales repair fee	43,740,596.17	8,034,480.38
Others	50,870,689.55	103,802,357.44
Total	194,170,075.00	283,837,148.94

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(LII) Supplementary information of cash flow statements

1. Supplementary information of cash flow statements

Supplementary information	2022	2021
1. Net profits adjusted to cash flows from operating activities		
Net profit	115,671,560.73	50,376,153.58
Plus: Credit impairment losses	-24,009,707.82	35,951,776.32
Provision for asset impairment	18,340,806.06	25,242,409.21
Depreciation of fixed assets	111,639,822.77	100,579,761.37
Depletion of oil and gas assets		
Depreciation of right-of-use assets	324,931.60	
Amortization of intangible assets	11,698,583.27	16,678,942.06
Amortization of long-term deferred expenses		
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	-254,433.56	-414,978.26
Losses from scrapping of fixed assets ("-" for gains)	2,286.93	-4,356.86
Losses on change in fair values ("-" for gains)		
Finance expenses ("-" for gains)	-19,119,577.66	-7,338,389.73
Investment loss ("-" for gains)	-3,840,483.00	-4,118,970.76
Decreases in deferred income tax assets ("-" for increases)	4,920,121.58	-8,923,036.06
Increases in deferred income tax liabilities ("-" for decreases)		
Decreases in inventories ("-" for increases)	29,282,378.32	-771,510,656.55
Decreases in operating receivables ("-" for increases)	-9,780,833.14	-357,797,451.93
Increases in operating payables ("-" for decreases)	-212,439,681.54	513,369,840.77
Others		
Net cash flows from operating activities	22,435,774.54	-407,908,956.84

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(LII) Supplementary information of cash flow statements (continued)

1. Supplementary information of cash flow statements (continued)

Supplementary information	2022	2021
2. Significant investing and financing activities not involving cash receipts and payments	-	-
Conversion of debt into capital	-	-
Convertible bonds due within one year	-	-
Fixed assets held under finance leases	-	-
3. Net movement in cash and cash equivalents	-	-
Cash at the end of the period	1,163,149,863.13	1,178,533,467.98
Less: Cash at the beginning of the period	1,178,533,467.98	1,708,335,768.84
Add: Cash equivalents at the end of the period	-	-
Less: Cash equivalents at the beginning of the period	-	-
Net increase in cash and cash equivalents	-15,383,604.85	-529,802,300.86

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(LII) Supplementary information of cash flow statements (continued)

2. Breakdown of cash and cash equivalents

Item	Balance as at 31 December 2022	Balance as at 31 December 2021
I. Cash	1,163,149,863.13	1,178,533,467.98
Including: Cash on hand	8,928.89	12,083.65
Unrestricted digital currency	–	–
Unrestricted bank deposits	1,163,140,934.24	1,178,521,384.33
Other unrestricted cash and bank balances	–	–
Unrestricted deposits in central banks	–	–
Deposit in other banks	–	–
Loan to other banks	–	–
II. Cash equivalents	–	–
Including: Bond investment due in three months	–	–
III. Balance of cash and cash equivalents at the end of the period	1,163,149,863.13	1,178,533,467.98
Including: Restricted cash and cash equivalents of the subsidiaries within the parent company or the Group	–	–

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(LIII) Assets with restricted ownership or right of use

Item	Book value as at 31	Reason for restriction
	December 2022	
Bills receivable	8,732,922.00	Guarantee the issuance of bank acceptance drafts for the bill pool
Receivables at FVTOCI	5,000,000.00	Guarantee the issuance of bank acceptance drafts for the bill pool
Total	13,732,922.00	

(LIV) Lease

1. As the lessee

The Company's anticipated cash outflows from leases in future years, committed but not commenced, are as follows:

Remaining lease term	Undiscounted lease payments
Within 1 year	2,285,513.76
1 – 2 years	2,285,513.76
2 – 3 years	2,285,513.76
Over 3 years	15,998,596.33
Total	22,855,137.61

Explanation: The Company commenced to lease right-of-use assets from November 2022, and no cash outflow from lease was incurred during the current period, and therefore no interest expense on lease liabilities was provided.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

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

(LIV) Lease (Continued)

2. As the lessor

(1) Operating lease

	2022	2021
Operating lease income	3,887,993.76	15,132,073.36
Including: Income relating to the variable lease payments not included in the measurement of lease payments		

Undiscounted lease payments to be received after the balance sheet date are as follows:

Remaining lease term	2022	2021
Within 1 year	1,068,091.11	2,427,934.25
1–2 years	900,770.48	2,511,708.25
2–3 years	926,867.62	2,475,877.00
3–4 years	845,342.24	2,475,877.00
4–5 years	372,761.90	1,237,938.50
Over 5 years	4,642,563.14	5,266,091.30
Total	8,756,396.49	16,395,426.30

Explanation: The Company early terminated the western warehouse lease contract in 2022 due to demolition and relocation of Xishan branch factory.

VI. CHANGE IN THE SCOPE OF CONSOLIDATION

During the reporting period, the Group invested jointly with Zhengzhou Railway Equipment Manufacturing Co., Ltd. to establish a subsidiary, Zhengzhou CRCC Equipment Technology Co., Ltd., in which the Group holds 51% interests.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

VII. INTERESTS IN OTHER ENTITIES

(I) Interests in subsidiaries

1. Group members

Name of the subsidiary	Legal person type	Principal place of business	Place of registration	Paid-up capital (RMB0'000)	Business nature	Shareholding percentage (%)		Obtained by
						Direct	Indirect	
Beijing Ruiweitong Engineering Machinery Co., Ltd.	Legal person sole proprietorship	Beijing	Beijing	27,388.02	Manufacturing	100.00	-	Establishment
Beijing Kunweitong Railway Mechanization Engineering Co., Ltd.	Legal person sole proprietorship	Beijing	Beijing	6,000.00	Engineering construction	100.00	-	Establishment
Zhengzhou CRCC Equipment Technology Co., Ltd.	Limited liability	Zhengzhou	Zhengzhou	3,000.00	Manufacturing	51.00	-	Establishment
CRCC Yukun Limited		Hong Kong	Hong Kong		Investment holding	100.00	-	Acquisition
CE CIDEON Engineering GmbH & Co.KG		Germany	Germany		Mechanical design	-	100.00	Acquisition
CE CIDEON Engineering Verwaltungs GmbH		Germany	Germany		Mechanical design	-	100.00	Acquisition
CE CIDEON Engineering Schweiz AG		Switzerland	Switzerland		Mechanical design	-	100.00	Acquisition

