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**中国通号**

**China Railway Signal & Communication Corporation Limited\***

**中國鐵路通信信號股份有限公司**

*(A joint stock limited liability company incorporated in the People's Republic of China)*  
**(Stock Code: 3969)**

## **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018**

The board of directors (the “**Board**”) of China Railway Signal & Communication Corporation Limited\* (中國鐵路通信信號股份有限公司) (the “**Company**”) hereby announces the audited annual results of the Company and its subsidiaries for the year ended 31 December 2018. This announcement is in compliance 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 the preliminary announcement of annual results.

### **PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This results announcement will be published on the HKExnews website of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Company at [www.crsc.cn](http://www.crsc.cn).

The 2018 annual report will be dispatched to the Company’s H shareholders in due course and will be published on the aforesaid HKEnews website of the Stock Exchange as well as the website of the Company.

By order of the Board  
**China Railway Signal & Communication Corporation Limited\***  
**ZHOU Zhiliang**  
*Chairman*

Beijing, the People’s Republic of China, 27 March 2019

*As of the date of this announcement, the executive directors of the Company are Mr. ZHOU Zhiliang, Mr. YIN Gang and Mr. YANG Yongsheng, and the independent non-executive directors of the Company are Mr. WANG Jiajie, Mr. CHEN Jin’en, Mr. CHAN Ka Keung Peter and Mr. YAO Guiqing.*

*\* For identification only.*

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# CHAIRMAN'S STATEMENT

Dear Shareholders:

First of all, I would like to express my sincere gratitude on behalf of the Board of CRSC towards all Shareholders and the society for their continuous care and support for the Company!

The Year 2018 was a crucial year of transition not only for our country in carrying on the 13th Five-Year Plan, but also for CRSC in speeding up the implementation of the development strategy of “one core business with diversification into related businesses (一業為主、相關多元)” to strive to achieve quality development. Under the staunch leadership of the SASAC, all cadres and staff of CRSC adhered to the new development philosophy in concerted efforts to work practically and proactively, achieving new records, opening new chapters and embarking on new journeys in various works on corporate reform development and construction of the Communist Party. The Company's operating results continued to grow steadily. During the year, the Company achieved the total value of RMB68.29 billion for newly signed contracts, representing a year-on-year increase of 12.4%; operating revenue of approximately RMB39.84 billion, representing a year-on-year increase of 15.7%; and net profit of approximately RMB3.80 billion, representing a year-on-year increase of 8.0%.

Adhering to the principle of market-orientation, we have taken multiple measures to strengthen the foundation for development. The total value for newly signed contracts of the Group maintained rapid and healthy growth throughout the year. Firstly, we have continued to maintain the leading edge of railway communication and signal system integration. The Group successfully won the bid for 10 key high-speed railway “Four Electric(四電)” integration projects, including the projects of Guangzhou-Qingyuan, Zhengzhou-Wanzhou, Qianjiang-Zhangjiajie-Changde, Xuzhou-Huaian-Yancheng, Lunan, Datong-Zhangjiakou, Lhasa-Linzhi, Fuzhou-Pingtian, Anqing-Jiujiang. The value for newly signed contracts increased by more than 40% over the same period of last year. Secondly, the bids for self-developed CBTC system for the projects of Beijing Metro Line 12, Hefei Metro Line 3, Hohhot Metro Line 2 and Hangzhou-Haining Intercity Railway were won successively, making historic breakthrough. Thirdly, we achieved positive progress in relevant diversified expansion. We pushed forward the construction of Tianshui Tram steadily, newly signed the master contract for Taixing Smart City Project, signed the contract of the first high-speed rail project in Europe “Serbia Section of Hungary-Serbia Railway”, and steadily pushed forward Jakarta-Bandung High-Speed Railway Project in Indonesia.

Adhering to the value of independent innovation, we applied core technologies to boost rapid development. Firstly, our critical core technologies of intelligent railway passed the test review. The self-developed automatic train operation system (C3+ATO) for high-speed railway with a speed of 350 kilometers per hour will have its loaded trial run with passengers at Beijing-Shenyang High-Speed Railway, strongly supporting the construction of intelligent Beijing-Zhangjiakou Railway. Secondly, the branding recognition of the technological innovation results on rail transportation control technology, represented by high-speed railway C3, intercity railway C2+ATO, metro CBTC, medium and low speed magnetic levitations MATC, synthetic automation of marshaling yard CIPS, is increasingly prominent, and becomes a vital weapon in assisting the construction of a strong nation in transportation and technology. Thirdly, we safely and efficiently carried out the project on the renovation of train control system technology at Beijing-Tianjin Intercity Railway, and the system has completely replaced imported devices. Fourthly, we assisted Hong Kong high-speed railway to access to the national high-speed railway network, realizing the interconnecting of high-speed railways between Hong Kong and over 40 inland cities. Fifthly, we led the establishment of the Communication and Signal Branch of the China Railway Society (中國鐵道學會通信信號分會) and Communication and Signal Standardization Committee (通信信號標準化委員會), which further enhanced our influence in the industry.

# CHAIRMAN'S STATEMENT

Adhering to the principle of safety first, we are constantly enhancing the bottom line and “red line” awareness. We have firmly established the concept of “Quality is life, safety is greater than everything”. Firstly, we stressed the fulfillment of responsibility and assessment, attached great importance to the responsibility of quality and safety at each level, signed the quality and safety responsibility letter, safety and quality responsibility statement, safety production agreement and quality assurance agreement. As a result, safety and quality responsibility was fulfilled by all staff, and we reached safety and quality goal during the year. Secondly, we constantly enhanced quality and safety control ability. We prepared and revised safety and quality management systems, manuals, procedure documents and work instructions; meanwhile, we increased the investment in the safety of production. Thirdly, we have kept global leading position in the industry in the accumulation of case base. The total number of whole system test case bases has already exceeded 40,000, and all cases have been incorporated in the case base and applied to practices, indicating that our ability to solve the problems in rail transportation reached global leading level.

From the perspective of industry development trend, China Railway Corporation will continue to keep its investment intensity and scale in the railway industry. In 2019, it is expected that 6,800 km new routes will be put into production, of which 3,200 km are high-speed railways, and the delivery of train control system shows rapid growth momentum; the construction of intercity railway in Beijing-Tianjin-Hebei, Shandong, Yangtze River Delta and Pearl River Delta will be promoted rapidly; with respect to the market of high-speed railway renovation, after completing Beijing-Tianjin Intercity Railway Signal System Renovation Project in 2018, it is expected that new high-speed railway lines will gradually commence the system renovation projects. In the field of urban transit, the metro construction remains operation at high levels, and the completion mileage will further increase in 2019 as compared with 2018. The opening for operation of metro in cities will enter a peak period in the next two years, which will bring more demand for the delivery of control system; the development of multi-form urban transit has shown thriving vitality. Recently, many cities intensified the planning of light rail and modern trams, and more projects are expected to emerge in the future. In addition, Smart City and overseas markets also have bright prospects, while laying a solid foundation for technology, exploring market opportunities and cultivating customer base are key elements as always. In general, in the next three to five years, the investment and construction in rail transportation still have sufficient market space and growth potential, providing important opportunities for the Company to further its transformation and upgrading, and realizing the sustainable development.

Adhering to the overall strategy of “Focusing on safety, adjusting structure, grasping reform, strengthening management and control, and facilitating transformation”, and embracing the overall concepts of being strong, remarkable, innovative and powerful, the Company will continually consolidate the long-term mechanism of safety and quality, accelerate the pace of technological innovations, speed up transformation and upgrading progress, firmly deepen the reform, focus on innovating mechanism, improve modern enterprise system and capitalize on the advantages of integrating the industrial chain, so as to unremittingly strive to develop CRSC into a world-class enterprise with global competitiveness, serving our society, generating returns for Shareholders and rewarding our staff with sustainable and sound operating results.

*Chairman*

**ZHOU Zhiliang**

27 March 2019

# CORPORATE INFORMATION

The basic information of the Company is set out as below:

## LEGAL NAME OF THE COMPANY

中國鐵路通信信號股份有限公司

## OFFICIAL ENGLISH NAME OF THE COMPANY

China Railway Signal & Communication Corporation Limited\*

## DIRECTORS

### Executive Directors

Mr. ZHOU Zhiliang (*Chairman*)

Mr. YIN Gang (*President*)

Mr. YANG Yongsheng (*Deputy secretary of the Party Committee*)<sup>Note 1</sup>

### Independent Non-executive Directors

Mr. WANG Jiajie

Mr. CHEN Jin'en

Mr. CHAN Ka Keung Peter<sup>Note 1</sup>

Mr. YAO Guiqing<sup>Note 1</sup>

Mr. SUN Patrick<sup>Note 2</sup>

Mr. GAO Shutang<sup>Note 2</sup>

## SUPERVISORS

Ms. TIAN Liyan (*Chairwoman*)

Mr. WU Zuwei<sup>Note 3</sup>

Mr. CHEN Shikui<sup>Note 1</sup>

Mr. GAO Fan<sup>Note 4</sup>

Ms. ZHAO Xiumei<sup>Note 2</sup>

## JOINT COMPANY SECRETARIES

Mr. HU Shaofeng

Ms. NG Wing Shan (*FCIS, FCS*)

## AUTHORIZED REPRESENTATIVES

Mr. ZHOU Zhiliang

Ms. NG Wing Shan (*FCIS, FCS*)

## BOARD COMMITTEES

### Strategy and Investment Committee

Mr. ZHOU Zhiliang (*Chairman*)

Mr. YIN Gang<sup>Note 1</sup>

Mr. YANG Yongsheng<sup>Note 1</sup>

Mr. CHEN Jin'en

Mr. YAO Guiqing<sup>Note 1</sup>

Mr. WANG Jiajie<sup>Note 2</sup>

Mr. GAO Shutang<sup>Note 2</sup>

### Remuneration and Evaluation Committee

Mr. CHEN Jin'en (*Chairman*)<sup>Note 1</sup>

Mr. GAO Shutang (*Chairman*)<sup>Note 2</sup>

Mr. CHAN Ka Keung Peter<sup>Note 1</sup>

Mr. YAO Guiqing<sup>Note 1</sup>

Mr. SUN Patrick<sup>Note 2</sup>

### Audit and Risk Management Committee

Mr. CHAN Ka Keung Peter (*Chairman*)<sup>Note 1</sup>

Mr. SUN Patrick (*Chairman*)<sup>Note 2</sup>

Mr. WANG Jiajie

Mr. CHEN Jin'en<sup>Note 1</sup>

Mr. GAO Shutang<sup>Note 2</sup>

### Nomination Committee

Mr. ZHOU Zhiliang (*Chairman*)<sup>Note 1</sup>

Mr. CHEN Jin'en (*Chairman*)<sup>Note 2</sup>

Mr. WANG Jiajie

Mr. YAO Guiqing<sup>Note 1</sup>

\* For identification only.

# CORPORATE INFORMATION

## Quality and Safety Committee

Mr. YIN Gang (*Chairman*)

Mr. WANG Jiajie <sup>Note 1</sup>

Mr. YAO Guiqing <sup>Note 1</sup>

Mr. GAO Shutang <sup>Note 2</sup>

## REGISTERED OFFICE

20/F, CRSC Building A  
1 Compound, Automobile Museum South Road  
Fengtai District  
Beijing, PRC

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

CRSC Building  
1 Compound, Automobile Museum South Road  
Fengtai District  
Beijing, PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG <sup>Note 5</sup>

40th Floor, Sunlight Tower  
No. 248 Queen's Road East  
Wanchai, Hong Kong

## STOCK ABBREVIATION AND STOCK CODE

CHINA CRSC (03969)

## H SHARE REGISTRAR

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Shops 1712-1716  
17th Floor, Hopewell Centre  
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Wanchai, Hong Kong

## COMPANY WEBSITE

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## INVESTOR RELATIONS

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Automobile Museum South Road  
Fengtai District, Beijing, PRC  
Postal Code: 100070

## LEGAL ADVISORS

### Hong Kong Legal Adviser

Clifford Chance  
27th Floor, Jardine House  
1 Connaught Place  
Central, Hong Kong

### PRC Legal Adviser

Zhong Lun Law Firm  
33, 36, 37/F, SK Tower  
A6 Jianguomenwai Avenue, Chaoyang District  
Beijing, China

## AUDITORS

Ernst & Young  
*Certified Public Accountants*  
22nd Floor, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

*Note 1: Appointed on 28 August 2018.*

*Note 2: Resigned on 28 August 2018.*

*Note 3: Appointed on 25 May 2018.*

*Note 4: Resigned on 25 May 2018.*

*Note 5: With effect from 30 July 2018, the Company has changed its principal place of business in Hong Kong.*

# FINANCIAL HIGHLIGHTS

Key financial information of the Group for the year is set out as follows:

Unit: RMB'000 (except for percentages)

	<b>2018</b>	2017	Increase (%)
Revenue	<b>39,844,006</b>	34,433,683	15.7
Profit attributable to equity owner of the Company	<b>3,501,246</b>	3,310,045	5.8
Basic earnings per share (RMB/share)	<b>0.39</b>	0.38	2.6
Diluted earnings per share (RMB/share)	<b>0.39</b>	0.38	2.6
Weighted average rate of return on net assets (%)	<b>13.7</b>	14.7	Decrease of 1 percentage point
	<b>31 December 2018</b>	31 December 2017	Increase (%)
Total assets	<b>79,678,536</b>	61,244,644	30.1
Total liabilities	<b>49,406,454</b>	36,020,046	37.2
Total equity attributable to equity owner of the Company	<b>28,908,397</b>	24,019,051	20.4

# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERVIEW

In 2018, adhering to the main keynote of seeking progress while maintaining stability and focusing on quality development requirements, the Group optimized its industrial layout, seized market opportunities, fully expanded new markets, promoted technological innovation, attached great importance to quality and safety, strengthened internal management, and deepened cost cutting and efficiency enhancement, prompting enterprises to continue to maintain rapid and sound development momentum.

During the reporting period, the operating results of the Group continued to maintain a growth momentum and recorded an annual revenue of RMB39,844.0 million, representing an increase of RMB5,410.3 million or 15.7% as compared to that in the previous year. Profit before tax was RMB4,598.6 million, representing an increase of RMB312.9 million or 7.3% as compared to that in the previous year; profit attributable to equity Shareholders of the Group was RMB3,501.2 million, representing an increase of 5.8% as compared to that in the previous year. During the reporting period, there were no material changes to the composition or sources of the profit of the Group.

## FINANCIAL REVIEW

### I. Analysis on Principal Business

#### Analysis of changes in the relevant items of the income statement

Unit: RMB million (except for percentages)

	2018	2017	Increase (Decrease) (%)
Revenue	39,844.0	34,433.7	15.7
Cost of sales	(30,931.9)	(26,043.3)	18.8
Other income and gains	469.4	380.5	23.4
Selling and distribution expenses	(701.6)	(692.6)	1.3
Administrative expenses	(3,831.5)	(3,415.5)	12.2
Finance costs	(139.0)	(51.8)	168.3
Profit before tax	4,598.6	4,285.7	7.3
Income tax expense	(802.9)	(772.6)	3.9
Profit for the year	3,795.7	3,513.1	8.0



# MANAGEMENT DISCUSSION AND ANALYSIS

The Group realized revenue of RMB39,844.0 million, representing an increase of 15.7% as compared to the preceding year, with design and integration, equipment manufacturing, system implementation, construction contracting and other businesses accounting for 21.3%, 16.5%, 33.1%, 28.9% and 0.2% of the total revenue, respectively. The increase in revenue of the Group's principal businesses was mainly because: (i) the PRC government continued to increase its investments in urban infrastructure construction such as rail transportation, and the Group gave full play to its operating advantages of full industry chain, strengthened high-end operations, and deepened the regional market, leading to a significant increase in orders for rail transit business throughout the year, which further resulted in an increase in revenue; (ii) following the development strategy of "one core business with diversification into related businesses", the Group accelerated its industry layout and actively explored emerging businesses related to rail transportation such as tramcar and Smart Cities, further expanding the Group's revenue scale.

## *Analysis of orders*

During the reporting period, the total aggregate amount of external contracts signed by the Group was RMB68,290 million, representing an increase of 12.4% over the same period in 2017. In particular, the total amount of external contracts signed by the Group in the railway sector was RMB25,080 million, representing an increase of 44.8% over the same period in 2017; the total amount of external contracts signed by the Group in the urban transit sector was RMB11,610 million, representing an increase of 6.4% over the same period in 2017; In particular, the amount of newly signed contract in subway was RMB11,600 million, representing an increase of 20.2% over the same period in 2017; the total amount of external contracts signed by the Group in the overseas business sector was RMB950 million, representing a decrease of 64.8% over the same period in 2017; the total amount of external contracts signed by the Group in the construction contracting business and other businesses sector was RMB29,850 million, representing an increase of 0.3% over the same period in 2017; the total amount of external contracts signed by the Group in the Smart Cities business sector was approximately RMB800 million.

## *Cost of sales*

During the reporting period, the cost of sales of the Group amounted to RMB30,931.9 million, representing an increase of 18.8% as compared to the preceding year, which was mainly due to an increase in sales business volume that resulted in an increase in the cost of sales. Gross profit of the Group was RMB8,912.1 million, representing an increase of 6.2% as compared to the preceding year. Gross profit margin was 22.4%, representing a decrease of 2 percentage points as compared to the preceding year, which was mainly due to the adjustment of business structure of the Group resulting in the decline in gross profit margin.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Other income and gains*

During the reporting period, other income and gains of the Group amounted to RMB469.4 million, representing an increase of 23.4% as compared to the preceding year, mainly due to the increase in interest income from bank deposits and exchange gains.

## *Selling and distribution expenses, administrative expenses and finance costs*

During the reporting period, the three items of expenses of the Group amounted to RMB4,672.1 million, representing an increase of 12.3% or RMB512.2 million as compared to RMB4,159.9 million in the preceding year. The three items of expenses accounted for 11.7% of revenue, representing a decrease of 0.4 percentage point as compared to 12.1% in the preceding year, among which: (i) the selling and distribution expenses were RMB701.6 million, representing an increase of 1.3% as compared to the preceding year; (ii) the administrative expenses were RMB3,831.5 million, representing an increase of 12.2% as compared to the preceding year, primarily due to an increase in cost of employee remuneration and R&D investment; (iii) the finance costs were RMB139.0 million, representing an increase of 168.3% as compared to the preceding year, primarily due to an increase in interest expense generated from increased borrowings for ordinary production and operational use.

## *Profit before tax*

For the foregoing reasons, during the reporting period, the Group's profit before tax was RMB4,598.6 million, representing an increase of 7.3% as compared to the preceding year.

## *Income tax expense*

During the reporting period, the Group's income tax expense was RMB802.9 million, representing an increase of 3.9% as compared to the preceding year. The effective tax rate of the Group was 17.5%, representing a decrease of 0.5 percentage point as compared to the preceding year, primarily due to an increase in the number of subsidiaries of the Group recognized as high-tech enterprises, resulting in a decrease in corresponding effective income tax rate.

## *Profit for the year*

For the foregoing reasons, during the reporting period, the Group's profit for the year was RMB3,795.7 million, representing an increase of 8.0% as compared to the preceding year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## II. Segment Results

The table below sets forth the revenue and results on segments of the Group during the reporting period.

Unit: RMB million (except for percentages)

Segment results	Revenue	Cost of sales	Gross profit margin (%)	Increase (Decrease) in revenue compared to preceding year (%)	Increase (Decrease) in cost of sales compared to preceding year (%)	Increase (Decrease) in gross profit margin compared to preceding year Percentage point (s)
Rail transportation control system						
Design and integration	8,502.9	5,555.4	34.7	(1.2)	8.7	(5.9)
Equipment manufacturing	6,561.6	3,766.2	42.6	13.3	12.1	0.6
System implementation	13,202.7	11,597.6	12.2	29.4	30.3	(0.5)
Construction contracting	11,516.9	9,993.5	13.2	19.5	17.4	1.6
Other businesses	59.9	19.2	67.9	(70.3)	(88.0)	47.6
Total	<u>39,844.0</u>	<u>30,931.9</u>	<u>22.4</u>	<u>15.7</u>	<u>18.8</u>	<u>(2.0)</u>

**Design and integration:** revenue from the design and integration business is mainly derived from the provision of engineering design and system integration services for rail transportation control system projects, and integrated solutions designed to achieve the functionality and performance of the control systems. During the reporting period, revenue from the design and integration business was RMB8,502.9 million, representing a year-on-year decrease of 1.2%. Gross profit margin was 34.7%, representing a year-on-year decrease of 5.9 percentage points, primarily due to the long implementation period of the railway projects and the communication and signal engineering being post-station project, and most of the new railway projects undertaken by the Group commenced large-scale main construction in the second half of the year, thus resulting in a decrease in revenue and gross profit generated from design and integration business segment compared with previous years.