Explanation: As of 31 December 2022, no subsidiaries had issued any debt securities at the end of the year or at any time during the year. (2021: Nil)

2. Major non-wholly-owned subsidiaries

Name of subsidiaries	Shareholding ratio of minority shareholders (%)	Profit or loss attributable to minority shareholders in 2022	Dividends declared to be distributed to minority shareholders in 2022	Balance of minority equity as at 31 December 2022
Zhengzhou CRCC Equipment Technology Co., Ltd.	49.00	36,443.11	-	15,036,443.11

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

VII. INTERESTS IN OTHER ENTITIES (continued)

(I) Interests in subsidiaries (continued)

3. Key financial information of major non-wholly-owned subsidiaries

Name of subsidiaries	Balance as at 31 December 2022						Balance as at 31 December 2021					
	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
Zhengzhou CRCC Equipment Technology Co., Ltd.	31,517,195.96	19,208,074.81	50,725,270.77	3,612,126.77	17,038,770.31	20,650,897.08	-	-	-	-	-	-

Name of subsidiaries	2022					2021				
	Operating income	Net profit	Total comprehensive income	Cash flow from operating activities		Operating income	Net profit	Total comprehensive income	Cash flow from operating activities	
Zhengzhou CRCC Equipment Technology Co., Ltd.	-	74,373.69	74,373.69	32,820.53		-	-	-	-	

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS

The Company is exposed to various financial risks in the course of its business: credit risk, liquidity risk and market risk (including foreign exchange risk, interest rate risk and other price risk). The risks associated with these financial instruments and the risk management policies adopted by the Company to reduce these risks are as follows:

The board of directors is responsible for planning and establishing the Company's risk management structure, formulating the Company's risk management policies and related guidelines, and supervising the implementation of risk management measures. The Company has developed risk management policies to identify and analyze the risks confronting the Company. These risk management policies clearly stipulate specific risks, covering many aspects such as market risk, credit risk and liquidity risk management. The Company regularly evaluates the market environment and changes in the Company's business activities to determine whether to update the risk management policy and system. The Company's risk management is carried out by the risk management committee in accordance with the policies approved by the board of directors. The risk management committee works closely with other business departments of the Company to identify, evaluate and avoid related risks. The internal audit department of the Company conducts regular audits on risk management control and procedures, and reports the audit results to the audit committee of the Company.

The Company diversifies the risk of financial instruments through appropriate diversified investment and business portfolios, and formulates corresponding risk management policies to reduce the risk of concentration in a single industry, specific region or specific counterparties.

(I) Credit risk

Credit risk refers to the risk where the counterparty fails to discharge its obligation under the terms of the financial instrument and causes a financial loss to the Group.

The Company's credit risk mainly arises from cash and bank balances, bills receivable, accounts receivable, receivables at FVTOCI, contract assets, other receivables and financial guarantee contract, as well as the debt instrument investments and derivative financial assets at fair value through profit or loss that are not included in the impairment assessment etc.

The Group expects that there is no significant credit risk associated with cash and bank balances since they are deposited at state-owned banks and other medium or large-scale listed banks. The Company does not expect that there will be any significant losses from non-performance by these counterparties.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

(I) Credit risk (continued)

In addition, the Group has policies to limit the credit exposure on bills receivable, accounts receivable, receivables at FVTOCI, contract assets and other receivables. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

(II) Liquidity risk

Liquidity risk is the risk that an enterprise may encounter deficiency of funds in meeting obligations settled with cash or other financial assets delivery.

The Company's policy is to ensure it has sufficient cash to settle the debts when they fall due. The Company's finance department centralized control on liquidity risk. Through monitoring cash balance, readily realizable marketable securities and the rolling forecasts of cash flow for the next 12 months, the finance department will ensure it has sufficient funds to settle its debts under all reasonably foreseeable circumstances. while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institutions so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

(II) Liquidity risk (continued)

Financial liabilities of the Company should be presented at undiscounted contractual cash flows on the maturity date as follows:

Item	Balance as at 31 December 2022					Total
	On demand	Within 1 year	1-2 years	2-5 years	Over 5 years	
Bills payable	—	790,002,056.73	—	—	—	790,002,056.73
Accounts payable	—	1,236,184,594.39	—	—	—	1,236,184,594.39
Other payables	—	290,600,132.62	—	—	—	290,600,132.62
Lease liabilities	—	2,285,513.76	2,285,513.76	6,856,541.28	11,427,568.81	22,855,137.61
Total	—	2,319,072,297.50	2,285,513.76	6,856,541.28	11,427,568.81	2,339,641,921.35

Item	Balance as at 31 December 2021					Total
	On demand	Within 1 year	1-2 years	2-5 years	Over 5 years	
Bills payable	—	1,030,117,754.13	—	—	—	1,030,117,754.13
Accounts payable	—	827,700,341.89	—	—	—	827,700,341.89
Other payables	—	271,159,367.99	—	—	—	271,159,367.99
Total	—	2,128,977,464.01	—	—	—	2,128,977,464.01

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

(III) Market risk

Market risk, including foreign exchange rate risk, interest rate risk and foreign currency risk, refers to the risk that the fair value or future cash flow of a financial instrument will fluctuate because of the changes in market price.

1. Interest rate risk

Interest rate risk refers to the risks of fluctuation in the fair value or future cash flows of financial instruments due to changes in market interest rate.

Fixed-rate and floating-rate interest-bearing financial instruments expose the Company to fair value interest rate risk and cash flow interest rate risk, respectively. The Company determines the ratio of fixed-rate instruments to floating-rate instruments based on market conditions and maintains an appropriate mix of fixed-rate and floating-rate instruments through regular review and monitoring. When necessary, the Company uses interest rate swap instruments to hedge interest rate risk.

As at 31 December 2022 and 31 December 2021, the Group did not have any balance of interest-bearing borrowings.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

(III) Market risk (continued)

2. Exchange rate risk

Exchange rate risk refers to the risk that fair value or future cash flows of financial instruments fluctuate due to variations in foreign exchange rate.

The Company continuously monitors the scale of foreign currency transactions and foreign currency assets and liabilities to minimize its exposure to foreign exchange risks. In addition, the Company may enter into forward foreign exchange contracts or currency swap contracts to avoid exchange rate risks. During the current period and the previous period, the Company did not enter into any forward foreign exchange contracts or currency swap contracts.

The exchange rate risk the Company is exposed to mainly arises from financial assets and financial liabilities denominated in US dollars or Euro. The foreign currency financial assets and liabilities held by the Group were converted to RMB as follows:

Item	Balance as at 31 December 2022			Balance as at 31 December 2021		
	Euro	Other foreign currencies	Total	Euro	Other foreign currencies	Total
Cash and bank balances	47,194,123.31	18,455,232.51	65,649,355.82	34,887,242.34	164,043,485.51	198,930,727.85
Total	47,194,123.31	18,455,232.51	65,649,355.82	34,887,242.34	164,043,485.51	198,930,727.85

As at 31 December 2022, with all other variables held constant, if RMB appreciates or depreciates by 5% against Euro, net profit of the Company will increase or decrease by RMB270,211.14 (31 December 2021: RMB205,369.72). The management believes that 5% reasonably reflects the reasonable range of possible fluctuation of RMB against Euro in the upcoming year.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

(III) Market risk (continued)

3. Other price risks

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than exchange rate risk and interest rate risk.

The Company's other price risk arises primarily from investments in various types of equity instruments, which are subject to the risk of changes in the price of equity instruments.

On 31 December 2022, with all other variables held constant, if the value of equity instruments rises or falls by 0.5%, net profit and other comprehensive income of the Company will increase or decrease by RMB0 and RMB2,272,840.50 respectively (31 December 2021: net profit of RMB0, other comprehensive income of RMB2,672,680.50). The management believes that 0.5% reasonably reflects the reasonable range of possible fluctuation of the value of equity instruments in the upcoming year.

IX. DISCLOSURE OF FAIR VALUE

The input value used for measuring fair value is divided into three levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access on the measurement date.

Level 2 inputs are directly or indirectly observable inputs of relevant assets or liabilities other than first-level inputs.

Level 3 inputs refer to unobservable inputs of relevant assets or liabilities.

The fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

IX. DISCLOSURE OF FAIR VALUE (continued)

(I) Fair value of assets and liabilities measured at fair value as at the end of the period

Item	Fair value as at 31 December 2022			Total
	Measurement of fair value at level 1	Measurement of fair value at level 2	Measurement of fair value at level 3	
I. Continuous measurement at fair value	-	-	-	-
Held-for-trading financial assets	-	-	-	-
Receivables at FVTOCI	-	104,157,088.53	-	104,157,088.53
Other debt investments	-	-	-	-
Other equity instrument investments	534,786,000.00	-	-	534,786,000.00
Other non-current financial assets	-	-	-	-
Total assets with continuous measurement at fair value	534,786,000.00	104,157,088.53	-	638,943,088.53
Held-for-trading financial liabilities	-	-	-	-
Total liabilities with continuous measurement at fair value	-	-	-	-
II. Non-continuous fair value measurement	-	-	-	-

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

IX. DISCLOSURE OF FAIR VALUE (continued)

(II) Basis for determining the market price of items that are continuously and non-continuously measured at level 1 fair value

The Group's other investments in equity instruments measured at level 1 fair value at the end of the period are publicly issued shares of Zhuzhou CRRC Times Electric Co., Ltd. held by the Company not for short-term trading, and the fair value at the end of the period represents the share price as at 31 December 2022.

(III) Qualitative and quantitative information of valuation technique and key parameters used for items that are continuously and non-continuously measured at level 2 fair value

The receivables at FVTOCI measured at level 2 fair value held by the Company are bills receivable, the fair value of which is determined using the discounted cash flow method at a discount rate equal to that of bank acceptance bills for the same period.

X. RELATED PARTIES AND RELATED-PARTY TRANSACTIONS

(I) Parent company of the Company

Name of parent company	Registration place	Business nature	Registered capital (RMB0'000)	Shareholding ratio of the parent company in the Company (%)	Voting ratio of the parent company in the Company (%)
China Railway Construction Corporation Limited	Beijing	Civil engineering construction industry	1,357,954.15	65.00	65.00

The Company's parent and ultimate holding company are China Railway Construction Corporation Limited and China Railway Construction Group Corporation, respectively. China Railway Construction Group Corporation is registered at 40 Fuxing Road, Haidian District, Beijing.

(II) Information on subsidiaries of the Company

Please refer to "Note VII. Interests in Other Entities" for details of subsidiaries of the Company.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

X. RELATED PARTIES AND RELATED-PARTY TRANSACTIONS (continued)

(III) Information on other related parties

<u>Name of other related parties</u>	<u>Relationship with the Company</u>
CRCC Finance Company Limited	Under common control of the same parent company with the Company
China Railway Materials Group Co., Ltd.	Under common control of the same parent company with the Company
China Railway 11th Bureau Group Co., Ltd.	Under common control of the same parent company with the Company
China Railway 15th Bureau Group Co., Ltd.	Under common control of the same parent company with the Company
China Railway 14th Bureau Group Co., Ltd.	Under common control of the same parent company with the Company
China Railway 16th Bureau Group Co., Ltd.	Under common control of the same parent company with the Company
China Railway 12th Bureau Group Co., Ltd.	Under common control of the same parent company with the Company
China Railway 18th Bureau Group Co., Ltd.	Under common control of the same parent company with the Company
China Railway Construction South China Construction Co., Ltd.	Under common control of the same parent company with the Company
China Railway 21st Bureau Group Co., Ltd.	Under common control of the same parent company with the Company
China Railway 24th Bureau Group Co., Ltd.	Under common control of the same parent company with the Company
China Railway 23rd Bureau Group Co., Ltd.	Under common control of the same parent company with the Company
China Railway 20th Bureau Group Co., Ltd.	Under common control of the same parent company with the Company
China Railway 22nd Bureau Group Co., Ltd.	Under common control of the same parent company with the Company
China Civil Engineering Construction Corporation	Under common control of the same parent company with the Company
China Railway Construction Heavy Industry Corporation Limited	Under common control of the same parent company with the Company
China Railway Construction Investment Group Co., Ltd.	Under common control of the same parent company with the Company
China Railway Construction Electrification Bureau Group Co., Ltd.	Under common control of the same parent company with the Company
CRCC Financial Leasing Co., Ltd.	An associate of the parent company of the Company
CRCC Xinjiang Jingxin Expressway Co., Ltd.	An associate of an enterprise under common control of the same parent company with the Company