## MANAGEMENT DISCUSSION AND ANALYSIS

**Equipment manufacturing:** revenue from the equipment manufacturing business is mainly derived from the manufacturing and sale of signal system products, communication information system products and other products. During the reporting period, revenue from the equipment manufacturing business was RMB6,561.6 million, representing a year-on-year increase of 13.3%. Gross profit margin was 42.6%, representing a year-on-year increase of 0.6 percentage point, primarily due to: (1) an increase in business volume from equipment manufacturing segment driving by the Chinese government increasing investment in rail transportation infrastructure to expand domestic demand; (ii) the continuous increase in business volume from equipment manufacturing segment, resulting from equipment manufacturing enterprises strictly complying with industry standards, striving to improve the level of technology, and actively providing customers with safe, reliable, technologically advanced products and services, thus winning widespread trust and support from customers; (iii) an increase in gross profit generated from equipment manufacturing segment as the Group proactively promoted cost-effective management.

**System implementation:** revenue from the system implementation business is mainly derived from the provision of construction, installation, testing, maintenance and other services for rail transportation control system projects. During the reporting period, revenue from the system implementation business was RMB13,202.7 million, representing a year-on-year increase of 29.4%. Gross profit margin was 12.2%, representing a year-on-year decrease of 0.5 percentage point, which was primarily because: (i) the Chinese government continued to increase investment in construction of urban rail transit, resulting in a significant increase in orders for system implementation services segment; and (ii) the Group vigorously carried forward the “spirit of craftsmanship”, continuously summarized, optimized and implemented standardized management, and comprehensively deepened quality management, so that the construction technology was highly praised by railway owners. Through accomplishing a batch of quality projects such as upgrade and transformation of Beijing-Tianjin train control, Hangzhou-Huangshan passenger dedicated railway and Beijing-Shenyang passenger dedicated railway, the brand image and influence of CRSC have been effectively promoted, the capacity to independently undertake business has been steadily strengthened year by year, and the market competitive advantages have also been highlighted, which promoted the rapid growth of revenue in this segment.

**Construction contracting:** revenue from construction contracting business is mainly derived from municipal engineering contracting and related construction services. During the reporting period, revenue from construction contracting business was RMB11,516.9 million, representing a year-on-year increase of 19.5%, and gross profit margin was 13.2%, representing an increase of 1.6 percentage points as compared to the preceding year, primarily due to a rapid increase in revenue and profit generated from construction contracting segment as the Group accelerated the construction of investment projects such as Smart Cities, tramcar and sponge cities matching with the rail transit system, under the development strategy of “one core business with diversification into related businesses”.

# MANAGEMENT DISCUSSION AND ANALYSIS

**Other businesses:** revenue from other businesses is mainly derived from bidding agency. During the reporting period, revenue from other businesses was RMB59.9 million, representing a year-on-year decrease of 70.3%. Gross profit margin was 67.9%, representing a year-on-year increase of 47.6 percentage points, primarily due to (i) a continuous decrease in revenue from other businesses as the Group continued to reduce the scale of trading business; and (ii) an increase in gross profit contributing to the higher gross profit margin of bidding agency and other businesses during this year.

The table below sets forth the revenue of the various business lines of the Group during the reporting period.

Unit: RMB million (except for percentages)

	2018		2017		Increase (Decrease) (%)
	Revenue	Percentage (%)	Revenue	Percentage (%)	
Domestic market	<b>39,309.6</b>	<b>98.7</b>	33,650.6	97.7	16.8
Railway	<b>18,372.8</b>	<b>46.1</b>	16,606.2	48.2	10.6
Urban transit	<b>9,360.0</b>	<b>23.5</b>	7,207.7	20.9	29.9
Construction contracting	<b>11,516.9</b>	<b>28.9</b>	9,635.3	28.0	19.5
Other business	<b>59.9</b>	<b>0.2</b>	201.4	0.6	(70.3)
Sub-total	<b>39,309.6</b>	<b>98.7</b>	33,650.6	97.7	16.8
Overseas market	<b>534.4</b>	<b>1.3</b>	783.1	2.3	(31.8)
Total	<b>39,844.0</b>	<b>100.0</b>	34,433.7	100.0	15.7

During the reporting period, the Group's operating revenue from domestic market was RMB39,309.6 million, representing a year-on-year increase of 16.8%, primarily due to: (i) the continuous increase in investment to the construction of rail transit by Chinese government, driving the growth of the Group's domestic railway and subway market business; (ii) an increase in revenue generated from the construction contracting business as the Group vigorously impelled the construction of emerging businesses related to principal business such as Smart Cities and tramcars by adhering to the development strategy of "one core business with diversification into related businesses".

During the reporting period, the Group's operating revenue from overseas market was RMB534.4 million, representing a year-on-year decrease of 31.8%, primarily due to the adverse impact of international political and economic situation in 2018, the construction schedule of some projects was delayed compared with the plan, resulting in a delay in the collection of overseas business revenue and a reduction in revenue amount of this year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## III. Analysis of Statement of Cash Flows

### Analysis of changes in the relevant items of the statement of cash flows

Unit: RMB million

	2018	2017
Net cash flow used in operating activities	(1,586.3)	(886.0)
Net cash flow used in investing activities	(642.3)	(1,729.2)
Net cash flow generated from/(used in) financing activities	1,621.6	(140.2)

During the reporting period, the Group's net cash flow used in operating activities was RMB1,586.3 million, as compared to a net cash flow of RMB886.0 million used in operating activities during last year, primarily because (i) the Group proactively promoted the construction of investment projects related to primary businesses, such as tramcars and Smart Cities, and continuously expanded the investment in research and development, thus increasing the investment funds; (ii) affected by the government's macro policies of lowering leverage and reducing liabilities in 2018, the owners had control over the financing scale for projects, which made it difficult to return funds for certain projects; (iii) during this year the cash flow generated from operating activities increased as the Group promoted the payment of private enterprise accounts, according to the major decisions and arrangements proposed by Party Central Committee and the State Council on requiring central enterprises to clean up the accounts of private enterprises.

During the reporting period, the Group's net cash flow used in investing activities was RMB642.3 million, as compared to a net cash flow of RMB1,729.2 million used in investing activities last year, primarily due to a decrease in the amount of fixed deposits with a term of more than three months during the year.

During the reporting period, the Group's net cash flow generated from financing activities was RMB1,621.6 million, as compared to a net cash flow of RMB140.2 million used in financing activities during last year, primarily due to receipt of perpetual debt equity investment during the year.

## IV. Financial Ratios

	2018	2017
Current ratio <sup>(1)</sup>	137.2%	142.5%
Quick ratio <sup>(2)</sup>	128.7%	132.8%
Gearing ratio <sup>(3)</sup>	7.6%	7.4%
Return on total assets <sup>(4)</sup>	5.4%	6.3%
Return on equity <sup>(5)</sup>	13.7%	14.7%

### Notes

- (1) Current ratio is calculated by dividing total current assets by total current liabilities as at the relevant date and multiplying by 100%.
- (2) Quick ratio is calculated by dividing total current assets less inventories by total current liabilities as at the relevant date and multiplying by 100%.

# MANAGEMENT DISCUSSION AND ANALYSIS

- (3) Gearing ratio is calculated by dividing total debt by total equity as at the relevant date and multiplying by 100%. Total debt means the sum of long-term and short-term interest-bearing debts.
- (4) Return on total assets is calculated by dividing profit for the year by average balance of total assets at the beginning and at the end of the year and multiplying by 100%.
- (5) Return on equity is calculated by dividing profit for the year by average balance of the total equity at the beginning and at the end of the year and multiplying by 100%.

## V. Liabilities

Unit: RMB million (except for percentages)

	31 December 2018		31 December 2017		
	Amount at the end of the year		Amount at the end of the year		Increase (Decrease) (%)
	Amount	Proportion to total liabilities (%)	Amount	Proportion to total liabilities (%)	
Total current liabilities	47,631.6	96.4	34,473.6	95.7	38.2
Including: Interest-bearing					
bank and					
other borrowings	1,437.7	2.9	1,328.8	3.7	8.2
Trade and					
bills payables	36,018.8	72.9	24,232.7	67.3	48.6
Other payables					
and accruals	2,562.5	5.2	5,199.4	14.4	(50.7)
Contract liabilities	7,033.2	14.2	—	—	N/A
Amount due to					
contract customers	—	—	3,244.8	9.0	(100.0)
Total non-current liabilities	1,774.8	3.6	1,546.4	4.3	14.8
Including: Interest-bearing					
bank and					
other borrowings	856.2	1.7	547.0	1.5	56.5
Total liabilities	49,406.4	100.0	36,020.0	100.0	37.2

As at the end of the reporting period, short-term interest-bearing bank and other borrowings in the Group's current liabilities increased by 8.2% as compared to last year, mainly due to the increased demand for borrowings to support regular production operations.

As at the end of the reporting period, trade and bills payables in the Group's current liabilities increased by 48.6% as compared to last year, primarily due to the increase in business scale of the Group.

# MANAGEMENT DISCUSSION AND ANALYSIS

As at the end of the reporting period, other payables and accruals in the Group's current liabilities decreased by 50.7% as compared to last year, primarily due to the impact of the Group's adoption of IFRS 15 on the reclassification of financial statement line items.

As at the end of the reporting period, new contract liabilities in the Group's current liabilities amounted to RMB7,033.2 million. At the same time, amount due to contract customers decreased by 100.0% as compared to last year, primarily due to the impact of the Group's adoption of IFRS 15 on the reclassification of financial statement line items.

As at the end of the reporting period, long-term interest-bearing bank borrowings and other borrowings in the Group's non-current liabilities increased by 56.5% as compared to last year, primarily due to the increase in borrowings of the Group.

## Borrowings

As at the end of the reporting period, the Group had total interest-bearing bank and other borrowings of approximately RMB2,293.9 million, representing an increase of 22.3% from RMB1,875.8 million of last year, primarily due to the increased demand for borrowings to support regular production operations.

As at the end of the reporting period, the Group's total interest-bearing bank and other borrowings were denominated in RMB. As at the end of the reporting period, the long-term interest-bearing borrowings and short-term interest-bearing borrowings of the Group amounted to RMB856.2 million and RMB1,437.7 million, respectively. The table below sets forth the maturity profile of interest-bearing bank and other borrowings repayable by the Group as at 31 December 2018 and 31 December 2017:

Unit: RMB million

	<b>31 December 2018</b>	31 December 2017
Bank loans		
Within one year	<b>1,417.6</b>	1,328.7
In the second year	—	417.0
After five years	<b>856.1</b>	109.7
	<b>2,273.7</b>	1,855.4
Other borrowings		
Within one year	<b>20.1</b>	0.1
In the second to fifth years, inclusive	<b>0.1</b>	20.3
	<b>20.2</b>	20.4
Total	<b>2,293.9</b>	1,875.8



# MANAGEMENT DISCUSSION AND ANALYSIS

As at the end of the reporting period, the Group's total bank and other borrowings at floating interest rates amounted to RMB1,934.0 million, as compared to RMB542.7 million as at 31 December 2017.

As of the reporting period, the total capitalized interest was nil.

As of the reporting period, interest-bearing bank and other borrowings of the Group included guaranteed and pledged borrowings of RMB967.6 million.

## Pledged assets

As at the end of the reporting period, certain assets of the Group with a total carrying value of RMB267.8 million (last year: RMB319.2 million) were pledged for issuing of bank acceptance bills, security deposits for letters of guarantee and performance bonds. Such assets included bills receivable in the amount of RMB107.3 million (last year: RMB131.4 million) and bank deposits in the amount of RMB160.5 million (last year: RMB187.8 million).

## Liquidity

As at the end of the reporting period, the Group had credit facilities of approximately RMB58,000.0 million granted by commercial banks to the Group, of which approximately RMB49,740.0 million was unused and unrestricted. As at 31 December 2018, the Group had cash and cash equivalents of approximately RMB11,552.0 million, of which RMB10,290.1 million was denominated in Renminbi, RMB248.2 million was denominated in US dollars, RMB15.1 million was denominated in Euros, RMB971.7 million was denominated in Hong Kong dollars, RMB26.6 million was denominated in Roubles and RMB0.3 million was denominated in Indonesian rupiah.

## VI. Capital Expenditures and Capital Commitments

As of the reporting period, capital expenditures of the Group amounted to RMB1,070.3 million, including property, plant and equipment of RMB984.6 million and other intangible assets of RMB85.7 million.

As at the end of the reporting period, the Group had capital commitments of RMB560.7 million contracted for but not yet incurred, which would be mainly used for capital allocation to the PPP project company. The table below sets forth the commitments of the Group as at 31 December 2018 and 31 December 2017:

	Unit: RMB million	
	2018	2017
Contracted but not provided for:		
– Property, plant and equipment	100.0	188.0
Investment commitments	460.7	549.2
	<b>560.7</b>	<b>737.2</b>

## VII. Contingent Liabilities

As at the end of the reporting period, the Group had no material contingent liabilities.

# MANAGEMENT DISCUSSION AND ANALYSIS

## VIII. Employees and Remuneration Policies

As of the reporting period, the Group had 19,215 full-time employees and its total staff costs for the year reached RMB4,537.9 million. The employee recruitment and retention policy reflects numerous factors including the market environment, business needs and expansion plans. The Group plans to recruit, nurture and retain professional talents by a series of procedures including the recruitment and training phases, together with attractive performance-based remuneration packages and development opportunities. The Group performs regular employee performance evaluation with the remuneration and bonus linked with performance. In addition, the Group implements training schemes according to different work requirements and believes that these measures will help enhance employees' productivity.

## IX. Business Outlook for 2019

### *Competition landscape and development trend of the industry*

Competition landscape: As the overall economy of China enters into a new normality, the general basic objective to achieve “stability with progress” continued to maintain. With continuous construction of national railways and urban transit transportation systems, the railway transportation market, in particular the communication signal market, has become a hot spot of attention, and market competition will become more intensive. However, the advantageous position of the Group will remain unchanged in the foreseeable future.

As of the reporting period, in the Chinese high-speed train integration market featuring communications, signal, power and electrification, the Group boasted a mileage coverage ratio of winning bids of almost 60% for routes with a speed of 200 to 250 km/h, ranking the first with major competitors including CRCC, CREC and their subsidiaries; and CRSC achieved a mileage coverage ratio of winning bids of over 70% for routes with a speed of 300 to 350 km/h, ranking the first with major competitors including CRCC and its subsidiaries. For the core product market of China's high-speed railway control system, the Group has been participating in the provision of core products for high-speed railway core equipment including train control center, central dispatching system, radio block center, computer interlocking, track circuit and vehicle-mounted automatic protection system with a leading position by market shares in these areas.

As of the reporting period, for the urban transit transportation market, the Group's core railway transportation control system products and services covered 20 provinces or autonomous regions in China and the four municipalities, namely Beijing, Shanghai, Tianjin and Chongqing, obtaining contract value of approximately 40% in the urban transit signal system market and enjoying a leading position in the market. With the CBTC systems established through independent R&D by the subsidiary design institute of CRSC and by CRSC CASCO, the Group will continue to enjoy a leading advantage in terms of market share in the future.

## MANAGEMENT DISCUSSION AND ANALYSIS

Development trend: in terms of railway construction, railway construction is a crucial measure for the country to strengthen its infrastructure to improve weak links and the investment in national railway fixed assets will continue to maintain robust, and railway construction will continue to be promoted scientifically, orderly and steadily. The investment scale in national railway fixed assets in 2019 is expected to be RMB800,000 million, the mileage of new routes which will be commenced operation is planned to be 6,800 km (of which 3,200 km are high-speed railways). With the centralized implementation of railway constructions under “13th Five-Year Plan”, the business volume from the Group’s signal system and related equipment will continue to grow. In addition, CRSC will keep in step with the rapid growth period of high speed railway operation and maintenance market, strive for the general contracting project of technical upgrading and transformation in train control system, consolidate and expand the new profit growth point brought by the operational and maintenance market. Furthermore, according to Medium- and Long-term Railway Network Plan, while giving priority to making use of the intercity train service function of high-speed railway and normal speed railway, our country plans to build intercity passenger railways in urban agglomerations that support and lead the development of new type of urbanization, effectively connect large and medium-sized cities with central towns, and serve commuters, among which, urban agglomerations, such as Beijing-Tianjin-Hebei, Yangtze River Delta, Pearl River Delta, the middle reaches of the Yangtze River, Chengdu-Chongqing, central China, Shandong Peninsula, will be built as intercity railway network; urban agglomerations, such as the west coast of the Taiwan Straits, Harbin-Changchun, Liaozhongnan, Guanzhong and Beibu Gulf will be built as intercity railway skeleton network; urban agglomerations, such as Central Yunnan, Central Guizhou, northern slope of Tianshan Mountain, along the Yellow River in Ningxia and Hohhot- Baotou- Erdos- Yulin will be built as intercity railway backbone channel. With the dominant right of investment and construction of intercity railway delegated to a lower level, the enthusiasm of investing and constructing intercity railway and municipal railway in various provinces and regions become pretty higher. According to the China Transportation White Paper, by 2020, China will have built intercity railway with a mileage of more than 3,000 kilometers. The investment scale will reach RMB1.7-2.0 trillion. The construction of the national intercity railway is expected to keep its sound momentum in 2019. Among them, the Beijing-Tianjin-Hebei, the Yangtze River Delta and the Pearl River Delta are the key areas for CRSC to explore the intercity railway market. The Group’s good operation record and technical advantages on automated driver control system for intercity railways have laid a good foundation for expansion in the intercity railway market share.

In terms of urban transit, the investment in China’s urban transit will continue to maintain a steady growth in the next few years. It is expected that by 2020 China will have completed urban transit and subway of 6,200 kilometers. The urban transit automated control system owned by CRSC will benefit from the rapid expansion of market size in urban transit and will become a key point of growth driving business development of the Group. In addition, in the rail transit industry, according to the Suggestions of the General Office of the State Council of the People’s Republic of China on Further according to the Strengthening the Management of Urban Rail Transit Planning and Construction (Guo Ban Fa [2018] No. 52) (《國務院辦公廳關於進一步加強城市軌道交通規劃建設管理的意見》(國辦發[2018]52號)) published in 2018, the tramcars only need to be examined and approved by the provincial development and reform departments. This policy will greatly promote the rapid development of the tramcar business, and the average annual investment in the field of tramcars will reach RMB100 billion in the next few years. With the entire industrial chain layout including tramcar capital operation, civil construction, electromechanical construction, vehicle production and supply, and communication signal equipment supply, CRSC will enjoy strong competitive advantages in the tramcar industry, and the industry will become a crucial strategic development target for CRSC.

## MANAGEMENT DISCUSSION AND ANALYSIS

In terms of Smart Cities, our country has successively issued the National New-type Urbanization Plan for 2014-2020 (《國家新型城鎮化規劃(2014-2020年)》) and The Guidance on Promoting Smart City Sound Development (《關於促進智慧城市健康發展的指導意見》) and other policies to promote the construction of Smart Cities. It is expected that by 2020, “a group of Smart Cities with distinctive characteristics” will have been built. At present, 290 cities have been selected as pilots for national Smart Cities, and the total investment scale is expected to reach one trillion yuan. The next few years will be the year of centralized implementation, which will bring good market opportunities for the Group to implement its Smart Cities solutions.

In terms of overseas market, as China participates in the reform of the global economic governance system, not only has it enhanced China’s international voice and influence, but it has also brought us new development opportunities. At present, with the in-depth advancement of “One Belt, One Road” initiative and the step of China’s high-speed railway “going global” accelerated, the demand for rail transit construction along the route has become increasingly exuberant, and the cooperation opportunities for overseas railway projects have gradually increased. The Hungary-Serbia, Jakarta-Bandung, China-Laos, China-Thailand Railway and other projects are actively being advanced, and several railway cooperation projects under the “One Belt, One Road” initiative have entered into the stage of planning and approval. In general, we are facing a relatively good external market development environment, and overseas markets continue to show sound development momentum.

According to comprehensive research and judgment, obvious changes in national macroeconomic policies have been occurred in 2019. The high-quality development of the country has entered into a new stage by accelerating the optimization and upgrading of the economic structure. The state has expanded the construction of infrastructure and other fields to greatly enhance weak links, which will greatly increase the scale of local government special bonds to support the construction of key projects. It has brought rare historical opportunities for CRSC to participate in infrastructure projects for improving weak links, such as rail transit and information engineering.

In addition, emerging business markets such as Smart Cities have also shown a booming trend, at the national level, a number of policies related to Smart Cities construction have been introduced, including National New-type Urbanization Plan for 2014-2020 and The Guidance on Promoting Smart City Sound Development. It is quite clear that by 2020, “a group of Smart Cities with distinctive characteristics” will have been built. Currently, 290 cities have been selected as pilots of the national Smart Cities. As of the end of 2017, Smart Cities have been clearly proposed to be built or under construction in more than 500 cities, including 100% of China’s sub-provincial cities and 89% of the prefecture-level cities, in the government work report or the “13th Five-Year Plan”. It is estimated that the total investment scale will reach a level of trillion yuan. The next few years will be the year of centralized implementation, which will bring good market opportunities for the Group to implement its Smart Cities solutions. Overseas markets will continue to show sound development momentum, a number of railway and subway projects are being constructed busily under progress.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Development strategies of the Group*

The Group will adhere to the quality and safety as the first principle, and shoulder the mission of introducing the national railway communication and signal industry to the world. The Group will expedite technological innovation, accelerate transformation and upgrading, take advantage of industry chain integration, and put an emphasis on making strategic breakthroughs in the structural adjustments to industry products, historical breakthroughs in core technologies, and international breakthroughs in high-speed train standards and industry export of China. The Group will continuously enhance our management standards as a modern enterprise and actively integrate into the global competitive landscape, building up a cross-national industry group with international standards featuring rail transportation control technology.