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

X. RELATED PARTIES AND RELATED-PARTY TRANSACTIONS (continued)

(IV) Related party transactions

1. Related-party transactions on purchase and sales of goods, and rendering and receipt of services

Purchase of goods/receipt of services

Related party	Content of related-party transaction	2022	2021
China Railway Construction Heavy Industry Corporation Limited	Purchase of goods	36,716,036.01	229,283.62
China Railway Construction Heavy Industry Corporation Limited	Asset lease	–	328,112.07
China Railway 14th Bureau Group Co., Ltd.	Purchase of goods	–	3,477,591.40
China Railway 23rd Bureau Group Co., Ltd.	Construction service	744,016.78	–
China Railway 20th Bureau Group Co., Ltd.	Purchase of goods	93,148,034.07	53,782,098.04
China Railway Materials Group Co., Ltd.	Purchase of goods	3,645,770.35	–
CRCC Financial Leasing Co., Ltd.	Purchase of goods	102,899,115.01	–

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

X. RELATED PARTIES AND RELATED-PARTY TRANSACTIONS (continued)

(IV) Related party transactions (continued)

1. Related-party transactions on purchase and sales of goods, and rendering and receipt of services (continued)

Sale of goods/rendering of services

Related party	Content of related-party transaction	2022	2021
CRCC Finance Company Limited	Interest income	465,455.75	567,472.87
China Railway Construction Heavy Industry Corporation Limited	Sale of goods	344,558,488.82	306,772,626.87
China Railway Construction Heavy Industry Corporation Limited	Lease income	—	880,733.94
China Civil Engineering Construction Corporation	Sale of goods	517,112.39	39,734,388.49
China Railway 11th Bureau Group Co., Ltd.	Sale of goods	21,657,964.60	2,575,718.26
China Railway Construction Electrification Bureau Group Co., Ltd.	Sale of goods	2,123,893.81	—
China Railway 12th Bureau Group Co., Ltd.	Rendering of services	105,347,289.45	—
China Railway 22nd Bureau Group Co., Ltd.	Sale of goods	1,631.86	—
China Railway 21st Bureau Group Co., Ltd.	Sale of goods	16,672.56	—
China Railway Materials Group Co., Ltd.	Sale of goods	7,575,532.74	—
China Railway 16th Bureau Group Co., Ltd.	Sale of goods	—	494,101.89
China Railway 20th Bureau Group Co., Ltd.	Sale of goods	—	797,896.15
China Railway 14th Bureau Group Co., Ltd.	Sale of goods	—	115,044.24
China Railway 18th Bureau Group Co., Ltd.	Sale of goods	—	47,037.17
CRCC Xinjiang Jingxin Expressway Co., Ltd.	Sale of goods	—	13,256,637.12

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

X. RELATED PARTIES AND RELATED-PARTY TRANSACTIONS (continued)

(IV) Related party transactions (continued)

2. Key management remuneration

Item	2022 (RMB0' 000)	2021 (RMB0' 000)
Key management remuneration	1,242.67	869.36

Explanation: during the current period, there were 26 key management personnel including senior management, directors, supervisors, 20 of whom were remunerated by the Company. Key management personnel, including Mr. Liu Feixiang, Mr. Yu Qiuhua, Mr. Wang Huaming, Mr. Zhong Xiangjun, Mr. Zhao Hui, Mr. Sha Mingyuan and Mr. Bai Yunfei waived remunerations from the Company. No other directors or supervisors waived remunerations from the Company, and the Company does not pay directors any amount as an incentive to join the Company or as compensation for loss of office.

In 2022, the remuneration of each director and supervisor is as follows:

Unit: RMB0' 000

Name	Basic salary	Performance-based compensation	Pension	Others	Total
<i>Executive Directors</i>					
Tong Pujiang	19.20	139.69	3.81	7.93	170.63
Chen Yongxiang	19.20	94.22	3.81	6.93	124.16
Luo Jianli	22.27	70.41	3.44	9.92	106.04
<i>Supervisors</i>					
Yu Qiuhua					
Wang Huaming					
Liang Zhijian	3.78		0.57	0.95	5.30
Zhong Xiangjun					

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

X. RELATED PARTIES AND RELATED-PARTY TRANSACTIONS (continued)

(IV) Related party transactions (continued)

2. Key management remuneration (continued)

Unit: RMB0' 000

Name	Basic salary	Performance-based compensation	Pension	Others	Total
<i>Non-executive Directors</i>					
Zhao Hui					
Sha Mingyuan					
Bai Yunfei					
<i>Independent Non-executive Directors</i>					
Yu Jiahe	8.17				8.17
Sun Linfu	8.17				8.17
Wong Hin Wing	8.17				8.17
Chu Ching	1.67				1.67
Na Pengjie	1.67				1.67
Wu Yuntian	1.33				1.33

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

X. RELATED PARTIES AND RELATED-PARTY TRANSACTIONS (continued)

(IV) Related party transactions (continued)

2. Key management remuneration (continued)

In 2021, the remuneration of each director and supervisor is as follows:

Unit: RMB0' 000

Name	Basic salary	Performance-based compensation	Pension	Others	Total
<i>Executive Directors</i>					
Tong Pujiang	18.90	81.45	3.62		103.97
Chen Yongxiang	18.90	40.84	3.62		63.36
Liu Feixiang		0.00			
<i>Supervisors</i>					
Yu Qihua	19.70	37.91	2.82		60.43
Zhong Xiangjun					
Wang Huaming					
<i>Non-executive Directors</i>					
Zhao Hui					
Sha Mingyuan					
<i>Independent Non-executive Directors</i>					
Yu Jiahe	9.80				9.80
Sun Linfu	9.80				9.80
Wong Hin Wing	9.80				9.80

Explanation 1: Mr. Liu Feixiang has been the chairman of the board and an executive director of the Company since April 2019.