## *Operational plans*

Based on the “seven business sectors” confirmed by the medium and long term strategy, the Group accelerated technological innovation, transformation and upgrading, leveraging the advantages of industry chain integration and by way of investment and mergers and acquisitions as well as resources consolidation to strengthen the foundation of traditional businesses while developing emerging businesses. To achieve the operations targets, the Group will further strengthen its two-tier operation system and enhance its sales and marketing layout; step up sales and marketing efforts to increase market share; adapt to the trend of railway transportation integration process, take full advantages of the existing technology and brand, refine product competition strategy, increase the efforts of differentiated operations in our core businesses, consolidate the existing advantages through different hierarchies and levels; create innovative business and commercial models to strongly expand investment business in emerging sectors such as the tramcar and Smart Cities, accelerate the formation of new poles of economic growth; and strengthen overseas market development to accelerate the progress of internationalization.

## **X. Potential risks and risk management**

The risks faced by the Group include risks arising from changes in macro economy and policies and risks associated with the Group’s business. In response to these risks, the Group will endeavor to build a scientific and well-established risk management system and closely monitor, manage and prevent macro-level risks from aspects such as risk assessment, financial control, internal audit and legal risk control.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Macro-economic and policy risks*

At the macro environment level, the Group's future development is subject to a lot of uncertainties. Against a backdrop where the global economy faces a slow recovery and China's economy enters the new normal stage, factors such as foreign exchange control system, tax policies and infrastructure industry policies of China may be subject to adjustments with the changes in economic environment. All these may directly affect the infrastructure industry where the Group operates one of its main businesses and its implementation of overseas mergers and acquisitions.

The risks of the Group from fluctuations in market interest rates mainly arise from floating rate bank borrowings. The Group manages its interest rate risks by regularly examining the fixed rate and floating rate borrowings portfolio. During the reporting period, the Group did not use interest rate swaps to hedge interest rate risks.

The majority of the Group's businesses are transacted in Renminbi. Renminbi is not freely convertible into foreign currencies and conversion of Renminbi into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. Yet as most of the Group's business operations are in Mainland China, the effect of the fluctuations in the exchange rates of Renminbi against foreign currencies on the Group's results of operations is therefore minimal and as at the end of the reporting period, the Group has not entered into any hedging transactions to reduce the Group's exposure to foreign currency risk in this regard.

## *Business risks*

Unstable macro environment in the economy, policies and other aspects of the target countries; the risk of unable to pass the mergers and acquisitions review conducted by the country in which the subject for acquisition is located; the difficulty in consolidating resources and integrating corporate culture after the acquisition. Furthermore, the intellectual property rights risks of the Group are inseparable from the Company's production and operation activities, affecting the whole process of the Company's operation, mainly manifested in the risks of intellectual property rights being infringed in areas such as corporate names, patented technologies, propriety technologies, registered trademarks, commercial secrets and product packages and decorations. Meanwhile, the Company also faces the risk of infringing the intellectual property rights of others and being involved in intellectual property rights disputes and inappropriate competitive acts.

The overseas markets of the Group keep on expanding, yet the operational experience on overseas legal matters is limited. The export business of the Group is therefore facing legal risks concerning the intellectual property rights and applicable laws.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Credit risks*

The change in the financing environment may pose a risk of failing to meet the cash demand for production operations and investment activities; the change in the product market may pose a risk of failing to satisfy capital demand for production operations due to imbalanced production volume and higher capital demand during the peak production season of the Group; under the impact of the economic environment, the operations of certain customers may suffer considerably due to the volatile market, making it more difficult for the Company to collect its accounts receivables.

Credit risks of the Group mainly arise from cash and cash equivalents, pledged deposits, trade and bills receivables, financial receivables, available-for-sale investments and financial assets included in prepayments, deposits and other receivables. The Group has formulated policies to manage the size of the deposits to be placed with various reputable financial institutions according to their market reputation, operating scale and financial background with a view to limiting the amount of credit exposure to any single financial institution. Substantially all of the Group's cash and cash equivalents and pledged deposits are held in major financial institutions located in the PRC, which management believes are of high credit quality.

## *Liquidity risks*

Domestic market competition is becoming more intensive, and the strict control of the scale of local debt regarding the construction of urban transit by local authorities has resulted in a tendency to adopt a PPP model for the construction of rail transportation such as the construction of metro, resulting in longer investment duration and higher occupied capital, which may cause the risk of failure to meet the funds necessary for production and operation.

The liquidity risk of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations to meet its debt obligations as they fall due, and its ability to obtain external financing to meet its committed future capital expenditure. The Group has made use of a wide range of bank loans of varying repayment schedules as well as other loans to ensure a consistently abundant capital supply with flexibility and to guarantee that the obligation of outstanding loans of the Group does not pose material repayment risk in any given year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Core competitiveness

The Company has the following core competitiveness:

1. *Strong technological innovation and system integration capabilities*

CRSC, boasting a leading technological position in the railway communication and signal industry, engages itself in the setting of industry standards and specifications of the Chinese railway communication and signal industry. With strong technological innovation capabilities, the Company developed the C3 train control system technology and the CBTC system technology with proprietary intellectual property rights and has strong system integration capabilities.

2. *A whole-industry-chain comprehensive advantage*

CRSC has set up a relatively complete and professional industry chain, and is capable of providing one-stop services including capital operation, research and design, construction contracting, system integration, products manufacturing, technological services, as well as operational maintenance.

3. *Leading technical professionals within the industry*

During the long period of project practice, CRSC has built up a hard-working team that always rises up to challenges and lives up to its expectations. CRSC is particularly outstanding at cultivating communication and signal technical professionals and has major influence in the industry.

4. *Excellent customer relationship*

CRSC has undertaken a large number of key state projects over the years and accumulated rich technological experience. Through business operations and engineering practice, CRSC has built up a solid customer base and excellent cooperation resources.

5. *High quality assets and sufficient room for financing*

With good operations results in the past few years, CRSC has maintained a certain scale of business development. With a low gearing ratio that is at a good industry standard, the Company has high quality assets and good financing capability featuring multiple channels and low costs, which can well support the transformation and upgrading needs of the Company in its development.



# REPORT OF THE DIRECTORS

The Board hereby presents this report of the Directors, annual report as well as the Group's audited consolidated financial statements for 2018 prepared in accordance with the IFRS to the Shareholders.

## CORPORATE INFORMATION AND INITIAL PUBLIC OFFERING

The Company was incorporated as a joint stock Company in the PRC with limited liability on 29 December 2010. The H Shares of the Company have been listed on the Main Board of the Hong Kong Stock Exchange since 7 August 2015.

Basic information about the Company is set out in "Corporate Information" on pages 4 to 5 of this report.

## BUSINESS REVIEW

The Company is a rail transportation control system solution provider offering specialized one-stop solutions that cover design and integration, equipment manufacturing and system implementation services for rail transportation control systems to its customers. Through its "three-in-one" business model, the Company has become a rail transportation control system solution provider that is capable of independently providing an entire suite of products and services across the whole industrial chain.

The Company is principally engaged in the following four business lines:

- *Design and integration:* mainly includes providing engineering design and system integration services for rail transportation control system projects, and integrated solutions designed to achieve functionality and performance of control system;
- *Equipment manufacturing:* mainly includes manufacturing and sale of signal system products, communication information system products and other products;
- *System implementation:* includes providing construction, installation, testing and maintenance services for rail transportation control system projects; and
- *Construction contracting:* mainly includes the contracting of municipal projects and related construction services.

The discussion and analysis of the Group's business performance for the year and the key factors affecting its business results and financial position and future development are set out in "Financial Highlights" and "Management Discussion and Analysis" on pages 6 to 23, this "Report of the Directors", and "Significant Events" on pages 51 to 52 of this report.

Details of the major subsidiaries, joint ventures and associates of the Company are set out in relevant notes to the financial statements set out in the annual report to be published by the Company in due time, respectively.

# REPORT OF THE DIRECTORS

## ENVIRONMENTAL POLICIES AND PERFORMANCE OF THE COMPANY

In 2018, the Group continuously paid close attention to energy conservation and environmental protection, striving to create a green, safe and comfortable working environment. The Group achieved remarkable results in building a paperless office by establishing various means to handle work via electronic means, including the construction of an IT-oriented platform. Meanwhile, the Group also endeavoured to raise the awareness on energy conservation and environmental protection and to minimize the consumption of water, electricity, coal, gas and other resources through management of energy conservation and consumption reduction in its office areas. In addition, the Group encouraged its staff to convene meetings in the form of teleconference to reduce the use of vehicles and to avoid travel, so as to minimize carbon emission and energy consumption arising from business trips.

Further details of the environmental policies and performance of the Company are set out in the “Environmental, Social and Governance Report” to be published within 3 months of the date of the 2018 annual report of the Company.

## COMPLIANCE WITH LAWS AND REGULATIONS

As the Group’s main businesses are to provide specialized one-stop solution of design and integration, equipment manufacturing and system implementation services for rail transportation control systems to our customers, the Group is subject to relevant PRC policies, laws and regulations, including the Railway Law of the People’s Republic of China (《中華人民共和國鐵路法》) and the Production Safety Law of the People’s Republic of China (《中華人民共和國安全生產法》) and is under supervision of other government authorities. Such laws, regulations and policies mainly govern the operation and management of railway industry. In addition, all our business operations of the Group are subject to the laws and regulations regarding quality, safety production, environmental protection, intellectual property and labor. Besides, any violation of those laws and regulations may result in sanctions, including warnings, penalties and remedies, which will have an adverse impact on the Group’s business operation and future development.

In addition, the Group is required to obtain and maintain valid permits, licenses, certificates and approvals from various governmental authorities or institutions under relevant laws and regulations for our businesses of design and integration, product manufacturing and system implementation services. The Group must comply with the restrictions and conditions imposed by various levels of governmental agencies to maintain the Group’s permits, licenses, certificates and approvals. Should the Group fail to comply with any of the regulations or meet any of the conditions required for the maintenance of the Group’s permits, licenses, certificates and approvals, such permits, licenses, certificates and approvals could be temporarily suspended or even revoked, or the renewal thereof, upon expiry of their original terms, may be delayed or rejected, which could materially and adversely impact our Group’s business, financial condition and results of operations.

As an H share company incorporated in the PRC with limited liabilities and listed on the Hong Kong Stock Exchange, the Company is governed by various applicable domestic laws and regulations including Company Law, the Production Safety Law of the People’s Republic of China (《中華人民共和國安全生產法》) and the Guideline on Comprehensive Risk of Central Enterprises (《中央企業全面風險指引》) promulgated by the SASAC, as well as the Hong Kong Listing Rules and the Securities and Futures Ordinance.

The Group has implemented internal control measures to ensure its compliance with such laws and regulations. Having reviewed the business performance of the Group, the Board is of the view that the Group has been in compliance with the requirements of relevant laws and regulations in all material respects.

# REPORT OF THE DIRECTORS

The discussion and analysis of legal risks the Company is exposed to are set out in “Management Discussion and Analysis” on pages 7 to 23 of this report.

## USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Company has been listed on the Main Board of the Hong Kong Stock Exchange since 7 August 2015. The net proceeds (net of Stock Exchange trading fee, SFC transaction levy, registration fee of Computershare Hong Kong Investor Services and fees charged by the receiving banks) from the Company’s initial public offering of new Shares for the purpose of its listing on the Stock Exchange and issue of new Shares upon partial exercise of the over-allotment option amounted to approximately HK\$11,274.7 million, which were intended to be utilized for the proposed use as set out in “Future Plans and Use of Proceeds” of the Prospectus of the Company dated 28 July 2015.

The actual use of proceeds from the Company’s initial public offering of new Shares for the purpose of its listing on the Stock Exchange and issue of new Shares upon partial exercise of the over-allotment option is as follows:

As at the end of the reporting period, the total extraction from the special account of proceeds raised to the special accounts of projects amounted to RMB5,497.4 million, of which, RMB2,518.6 million was used in the construction of the CRSC Railway Transportation Research Center and long-term R&D on scientific research projects; RMB1,377.8 million was used in the technical overhaul of CRSC Xi’xin, our subsidiary, and fixed assets investments of Changsha Industrial Park; RMB108.0 million was used in general equity acquisition; RMB593.0 million was used in investments in PPP project associated with railway transportation, such as the Tianshui Tramcar Project; and RMB900.0 million was used in replenishing liquidity of funds. The Company confirmed that the aforesaid use of proceeds is consistent with the use of proceeds as disclosed in the Prospectus.

Save for the use of proceeds mentioned above, the Company’s remaining amount of proceeds was approximately HK\$1,108.9 million, and RMB2,757.4 million remained unused and was deposited in the special account of proceeds raised maintained by the Company in the bank. The funds in special account of proceeds raised, which have not yet been drawn, are expected to be used up in next three years, of which, approximately RMB212.6 million is proposed to use in long-term R&D; approximately RMB443.0 million is proposed to use in fixed assets investments; approximately RMB1,712.8 million is proposed to use in equity acquisitions; approximately RMB1,227.7 million is proposed to use in investments in PPP projects associated with railway transportation. The Company confirmed that the aforesaid proposed use of proceeds is consistent with the use of proceeds as disclosed in the Prospectus.

The Company confirmed that during the year none of the aforesaid proceeds nor other funds raised through the Hong Kong Stock Exchange were used directly or indirectly to finance or assist (i) any activities or business in connection or carried out with any sanctioned subjects, or any activities or business in connection or carried out with or located in any countries sanctioned by the United States, European Union, Hong Kong, Australia or United Nations, or (ii) any activities or business in connection with CRSC International Holdings Company Ltd., a subsidiary of the Company, considering the amount of annual income of CRSC International Holdings Company Ltd. from projects relating to Iran during the track record period. In addition, the Company also confirmed that the Company did not carry out any sanctioned transaction during the year which may lead the relevant person or the Group to face the risk of being sanctioned. To ensure compliance with the undertakings made to the Hong Kong Stock Exchange, the Group will continue to monitor and evaluate our business and adopt measures to protect the interests of the Group and the Shareholders.

# REPORT OF THE DIRECTORS

## PERFORMANCE AND DISTRIBUTION

The performance of the Group for the year ended 31 December 2018 is set out in the audited consolidated statement of profit or loss or other comprehensive income on page 97 of this report. The financial position of the Group for the year ended 31 December 2018 is set out in the audited consolidated statement of financial position on pages 98 to 99 of this report.

According to the “Profits Distribution Plan for 2017” considered and approved by the Shareholders of the Company at the 2017 annual general meeting held on 25 May 2018, the Company distributed cash dividend of RMB0.15 per Share (tax inclusive) as final dividend for 2017 to Shareholders whose names appeared in the register of members of the Company on 6 June 2018. The 2017 final dividend distributed was denominated and declared in RMB, in respect of which domestic Shareholders were paid in RMB and H Shareholders were paid in Hong Kong dollars. The exchange rate of Hong Kong dollars was calculated in accordance with the average central parity rate (i.e., RMB0.81316 to HK\$1.00) published by the PBOC during the three working days (including the day of declaring dividend, i.e., from 23 May 2018 to 25 May 2018) prior to the annual general meeting, and therefore the amount of dividend payable for each H Share would be HK\$0.184466 (tax inclusive). For details, please refer to the announcement of the Company dated 25 May 2018. The final dividend was paid on 25 July 2018.

## DISTRIBUTION PLAN AND POLICY OF DIVIDEND

### Special Dividend

To actively promote and ensure the A Share Offering and Listing, and safeguard the interests of the Company and all Shareholders as a whole, on 25 March 2019, the Board meeting proposed to make a Special Dividend on the remaining distributable profits (after deducting the actual dividends paid in 2018) for the year ended 31 December 2017. The Special Dividend will be distributed to Shareholders whose names appear on the register of members of the Company on Wednesday, 24 April 2019 with a cash dividend of RMB0.20 per Share (tax inclusive) (“the Special Dividend”). The Special Dividend to be distributed will be denominated and announced in RMB, of which domestic Shareholders will be paid in RMB and H Shareholders will be paid in HK dollars. The exchange rate of HK dollars will be calculated in accordance with the average central parity rate published by the People’s Bank of China of the three working days before the day when the dividend distribution announcement is made (inclusive of the day of the dividend distribution announcement). It is expected that the Special Dividend will be distributed before 20 May 2019. The above plan of distribution of Special Dividend is subject to Shareholders’ approval at the 2019 first extraordinary general meeting of the Company.

The register of members of the Company will be closed from Friday, 19 April 2019 to Wednesday, 24 April 2019 (both days inclusive). In order to be qualified to receive above Special Dividend, all transfer documents must be lodged with the Company’s H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for holders of H Shares no later than 4:30 p.m. on Thursday, 18 April 2019.

# REPORT OF THE DIRECTORS

## Special Dividend income tax applicable to overseas Shareholders

### ***Withholding and Payment of EIT on behalf of Overseas Non-Resident Enterprise Shareholders***

Pursuant to the applicable provisions of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) and its implementing rules and the requirements under the Notice on the Issues Concerning Withholding and Payment of the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H Share Holders Who Are Overseas Non-resident Enterprises (Guo Shui Han [2008] No. 897) issued by the State Administration of Taxation (國家稅務總局《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)), the Company will withhold and pay EIT at the rate of 10% when it distributes the Special Dividend to overseas non-resident enterprise holders of H Shares (including any H Shares of the Company registered in the name of HKSCC Nominees Limited, but excluding any H Shares of the Company registered in the name of HKSCC Nominees Limited which are held by China Securities Depository and Clearing Corporation Limited as nominee Shareholder on behalf of investors who invest in the H Shares of the Company through Shanghai Connect).

### ***Withholding and Payment of Individual Income Tax on behalf of Overseas Individual Shareholders***

Pursuant to the applicable provisions of the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) and its implementing rules, the Tax Notice, the Notice of the State Administration of Taxation on Issues Concerning the Administration of Individual Income Tax Collection after the Annulment of Document Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)) and other relevant laws, regulations and requirements under normative documents, the Company will implement the following arrangements in relation to the withholding and payment of individual income tax on behalf of the overseas individual H Shareholders:

- For individual H Shareholders who are Hong Kong or Macau residents or whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of these individual H Shareholders in the distribution of the Special Dividend;
- For individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of less than 10%, the Company will temporarily withhold and pay individual income tax at the rate of 10% on behalf of these individual H Shareholders in the distribution of the Special Dividend. If relevant individual H Shareholders would like to apply for a refund of the excess amount of tax withheld and paid, the Company will handle, on their behalf, the applications for tax preferential treatments under relevant tax treaties according to the Tax Notice. Qualified Shareholders please submit in time a letter of entrustment and all application materials as required under the Tax Notice to the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited. The Company will then submit the above documents to the competent tax authorities and, after their examination and if and when the documents are approved, the Company will assist in refunding the excess amount of tax withheld and paid;

- For individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the effective tax rate stipulated in the relevant tax treaty on behalf of these individual H Shareholders in the distribution of the Special Dividend; and
- For individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 20%, or a country (region) which has not entered into any tax treaties with the PRC, or under any other circumstances, the Company will withhold and pay individual income tax at the rate of 20% on behalf of these individual H Shareholders in the distribution of the Special Dividend.

## Special Dividend income tax applicable to Shareholders in Mainland China investing in H Shares of the Company through Southbound Trading Link

### *Withholding and Payment of Individual Income Tax on behalf of Domestic Individual Shareholders Investing through Southbound Trading Link*

- **Shanghai Connect:** Pursuant to the Notice on Tax Policies for Shanghai Connect Pilot Program (Cai Shui [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)), for domestic individual Shareholders who invest in H Shares of the Company through Shanghai Connect (such H Shares are registered in the name of HKSCC Nominees Limited and held by China Securities Depository and Clearing Corporation Limited as nominee Shareholder), the Company will withhold and pay individual income tax at the rate of 20% on their behalf in the distribution of the Special Dividend. For domestic Shareholders who are securities investment funds investing in H Shares of the Company through Shanghai Connect (such H Shares are registered in the name of HKSCC Nominees Limited and held by China Securities Depository and Clearing Corporation Limited as nominee Shareholder), the Company will withhold and pay individual income tax at the rate of 20% on their behalf in the distribution of the Special Dividend.
- **Shenzhen Connect:** Pursuant to the Notice on Tax Policies for Shenzhen Connect Pilot Program (Cai Shui [2016] No. 127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號)), for domestic individual Shareholders who invest in H Shares of the Company through Shenzhen Connect (such H Shares are registered in the name of HKSCC Nominees Limited and held by China Securities Depository and Clearing Corporation Limited as nominee Shareholder), the Company will withhold and pay individual income tax at the rate of 20% on their behalf in the distribution of the Special Dividend. For domestic Shareholders who are securities investment funds investing in H Shares of the Company through Shenzhen Connect (such H Shares are registered in the name of HKSCC Nominees Limited and held by China Securities Depository and Clearing Corporation Limited as nominee Shareholder), the Company will withhold and pay individual income tax at the rate of 20% on their behalf in the distribution of the Special Dividend.

# REPORT OF THE DIRECTORS

## ***No Withholding and Payment of EIT on behalf of Domestic Enterprise Shareholders Investing through Southbound Trading Link***

- **Shanghai Connect:** Pursuant to the Notice on Tax Policies for Shanghai Connect Pilot Program (Cai Shui [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)), for domestic enterprise Shareholders who invest in H Shares of the Company through Shanghai Connect (such H Shares are registered in the name of HKSCC Nominees Limited and held by China Securities Depository and Clearing Corporation Limited as nominee Shareholder), the Company will not withhold or pay EIT on their behalf in the distribution of the Special Dividend, and the domestic enterprise Shareholders shall report and pay the relevant taxes payable by themselves. Any dividend received in respect of H Shares of the Company which have been continuously held by a domestic enterprise Shareholder for 12 months shall be exempted from EIT.
- **Shenzhen Connect:** Pursuant to the Notice on Tax Policies for Shenzhen Connect Pilot Program (Cai Shui [2016] No. 127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號)), for domestic enterprise Shareholders who invest in H Shares of the Company through Shenzhen Connect (such H Shares are registered in the name of HKSCC Nominees Limited and held by China Securities Depository and Clearing Corporation Limited as nominee Shareholder), the Company will not withhold or pay EIT on their behalf in the distribution of the Special Dividend, and the domestic enterprise Shareholders shall report and pay the relevant taxes payable by themselves. Any dividend received in respect of H Shares of the Company which have been continuously held by a domestic enterprise Shareholder for 12 months shall be exempted from EIT.

H Shareholders of the Company are recommended to consult their own tax advisors on the relevant tax impact in China, Hong Kong and other countries (regions) on the possession and disposal of H Shares of the Company.

The time arrangement such as record date and the cash payment date of Shanghai Connect and Shenzhen Connect investors is in line with H Shareholders of the Company.

### **Final Dividend**

The Board of Directors recommended that no final dividend would be distributed on the profits for the year ended 31 December 2018.

### **ISSUED SHARE CAPITAL**

As of 31 December 2018, the total share capital of the Company was RMB8,789,819,000, divided into 8,789,819,000 Shares with a nominal value of RMB1.00 each. Details of the change of the share capital of the Company during the reporting period are set out in relevant notes to the financial statements set out in the annual report to be published in due time.

### **REPURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

Neither the Company nor the Group repurchased, sold or redeemed any of the Company's listed securities during the reporting period.

# REPORT OF THE DIRECTORS

## PROPERTY, PLANT AND EQUIPMENT

Details of property, plant and equipment of the Group for 2018 are set out in relevant notes to the financial statements set out in the annual report to be published by the Company in due time.

At the end of the reporting period, the Group had no investment properties or properties held for development and/or sale with one or more of the percentage ratios (as defined under Rule 14.04 (9) of the Hong Kong Listing Rules) exceeding 5%.

## TAXATION

Details of the taxation of the Group for 2018 are set out in note 6 to the financial statements.

## EVENTS AFTER THE BALANCE SHEET DATE

Details of the events after the balance sheet date of the Group are set out in relevant notes to the financial statements set out in the annual report to be published by the Company in due time.

## CAPITAL RESERVE, SURPLUS RESERVE AND SPECIAL RESERVE

Details of the capital reserve, surplus reserve and special reserve of the Group for 2018 are set out in relevant notes to the financial statements set out in the annual report to be published by the Company in due time.

## DISTRIBUTABLE RESERVE

As at 31 December 2018, the distributable reserve (retained earnings) of the Company amounted to RMB8,680.3 million.

Pursuant to Article 212 of the Articles of Association of the Company, “the financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either international accounting standards or that of the overseas place where the Shares of the Company are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, explanations shall be made in the notes to financial statements. When the Company is to distribute its profit after taxation for relevant fiscal year, the lower of the profit after taxation as shown in the aforesaid two financial statements shall be adopted.”

There is no discrepancy between the net assets at the end of 2018 as calculated by the Group in accordance with the accounting rules of the PRC and the IFRS. The distributable reserve of the Company as of 31 December 2018 will be set out in relevant notes to the financial statements set out in the annual report to be published in due time.



# REPORT OF THE DIRECTORS

The Board proposes to set aside 10% of the profit after taxation as the statutory surplus reserve in accordance with the Company Law and the Articles of Association, and not to set aside discretionary reserve. This proposal will be submitted to the 2018 annual general meeting for consideration and approval.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, total sales to the Company's five largest customers represented approximately 12.4% of total revenue for the year, among which total sales to the largest customer accounted for approximately 2.9% of total revenue for the year.

For the year ended 31 December 2018, total purchase from the Company's five largest suppliers represented approximately 5.4% of total cost of sales for the year, among which total purchase from the largest supplier accounted for approximately 1.7% of total cost of sales for the year.

In 2018, none of the Directors, close associates of the Directors or Shareholders of the Company (who, to the knowledge of the Directors, hold more than 5% of the issued share capital of the Company) had interests in the five largest customers or the five largest suppliers of the Group.

In terms of customers, the Group mainly provides rail transportation control system design, equipment manufacturing and system implementation services to domestic and overseas customers to construct and upgrade the control systems for railways and urban transit. In the railway sector, the majority of the Group's customers are China Railway Corporation affiliated entities. The Group generally wins purchase orders for railway control system products and services from the customers affiliated with China Railway Corporation through their public bidding processes. In the urban transit sector, the Group's customers are mostly metro construction companies and operation companies controlled by the local governments. The Group also regularly participates in industry exhibitions organized by China Railway Corporation, the PRC Communications and Transportation Association (中國交通協會) and the PRC Metro Committee (中國城市軌道交通專業委員會) to advertise and promote our products to professional customers through demonstrating our corporate strength and image.

In terms of suppliers, the Group has multiple sources for most of our components and raw materials to reduce possible interruptions to our business operations and reliance on single supplier. This helps the Group to maintain stability of components and raw materials procurement. Therefore, quality or delivery problems with respect to any single supplier will generally not lead to a material adverse effect on the Group's business operations. The Group has maintained business relationships with various major suppliers for five years or more, and entered into legally binding, long-term supply framework agreements.

# REPORT OF THE DIRECTORS

During the reporting period, the Group maintained good co-operation relationships with its major customers and suppliers. The Group kept contact with its customers and suppliers and maintained communication with them via various channels, such as telephone, email and physical meetings in order to receive feedback and suggestions.

With the expansion of the scale and the addition of the business structure types of the Company, the management mode and management level of the suppliers for the subsidiaries newly established in recent years varied greatly. The Group will strengthen the dynamic management of suppliers, reinforce the credit evaluation of suppliers and improve the group-level unified supplier classification system, evaluation system and whole-life-cycle monitoring system. The appraisal results of suppliers are used in the procurement process to cultivate and develop long-term supplier strategic partners.

## STAFF

Staff is the key for the Group's sustainable development. Details of the staff of the Group are set out in "Directors, Supervisors, Senior Management and Employees-Employees" on pages 85 to 96.

## BANK AND OTHER BORROWINGS

Details of the bank and other borrowings of the Group as of 31 December 2018 are set out in relevant notes to the financial statements set out in the annual report to be published by the Company in due time.

## ENTRUSTED DEPOSITS AND OVERDUE TERM DEPOSITS

As of 31 December 2018, the Group had no entrusted deposits with financial institutions in China, or term deposits which were overdue but unrecovered.

## EXTERNAL DONATIONS

In 2018, the Company donated a total of RMB3.6 million to various organizations including local charities and governments of impoverished counties.

# REPORT OF THE DIRECTORS

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following table sets out the information on the Directors, the Supervisors and Senior Management of the Company in 2018.

Name	Position held in the Company	Date of appointment
<b>Directors</b> <i>note 1</i>		
Mr. ZHOU Zhiliang	Chairman and executive Director	31 January 2012
Mr. YIN Gang	Executive Director and president	21 May 2015
Mr. YANG Yongsheng	Executive Director and Deputy secretary of the Party Committee	28 August 2018
Mr. WANG Jiajie	Independent non-executive Director	21 May 2015
Mr. CHEN Jin'en	Independent non-executive Director	21 May 2015
Mr. CHAN Ka Keung Peter	Independent non-executive Director	28 August 2018
Mr. YAO Guiqing	Independent non-executive Director	28 August 2018
<b>Supervisors</b> <i>note 2</i>		
Ms. TIAN Liyan	Chairwoman of the Supervisory Committee	21 May 2015
Mr. WU Zuowei	Supervisor	25 May 2018
Mr. CHEN Shikui	Employee representative Supervisor	28 August 2018
<b>Senior Management</b> <i>note 3</i>		
Mr. YIN Gang	President and executive Director	22 May 2015
Mr. KONG Ning	Vice president	27 July 2016
Mr. HU Shaofeng	Chief accountant and Board secretary	27 July 2016
Mr. ZHAO Xiaodong (Appointed as vice president on 21 January 2019)		
Mr. HUANG Weizhong	Vice president	18 April 2013
Mr. ZHANG Zhihui (Appointed as vice president on 21 January 2019)		

*Note 1:*

Mr. SUN Patrick resigned as an independent non-executive Director on 28 August 2018

Mr. GAO Shutang resigned as an independent non-executive Director on 28 August 2018

*Note 2:*

Mr. GAO Fan resigned as a Supervisor on 25 May 2018

Ms. ZHAO Xiumei resigned as an Employee representative Supervisor on 28 August 2018

*Note 3:*

Mr. CHEN Hong resigned as vice president on 23 June 2018

Ms. TIAN Liyan resigned as general counsel on 24 December 2018

## CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

On 25 May 2018, at the 2017 annual general meeting, the Company deliberated and approved the resolution of electing Mr. WU Zuwei as a Supervisor of the second session of the Supervisory Committee of the Company, whose term of office shall end upon expiry of the term of the incumbent Supervisory Committee. In addition, due to personal job changes, Mr. GAO Fan has resigned as Supervisor of the Company, effective from 25 May 2018.

On 28 August 2018, the Company deliberated and approved the appointment of members of the third session of the Board of Directors of the Company at the first extraordinary general meeting for 2018. Of them, Mr. ZHOU Zhiliang, Mr. YIN Gang and Mr. YANG Yongsheng were appointed as executive Directors of the third session of the Board of Directors; and Mr. WANG Jiajie, Mr. CHEN Jin'en, Mr. CHAN Ka Keung Peter and Mr. YAO Guiqing were appointed as independent non-executive Directors of the third session of the Board of Directors, respectively, effective from 28 August 2018.

On 28 August 2018, the Board of Directors of the Company deliberated and approved the appointment of the chairmen and members of specialized committees of the third session of the Board of Directors of the Company. Of them, Mr. ZHOU Zhiliang was appointed as chairman of the Nomination Committee and continued to serve as chairman of the Strategy and Investment Committee; Mr. YIN Gang was appointed as a member of the Strategy and Investment Committee and continued to serve as chairman of the Quality and Safety Committee; Mr. YANG Yongsheng was appointed as a member of the Strategy and Investment Committee; Mr. WANG Jiajie was appointed as a member of the Quality and Safety Committee, continued to serve as a member of the Audit and Risk Management Committee and the Nomination Committee, and ceased to be a member of the Strategy and Investment Committee; Mr. CHEN Jin'en was appointed as a member and chairman of the Audit and Risk Management Committee, continued to serve as a member of the Strategy and Investment Committee, and ceased to be chairman of the Nomination Committee and a member of the Remuneration and Evaluation Committee; Mr. CHAN Ka Keung Peter was appointed as a member and chairman of the Audit and Risk Management Committee; Mr. YAO Guiqing was appointed as a member of the Strategy and Investment Committee, Nomination Committee, Remuneration and Evaluation Committee, and Quality and Safety Committee, effective from 28 August 2018.

In addition, Mr. SUN Patrick and Mr. GAO Shutang, members of the second session of the Board of Directors, would not seek re-election after the expiration of their term of office. Of them, Mr. SUN Patrick has ceased to be an independent non-executive Director of the Company, chairman of the Audit and Risk Management Committee and a member of the Remuneration and Evaluation Committee, effective from 28 August 2018; and Mr. GAO Shutang has ceased to be an independent non-executive Director of the Company, chairman of the Remuneration and Evaluation Committee, and a member of the Strategy and Investment Committee, Audit and Risk Management Committee, and Quality and Safety Committee, effective from 28 August 2018.

On 28 August 2018, the Company deliberated and approved the appointment of the third session of the Supervisory Committee of the Company at the first extraordinary general meeting for 2018. Of them, Ms. TIAN Liyan was appointed as the Shareholder representative Supervisor of the third session of the Supervisory Committee; Mr. WU Zuwei was appointed as the external Supervisor of the third session of the Supervisory Committee, effective from 28 August 2018. At the same time, upon approval at the staff representative assembly held on 28 August 2018, Mr. CHEN Shikui was appointed as employee representative Supervisor of the third session of the Supervisory Committee, effective from 28 August 2018.

# REPORT OF THE DIRECTORS

In addition, Ms. ZHAO Xiumei, a member of the second session of the Supervisory Committee, would not seek re-election after the expiration of her term of office. Ms. ZHAO Xiumei has ceased to be an employee representative Supervisor of the Company, effective from 28 August 2018.

Mr. CHEN Hong has ceased to act as the vice president of the Company with effect from 23 June 2018, due to work reason.

On 24 December 2018, Ms. TIAN Liyan has resigned as general counsel of the Company. The Company has submitted to the SASAC the proposed candidate for the new general counsel, who is expected to assume office before June 2019, subject to the approval time of the SASAC.

On 21 January 2019, the Company deliberated and approved the proposal of appointing Mr. ZHAO Xiaodong and Mr. ZHANG Zhihui as vice presidents of the Company at the fifth meeting of the third session of the Board of Directors. Therefore Mr. ZHAO Xiaodong and Mr. ZHANG Zhihui were appointed as vice presidents of the Company, effective from 21 January 2019.

Save as disclosed above, as at the date of this report, there had not been other changes in Directors, Supervisors and Senior Management.

## BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of the Directors, Supervisors and Senior Management are set out on pages 85 to 96 of this report.

## SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors and Supervisors has entered into a service contract with the Company, the principal particulars of which comprise: (1) the term being from the date of appointment and until the date of the expiration of the incumbent Board/the incumbent Supervisory Committee; and (2) termination provisions in accordance with their respective terms.

Save as disclosed above, none of the Directors or Supervisors has entered into or intends to enter into a service contract with any member of the Group (other than contracts expiring or determinable by the relevant employer within one year without payment of compensation (other than statutory compensation)).

## REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Remuneration of the Directors and Supervisors are paid in the form of fees, salaries, pension-defined contribution, discretionary bonuses, housing allowances and other allowances and benefits in kind.

Details of the Directors, Supervisors and five highest paid individuals of the Company are set out in relevant notes to the financial statements set out in the annual report to be published by the Company in due time.

During the reporting period, the remuneration scale of the Senior Management members (except for Ms. NG Wing Shan, one of the joint company secretaries of the Company, who serves as the assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited (formerly known as SW Corporate Services Group Limited)) whose biographical details are set out in "Biographies of Directors, Supervisors and Senior Management" of this report is disclosed in the corporate governance report of this report.

# REPORT OF THE DIRECTORS

## INTERESTS OF DIRECTORS AND SUPERVISORS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

During the reporting period, the Group did not participate in, directly or indirectly, concluding transactions, arrangements or contracts of significance in which the Director or the Supervisor or any entity which he or she was related to was materially interested, and related to the businesses of the Company and were subsisting during or by the end of the year.

## INTERESTS OF DIRECTORS IN COMPETING BUSINESSES

During the reporting period, save as disclosed in this report, none of the Directors or any of their respective associates had any competing interests in the businesses which, directly or indirectly, competed or were likely to compete with the Company.

## DIRECTORS AND SUPERVISORS SERVING IN COMPETING BUSINESSES

The businesses of the Group are partially competing with those of CRSC Group. The Company's executive Directors, Mr. ZHOU Zhiliang, Mr. YIN Gang and Mr. YANG Yongsheng, devote most of their time into the management of the Company's daily operations.

The following table summarizes the particulars of the Director of the Company serving in CRSC Group:

<b>Name</b>	<b>Main Position in the Group</b>	<b>Main Position in CRSC Group</b>
Mr. ZHOU Zhiliang	Chairman and executive Director of the Company	Chairman of CRSC Corporation Group
Mr. YIN Gang	Executive Director and president of the Company	Director and general manager of CRSC Corporation Group
Mr. YANG Yongsheng	Executive Director and Deputy secretary of the Party Committee of the Company	Employee representative director of CRSC Corporation Group

Save as disclosed above, none of the Directors, Supervisors and their respective associates had any interests in the businesses which competed or were likely to compete with the Group, or any other conflict of interests with the Group.

The Company further confirms that, save as disclosed above, as at the date of this report, members of the Senior Management of the Company have not involved in the daily operations of the businesses of CRSC Group which compete with the Group's businesses.

# REPORT OF THE DIRECTORS

## DIRECTORS', SUPERVISORS' AND THE COMPANY'S CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2018, none of the Directors, Supervisors or chief executives of the Company had any interests and/or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

None of the Directors or Supervisors or any of their respective associates was granted by the Company or its subsidiaries any right to acquire the Shares or debentures of the Company or any other corporate body, or had exercised any such right.

## FINANCIAL, BUSINESS AND FAMILY RELATIONSHIPS AMONG DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

As at the date of this report, there were no financial, business or family relationships among the Directors, Supervisors and Senior Management members of the Company.

## DIRECTORS' INSURANCE

As at the date of this report, the Company maintained effective directors' insurance for the Directors of the Company.

## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES

For the shareholdings of substantial Shareholders in the Company, please refer to "Changes in Share Capital and Information of Shareholders - Interests and Short Positions of Substantial Shareholders in Shares and Underlying Shares" on pages 57 to 59.

## ARRANGEMENTS FOR SHARE PRE-EMPTIVE RIGHT AND STOCK OPTION

In 2018, no arrangement for Share pre-emptive right and stock option was made by the Company, as there are no specific provisions under the China laws or the Articles of Associations of the Company regarding Share pre-emptive right.

# REPORT OF THE DIRECTORS

## COMPLIANCE OF CRSC CORPORATION GROUP WITH THE NON-COMPETITION UNDERTAKING

The Company has received the confirmation letter from CRSC Corporation Group, which confirms that, in 2018, CRSC Corporation Group was in compliance with all undertakings as set out in its “Letter of Non-competition Undertaking” issued to the Company. Please refer to the Prospectus for details.

## PUBLIC FLOAT

According to the information publicly available to the Company, and to the knowledge of the Directors of the Company, the public held no less than 22.40% of Shares issued by the Company as at the date of this report, which is in compliance with the waiver regarding public float obtained by the Company when Listing. For details, please refer to the Prospectus and the Company’s announcement dated 30 August 2015 in relation to partial exercise of over-allotment option.

## CONNECTED TRANSACTIONS

During the reporting period, the Group has conducted the following connected transactions:

### EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following continuing connected transactions of the Group have been entered into on normal commercial terms. Pursuant to Chapter 14A of the Listing Rules, such continuing connected transactions are exempt from the requirements of reporting, annual review, announcement and approval by independent Shareholders under Chapter 14A of the Listing Rules.

#### Property Leasing Framework Agreement between CRSC Corporation Group and the Company

Reference is made to the Property Leasing Framework Agreement entered into by and between the Company and CRSC Corporation Group on 19 July 2015. Since the Property Leasing Framework Agreement will expire after three years commencing from the Listing Date, its corresponding annual caps will be expired on 31 December 2017, and the Company intends to continue to conduct transactions under the agreement after 31 December 2017, therefore, the Company has entered into a new Property Leasing Framework Agreement (“New Property Leasing Framework Agreement”) with CRSC Corporation Group on 20 December 2017. Pursuant to the New Property Leasing Framework Agreement, the Group and CRSC Corporation Group and/or its associates may lease properties, including land and buildings, from each other according to actual demands.

The principal terms of the New Property Leasing Framework Agreement include: (1) rental pricing policy (see below); (2) that the Group and CRSC Corporation Group and/or its associates must enter into specific agreements to stipulate specific terms and conditions, including property rental, payment method and other usage fees, in respect of the relevant leasing property and facilities based on the principles as set out in the New Property Leasing Framework Agreement; and (3) that the New Property Leasing Framework Agreement will have a term of three years, commencing from 1 January 2018 to 31 December 2020, and may be renewed with mutual consent after negotiation.



# REPORT OF THE DIRECTORS

According to the pricing policy of the New Property Leasing Framework Agreement, the rental price shall be determined at arm's length negotiations between relevant parties and by reference to the prevailing market price of local properties with similar size and quality.

The New Property Leasing Framework Agreement was entered into on normal commercial terms. Pursuant to Chapter 14A of the Listing Rules, all relevant annual "applicable percentage ratios" of the relevant transactions are less than 0.1%. Pursuant to Rule 14A.76(1) (a) of the Listing Rules, the aforesaid continuing connected transactions are exempt from the requirements of reporting, annual review, announcement and approval by independent Shareholders under Chapter 14A of the Listing Rules.