Explanation 2: From 21 October 2022, Mr. Yu Qihua ceased to be a Supervisor of the Company; Mr. Liang Zhijian served as the chairman of the supervisory committee of the Company, Mr. Sha Mingyuan ceased to be a non-executive Director of the Company; Mr. Luo Jianli served as an executive Director of the Company; Mr. Bai Yunfei served as a non-executive Director of the Company; Mr. Sun Linfu, Mr. Yu Jiahe and Mr. Wong Hin Wing ceased to be independent non-executive Directors of the Company; Mr. Wu Yuntian, Mr. Na Pengjie and Ms. Chu Ching served as independent non-executive Directors of the Company.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

X. RELATED PARTIES AND RELATED-PARTY TRANSACTIONS (continued)

(IV) Related party transactions (continued)

2. Key management remuneration (continued)

Remuneration of the top five highest paid individuals:

The five individuals whose remuneration were the highest in the Company for 2022 include 3 directors (2021: 1 director), whose remuneration were reflected in the table above. The aggregate of the remuneration in respect of the other two (2021: four) individuals during the year are as follows:

	2022	2021
Basic salary	38.40	388.17
Performance-based compensation	196.21	97.68
Pension	7.63	–
Others	13.92	–
Total	256.16	485.85

	Number	
	2022	2021
Remuneration Bands		
HK\$0–HK\$1,000,000	–	–
HK\$1,000,000–HK\$1,500,000	2	2
HK\$1,500,000–HK\$2,000,000	–	2

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

X. RELATED PARTIES AND RELATED-PARTY TRANSACTIONS (continued)

(V) Receivables from and payables to related parties

1. Receivables

Item	Related party	Balance as at 31 December 2022		Balance as at 31 December 2021	
		Balance of carrying amount	Bad debt provision	Balance of carrying amount	Bad debt provision
Cash and bank balances					
	CRCC Finance Company Limited	29,511,346.65	-	35,022,775.18	-
Accounts receivable					
	China Railway Construction Heavy Industry Corporation Limited	10,916,964.51	10,916.96	919,674.98	919.67
	China Railway 12th Bureau Group Co., Ltd.	70,516,731.00	70,516.73	150,000.00	150.00
	China Railway 11th Bureau Group Co., Ltd.	18,629,500.00	18,629.50	103,540.06	103.54
	China Civil Engineering Construction Corporation	16,672,500.00	16,672.50	26,604,189.46	26,604.19
	China Railway 22nd Bureau Group Co., Ltd.	-	-	8,300,000.00	8,300.00
	China Railway Construction South China Construction Co., Ltd.	2,103,055.02	2,103.06	2,103,055.02	2,103.06
	China Railway Materials Group Co., Ltd.	2,012,098.20	2,012.10	-	-
	China Railway Construction Electrification Bureau Group Co., Ltd.	1,095,044.25	1,095.04	276,106.19	276.11
	China Railway 21st Bureau Group Co., Ltd.	18,840.00	18.84	-	-
	China Railway 23rd Bureau Group Co., Ltd.	-	-	1,483,993.00	1,483.99
	China Railway 20th Bureau Group Co., Ltd.	-	-	120,747.00	120.75
	China Railway 16th Bureau Group Co., Ltd.	-	-	4,626,443.62	4,626.44
	CRCC Xinjiang Jingxin Expressway Co., Ltd.	-	-	1,840,100.00	1,840.10
	China Railway 18th Bureau Group Co., Ltd.	-	-	53,152.00	53.15
	China Railway 14th Bureau Group Co., Ltd.	-	-	130,000.00	130.00

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

X. RELATED PARTIES AND RELATED-PARTY TRANSACTIONS (continued)

(V) Receivables from and payables to related parties (continued)

1. Receivables (continued)

Item	Related party	Balance as at 31 December 2022		Balance as at 31 December 2021	
		Balance of carrying amount	Bad debt provision	Balance of carrying amount	Bad debt provision
Bills receivable					
	China Civil Engineering Construction Corporation	10,124,337.00	10,124.34	34,045,437.00	34,045.44
	China Railway Construction Heavy Industry Corporation Limited	-	-	56,363,001.00	56,363.00
	China Railway 16th Bureau Group Co., Ltd.	3,626,443.62	3,626.44	-	-
	China Railway 12th Bureau Group Co., Ltd.	5,740,000.00	5,740.00	-	-
	China Railway Construction Electrification Bureau Group Co., Ltd.	9,300,000.00	9,300.00	-	-
Other receivables					
	China Railway 12th Bureau Group Co., Ltd.	1,000,000.00	5,000.00	-	-
	China Civil Engineering Construction Corporation	200,000.00	1,000.00	-	-
	China Railway 11th Bureau Group Co., Ltd.	10,000.00	50.00	-	-
Long-term receivables due within one year					
	CRCC Financial Leasing Co., Ltd.	-	-	51,970,000.00	1,945,970.00

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

X. RELATED PARTIES AND RELATED-PARTY TRANSACTIONS (continued)

(V) Receivables from and payables to related parties (continued)

2. Payables

Item	Related party	Balance of carrying amount as at 31 December 2022	Balance of carrying amount as at 31 December 2021
Accounts payable	China Railway 20th Bureau Group Co., Ltd.	78,367,767.83	36,103,216.79
	China Railway Construction Heavy Industry Corporation Limited	12,980,000.00	452,434.65
	China Railway 23rd Bureau Group Co., Ltd.	991,765.00	–
	China Railway Materials Group Co., Ltd.	374,150.00	–
	China Railway 14th Bureau Group Co., Ltd.	205,033.27	1,413,623.03
Bills payable	China Railway 20th Bureau Group Co., Ltd.	4,200,000.00	16,629,297.78
	China Railway Materials Group Co., Ltd.	2,249,966.20	–
	China Railway Construction Heavy Industry Corporation Limited	190,468.00	182,016.08
Other payables	China Railway Construction Investment Group Co., Ltd.	20,000.00	–
Contract liabilities	China Railway 14th Bureau Group Co., Ltd.	1,907,493.86	1,800,000.00
	China Railway 24th Bureau Group Co., Ltd.	1,769,911.50	2,000,000.00
	China Railway 11th Bureau Group Co., Ltd.	776,459.94	424,281.74
	China Railway Construction Electrification Bureau Group Co., Ltd.	8,230,088.50	–
	CRCC Xinjiang Jingxin Expressway Co., Ltd.	5,933,900.00	–

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

X. RELATED PARTIES AND RELATED-PARTY TRANSACTIONS (continued)

(VI) Centralized management of funds

1. The main contents of the centralized management of funds that the Company participates in and implements are as follows:

The Group imposes centralized management over the funds of the parent company and Group members through the internally established settlement center and finance company in accordance with the requirements of relevant laws and regulations.