## **General Services Framework Agreement between CRSC Corporation Group and the Company**

Reference is made to the general services framework agreement entered into by and between the Company and CRSC Corporation Group on 19 July 2015. Since the general services framework agreement will expire after three years commencing from the Listing Date, its corresponding annual caps will be expired on 31 December 2017, and the Company will continue to conduct transactions under the agreement after 31 December 2017, therefore, the Company has entered into a new general services framework agreement ("New CRSC Corporation Group General Services Framework Agreement") with CRSC Corporation Group on 20 December 2017. Pursuant to the New CRSC Corporation Group General Services Framework Agreement, CRSC Corporation Group and/or its associates may provide integrated services, such as logistics, to us according to actual needs, and we can provide property entrustment, technical services and other integrated services to CRSC Corporation Group and/or its associates.

The principal terms of the New CRSC Corporation Group General Services Framework Agreement include: (1) pricing policy of service fee (see below); (2) except for public tender, both parties must confirm the service demand plan for the next year or the service adjustment plan of the current year on a stipulated date of each year; (3) the Group and CRSC Corporation Group and/or its associates must enter into specific agreements to stipulate specific terms and conditions, including specific scope of service, form of service and payment method, in respect of the relevant services based on the principles as set out in the New CRSC Corporation Group General Services Framework Agreement; and (4) the New CRSC Corporation Group General Services Framework Agreement will have a term of three years, commencing from 1 January 2018 to 31 December 2020, and may be renewed with mutual consent after negotiation.

According to the pricing policy of the New CRSC Corporation Group General Services Framework Agreement, the provision of logistics and other integrated services to the Group by CRSC Corporation Group and/or its associates is priced at the cost of the service without making any profit to ensure the service fee is fair and reasonable or more favorable to the Group than being available from Independent Third Parties. The service fees of property entrustment service provided by the Group to CRSC Corporation Group and/or its associates will be determined at arm's length negotiations between the relevant parties by reference to the market price of service fees required by local properties with similar size and quality. The pricing of technical services provided by the Group to CRSC Corporation Group and/or its associates shall comply with the terms of agreement between CRSC Corporation Group and the contractual party of the project. CRSC Corporation Group will purchase technical services from the Group at the price agreed between itself and the contractual party of the project and then supply the same to the contractual party of the project, without making any profit.

# REPORT OF THE DIRECTORS

The New CRSC Corporation Group General Services Framework Agreement was entered into on normal commercial terms. Pursuant to Chapter 14A of the Listing Rules, all relevant annual “applicable percentage ratios” of the relevant transactions are less than 0.1%. Pursuant to Rule 14A.76(1) (a) of the Listing Rules, the aforesaid continuing connected transactions are exempt from the requirements of reporting, annual review, announcement and approval by independent Shareholders under Chapter 14A of the Listing Rules.

## Domain Name Usage Licensing Agreement between CRSC Corporation Group and the Company

The Company entered into a domain name usage licensing agreement (the “Domain Name Usage Licensing Agreement”) with CRSC Corporation Group on 19 July 2015, pursuant to which, CRSC Corporation Group has agreed to authorize the Group to use the domain names “csrc.cn”, “csrc.com.cn” and “csrc.中國” owned by it at nil consideration. The licensing period of domain name usage will commence from the Listing Date for a term of ten years.

The Domain Name Usage Licensing Agreement was entered into on normal commercial terms. Pursuant to Chapter 14A of the Listing Rules, all relevant annual “applicable percentage ratios” of the relevant transactions are less than 0.1%. Pursuant to Rule 14A.76(1) (a) of the Listing Rules, the aforesaid continuing connected transactions are exempt from the requirements of reporting, annual review, announcement and approval by independent Shareholders under Chapter 14A of the Listing Rules.

## Service Agreement between CRSC CASCO and ALSTOM IC

CRSC CASCO and ALSTOM IC entered into a service agreement (the “Service Agreement”) on 27 April 2015, pursuant to which, ALSTOM IC would designate personnel to CRSC CASCO for the provision of supportive service, and CRSC CASCO would pay an annual service fee and annual bonus for the designated personnel to ALSTOM IC. The agreement shall remain valid during the operation period of CRSC CASCO. The Service Agreement will be effective from 1 June 2015.

According to the pricing policy of the Service Agreement, during the period from 1 March 2006 to 31 March 2007, the annual service fee under the Service Agreement was RMB1,650,165, and the amount of annual fee in subsequent years would be adjusted after negotiation between the parties according to the actual expenses incurred for the provision of this service by ALSTOM IC. The annual bonus for deployed personnel under the Service Agreement shall be determined by the chairman and vice chairman of CRSC CASCO.

The Service Agreement was entered into on normal commercial terms. Pursuant to Chapter 14A of the Listing Rules, all relevant annual “applicable percentage ratios” of the relevant transactions are less than 1%. The transaction above constitutes a connected transaction under the Listing Rules only because it involves a connected person at the subsidiary level, therefore, according to Rule 14A.76(1) (b) of the Listing Rules, the aforesaid continuing connected transactions are exempt from the requirements of reporting, annual review, announcement and approval by independent Shareholders under Chapter 14A of the Listing Rules.

# REPORT OF THE DIRECTORS

## **U888 Technology Transfer Framework Agreement between CRSC CASCO and ALSTOM Transport S.A.**

CRSC CASCO and ALSTOM Transport S.A. entered into the U888 technology transfer framework agreement (the “U888 Technology Transfer Framework Agreement”) on 10 September 2008, pursuant to which, ALSTOM Transport S.A. agreed to transfer the relevant technology to CRSC CASCO and CRSC CASCO agreed to accept such technology for application in URBALIS 888 solution plans and for the production and sales of UNIVIC and 2oo3 Platform. For this purpose, ALSTOM Transport S.A. granted the right to use relevant technology to CRSC CASCO which is non-transferable and cannot be sub-licensed. The agreement will remain valid until 4 March 2023.

According to the pricing policy of the U888 Technology Transfer Framework Agreement, based on the value of the transferred technology, the required product assembly, inspection and testing, maintenance, training as well as other services that will be provided by ALSTOM Transport S.A. during the transferring process, a price quotation will be provided by ALSTOM Transport S.A. and the final price will be determined at arm’s length negotiation between both parties.

The U888 Technology Transfer Framework Agreement was entered into on normal commercial terms. Pursuant to Chapter 14A of the Listing Rules, all relevant annual “applicable percentage ratios” of the relevant transactions are less than 1%. The transaction above constitutes a connected transaction under the Listing Rules only because it involves a connected person at the subsidiary level, therefore, according to Rule 14A.76(1) (b) of the Listing Rules, the aforesaid continuing connected transactions are exempt from the requirements of reporting, annual review, announcement and approval by independent Shareholders under Chapter 14A of the Listing Rules.

## **Technical Services Framework Agreements on Mutual Provision of Support among the Company, ALSTOM Transport S.A. and Alstom Transport Holdings**

Reference is made to the Alstom General Services Framework Agreements entered into by and between the Company and ALSTOM Transport S.A. and Alstom Transport Holdings B.V. (the “Alstom Transport Holdings”), respectively, on 13 July 2015. Since the Alstom General Services Framework Agreements will expire after three years commencing from the Listing Date, their corresponding annual caps will be expired on 31 December 2017, and the Company will continue to conduct transactions under the agreements after 31 December 2017, therefore, the Company has entered into New General Services Framework Agreements (“New Alstom General Services Framework Agreements”) with ALSTOM Transport S.A. and Alstom Transport Holdings on 20 December 2017 for a term of three years, commencing from 1 January 2018 to 31 December 2020. They are subject to renewal after mutual negotiation. Under the New Alstom General Services Framework Agreements, we may engage in mutual supply of technical services with ALSTOM Transport S.A. and Alstom Transport Holdings and/or their respective subsidiaries.

According to the pricing policy of the New Alstom General Services Framework Agreements, with respect to technical services required by the Company, the Company generally selects suppliers through tender process, the price will be determined on the basis of the specific competitive bidding in the market and by considering various factors comprehensively, such as, among others, the quality of service provided by ALSTOM, work load and labour cost. With respect to the technical services provided by the Company to ALSTOM, the price will be determined by considering comprehensively the prevailing conditions, scale, needs of the project, and the costs of labour, materials, transportation and logistics, together with the market competition in bidding for the project.

# REPORT OF THE DIRECTORS

The New Alstom General Services Framework Agreements were entered into on normal commercial terms. Pursuant to Chapter 14A of the Listing Rules, all relevant annual “applicable percentage ratios” of the relevant transactions are less than 0.1%. According to Rule 14A.76(1) (a) of the Listing Rules, the aforesaid continuing connected transactions are exempt from the requirements of reporting, annual review, announcement and approval by independent Shareholders under Chapter 14A of the Listing Rules.

## **General Services Framework Agreements among the Company, ALSTOM Transport S.A. and Alstom Transport Holdings**

Reference is made to the Alstom General Services Framework Agreement entered into by and between the Company, ALSTOM Transport S.A. and Alstom Transport Holdings, respectively, on 13 July 2015. Since the Alstom General Services Framework Agreements will expire after three years commencing from the Listing Date, their corresponding annual caps will be expired on 31 December 2017, and the Company will continue to conduct transactions under the agreements after 31 December 2017, therefore, the Company has entered into New Alstom General Services Framework Agreements with ALSTOM Transport S.A. and Alstom Transport Holdings on 20 December 2017 for a term of three years, commencing from 1 January 2018 to 31 December 2020. They are subject to renewal after mutual negotiation. Under the New Alstom General Services Framework Agreements, we may procure or sell products from ALSTOM Transport S.A. and Alstom Transport Holdings and/or their respective subsidiaries.

According to the pricing policy of the New Alstom General Services Framework Agreements: the sales are based on the Alstom’s project conditions, scale, demand, and costs for labor, materials, transportation & logistics, as well as comprehensive consideration of market supply & demand; with respect to procurement of products required by the Company, the Company generally selects suppliers through tender process, the price will be determined by considering comprehensively, among others, the specific competitive bidding in the market, price quotation from ALSTOM, specific conditions of the project and product cost. If the tender process will not be carried out, then the price will be determined with reference to historical price through negotiations and communications between the parties.

The New Alstom General Services Framework Agreements were entered into on normal commercial terms. Pursuant to Chapter 14A of the Listing Rules, all relevant annual “applicable percentage ratios” of the relevant transactions are less than 0.1%. The transaction above constitutes a connected transaction under the Listing Rules only because it involves a connected person at the subsidiary level, therefore, according to Rule 14A.76(1) (b) of the Listing Rules, the aforesaid continuing connected transactions are exempt from the requirements of reporting, annual review, announcement and approval by independent Shareholders under Chapter 14A of the Listing Rules.

# REPORT OF THE DIRECTORS

## NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following continuing connected transactions of the Group have been entered into on normal commercial terms. Pursuant to Chapter 14A of the Listing Rules, such continuing connected transactions are subject to the requirements of reporting, annual review, announcement and (as the case may be) independent Shareholders' approval under Chapter 14A of the Listing Rules.

### Purchases and Sales Framework Agreement between the Company and CRSC Corporation Group

Reference is made to the purchases and sales framework agreement entered into by and between the Company and CRSC Corporation Group on 19 July 2015. Since the purchases and sales framework agreement will expire after three years commencing from the Listing Date, its corresponding annual caps will be expired on 31 December 2017, and the Company intends to continue to conduct transactions under the agreement after 31 December 2017, therefore, the Company has entered into a new purchases and sales framework agreement ("New CRSC Corporation Group Purchases and Sales Framework Agreement") with CRSC Corporation Group on 20 December 2017. Pursuant to the New CRSC Corporation Group Purchases and Sales Framework Agreement, the Group and CRSC Corporation Group may purchase, among others, raw materials, excipients, accessories, components and parts, packaging materials, semi-finished products, finished products, commodities and related products from each other or sell the same to each other.

The principal terms of the New CRSC Corporation Group Purchases and Sales Framework Agreement include: (1) pricing policy (see below); (2) that except for public tender, both parties must confirm the demand plan for the next year or the demand adjustment plan of the current year on a stipulated date of each year; (3) that the Group and CRSC Corporation Group must enter into specific agreements to stipulate specific terms and conditions, including specific scope of business, quality standards and payment method, in respect of the relevant business based on the principles as set out in the New CRSC Corporation Group Purchases and Sales Framework Agreement; and (4) that the New CRSC Corporation Group Purchases and Sales Framework Agreement will have a term of three years, commencing from 1 January 2018 to 31 December 2020, and may be renewed with mutual consent after negotiation.

The pricing of various products under the New CRSC Corporation Group Purchases and Sales Framework Agreement will be determined on the basis of market price, together with purchasing costs of materials, labour costs, manufacturing costs, management costs, financial costs, transportation and packaging costs incurred by sales, tax burden and profitability standards. The pricing of products provided by the Group to CRSC Corporation Group will be by reference to and subject to the terms of agreement between CRSC Corporation Group and the contractual party of the Overseas Project. CRSC Corporation Group will purchase products from the Group at the price agreed between itself and the contractual party of the Overseas Project and then supply the same to the contractual party of the Overseas Project, without making any profit.

# REPORT OF THE DIRECTORS

During the reporting period, the caps of the purchases/sales of this continuing connected transaction for 2018 were RMB99,000 thousand and RMB42,000 thousand, respectively. The actual total transaction amounts of purchases/sales by the Group and CRSC Corporation Group under the aforesaid agreements were RMB76,758.2 thousand and RMB5,315.7 thousand, respectively.

## CONFIRMATION BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors of the Company have reviewed the aforesaid continuing connected transactions and have confirmed that they have been entered into: in the ordinary and usual course of the Group's business; on normal commercial or better terms; on conditions no less favourable to the Company than those offered to or by (as the case may be) Independent Third Parties, if it was not practical to make such judgement based on comparable transactions as to whether such transactions have been carried out on normal commercial terms; and in accordance with relevant agreements whose terms are fair and reasonable and in the interest of the Shareholders of the Company as a whole.

## AUDITOR'S LETTER

In accordance with Rule 14A.56 of the Listing Rules, the Company has engaged its auditor, Ernst & Young, to report on the Group's continuing connected transactions in accordance with Hong Kong Standards on Assurance Engagements 3000 "Assurance Business Other Than Audits or Reviews of Historical Financial Information" and Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accounts. Based on its work, Ernst & Young has provided the Board with a letter confirming that, with respect to the aforesaid continuing connected transactions:

- (a) nothing has come to Ernst & Young's attention that causes it to believe that the aforesaid continuing connected transactions have not been approved by the Board;
- (b) in relation to the transactions involving products and services supplied by the Group, nothing has come to Ernst & Young's attention that causes it to believe that the transactions have not followed the Group's pricing policy in any material aspect;
- (c) nothing has come to Ernst & Young's attention that causes it to believe that the transactions have not been carried out in any material aspect in accordance with the relevant agreements;
- (d) in relation to the aggregate amounts for each of the aforesaid continuing connected transactions, nothing has come to Ernst & Young's attention that causes it to believe that the actual transaction amount of any of the aforesaid continuing connected transactions has not exceeded the cap determined by the Company for the year.

# REPORT OF THE DIRECTORS

## NON-EXEMPT CONNECTED TRANSACTIONS

Save as disclosed above, there were no other non-exempt connected transactions entered into by the Company with its connected persons during the reporting period.

## AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee has reviewed the annual results and the annual report of the Company for 2018 as well as the audited consolidated financial statements for the year ended 31 December 2018 prepared in accordance with IFRS.

## ACCOUNTING POLICIES

The principal accounting policies adopted by the Company for the preparation of its audited consolidated financial statements for 2018 are consistent with those adopted for the preparation of its audited consolidated financial statements for the year ended 31 December 2017.

## AUDITORS

In March 2016, the Board proposed to appoint Ernst & Young and Ernst & Young Hua Ming LLP as the auditors of the Company's financial statements for 2016 to be prepared under IFRS and CASBE, respectively. Their terms of appointment were proposed to be effective upon the conclusion of the 2015 annual general meeting of the Company and until the conclusion of 2016 annual general meeting of the Company, and this proposal has been effective upon approval at the 2015 annual general meeting of the Company.

In March 2017, the Board proposed to appoint Ernst & Young and Ernst & Young Hua Ming LLP as the auditors of the Company's financial statements for 2017 to be prepared under IFRS and CASBE, respectively. Their terms of appointment were proposed to be effective upon the conclusion of the 2016 annual general meeting of the Company and until the conclusion of 2017 annual general meeting of the Company, and this proposal has been effective upon approval at the 2016 annual general meeting of the Company.

## REPORT OF THE DIRECTORS

In January 2018, the Board proposed to appoint Ernst & Young and Ernst & Young Hua Ming LLP as the auditors of the Company's financial statements for 2018 to be prepared under IFRS and CASBE, respectively. Their terms of appointment were proposed to be effective upon conclusion of the 2017 annual general meeting of the Company and until the conclusion of 2018 annual general meeting of the Company, and this proposal has been effective upon approval at the 2017 annual general meeting of the Company.

In March 2019, the Board proposed to appoint Ernst & Young Hua Ming LLP as the auditor for the A Share Offering and Listing, and proposed to Shareholders' general meeting the authorization to the Board of the Company to finalize the audit fees based on market prices and audit workload. This proposal will be effective upon approval at the 2019 first extraordinary general meeting of the Company.

In March 2019, the Board proposed to appoint Ernst & Young and Ernst & Young Hua Ming LLP as the auditors of the Company's financial statements for 2019 to be prepared under IFRS and CASBE, respectively. Their terms of appointment were proposed to be effective upon conclusion of the 2018 annual general meeting of the Company and until the conclusion of 2019 annual general meeting of the Company, and this proposal will be effective upon approval at the 2018 annual general meeting of the Company.

By order of the Board

**China Railway Signal & Communication Corporation Limited**

**Zhou Zhiliang**

*Chairman*



# REPORT OF SUPERVISORY COMMITTEE

In 2018, the Supervisory Committee of the Company abode by the principle of good faith, conscientiously performed its supervisory duties and effectively safeguarded the legitimate rights and interests of the Company, its Shareholders and employees based on the principle of accountability to all the Shareholders of the Company, in strict compliance with relevant rules and regulations such as the Company Law, the Articles of Association and the Rules of Procedure of the Supervisory Committee. The work report of the Supervisory Committee was as follows:

## 1. MEETINGS

In 2018, the Supervisory Committee of the Company has held three meetings as follows:

On 29 March 2018, the sixth meeting of the second session of the Supervisory Committee was convened onsite at the headquarters of the Company by the Supervisory Committee of the Company. 3 Supervisors were entitled to be present at the meeting and 3 Supervisors attended the meeting. The procedures for convening and holding the meeting were in compliance with the provisions of the Articles of Association and the Rules of Procedure of the Supervisory Committee. The meeting considered and approved the following resolutions: Resolution in Relation to the 2017 Annual Report and Annual Result Announcement, Resolution in Relation to the 2017 Financial Close Report (Draft), Resolution in Relation to the 2017 Profit Distribution Proposal (Draft) and Resolution in Relation to the 2017 Work Report of the Supervisory Committee.

On 9 July 2018, the seventh meeting of the second session of the Supervisory Committee was convened onsite at the headquarters of the Company by the Supervisory Committee of the Company. 3 Supervisors were entitled to be present at the meeting and 3 Supervisors attended the meeting. The procedures for convening and holding these meetings were in compliance with the provisions of the Articles of Association and the Rules of Procedure of the Supervisory Committee. The meeting considered and approved Resolution in Relation to the Nomination of Candidates for Shareholder Representative Supervisor of the Third Session of the Supervisory Committee of the Company.

On 28 August 2018, the first meeting of the third session of the Supervisory Committee was convened onsite at the headquarters of the Company by the Supervisory Committee of the Company. 3 Supervisors were entitled to be present at the meeting and 3 Supervisors attended the meeting. The procedures for convening and holding these meetings were in compliance with the provisions of the Articles of Association and the Rules of Procedure of the Supervisory Committee. The meeting considered and approved the following resolutions: Resolution in Relation to Electing Tian Liyan as the Chairwoman of the Supervisory Committee of the Company and Resolution in Relation to the 2018 Interim Result Announcement of CRSC.

## 2. ATTENDANCE OF IMPORTANT MEETINGS

In 2018, the Supervisors attended two general meetings pursuant to regulations and attended seven Board meetings as non-voting delegates. Moreover, the chairperson of the Supervisory Committee also regularly attended the office meeting of the president as a non-voting attendee. By attending these important meetings as non-voting attendees, the Supervisors not only understood the operation and management of the Company, but also actively participated in the consideration and discussion of the resolutions and put forward their opinions and suggestions in a responsible manner, thus having effectively supervised the procedures for convening these meetings and topics of these meetings.

# REPORT OF SUPERVISORY COMMITTEE

## 3. ROUTINE INSPECTION AND RESEARCH

The Supervisory Committee placed emphasis on combining meeting supervision with routine supervision to improve the work style, and proactively took advantage of various opportunities to carry out research, inspection and guidance tasks at the grass-roots level. During the reporting period, the Supervisors were able to combine the tasks with the work of the Supervisory Committee by participating in the supervision of internal audit, supervision of legal matters, the internal control and compliance review, etc., to promptly alert the risks and problems that may arise in the production and operation, financial management and internal control of the Company and put forward reasonable suggestions, in order to enhance the supervision over the operation of the Company in accordance with the law.

## 4. INDEPENDENT OPINION AND SPECIAL EXPLANATION

- (1) Having supervised the performance of duties of Directors and Senior Management of the Company and the legitimate operation of the Company, the Supervisory Committee was of the view that the Board of the Company was able to make decisions according to the law and in strict compliance with requirements such as the Company Law and the Articles of Association and the major business decision-making procedures of the Company were lawful and valid; that the Company disclosed significant information about the Company in a timely manner pursuant to the securities regulatory requirements such that the information was disclosed in a regulated manner and the securities trading system for the informed parties of insider information was conducted well; that the Directors and Senior Management of the Company were able to implement conscientiously and thoroughly relevant laws and regulations, the Articles of Association and the resolutions of the general meetings and the Board during the execution of the duties of the Company in a faithful, pioneering and aggressive manner; and that no Directors or Senior Management of the Company were found to have acts which violated laws, regulations or the Articles of Association or harmed the interests of the Company and the rights and interests of Shareholders during the execution of their duties.
- (2) By communicating with the accounting firms in charge of the audit and review services for the Company, the Supervisory Committee examined the Company's financial statements, considered its periodic reports and the audit report of the accounting firms, regularly listened to the report of the internal audit department of the Company on the progress of internal audit work, and carried out effective supervision and inspection on the Company's financial management and operation by means of on-site inspection, research, etc. The Supervisory Committee was of the view that the Company had a sound financial system, regulated management practices and reasonable spending of fees during 2018. The Company's 2018 annual financial report was audited by Ernst & Young Hua Ming LLP and Baker Tilly (special general partnership) which issued a standard audit report with an unqualified opinion that the 2018 annual financial report prepared by the Company fairly reflected the Company's financial condition and operating results.
- (3) The Supervisory Committee supervised the utilization of the proceeds by the Company. The Supervisory Committee was of the view that the Company was able to manage and utilize the proceeds in accordance with national laws and regulations as well as the commitments made by the Company in the Prospectus. The Supervisory Committee will continue to supervise and inspect the utilization of the proceeds.

## REPORT OF SUPERVISORY COMMITTEE

- (4) The Supervisory Committee supervised the related party (connected) transactions carried out by the Company. The Supervisory Committee was of the view that the Company's related party (connected) transactions were conducted in accordance with the Company Law, the Hong Kong Listing Rules as well as the Company's Articles of Association and Rules Governing Related Party (Connected) Transactions, and that the pricing of these related party (connected) transactions was fair, without violating the principles of openness, fairness and impartiality, and without identifying any acts which harmed the interests of the Company and its minority Shareholders.
  
- (5) The Supervisory Committee made a special explanation of the Company's internal control. The Supervisory Committee was of the view that in 2018, the internal control system of the Company was improved continuously to cover each aspects of the operation, production and management of the Company, with operability and execution ability being further strengthened, and the overall level of internal control raised constantly so that the Company was able to give a reasonable assurance that the internal control objective would be achieved.

## CLOSURE OF REGISTER OF MEMBERS

### Special Dividend

In order to ascertain the entitlements of the Shareholders to receive the proposed Special Dividend, the register of members of the Company will be closed from Friday, 19 April 2019 to Wednesday, 24 April 2019 (both days inclusive), during which period no transfer of Shares of the Company will be effected. To be eligible to receive the proposed Special Dividend, all transfer documents must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for holders of H Shares no later than 4:30 p.m. on Thursday, 18 April 2019.

Details of the distribution of Special Dividend are set out in "Report of the Directors" on pages 24 to 47.

## EVENTS OF MAJOR LITIGATION, ARBITRATION AND GENERALLY QUESTIONED BY THE MEDIA

As of 31 December 2018, the Group was not involved in any events of major litigation, arbitration and generally questioned by the media. The Directors were also not aware of any pending or potential significant litigations or claims.

## APPROPRIATION OF FUNDS AND SETTLEMENT PROGRESS DURING THE REPORTING PERIOD

During the reporting period, the Company was not involved with any events of appropriation of funds and settlement progress.

## BANKRUPTCY AND RESTRUCTURING

During the reporting period, the Company did not engage in any events of bankruptcy and restructuring.

## TRANSACTIONS OF ASSETS AND MERGERS OF ENTERPRISES

During the reporting period, the Company was not involved in any transactions of assets and mergers of enterprises.

## EQUITY INCENTIVES OF THE COMPANY AND RELEVANT IMPACT

During the reporting period, the Company was not involved in any events of equity incentives.

## SIGNIFICANT CONTRACTS

Save as disclosed in the section "Report of the Directors – Connected Transactions" in this report, the Company or any of its subsidiaries had not entered into any significant contracts with Controlling Shareholders or any of their subsidiaries outside of the Group, and the Group did not have any significant contracts of service provision for Controlling Shareholders or any of their subsidiaries outside of the Group.

## EQUITY HELD IN OTHER LISTED COMPANIES

During the reporting period, the Company was not involved in any events of equity held in other listed companies.

# SIGNIFICANT EVENTS

## DEALINGS IN THE SHARES OF OTHER LISTED COMPANIES

During the reporting period, the Company was not involved in any events of dealings in the shares of other listed companies.

## EXPOSURE TO RISKS OF SUSPENSION AND TERMINATION OF LISTING

During the reporting period, the Company was not involved in any circumstances which may lead to suspension or termination of Listing, nor involved in any detailed arrangement and planning of investor relations management as a result of suspension or termination of Listing.

## SIGNIFICANT SUBSEQUENT EVENTS

On 28 February 2019 and 25 March 2019, the resolutions of the Board meetings have approved, among other things, the proposed plan for A Share Offering and related matters. Such resolutions are conditional upon and are subject to the market conditions, approval by Shareholders through special resolutions or ordinary resolutions (as the case may be) at the 2019 first extraordinary general meeting, 2019 first domestic Shareholders class meeting and 2019 first H Shareholders class meeting of the Company, as well as obtaining the necessary approval or decision from the relevant regulatory authorities. Further details of the proposed A Share Offering and related matters are set out in “Changes in Share Capital and Information of Shareholder” on pages 53 to 59, announcements of the Company dated 28 February 2019 and 25 March 2019, and the circular dated 26 March 2019 of the 2019 first extraordinary general meeting and 2019 first H Shareholders class meeting of the Company.

To actively promote and ensure the A Share Offering and Listing, and safeguard the interests of the Company and all Shareholders as a whole, on 25 March 2019, the Board meeting proposed to make the Special Dividend on the remaining distributable profits (after deducting the actual dividends paid in 2018) for the year ended 31 December 2017. The Special Dividend will be distributed to Shareholders whose names appear on the register of members of the Company on Wednesday, 24 April 2019 with a cash dividend of RMB0.20 per Share (tax inclusive). The Special Dividend to be distributed will be denominated and announced in RMB, of which domestic Shareholders will be paid in RMB and H Shareholders will be paid in HK dollars. The exchange rate of HK dollars will be calculated in accordance with the average central parity rate published by the People’s Bank of China of the three working days before the day when the dividend distribution announcement is made (inclusive of the day of the dividend distribution announcement). It is expected that the Special Dividend will be distributed before 20 May 2019. The above plan of distribution of Special Dividend is subject to Shareholders’ approval at the 2019 first extraordinary general meeting of the Company.

The Board of Directors recommended that no final dividend would be distributed on the profits for the year ended 31 December 2018.

Details of the distribution of Special Dividend and final dividend are set out in “Report of the Directors” on pages 24 to 47.

Except as disclosed in this announcement, there were no other significant subsequent events from 1 January 2019 to the date of this report.

# CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

## CHANGES IN SHARE CAPITAL

Upon approval from the vetting department authorized by the State Council, the Company issued 4,500,000,000 Shares to its promoters upon its establishment on 29 December 2010, representing 100% of the total issuable ordinary shares of the Company, among which, CRSC Corporation Group held 4,357,540,000 Shares (96.8343%), SINOMACH held 41,900,000 Shares (0.9311%), China Chengtong Holdings Group Ltd. held 41,900,000 Shares (0.9311%), CRHC held 41,900,000 Shares (0.9311%) and CICC Jiacheng held 16,760,000 Shares (0.3724%).

On 6 December 2013, the Company issued 2,500,000,000 ordinary shares to its original Shareholders by way of capital increase on a pro-rata basis, whereby the Company's total number of Shares was changed to 7,000,000,000 ordinary shares, among which, CRSC Corporation Group held 6,778,390,000 Shares (96.8343%), SINOMACH held 65,180,000 Shares (0.9311%), China Chengtong Holdings Group Ltd. held 65,180,000 Shares (0.9311%), CRHC held 65,180,000 Shares (0.9311%) and CICC Jiacheng held 26,070,000 Shares (0.3724%).

Upon approval by the CSRC under Zheng Jian Xu Ke [2015] No.1630 (證監許可[2015]1630號文), the Company initially issued to foreign investors 1,789,819,000 overseas-listed foreign ordinary shares (including an over-allotment of 39,819,000 overseas-listed foreign ordinary shares), which were listed on the Stock Exchange. Pursuant to the Provisional Measures for the Administration of the Reduction of the Holding of State-Owned Shares in Order to Raise Social Security Funds (《減持國有股籌集社會保障資金管理暫行辦法》) and relevant regulations of the State Council, the Company's state-owned Shareholders, simultaneously with the issuance of the overseas-listed foreign Shares, transferred 178,982,000 state-owned Shares held by them into the possession of the NSSF, which were converted into overseas-listed foreign Shares. Upon completion of the aforesaid issuances, the Company had the total share capital of 8,789,819,000 Shares, consisting of a total of 8,789,819,000 ordinary shares, of which 6,821,018,000 Shares were held by domestic Shareholders, accounting for 77.6% of the Company's total issued ordinary shares; and 1,968,801,000 Shares were held by holders of overseas-listed foreign Shares (including the NSSF), accounting for 22.4% of the Company's total issued ordinary shares.

There was no change in the share capital of the Company during the reporting period.

As at 31 December 2018, the Company's total share capital was RMB8,789,819,000, divided into 8,789,819,000 Shares with a nominal value of RMB1.00 each, of which, 6,821,018,000 Shares were Domestic Shares and 1,968,801,000 Shares were H Shares.

# CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

## PROPOSED A SHARE OFFERING AND LISTING

References are made to the announcements of the Company dated 28 February 2019 and 25 March 2019, and the circular dated 26 March 2019 of the 2019 first extraordinary general meeting and 2019 first H Shareholders class meeting of the Company, in relation to, among other things, the Company's proposed A Share Offering and Listing and related matters.

On 28 February 2019 and 25 March 2019, the Board resolved to approve, among other things, the proposed A Share Offering plan and other relevant resolutions. These proposals are subject to market conditions and the 2019 first extraordinary general meeting of the Company, the 2019 first domestic Shareholders class meeting of the Company, and 2019 first H Shareholders class meeting of the Company to obtain approval from the Shareholders by special resolutions or ordinary resolutions (as the case may be) and the necessary approval or decision of the relevant regulatory authorities.

Due to the needs of the A Share Offering and Listing, according to the relevant laws and regulations including the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China and relevant regulatory documents, as well as considering the actual conditions of the Company, the proposed plan for the A Share Offering and Listing is detailed as follows:

- (1) Type of Shares to be issued and par value : Renminbi ordinary shares (A Share), with a par value of RMB1.00 each
- (2) Number of A Shares to be issued : It is proposed that the size of the proposed A Share to be issued shall not exceed 2,197,454,750 Shares, representing no more than 20% of the total share capital of the Company upon the completion of the issuance. In the event of any exit right issues of the Company, including share dividend and share capital increase from capital reserves, before the A Share Offering, the number of A Shares under the A Share Offering will be adjusted accordingly. The ultimate number of the issuance will be negotiated by the Board as authorized by the general meeting with the sponsor institution(s) (lead underwriter(s)) in accordance with the actual conditions, and will be subject to the approval/decision on approval of registration by the CSRC and other regulatory authorities
- (3) Target subscribers : Inquiry targets who meet the relevant qualification requirements of the CSRC and other regulatory authorities, as well as natural persons, legal persons and other institutional investors who maintain A share account with the SSE (except persons prohibited by the PRC laws and regulations, rules and regulatory documents)

If any of the aforesaid target subscribers of A Share Offering are connected persons of the Company (only refers to connected persons under the A Share Listing Rules), the Company will take all reasonable measures to ensure that the A Share subscribers meet the relevant requirements of the CSRC and other regulatory authorities

# CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

- (4) Method of issuance : The Company will adopt a combination of off-line placement and offering by way of on-line subscription, or such other methods of issuance as approved by the CSRC and the SSE
- (5) Method of pricing : By making preliminary inquiries to inquiry targets, the Company and the sponsor institution(s) of the Company/the lead underwriter(s) will determine the issue price through mutual negotiation based on the results of the preliminary inquiries, or by other methods as may be approved by the CSRC and the SSE when the time comes
- According to the requirements on state-owned assets supervision and administration, in principle, the issue price of A Share shall not be lower than the net asset per Share recently available to the Company on the date when determining the issue price. In addition, the issue price of A Share is subject to the relevant requirements of the Listing Rules
- (6) Use of proceeds : The Company intends to use the proceeds from the A Share Offering to invest in advanced and intelligent technology research and development and manufacturing base projects, information construction projects and to replenish working capital
- If the actual proceeds from the A Share Offering are not sufficient, the Company will solve the funding gap of the above projects through self-financing. If the actual proceeds from the A Share Offering exceed the total amount of the above investment projects, surplus funds will be utilized in the Company's main business after performing the necessary procedures in accordance with the relevant requirements
- The Company may support the implementation of the above projects with its own funds and/or bank loans according to the actual progress of the project prior to the receipt of the proceeds from the A Share Offering. The proceeds will be used to replace the self-raised funds that have been invested in advance after obtaining the proceeds from the A Share Offering
- (7) Distribution plan of accumulated profits before the issuance : Prior to completion of the A Share Offering and Listing, the Company will conduct profit distribution in accordance with resolution of relevant general meeting; after completion of the A Share Offering and Listing, the undistributed profit of the Company accumulated before the A Share Offering and Listing will be shared by the new and existing Shareholders according to their respective shareholding percentage after the A Share Offering and Listing
- (8) Place of listing of Shares : The Science and Technology Innovation Board of the SSE



## CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

- (9) Underwriting fees : The Company and the Shareholders who publicly offer secondary Shares (if any) shall bear the fees respectively, in particular, the underwriting fees for the primary Shares shall be borne by the Company; the underwriting fees for the secondary Shares of the Shareholders (if any) shall be borne by the Shareholders participating in the public offering in proportion to the number of their respective public offer Shares; the sponsor fees, audit fees, attorney fees, information disclosure fees, issuance handling charges and other fees shall be borne by the Company
- (10) Valid period of the resolutions : The relevant resolutions of the A Share Offering and Listing shall be valid for 12 months from the date of consideration and approval by the 2019 first extraordinary general meeting, 2019 first domestic Shareholders class meeting and 2019 first H Shareholders class meeting of the Company

For details of the proposed A Share Offering and related proposals, please refer to the announcements of the Company dated 28 February 2019 and 25 March 2019, and the circular dated 26 March 2019 of the 2019 first extraordinary general meeting and 2019 first H Shareholders class meeting of the Company.

### **DIRECTORS', SUPERVISORS' AND THE COMPANY'S CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS**

As at 31 December 2018, none of the Directors, Supervisors or chief executives of the Company had any interests and/or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

# CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2018, so far as is known to the Directors, the following persons (other than the Directors, the Supervisors or chief executives of the Company) had interests or short positions in the Shares or underlying Shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and which were entered in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Class of Shares	Capacity	Number of Shares held	Approximate percentage of Shares in the relevant class of Shares of the Company (%)	Approximate percentage of Shares in the total issued Shares of the Company (%)
China Railway Signal and Communication (group) Corporation Limited	Domestic Shares	Beneficial owner	6,604,426,424 (Long position)	96.82%	75.14%
National Council for Social Security Fund of the PRC	H Shares	Beneficial owner	178,982,000 (Long position)	9.09%	2.04%
China Shipping (Group) Company <sup>(1)</sup>	H Shares	Interests in a controlled corporation	123,063,000 (Long position)	6.25%	1.40%
China Shipping (Hong Kong) Holdings Co., Limited <sup>(1)</sup>	H Shares	Beneficial owner	123,063,000 (Long position)	6.25%	1.40%
Shanghai Zhenhua Heavy Industries Co., Ltd. <sup>(2)</sup>	H Shares	Interests in a controlled corporation	123,063,000 (Long position)	6.25%	1.40%

## CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

Name of Shareholder	Class of Shares	Capacity	Number of Shares held	Approximate percentage of Shares in the relevant class of Shares of the Company (%)	Approximate percentage of Shares in the total issued Shares of the Company (%)
Shanghai Zhenhua Port Machinery (Hong Kong) Company Limited <sup>(2)</sup>	H Shares	Beneficial owner	123,063,000 (Long position)	6.25%	1.40%
China Railway Group Investment (Hong Kong) Limited <sup>(3)</sup>	H Shares	Beneficial owner	123,063,000 (Long position)	6.25%	1.40%
China Railway Engineering Corporation <sup>(3)</sup>	H Shares	Interests in a controlled corporation	123,063,000 (Long position)	6.25%	1.40%
China Railway Group Limited <sup>(3)</sup>	H Shares	Interests in a controlled corporation	123,063,000 (Long position)	6.25%	1.40%
China Railway International Group Co., Limited <sup>(3)</sup>	H Shares	Interests in a controlled corporation	123,063,000 (Long position)	6.25%	1.40%
Guangdong Finance Investment International Co., Ltd. <sup>(4)</sup>	H Shares	Beneficial owner	115,190,000 (Long position)	5.85%	1.31%
Guangdong Yuecai Investment Holdings Limited (廣東粵財投資控股有限公司) <sup>(4)</sup>	H Shares	Interests in a controlled corporation	115,190,000 (Long position)	5.85%	1.31%
BlackRock, Inc. <sup>(5)</sup>	H Shares	Interests in a controlled corporation	98,487,166 (Long position)	5.00%	1.12%

# CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

## Notes:

As at 31 December 2018, the number of issued Shares of the Company was 8,789,819,000 Shares, of which 1,968,801,000 Shares were H Shares and 6,821,018,000 Shares were Domestic Shares.

1. China Shipping (Group) Company had interests in such Shares through China Shipping (Hong Kong) Holdings Co., Limited.
2. Shanghai Zhenhua Heavy Industries Co., Ltd. had interests in such Shares through Shanghai Zhenhua Port Machinery (Hong Kong) Company Limited.
3. China Railway Engineering Corporation had interests in such Shares through China Railway Group Limited, China Railway International Group Co., Limited and China Railway Group Investment (Hong Kong) Limited.
4. Guangdong Yuecai Investment Holdings Limited (廣東粵財投資控股有限公司) had interests in such Shares through Guangdong Finance Investment International Co., Ltd.
5. BlackRock, Inc. had interests in such Shares through the corporations it directly or indirectly held.

Save as disclosed above, as at 31 December 2018, the Directors were not aware of any persons (other than the Directors, the Supervisors or chief executives of the Company) who had interests and/or short positions in the Shares or underlying Shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and which were entered in the register required to be kept by the Company pursuant to section 336 of the SFO.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Company strives to maintain high standards of corporate governance to safeguard the interests of its Shareholders and to enhance corporate value and accountability.

In order to ensure that the Company is able to fully perform its obligations under the Listing Rules, the Company has established an effective corporate governance structure and, from time to time, reviews and improves its internal control and corporate governance mechanism.

The Company also operates in strict compliance with the Articles of Association, Operating Procedures for Board Committees, the Company Law and the requirements of relevant laws, regulations and regulatory documents, as well as the relevant rules and regulations of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) in relation to corporate information disclosure and investors’ relations management and services.

The Company’s corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code. The Board is of the view that the Company had complied with all the code provisions as set out in the Corporate Governance Code for the year ended 31 December 2018.

## SECURITIES TRANSACTIONS CONDUCTED BY DIRECTORS AND SUPERVISORS

The Company has formulated a code of conduct no less exacting than the code of conduct as provided in the Model Code as the code of conduct for all the Directors and Supervisors trading securities of the Company (“code of conduct”). The Company has made specific enquiries to all the Directors and Supervisors, and all the Directors and Supervisors have confirmed that they have complied with the standards as stipulated by the code of conduct for the year ended 31 December 2018.

## BOARD

As at 31 December 2018, the third session of the Board of Directors of the Company consists of three executive Directors and four independent non-executive Directors.