2. Funds collected by the Company to the Group

Funds not collected to the account of the Group's parent company but instead deposited directly in the finance company

Item	Balance as at 31 December 2022		Balance as at 31 December 2021	
	Balance of carrying amount	Bad debt provision	Balance of carrying amount	Bad debt provision
Cash and bank balances	29,511,346.65	–	35,022,775.18	–
Total	29,511,346.65	–	35,022,775.18	–
Including: Restricted funds due to centralized management	–	–	–	–

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

XI. COMMITMENTS AND CONTINGENCIES

1. Capital commitments

Contracted but not yet recognized in the financial statements:

Item	31 December 2022	31 December 2021
Commitments to acquire fixed assets	12,129,733.50	13,912,510.75
Total	12,129,733.50	13,912,510.75

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

XII. EVENTS AFTER THE BALANCE SHEET DATE

(I) Resolution on proposed declaration of dividends

On 24 March 2023, the Board proposed to the Company to declare cash dividend of RMB0.025 per share (tax inclusive) to the shareholders of the Company, totalling RMB37,997,100.00 based on the total issued number of shares of 1,519,884,000, which is subject to approval at the general meeting of the Company.

XIII. CAPITAL MANAGEMENT

The primary objectives of the Company's capital management are:

- to ensure the Company's abilities of going concern, therefore, the Company can provide continued returns to shareholders and other stakeholders.
- pricing the products and services according to the risk level, so as to provide sufficient returns to shareholders.

The Company has set a capital amount that is proportional to the risk. The capital structure is adjusted according to the change of economic environment and the risk characteristics of the target assets. In order to maintain or adjust the capital structure, the Company may adjust the amounts of dividends paid to shareholders, the capital returned to shareholders, otherwise, issue new shares or sell assets to reduce liabilities.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

XIII. CAPITAL MANAGEMENT (continued)

The Group uses a gearing ratio to manage its capital. The gearing ratio refers to the percentage of net debt versus the amount of adjusted capital plus net debt. Net debt includes net amount of bills payable, accounts payable and other payables minus cash. Capital refers to capital attributable to shareholders of the parent. The Group's gearing ratio at each balance sheet date was as follows:

	Balance as at 31 December 2022	Balance as at 31 December 2021
Total debts	2,658,751,627.45	2,391,820,731.01
Less: Cash and cash equivalents	1,163,149,863.13	1,178,533,467.98
Advance received	589,403.67	497,110.55
Contract liabilities	183,148,936.83	162,027,131.82
Employee benefits payable	18,515,438.81	16,184,797.66
Taxes payable	74,082,969.32	14,437,003.76
Non-current liabilities due within one year	12,493,770.01	25,794,639.20
Deferred income tax liabilities	33,638,429.11	43,902,584.01
Adjusted net debt	1,173,132,816.57	950,443,996.03
Owners' equity	5,918,960,680.96	5,881,519,713.07
Adjusted capital	5,918,960,680.96	5,881,519,713.07
Gearing ratio	16.54%	13.91%

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

XIV. OTHER IMPORTANT MATTERS

(I) Segment information

Operating segments

The Group is mainly engaged in the manufacture of products in the large-scale railway track maintenance machinery industry and the provision of related services. The management determines the reporting segments based on the Group's internal organizational structure, management requirements and internal reporting system, under which, the management decides to allocate resources and evaluate the performance. Relevant internal reports are disclosed in accordance with the accounting policies and measurement basis used when reporting to the management, and such accounting policies and measurement basis are consistent with those used for the preparation of these financial statements. Since the resource allocation and performance evaluation of the Group are based on the overall operation of the manufacture of large-scale railway track maintenance machinery and equipment and the provision of related services, which is also the only operating segment reported internally by the Group, no segment reporting information is presented separately.

Other information:

Revenue from external transactions by origin of revenue:

Item	2022	2021
Mainland China	2,534,110,820.47	1,950,501,444.41
Other countries	287,806,708.85	235,444,534.59
Total:	2,821,917,529.32	2,185,945,979.00

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

XV. NOTES TO KEY ITEMS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY

(I) Bills receivable

1. Bills receivable shown as classification

Item	Balance as at 31 December 2022	Balance as at 31 December 2021
Commercial acceptance bills	277,355,937.86	213,064,809.30
Less: Bad debt provision	1,271,616.57	702,890.29
Total	276,084,321.29	212,361,919.01

2. Bills receivable pledged as at 31 December 2022

Item	Amount pledged as at 31 December 2022
Commercial acceptance bills	8,732,922.00
Total	8,732,922.00

Explanation: The pledged bills are guarantees for bank to issue acceptance bills.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

XV. NOTES TO KEY ITEMS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)

(II) Accounts receivable

1. Accounts receivable based on invoice dates shown by aging

Aging	Balance as at 31 December 2022	Balance as at 31 December 2021
Within 1 year	1,666,367,507.97	1,598,068,179.15
1–2 years	206,345,180.18	145,571,640.77
2–3 years	50,221,736.86	117,389,521.45
3–4 years	28,404,389.64	57,074,887.70
4–5 years	46,844,641.70	18,479,032.10
Over 5 years	64,777,754.17	159,873,054.57
Sub-total	2,062,961,210.52	2,096,456,315.74
Less: Bad debt provision	110,319,105.83	168,709,296.05
Total	1,952,642,104.69	1,927,747,019.69

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

XV. NOTES TO KEY ITEMS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)

(II) Accounts receivable (continued)

2. Classification of accounts receivable by basis of bad debt provisions made

Type	Balance as at 31 December 2022					Balance as at 31 December 2021				
	Balance of carrying amount		Bad debt provision		Book value	Balance of carrying amount		Bad debt provision		Book value
	Amount	Proportion (%)	Amount	Proportion of provision (%)		Amount	Proportion (%)	Amount	Proportion of provision (%)	
Accounts receivable with provision for the bad debt based on an individual basis	28,640,000.00	1.37	28,640,000.00	100.00	-	129,400,000.00	6.17	94,225,961.54	72.82	35,174,038.46
Accounts receivable with the provision for bad debt based on a portfolio basis	2,062,961,210.52	98.63	110,319,105.83	5.35	1,952,642,104.69	1,967,056,315.74	93.83	74,483,334.51	3.79	1,892,572,981.23
Including:										
Related parties within the scope of consolidation	1,037,768.72	0.05	-	-	1,037,768.72	11,062,645.41	0.56	-	-	11,062,645.41
Other related parties	254,302,822.46	12.33	254,302.82	0.10	254,048,519.64	410,354,907.18	20.86	410,354.88	0.10	409,944,552.30
Other external entities	1,807,620,619.34	87.62	110,064,803.01	6.09	1,697,555,816.33	1,545,638,763.15	78.58	74,072,979.63	4.79	1,471,565,783.52
Total	2,091,601,210.52	100.00	138,959,105.83	-	1,952,642,104.69	2,096,456,315.74	100.00	168,709,296.05	-	1,927,747,019.69

Provision for bad debts on an individual basis:

Name	Balance as at 31 December 2022			
	Balance of carrying amount	Bad debt provision	Proportion of provision (%)	Reason for provision
Unit 1	28,640,000.00	28,640,000.00	100.00	Long ageing
Total	28,640,000.00	28,640,000.00		

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

XV. NOTES TO KEY ITEMS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)

(II) Accounts receivable (continued)

2. Classification of accounts receivable by basis of bad debt provisions made (continued)

Provision for bad debts on a portfolio basis:

Name	Balance as at 31 December 2022		Proportion of provision (%)
	Accounts receivable	Bad debt provision	
Related parties within the scope of consolidation	1,037,768.72	–	–
Other related parties	254,302,822.46	254,302.82	0.10
Other external entities	1,807,620,619.34	110,064,803.01	6.09
Total	2,062,961,210.52	110,319,105.83	–

(III) Receivables at FVTOCI

1. Breakdown of receivables at FVTOCI

Item	Balance as at 31 December 2022	Balance as at 31 December 2021
Bills receivable	87,785,388.23	28,031,169.19
Accounts receivable	–	–
Total	87,785,388.23	28,031,169.19

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

XV. NOTES TO KEY ITEMS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)

(III) Receivables at FVTOCI (Continued)

2. Movement and changes in fair value of receivables at FVTOCI during the period

Item	Balance as at 31 December 2021	Increase during the period	Derecognition during the period	Other movements	Balance as at 31 December 2022	Accumulated impairment losses recognized in other comprehensive income
Bills receivable	28,031,169.19	87,970,000.00	28,109,010.00	-106,770.96	87,785,388.23	—
Total	28,031,169.19	87,970,000.00	28,109,010.00	-106,770.96	87,785,388.23	—

(IV) Other receivables

Item	Balance as at 31 December 2022	Balance as at 31 December 2021
Interest receivable	—	—
Dividend receivable	—	—
Other receivables	216,580,728.84	225,947,343.16
Total	216,580,728.84	225,947,343.16

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

XV. NOTES TO KEY ITEMS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)

(IV) Other receivables (Continued)

1. Other receivables

(1) Other receivables based on invoice date shown by ageing

Ageing	Balance as at 31 December 2022	Balance as at 31 December 2021
Within 1 year	254,988,932.03	225,249,545.74
1–2 years	–	230,928.89
2–3 years	–	1,150,172.78
Over 3 years	665,417.64	–
Sub-total	255,654,349.67	226,630,647.41
Less: Bad debt provision	39,073,620.83	683,304.25
Total	216,580,728.84	225,947,343.16

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

XV. NOTES TO KEY ITEMS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)

(IV) Other receivables (continued)

1. Other receivables (continued)

(2) Classification of other receivables by basis of bad debt provision method

Type	Balance as at 31 December 2022					Balance as at 31 December 2021				
	Balance of carrying amount		Bad debt provision		Book value	Balance of carrying amount		Bad debt provision		Book value
	Amount	Proportion (%)	Amount	Proportion of provision (%)		Amount	Proportion (%)	Amount	Proportion of provision (%)	
Other receivables with provision for the bad debt based on an individual basis	38,273,264.57	14.97	38,273,264.57	100.00	-	-	-	-	-	-
Other receivables with the provision for bad debt based on a portfolio basis	217,381,085.10	85.03	800,356.26	0.37	216,580,728.84	226,630,647.41	100.00	683,304.25	0.30	225,947,343.16
Including:										
Related parties within the scope of consolidation	187,132,344.53	86.08	-	-	187,132,344.53	198,987,783.91	87.80	-	-	198,987,783.91
Other related parties	1,210,000.00	0.56	6,050.00	0.50	1,203,950.00	-	-	-	-	-
Other external entities	29,038,740.57	13.36	794,306.26	2.74	28,244,434.31	27,642,863.50	12.20	683,304.25	2.47	26,959,559.25
Total	255,654,349.67	100.00	39,073,620.83	-	216,580,728.84	226,630,647.41	100.00	683,304.25	-	225,947,343.16

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

XV. NOTES TO KEY ITEMS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)

(IV) Other receivables (continued)

1. Other receivables (continued)

(2) Classification of other receivables by basis of bad debt provision method (continued)

Other receivables with the provision for bad debt based on an individual basis:

Name	Balance as at 31 December 2022			Reason for provision
	Balance of carrying amount	Bad debt provision	Proportion of provision (%)	
Unit 1	38,273,264.57	38,273,264.57	100.00	With relatively higher expected credit risks
Total	38,273,264.57	38,273,264.57	–	

Other receivables with the provision for bad debt based on a portfolio basis:

Items provided based on a portfolio basis:

Name	Balance as at 31 December 2022		
	Other receivables	Bad debt provision	Proportion of provision (%)
Related parties within the scope of consolidation	187,132,344.53	–	–
Other related parties	1,210,000.00	6,050.00	0.50
Other external entities	29,038,740.57	794,306.26	2.74
Total	217,381,085.10	800,356.26	–

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

XV. NOTES TO KEY ITEMS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)

(IV) Other receivables (continued)

1. Other receivables (continued)

(3) Details of accrued bad debt provision

Bad debt provision	First stage Expected credit loss in the next 12 months	Second stage Expected credit loss over the duration (no credit impairment occurred)	Third stage Expected credit loss over the duration (credit impairment occurred)	Total
Balance at 31 December 2021	683,304.25	—	—	683,304.25
Balance at 31 December 2021 in the current period	683,304.25	—	—	683,304.25
– transfer to second stage	—	—	—	—
– transfer to third stage	—	—	—	—
– transfer back to second stage	—	—	—	—
– transfer back to first stage	—	—	—	—
Accrued in current period	254,839.80	—	38,273,264.57	38,528,104.37
Reversal in current period	137,787.79	—	—	137,787.79
Charged off in current period	—	—	—	—
Written off in current period	—	—	—	—
Other movements	—	—	—	—
Balance at 31 December 2022	800,356.26	—	38,273,264.57	39,073,620.83

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

XV. NOTES TO KEY ITEMS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)

(IV) Other receivables (continued)

1. Other receivables (continued)

(3) Details of accrued bad debt provision (continued)

Changes in the balance of carrying amount of other receivables are as follows:

Balance of carrying amount	First stage Expected credit loss in the next 12 months	Second stage Expected credit loss over the duration (no credit impairment occurred)	Third stage Expected credit loss over the duration (credit impairment occurred)	Total
Balance at 31 December 2021	226,630,647.41	-	-	226,630,647.41
Balance at 31 December 2021 in the current period	226,630,647.41	-	-	226,630,647.41
– transfer to second stage	-	-	-	-
– transfer to third stage	-	-	-	-
– transfer back to second stage	-	-	-	-
– transfer back to first stage	-	-	-	-
Increase in the current period	70,999,154.59	-	38,273,264.57	109,272,419.16
Derecognition in the current period	80,248,716.90	-	-	80,248,716.90
Other movements	-	-	-	-
Balance at 31 December 2022	217,381,085.10	-	38,273,264.57	255,654,349.67

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

XV. NOTES TO KEY ITEMS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)

(V) Long-term equity investments

Item	Balance as at 31 December 2022			Balance as at 31 December 2021		
	Balance of carrying amount	Impairment provision	Book value	Balance of carrying amount	Impairment provision	Book value
Investment in subsidiaries	396,876,012.32	-	396,876,012.32	381,876,012.32	-	381,876,012.32
Total	396,876,012.32	-	396,876,012.32	381,876,012.32	-	381,876,012.32

1. Investment in subsidiaries

Investee	Balance as at 31 December 2021	Increase in the current period	Decrease in the current period	Balance as at 31 December 2022	Impairment provided in the period	Closing balance of impairment provision
Beijing Kunweitong Railway Mechanization Engineering Co., Ltd.	60,000,000.00	-	-	60,000,000.00	-	-
Beijing Ruiweitong Engineering Machinery Co., Ltd.	321,876,012.32	-	-	321,876,012.32	-	-
Zhengzhou CRCC Equipment Technology Co., Ltd.	-	15,000,000.00	-	15,000,000.00	-	-
Total	381,876,012.32	15,000,000.00	-	396,876,012.32	-	-

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in RMB unless otherwise specified)

XV. NOTES TO KEY ITEMS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)

(VI) Operating revenue and operating cost

1. Breakdown of operating revenue and operating cost

Item	2022		2021	
	Revenue	Costs	Revenue	Costs
Principal business	2,694,351,601.01	2,123,852,108.54	2,012,940,644.14	1,561,133,826.40
Other business	10,175,841.33	8,024,437.15	28,705,449.35	14,538,137.38
Total	2,704,527,442.34	2,131,876,545.69	2,041,646,093.49	1,575,671,963.78

(VII) Investment income

Item	2022	2021
Long-term equity investment accounted for by cost method	3,654,313.08	–
Dividend income from other equity instrument investments	4,410,000.00	4,410,000.00
Investment income from derecognition of receivables at FVTOCI	-569,517.00	-291,029.24
Total	7,494,796.08	4,118,970.76

BASIC CORPORATE INFORMATION

Name in Chinese	中國鐵建高新裝備股份有限公司
Name in English	CRCC HIGH-TECH EQUIPMENT CORPORATION LIMITED
Authorized representatives	Chen Yongxiang (陳永祥) Law Chun Biu (羅振鬯)
Joint company secretaries	Ma Changhua (馬昌華) Law Chun Biu (羅振鬯)
Registered office	No. 384, Yangfangwang Jinma Town, Kunming Yunnan Province, China
Telephone	+86 871 63831988
Fax	+86 871 63831000
Website	http://www.crcce.com.cn
Principal place of business in Hong Kong	23/F, Railway Plaza 39 Chatham Road South Tsim Sha Tsui Kowloon Hong Kong
Listing information	H Share The Stock Exchange of Hong Kong Limited Stock Code: 1786 Stock Abbreviation: CRCCE
H share registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong

BASIC CORPORATE INFORMATION

Legal advisers

Baker & McKenzie
14th Floor, One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

Jia Yuan Law Offices
F408, Ocean Plaza
158 Fuxing Men Nei Street
Xicheng District
Beijing, China

Auditors

BDO China SHU LUN PAN Certified Public Accountants LLP
4th Floor
No. 61, Nanjing East Road
Huangpu District, Shanghai

DEFINITIONS

“Articles of Association” or “Articles”	the Company’s articles of association
“BDO”	BDO China SHU LUN PAN Certified Public Accountants LLP
“Board” or “Board of Directors”	the board of Directors of the Company
“CG Code”	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules
“Company”	CRCC High-Tech Equipment Corporation Limited (中國鐵建高新裝備股份有限公司), a joint stock company incorporated in the PRC with limited liability
“Company Law”	Company Law of the People’s Republic of China (中華人民共和國公司法), amended and adopted by the standing committee of the tenth National People’s Congress on 27 October 2005, and took effect on 1 January 2006, as amended, supplemented or otherwise modified from time to time, further amended on 28 December 2013 and took effect on 1 March 2014 and subsequently amended on 26 October 2018 with immediate effect
“CRCC”	China Railway Construction Corporation Limited (中國鐵建股份有限公司), the controlling shareholder of the Company
“CRCCG”	China Railway Construction Group Corporation (中國鐵道建築集團有限公司), the indirect controlling shareholder of the Company
“CRCHI”	China Railway Construction Heavy Industry Co., Ltd. (中國鐵建重工集團股份有限公司)
“Deloitte”	Deloitte Touche Tohmatsu Certified Public Accountants LLP
“Director(s)”	the directors of the Company
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign shares in the share capital of the Company with the nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and are listed on the Hong Kong Stock Exchange

DEFINITIONS

“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Kunweitong Company”	Beijing Kunweitong Railway Mechanization Engineering Co., Ltd. (北京昆維通鐵路機械化工程有限公司), a wholly-owned subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
“PRC”	the People’s Republic of China
“Ruiweitong Company”	Beijing Ruiweitong Engineering Machinery Co., Ltd. (北京瑞維通工程機械有限公司), a wholly-owned subsidiary of the Company
“Shareholder(s)”	holder(s) of shares of the Company
“Supervisory Committee”	the supervisory committee of the Company
“Supervisor(s)”	the supervisor(s) of the Company

By Order of the Board
CRCC High-Tech Equipment Corporation Limited
Liu Feixiang
Chairman

Kunming, the People's Republic of China, 24 March 2023

As at the date of this announcement, the Board of the Company comprises Mr. Liu Feixiang, Mr. Tong Pujiang, Mr. Chen Yongxiang and Mr. Luo Jianli as executive directors; Mr. Zhao Hui and Mr. Bai Yunfei, as non-executive directors; and Mr. Wu Yuntian, Mr. Na Pengjie and Ms. Chu Ching, as independent non-executive directors.