The composition of the Board is as follows:

### Executive Directors

Mr. ZHOU Zhiliang (*Chairman*)

Mr. YIN Gang (*President*)

Mr. YANG Yongsheng (*deputy secretary of the Party Committee*)

### Independent Non-executive Directors

Mr. WANG Jiajie

Mr. CHEN Jin'en

Mr. CHAN Ka Keung Peter

Mr. YAO Guiqing

# CORPORATE GOVERNANCE REPORT

There is no relationship (including financial, business, family or other material/relevant relationship(s)) among the members of the Board, especially between the chairman and the president.

Biographies of the Directors are set out in the section “Directors, Supervisors, Senior Management and Employees”.

According to the requirements of the Articles of Association, every Director shall be elected or replaced by the general meeting and serve a term of three years. At the expiry of their terms, Directors may continue to serve as such if re-elected. The term of office of a Director shall commence from the date on which the resolution is passed at the general meeting and end upon expiry of the term of the incumbent Board. If an election is not held in a timely manner upon the expiry of the term of service of a Director, the incumbent Director shall continue to perform his or her duties as a Director in accordance with laws and the Articles of Association until the incoming Director assumes his or her position.

Under the code provision of the Corporate Governance Code, Directors are required to disclose to the issuer the number and nature of offices held in public companies or organisations and other significant commitments as well as the natures of such companies or organisations and the time involved in such offices. Each Director has agreed to disclose their commitments to the Company in a timely manner.

## **Independent Non-executive Directors**

For the year ended 31 December 2018, the Board had complied with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has appointed a sufficient number of independent non-executive Directors in compliance with Rule 3.10A of the Listing Rules which requires the number of independent non-executive Directors represents at least one third of the Board.

The Company has received the annual written confirmation on independence from each of the independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent in accordance with the independence guidelines set out in the Listing Rules.

# CORPORATE GOVERNANCE REPORT

## CHAIRMAN AND PRESIDENT

The roles, duties and responsibilities of the chairman and the president of the Company are held by different individuals and are explicitly defined in writing.

Mr. ZHOU Zhiliang serves as the chairman of the Company, while Mr. YIN Gang acts as the president of the Company. The positions of chairman and president are held by different individuals to maintain independence as well as the balance of views and judgments.

According to the Articles of Association, the chairman of the Board is entitled to the following powers:

- (1) to preside over general meetings and to convene and preside over Board meetings;
- (2) to supervise and check on the implementation of resolutions of the Board;
- (3) to supervise and check on the work of Special Committee;
- (4) to listen to the regular or non-regular work reports of the president and other Senior Management members of the Company and provide guidance on the execution of the resolutions of the Board;
- (5) to exercise special rights over the Company's affairs that are in line with the requirements under the laws and the interests of the Company when the chairman of the Board is unable to convene a Board meeting in time in the event of force majeure, critical crisis or situations resulting in significant effect to the production and operation of the Company and report to the Board and general meeting afterwards;
- (6) to nominate candidates for secretary to the Board of the Company;
- (7) to sign the share certificates, corporate bonds and other securities certificates issued by the Company;
- (8) to sign the significant documents of the Board and to represent the Company in signing with third parties important documents that are legally-binding;
- (9) to organize the formulation of various rules and regulations for the operation of the Board and coordinate the Board's work;
- (10) to review and approve the plan for using funds of the Board;
- (11) to exercise the duties and powers as the legal representative;
- (12) to exercise other duties and powers provided for in laws and regulations or the Articles of Association and those granted by the Board.

# CORPORATE GOVERNANCE REPORT

According to the requirement of the Articles of Association, the Company shall have one president, several vice presidents and one chief accountant; the president of the Company shall be accountable to the Board and exercise the following powers:

- (1) to lead the Company's production, operation and management, to organize the implementation of the resolution of the Board and to report to the Board;
- (2) to organize the implementation of the Company's annual plan and investment plan;
- (3) to draft plans for the establishment of the Company's internal management structure;
- (4) to draft the Company's basic management system;
- (5) to formulate the specific rules and regulations of the Company;
- (6) to propose to the Board the appointment or dismissal of vice presidents and chief accountant of the Company;
- (7) to appoint or dismiss other management members of the Company other than those required to be appointed or dismissed by the Board in accordance with relevant principles and procedures;
- (8) to exercise other powers conferred by the Articles of Association or the Board.

The chairman is responsible for the management of the operations of the Board, while the president is responsible for the operations of the Company. The chairman is required to keep close communication with the president and all Directors to keep them fully informed of all substantive matters relating to the Company's business development, and is also responsible for building and maintaining a highly efficient administrative support team to support him to discharge the assigned duties in this position.

## TERM OF OFFICE FOR DIRECTORS

Each of the Directors (including independent non-executive Directors) has entered into a service contract with the Company. The principal particulars of these service contracts comprise, among other things, (a) the term of office of three years commencing from the date when their respective appointments are approved by the Shareholders, and (b) termination provisions in accordance with their respective terms.

## NOMINATION, APPOINTMENT AND REMOVAL OF DIRECTORS

The procedures and processes for appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the structure, number of members and composition of the Board, advising on any changes made by the Board in response to the Company's strategies, and reviewing the independence of the independent non-executive Directors.



# CORPORATE GOVERNANCE REPORT

## DUTIES OF THE BOARD

The Board shall be accountable to the general meeting. According to the requirement of the Articles of Association, duties of the Board shall include the exercise of the following functions and powers:

- (1) to convene general meetings and to report on its work to the general meeting;
- (2) to implement the resolutions of the general meeting;
- (3) to decide on the business plans and investment plans of the Company;
- (4) to formulate the annual financial budgets and final accounts of the Company;
- (5) to formulate the profit distribution plans and plans for making up losses of the Company;
- (6) to formulate plans for the increase or reduction of the registered capital of the Company;
- (7) to formulate plans for the issuance of corporate bonds, any class of Shares, warrants and other similar securities;
- (8) to formulate plans for significant acquisition by the Company, repurchase of Shares of the Company or merger, division, reorganization or dissolution of the Company and changes in the corporate form of the Company;
- (9) to decide on the provision by the Company of any external guarantee other than those to be approved by the general meeting as required by the Articles of Association;
- (10) to decide on significant acquisition or disposal within one year by the Company of assets not more than 30% of the latest audited total assets of the Company;
- (11) to decide on connected transactions other than those to be approved by the general meeting as required by laws and regulations and regulatory rules in the place where Shares of the Company are listed;
- (12) to decide on significant investment projects of the Company with the single amount not more than 30% of the latest audited net assets of the Company;
- (13) to decide on entrusted wealth management and asset mortgages or pledges with the accumulated amount not more than 30% of the latest audited net assets of the Company;
- (14) to decide on extra costs and expenses with the single amount not more than 10% of the latest audited net assets of the Company;
- (15) to decide on plans of external donation and sponsorship of the Company with the single amount not more than RMB5 million;
- (16) to formulate amendments to the Articles of Association, the Rules of Procedure for the general meeting and the Rules of Procedure for the Board;
- (17) to engage or dismiss the Company's president and secretary to the Board; to engage or dismiss vice presidents and the chief accountant of the Company, as proposed by the president, and decide on matters relating to their remuneration, rewards and punishments;

# CORPORATE GOVERNANCE REPORT

- (18) to decide on the establishment of the Company's internal management organization;
- (19) to decide on the establishment of each Special Committees under the Board and to consider and approve resolutions proposed by each Special Committee under the Board;
- (20) to formulate the basic management systems of the Company;
- (21) to formulate development strategies, long and medium term development plans and corporate culture development plans, and to monitor the implementation of such plans;
- (22) to decide on the Company's risk management system, including risk evaluation, financial control, internal audit and legal risk control, and to monitor the implementation of such systems;
- (23) to propose to the general meeting the appointment, removal or termination of reappointment of an accounting firm;
- (24) to listen to the work reports of the Company's president and inspect the work of the president and other Senior Management members;
- (25) to perform duties of corporate governance and to evaluate and improve the corporate governance of the Company regularly in accordance with the regulatory rules in the place where Shares of the Company are listed;
- (26) to formulate share option incentive scheme;
- (27) to manage the Company's information disclosure matters;
- (28) other functions and powers provided in laws and regulations, regulatory rules in the Place where Shares of the Company are listed or specified in the Articles of Association or granted by the general meeting.

Resolutions by the Board on the matters mentioned above shall, be passed by the affirmative vote of more than one half of all the Directors with the exception of resolutions on the matters referred to in items (6), (7), (8), (16) and (26), which shall require the affirmative vote of at least two-thirds of all the Directors for adoption. When considering matters referred to in item (9), in addition to the affirmative vote of more than one half of all the Directors, the affirmative vote of at least two-thirds of all the Directors present is required for adoption.

The abovementioned functions and powers of the Board as well as any transaction or arrangement of the Company shall be proposed to the general meeting for approval as prescribed by the regulatory rules in the place where Shares of the Company are listed.

## CORPORATE GOVERNANCE FUNCTION

The Board shall be also responsible for the fulfilment of the following corporate governance responsibilities:

- (1) to formulate, review and make recommendations on the corporate governance policies and practices of the Company;
- (2) to review and monitor the training and continuous professional development of Directors and Senior Management;

# CORPORATE GOVERNANCE REPORT

- (3) to review and monitor the Company's policies and practices in compliance with laws and regulatory requirements;
- (4) to formulate, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;
- (5) to review the Company's compliance with the Corporate Governance Code and disclosures made in the Corporate Governance Report of the annual report of the Company.

The Board and the Audit and Risk Management Committee have reviewed and approved the disclosures made in the Corporate Governance Report. The Board has also reviewed the Company's compliance with the corporate governance policies, practices, laws and regulatory requirements, and monitored and organised the training courses designed for Directors and Senior Management.

## DIRECTORS' TRAINING

During the reporting period, the Board of Directors focused on the continuous professional development of Directors and actively encouraged and organized Directors to participate in the training. All members of the Board of Directors, namely Mr. ZHOU Zhiliang, Mr. YIN Gang, Mr. YANG Yongsheng, Mr. WANG Jiajie, Mr. CHEN Jin'en, Mr. CHAN Ka Keung Peter and Mr. YAO Guiqing, to ensure that they made a contribution to the Board with comprehensive information and as requested, continued to learn all kinds of regulatory information and the latest regulatory requirements in their daily duties, including relevant laws and regulations and regulatory documents such as corporate governance and Listing Rules. They also read industry, professional books and publications, updated their knowledge and skills, and enhanced the ability to perform their duties. Each newly appointed Director (namely Mr. YANG Yongsheng, Mr. CHAN Ka Keung Peter and Mr. YAO Guiqing) receives formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Mr. ZHOU Zhiliang, the chairman of the Board, and Mr. WANG Jiajie, an independent non-executive Director, attended the Training on Practical Projects of Board Operations organized by the SASAC. Independent non-executive Directors, including Mr. WANG Jiajie, Mr. CHEN Jin'en, Mr. CHAN Ka Keung Peter, and Mr. YAO Guiqing, participated in numerous professional trainings organized by the Hong Kong Institute of Chartered Secretaries and other relevant domestic institutions.

The Company provides information and professional developing opportunities to Directors on an on-going basis. Each Director also learns and understands on an on-going basis the updates of relevant statutory and regulatory regime and the business environment as provided to them. They also participate in the courses relating to the roles, functions and duties of a listed company director or further enhancement of their professional development by way of attending training courses or via online resources or reading relevant materials.

# CORPORATE GOVERNANCE REPORT

## BOARD MEETINGS

Board meetings include regular meetings and extraordinary meetings of the Board. The Company shall deliver a written meeting notice to all of the Directors and Supervisors of the Company by hand, mail, fax or other means permitted by the regulatory rules in the place where Shares of the Company are listed 14 days prior to the date of a regular meeting or 5 days prior to an extraordinary meeting. If service is made indirectly, confirmation shall additionally be made by telephone and the appropriate record thereof shall be made.

In the event of emergencies where an extraordinary Board meeting needs to be convened as soon as possible, such notice may be served via telephone or by other verbal means, provided that an explanation shall be made at the meeting by the convener and the same is entered into the meeting minutes.

According to the requirement of the Articles of Association, if any Director has connection with or significant interest in the enterprise involved in the resolution made at a Board meeting, the said Director shall not vote on the said resolution for himself or on behalf of any other Director. The aforesaid Board meeting may be held when more than half of the Directors without connection or significant interest attend the meeting. The resolution of the said Board meeting shall be passed by more than half of the unrelated or non-interested Directors. If the number of unrelated or non-interested Directors attending the meetings is less than three, the matter shall be submitted to the general meeting for consideration.

Agenda of the Board meeting together with all appropriate, complete and reliable information is sent to all Directors and/or members of the respective Board Committee at least three days before each Board meeting or Board Committee meeting to keep the Directors and/or members of the respective Board Committee apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the Senior Management where necessary.

Draft minutes are circulated to the Directors for review within a reasonable time after each meeting and final versions are open for Directors' inspection.

# CORPORATE GOVERNANCE REPORT

## Directors' Attendance at Meetings

For the year ended 31 December 2018, the Board held a total of seven meetings and two general meetings were held. The Board has reviewed and approved such proposals as the results for the year ended 31 December 2017, interim results for the six months ended 30 June 2018 and distribution of profits, overall budget and material investments.

For the year ended 31 December 2018, the Directors' attendance records of the Board meetings and the general meetings are set out as follows:

<b>Name of Director</b>	<b>Number of Board meetings attended/ Number of Board meetings held during their respective tenures</b>	<b>Number of the general meetings attended/Number of the general meetings held during their respective tenures</b>
Mr. ZHOU Zhiliang	7/7	2/2
Mr. YIN Gang	6/7	2/2
Mr. YANG Yongsheng (appointed on 28 August 2018)	4/4	N/A*
Mr. WANG Jiajie	7/7	2/2
Mr. CHEN Jin'en	7/7	2/2
Mr. CHAN Ka Keung Peter (appointed on 28 August 2018)	4/4	N/A*
Mr. YAO Guiqing (appointed on 28 August 2018)	4/4	N/A*
Mr. SUN Patrick (resigned on 28 August 2018)	3/3	1/2
Mr. GAO Shutang (resigned on 28 August 2018)	3/3	0/2

\* No general meeting of Shareholders was held during the term of office of the relevant Directors, so it was not applicable.

For the year ended 31 December 2018, the chairman of the Company also held one meeting with all the independent non-executive Directors.

## Delegation by the Board

The duties and powers of the Board and the management have been defined in the Articles of Association. The Board undertakes responsibility for decision making in major Company matters, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

# CORPORATE GOVERNANCE REPORT

In strict accordance with the Articles of Association and the authorization of general meetings, the Board takes and fulfils its decision-making responsibilities seriously, supervises management's implementation of the resolutions of the Board to ensure their effective implementation, and implements the resolutions of general meetings and reports the work to general meetings.

The day-to-day management, administration and operation of the Company are delegated to the president and the Senior Management.

## BOARD COMMITTEES

The Board has delegated certain of its duties to various committees. In accordance with the relevant PRC laws and regulations and the corporate governance practice prescribed in the Listing Rules and the Articles of Association, the Company has established five Board committees, namely the Strategy and Investment Committee, the Nomination Committee, the Remuneration and Evaluation Committee, the Audit and Risk Management Committee and the Quality and Safety Committee.

### Nomination Committee

The Company has established the Nomination Committee with written terms of reference. The Nomination Committee of the Company currently consists of 3 Directors, namely Mr. ZHOU Zhiliang, an executive Director, and Mr. WANG Jiajie and Mr. YAO Guiqing, independent non-executive Directors. Mr. ZHOU Zhiliang, an executive Director, currently serves as the chairman of the Nomination Committee. Mr. CHEN Jin'en ceased to be chairman and member of the Nomination Committee from 28 August 2018 onward. The primary duties of the Nomination Committee include, but are not limited to, the following:

- (1) reviewing the structure, number of members and composition of the Board, and advising on any changes made by the Board in response to the Company's strategies;
- (2) studying and advising on the standards, procedures and methods for the election of Directors and Senior Management members;
- (3) evaluating the eligibility of candidates for Directors and Senior Management members, reporting to the Board its opinions and advising on the relevant appointment to the Board;
- (4) searching for qualified candidates for Directors and Senior Management members;
- (5) reviewing the independence of the independent non-executive Directors;
- (6) advising to the Board on the appointment or re-appointment of Directors and Senior Management members, as well as the succession plan for Directors and Senior Management members (especially chairman and president);
- (7) reporting its decisions or opinions to the Board, unless otherwise restricted by laws or regulations;
- (8) other duties authorized by the Board.

# CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2018, the Nomination Committee held one meeting, with Directors' attendance records set out as follows:

<b>Name of Director</b>	<b>Number of meetings attended/ Number of meetings held</b>
Mr. ZHOU Zhiliang (took up the post of committee member on 28 August 2018)	0/0*
Mr. CHEN Jin'en (ceased to be committee member from 28 August 2018 onward)	1/1
Mr. WANG Jiajie	1/1
Mr. YAO Guiqing (took up the post of committee member on 28 August 2018)	0/0*

\* The committee meeting was not held during the term of office of the relevant directors.

The Nomination Committee adopts the following procedures for selection and appointment of Directors and Senior Management members:

- (1) actively studying the Company's demands for new Directors and Senior Management members and preparing written materials;
- (2) searching for candidates for Directors and Senior Management members in the Company and its wholly-owned and holding (joint-stock) enterprises and the talent market;
- (3) gathering information of preliminary candidates, including occupation, education, job title, detailed work experience and all part-time jobs, and preparing written materials;
- (4) seeking the consent of the nominees for nomination;
- (5) convening a meeting of the Nomination Committee to conduct a qualification check of the preliminary candidates based on the appointment criteria for Directors and Senior Management members;
- (6) submitting to the Board its recommendations on the candidates for Directors and Senior Management members and relevant materials prior to the election of new Directors or the appointment of new Senior Management members;
- (7) implementing other follow-up work in accordance with the decisions and feedback of the Board.

In reviewing the structure of the Board, the Nomination Committee considers Board members diversity from various aspects, including but not limited to cultural, educational background, professional experience, skills and knowledge. All appointments of Board members are based on meritocracy, and candidates are considered with due regard for the capacity, skill and experience required for the overall operation of the Board, so as to ensure the proper balance of the Board members.

In nominating new Directors, the Nomination Committee has reviewed the career, academic qualifications, professional titles and experiences of Mr. YANG Yongsheng, Mr. CHAN Ka Keung Peter and Mr. YAO Guiqing, and considers that they meet the requirements for the qualifications and experience of directors under the Listing Rules, Mr. CHAN Ka Keung Peter and Mr. YAO Guiqing meet the independence requirements under the Listing Rules. Therefore, the Nomination Committee nominates the above three persons as Directors of the Company for the Board to recommend to Shareholders for election and appointment at the extraordinary general meeting.

# CORPORATE GOVERNANCE REPORT

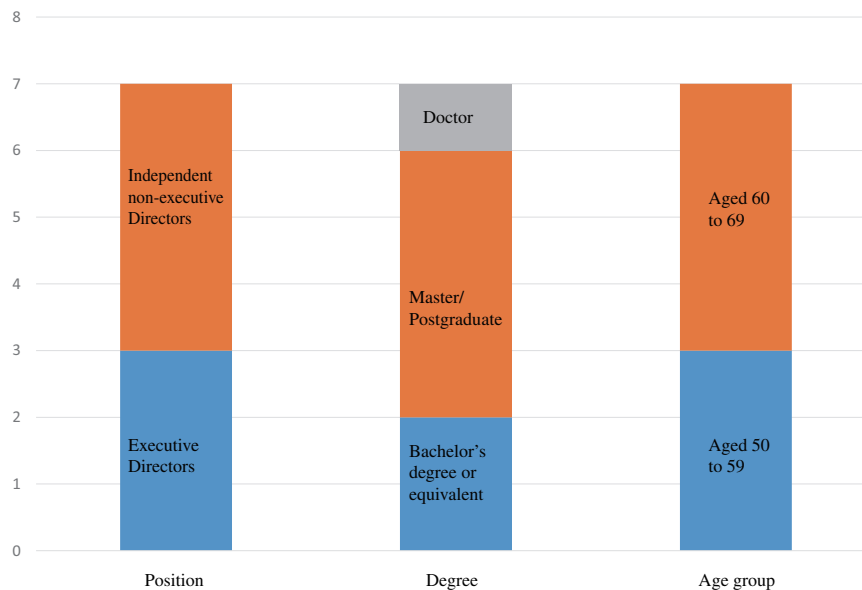
## Diversity Policy of Board Members

The Company understands and firmly believes that a diversified Board is an important factor for maintaining the Company's competitive edges and promoting sustainable development of the Company. In designing the Board's composition, the Company considers Board members diversity from various aspects, including but not limited to gender, age, cultural and educational background, race, professional experience, skills, knowledge and years of service. The Nomination Committee fully considers the benefits of Board members diversity when making recommendations or suggestions to the Board regarding appointment of new Directors of the Company.

Selection of candidates is based on a series of diversified categories, including but not limited to gender, age, cultural and educational background, race, professional experience, skills, knowledge and years of service. Meanwhile, the Company considers the above factors based on its own business modes and specific needs arising from time to time and makes final decisions according to the candidates' advantages and potential contributions to the Board.

The following chart shows the diversity position/overview of the Company's Board members on 31 December 2018:

Number of Directors



The Nomination Committee, when considering the composition of the Board, through evaluating the capabilities and experiences of every Director and their suitability to the business of the Company, considers that the existing structure of the Board during the reporting period is reasonable, the Board members have balanced talents, experience and professional knowledge needed for the Company's business development, and the existing structure of the Board is in line with the Diversity Policy of Board Members that our Company have adopted.



# CORPORATE GOVERNANCE REPORT

## Remuneration and Evaluation Committee

The Company has established the Remuneration and Evaluation Committee with written terms of reference. The Remuneration and Evaluation Committee of the Company consists of 3 independent non-executive Directors, including Mr. CHEN Jin'en, Mr. CHAN Ka Keung Peter and Mr. YAO Guiqing. Mr. CHEN Jin'en currently serves as the chairman of the Remuneration and Evaluation Committee. Mr. SUN Patrick and Mr. GAO Shutang ceased to be members of the Remuneration and Evaluation Committee from 28 August 2018 onward. The primary duties of the Remuneration and Evaluation Committee include, but are not limited to, the following:

- (1) advising the Board on the overall remuneration policy and framework for Directors and Senior Management members, and on the establishment of standardized and transparent remuneration policy formulation procedures;
- (2) studying assessment criteria, performance evaluation procedures, remuneration and rewards and punishment policies for Directors and Senior Management members and submitting them to the Board for approval;
- (3) reviewing the performance of duties by and conducting performance appraisal and evaluation over Directors and Senior Management members;
- (4) reviewing and approving proposals on Senior Management's remuneration in accordance with the Company's guidelines and targets approved by the Board;
- (5) formulating and advising the Board on the remuneration packages for Directors and Senior Management members;
- (6) reviewing and approving the compensation for the loss or termination of the office or appointment of the executive Directors and Senior Management members;
- (7) reviewing and approving the compensation arrangements with regard to the dismissal or removal of Directors due to their misconduct;
- (8) ensuring any Director or their associates do not determine by themselves, or are not involved in determining, their remuneration;
- (9) supervising the implementation of the Company's remuneration policies;
- (10) studying and making suggestions on the Company's equity incentive proposal;
- (11) reporting to the Board their decisions or recommendations, unless as restricted by laws or regulations;
- (12) other duties authorized by the Board.

# CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2018, the Remuneration and Evaluation Committee held one meeting, with Directors' attendance records set out as follows:

<b>Name of Director</b>	<b>Number of meetings attended/ Number of meetings held</b>
Mr. CHEN Jin'en	1/1
Mr. CHAN Ka Keung Peter (took up the post of committee member on 28 August 2018)	1/1
Mr. YAO Guiqing (took up the post of committee member on 28 August 2018)	1/1
Mr. SUN Patrick (ceased to be committee member from 28 August 2018 onward)	0/0*
Mr. GAO Shutang (ceased to be committee member from 28 August 2018 onward)	0/0*

\* The committee meeting was not held during the term of office of the relevant directors.

For the year ended 31 December 2018, the Remuneration and Evaluation Committee has considered the report on the 2017 annual remuneration of the person in charge of CRSC.

## Remuneration of Directors and Senior Management

The remuneration of the Directors, Supervisors and Senior Management of the Company is determined with reference to factors including the salaries paid by comparable companies, time commitment and responsibilities of the Directors, Supervisors and Senior Management, employment conditions of other positions in the Company and desirability of performance-based remuneration. The Remuneration and Evaluation Committee of the Company is responsible for reviewing and examining the remuneration policies and plans for the Directors, president and other Senior Management members of the Company from time to time.

The Company has established formal and transparent procedures for formulating policies on remuneration of Senior Management of the Group.

The biographies of the Senior Management are disclosed in the section "Directors, Supervisors, Senior Management and Employees" in this report. Remuneration paid to the Senior Management (excluding the Directors) by band during the reporting period is set out below:

<b>Remuneration band</b>	<b>Number of individuals</b>
RMB500,000 to RMB800,000	0
RMB800,000 to RMB1,000,000	3

## Audit and Risk Management Committee

The Company has established the Audit and Risk Management Committee with written terms of reference. The Audit and Risk Management Committee of the Company currently consists of 3 independent non-executive Directors, including Mr. CHAN Ka Keung Peter, Mr. WANG Jiajie and Mr. CHEN Jin'en. Mr. CHAN Ka Keung Peter currently serves as the chairman of the Audit and Risk Management Committee. Mr. SUN Patrick and Mr. GAO Shutang ceased to be member of the Audit and Risk Management Committee from 28 August 2018 onward.

# CORPORATE GOVERNANCE REPORT

The primary duties of the Audit and Risk Management Committee include, but are not limited to, the following:

- (1) advising the Board on the appointment, renewal or change, dismissal of external auditors, approving and reviewing audit fees and appointment terms of external auditors, handling any issues related to the resignation or dismissal of external auditors, taking appropriate measures to supervise the work of external auditors and reviewing the report of external auditors;
- (2) reviewing and supervising the independence and objectivity of the external auditors and the effectiveness of the audit procedures, and discussing issues related to the nature, category and reporting responsibility of auditing with external auditors before the auditing work starts according to applicable standards;
- (3) formulating and implementing policies of non-audit services provided by external auditors, reporting to the Board and advising the Board on the actions they deem necessary and matters to be improved;
- (4) reviewing and supervising the completeness of the Company's financial statements, annual reports and accounts, interim reports and quarterly reports (if any), and reviewing the important opinions on the financial reporting recorded in the financial statements and financial reports;
- (5) reviewing the Company's financial control, internal control and risk management system and monitoring the implementation of such system on an on-going basis, and ensuring that the effectiveness of the Group's risk management and internal control system is reviewed at least once a year;
- (6) reviewing the compliance of the Company with the applicable Corporate Governance Code and the disclosure of corporate governance report as required by the regulatory rules in the place where the Shares are listed;
- (7) discussing on the risk management and internal control system with the management of the Company to ensure the establishment of an effective internal control system by the management of the Company, supervising the effective implementation of the Company's internal control and self-assessment of internal control, and coordinating the Company's internal control audit and other related matters;
- (8) ensuring coordination between the internal audit department of the Company and external auditors, ensuring that the internal audit department of the Company is adequately resourced and has appropriate standing, and reviewing and supervising the effectiveness of the internal audit Department of the Company;
- (9) examining the Company's financial and accounting policies and practices;
- (10) reviewing the Explanatory Letter of Review Matters issued by the external auditor to the Company's management, any material queries raised by the external auditor to the Company's management about accounting records, financial accounts or internal control system and the response of the Company's management;

# CORPORATE GOVERNANCE REPORT

- (11) confirming the list of the Company's related/connected parties and reporting it to the Board and the Supervisory Committee; conducting a preliminary review of the related/connected transactions to be submitted to the Board for consideration; and reviewing the reasonableness and necessity of major related transactions;
- (12) reporting to the Board annual report on the Company's overall risk management, and reviewing the risk management strategies and major risk management solutions of the Company;
- (13) reviewing the internal control evaluation report submitted by the internal audit department;
- (14) supervising and controlling the risks that the Company is affected by the overseas sanction laws to ensure timely, complete and accurate disclosure of information related to transactions subject to sanctions in accordance with such laws;
- (15) other duties authorized by the Board.

For the year ended 31 December 2018, the Audit and Risk Management Committee held three meeting(s), with Directors' attendance records set out as follows:

<b>Name of Director</b>	<b>Number of meetings attended/ Number of meetings held</b>
Mr. CHAN Ka Keung Peter (took up the post of committee member on 28 August 2018)	2/2
Mr. WANG Jiajie	3/3
Mr. CHEN Jin'en (took up the post of committee member on 28 August 2018)	2/2
Mr. SUN Patrick (ceased to be committee member from 28 August 2018 onward)	1/1
Mr. GAO Shutang (ceased to be committee member from 28 August 2018 onward)	1/1

The Audit and Risk Management Committee has reviewed the annual results of the Group for the year ended 31 December 2017 and the unaudited interim results of the Group for the six months ended 30 June 2018. The Audit and Risk Management Committee has discussed the accounting policies and practices adopted by the Company, internal control and financial reporting matters with the Senior Management of the Company, and has reviewed the effectiveness of the accounting policies and practices adopted by the Group, financial control, the risk management and internal control system and the internal audit function of the Group, and considers that the Group's risk management and internal control system and the operation of the internal audit department remain effective. Meanwhile, the Audit and Risk Management Committee had 2 meetings with external auditors.

The Audit and Risk Management Committee has also reviewed the compliance of the Company with the Corporate Governance Code and the corporate governance report of the Company.

The Audit and Risk Management Committee has also listened to the special report on major risk assessment and major risk measures of the Company in 2017, conducted special audit in this regard and proposed dynamic tracking of the implementation of major risk control measures, to ensure the efficiency and effectiveness of risk control measures.

# CORPORATE GOVERNANCE REPORT

## Strategy and Investment Committee

The Company has established the Strategy and Investment Committee with written terms of reference. The Strategy and Investment Committee of the Company currently consists of 5 Directors, including executive Directors Mr. ZHOU Zhiliang, Mr. YIN Gang and Mr. YANG Yongsheng, and independent non-executive Directors Mr. CHEN Jin'en and Mr. YAO Guiqing. Mr. ZHOU Zhiliang, an executive Director, currently serves as the chairman of the Strategy and Investment Committee. Mr. WANG Jiajie and Mr. GAO Shutang ceased to be members of the Strategy and Investment Committee from 28 August 2018 onward. The primary duties of the Strategy and Investment Committee include, but are not limited to, the following:

- (1) establishing the basic framework for the Company's strategy-making procedures, and studying and advising on the Company's medium and long-term strategic development plan;
- (2) studying and advising on major financing and investment plans which, according to the Articles of Association of the Company, should be approved by the Board or at a general meeting;
- (3) auditing and advising on the Company's annual business plan;
- (4) studying and advising on major capital operation and asset management projects which are required to be approved by the Board or at a general meeting according to the Articles of Association of the Company;
- (5) studying and advising on the plans for corporate reorganization, mergers and acquisitions, equity transfer, restructuring, and organizational restructuring of the Company which should be approved by the Board or at a general meeting;
- (6) studying and advising on other major events which may have influence on the Company's development;
- (7) supervising and examining the implementation of the above matters;
- (8) other duties authorized by the Board.

# CORPORATE GOVERNANCE REPORT

## Quality and Safety Committee

The Company has established the Quality and Safety Committee with written terms of reference. The Quality and Safety Committee of the Company currently consists of 3 Directors, including executive Director Mr. YIN Gang and independent non-executive Directors Mr. WANG Jiajie and Mr. YAO Guiqing. Mr. YIN Gang, an executive Director, currently serves as the chairman of the Quality and Safety Committee. Mr. GAO Shutang ceased to be member of the Quality and Safety Committee from 28 August 2018 onward. The primary duties of the Quality and Safety Committee include, but are not limited to, the following:

- (1) studying and advising the Board on the Company's quality and safety management plan;
- (2) studying and advising the Board on the annual quality and safety guidelines and objectives;
- (3) studying the targets and measures for the construction of long-term quality and safety mechanism;
- (4) supervising the establishment, implementation and maintenance of the Company's integrated management system of quality, environment and occupational health and safety, and supervising and guiding the establishment and operation of the safety guarantee system;
- (5) supervising and guiding the Company's control of major hazard sources, and organizing the formulation of emergency management plan for production safety;
- (6) evaluating the severe quality and safety accidents, failures and quality issues, and providing guidance to handling the related issues;
- (7) other duties authorized by the Board.

For the year ended 31 December 2018, the Quality and Safety Committee held one meeting, with Directors' attendance records set out as follows:

<b>Name of Director</b>	<b>Number of meetings attended/ Number of meetings held</b>
Mr. YIN Gang	1/1
Mr. WANG Jiajie (took up the post of committee member on 28 August 2018)	1/1
Mr. YAO Guiqing (took up the post of committee member on 28 August 2018)	1/1
Mr. GAO Shutang (ceased to be committee member from 28 August 2018 onward)	0/0*

\* The committee meeting was not held during the term of office of the relevant directors.

For the year ended 31 December 2018, the Quality and Safety Committee had reviewed the report on the safety and quality works in 2018 and the key safety and quality works arrangement in 2019 of the Company.

# CORPORATE GOVERNANCE REPORT

## SUPERVISORY COMMITTEE

The Supervisory Committee of the Company consists of 3 members, namely Ms. TIAN Liyan, Mr. WU Zuowei and Mr. CHEN Shikui. Ms. TIAN Liyan currently serves as the chairwoman. The Supervisory Committee is made up of representatives of the Shareholders and an appropriate proportion of representatives of the Company's staff. The actual proportion shall be stipulated in the Articles of Association of the Company, provided that the proportion of representatives of the Company's staff shall not be less than one-third. Representatives of the Company's staff at the Supervisory Committee shall be democratically elected by the Company's staff at the staff representative assembly, general staff meeting or otherwise.

A Supervisor shall serve a term of three years, and may seek re-election upon expiry of the said term. A Supervisor shall continue to perform his or her duties in accordance with the laws, administrative regulations and the Company's Articles of Association until a duly re-elected Supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his or her term of office or if the resignation of Supervisors results in the number of Supervisors being less than the quorum.

On 28 August 2018, the Company convened the first extraordinary general meeting for 2018 and elected Ms. TIAN Liyan and Mr. WU Zuowei as non-employee representative Supervisors of the third session of the Supervisory Committee, who are members constituting the third session of the Supervisory Committee with Mr. CHEN Shikui, an employee representative Supervisor democratically elected by the staff on 28 August 2018.

The Supervisory Committee shall be accountable to the general meeting and may exercise the following powers:

- (1) to review the Company's financial position;
- (2) to supervise the Directors, president and other Senior Management in their performance of their duties of the Company and to propose the removal of Directors and Senior Management who have violated laws, regulations, the Articles of Association or resolutions of general meetings;
- (3) when the acts of a Director, president or any other Senior Management are detrimental to the Company's interests, to require him/her to correct such acts;
- (4) to propose the convening of extraordinary general meetings and to convene and preside over general meetings when the Board fails to perform the duty of convening and presiding over general meetings according to laws;
- (5) to put forward proposals to general meetings;
- (6) to review and issue written review comments on the periodic reports of the Company prepared by the Board;
- (7) to initiate proceedings against Directors and the Senior Management in accordance with relevant laws;
- (8) to initiate investigations into any irregularities identified in the operation of the Company and, where necessary, to engage professional institutions, such as an accounting firm and a law firm, to assist its work;
- (9) other powers authorized by the Articles of Association or general meeting.

# CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2018, the Supervisory Committee held three meeting(s), with Supervisors' attendance records set out as follows:

<b>Name of Supervisor</b>	<b>Number of meetings attended/ Number of meetings held</b>
Ms. TIAN Liyan	3/3
Mr. WU Zuwei (appointed as Supervisor on 25 May 2018)	2/3
Mr. CHEN Shikui (appointed as Supervisor on 28 August 2018)	1/3
Mr. GAO Fan (resigned as Supervisor on 25 May 2018)	1/3
Ms. ZHAO Xiumei (resigned as Supervisor on 28 August 2018)	2/3

During the reporting period, Supervisors had during the year monitored Directors and managers' performance of functions and lawful operation of the Company, reviewed periodical reports of the Company prepared by the Board, reviewed the financial statements of the Company and conducted daily supervision and paid close attention to possible risks that may occur during the Company's operation. Details are set out in the section headed "Report of Supervisory Committee" to this report.

## ACCOUNTABILITY AND AUDIT

Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2018. The Directors consider that the Group has adequate resources to continue in business for the foreseeable future and are not aware of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The management has provided the Board such explanation and information necessary to enable the Board to carry out an informed assessment of the Company's consolidated financial statements which are put to the Board for approval.

## RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

### 1. Risk Management and Internal Control Management Responsibilities

The Board of Directors of the Company is responsible for determining the overall risk management objectives, risk tolerance, major risk management solutions and internal control construction implementation plans of the Company and is accountable to the general meeting for the effectiveness of overall risk management and internal control. The management of the Company is responsible for organizing and establishing the Company's overall risk management and internal control system. The legal compliance department of the Company is responsible for the construction and overall operation of the overall risk management and internal control system as well as the organization, coordination and centralized management of overall risk management and internal control. The audit department of the Company is responsible for evaluating the effectiveness of overall risk management and internal control, and conducting internal control audit and supervision. Such risk management and internal control management are designed to manage rather than eliminating the risk of failure to meet business objectives and to only provide a reasonable, but not absolute, assurance that there will be no material misrepresentations or losses.



# CORPORATE GOVERNANCE REPORT

## 2. Risk Management and Internal Control Management Systems and Procedures

The Company has formulated the “Measures for the Administration of Overall Risk Management and Internal Control of Stock Company” and the “Measures for the Administration of Risk Evaluation of Stock Company”. In accordance with the regulations, the legal compliance department of the Company conducts a comprehensive risk evaluation on the whole system of the Company at the beginning of each year to examine the effectiveness of overall risk management and control in the previous year and identify the major risks that will be faced in the next year and the countermeasures taken by it. The audit department of the Company conducts an internal control assessment at the beginning of each year to assess the effectiveness of internal control of the whole system, identify any internal control defects and implement the rectification of internal control defects. The legal compliance department and audit department of the Company report to the Audit and Risk Management Committee on risk management and internal control, including but not limited to the effectiveness and defects of internal control of the Company, overall risk evaluation results and management and control measures.

## 3. Non-compliance Report Policy and Procedure

The discipline inspection and supervision department of the Company is responsible for accepting reports on corrupt practices of internal staff of the Company, the violation of the Company’s rules and regulations, the dereliction of duty or malfeasance, etc., and carrying out investigation and handling in accordance with the “Interim Provisions on Handling the Violation of Discipline and Non-compliance by Staff of Stock Company”. Employees, customers, suppliers and other stakeholders of the Company can obtain the report telephone number from the official website of CRSC. Specifically, in accordance with the “Implementation Measures for Handling Complaints about Tender and Bidding of Stock Company”, it takes the lead in forming an investigation team to conduct investigations into complaints about the tender and bidding of equipment and materials of CRSC and their handling, and makes decisions on handling and gives replies, etc. according to law pursuant to permissions.

## 4. Key Business Risks and Internal Control

In accordance with the requirements of the “Guidelines for Overall Risk Management of Central Enterprises” of SASAC, the Company implements risk management in the operation of all its businesses and effectively manages and controls its business activities through the internal control system and the internal control process. In accordance with the “Measures for the Administration of Rules and Regulations of Stock Company”, the legal compliance department of the Company is responsible for the construction and improvement of the internal control system and evaluating and improving the effectiveness, operability and system coordination of the Company’s internal rules and regulations each year. In accordance with the “Interim Measures for Investment Management of Stock Company”, the “Interim Measures for Investment Management of Capital Operation Projects of Stock Company” and other regulations, the relevant business departments of the Company conduct special risk evaluations on important management activities such as investment and generate special risk evaluation reports as an important basis for decision making.

## 5. Overall Situation of Risk Management and Internal Control for 2018

In 2018, the legal compliance department and the audit department of the Company organized all functional departments and enterprises of all levels to conduct overall risk evaluations, internal control assessments, rationalize internal control system and procedure, and continue to improve the internal control system, conduct investigations on special risk, track the implementation of major risk control measures, and give risk warning at the beginning of the year in accordance with the regulations and the requirements of the Board of Directors and management of the Company and organized special risk evaluations on and took countermeasures against each major project in order to improve the Company's overall risk management and internal control management system and ensure that the Company's risks are controllable, the internal control system and procedure continue to be effective and internal control measures are effectively implemented. For the year ended 31 December 2018, the Board of Directors has reviewed the Company's risk management and internal control system through the legal compliance department and the audit department and considers that the system is still effective and sufficient.

Meanwhile, the Audit and Risk Management Committee has reviewed the effectiveness of the Group's risk management and internal control systems, covering annual material risks and response measures, financial monitoring, internal control and risk management system. The Audit and Risk Management Committee has also considered the adequacy of the Group's resources, employee qualifications and experience in respect of accounting and financial reporting functions, and has reported the relevant matters to the Board. No significant defect in internal control was identified in relevant review.

## HANDLING AND RELEASING INSIDE INFORMATION

In accordance with the Company's information disclosure management regulation, the Company has defined the scope of inside information and relevant staff, established a sensitive information submission and release approval mechanism and reviewed the content of the list on a regular basis so as to quickly identify and promptly report any material which may constitute inside information. When receiving any material which may constitute inside information, the information disclosure management department will immediately evaluate the information and monitor the information before the release of the information to ensure that only a small number of those who need to know the information receive such information and ensure that these persons are well aware of their confidentiality responsibility. If such material is judged to be inside information, the information disclosure management department will coordinate the release of inside information as soon as possible through the electronic publication system operated by the Stock Exchange.

# CORPORATE GOVERNANCE REPORT

## EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

For the year ended 31 December 2018, the remuneration paid/payable to the Company's independent auditors, Ernst & Young and Ernst & Young Hua Ming LLP, is set out below:

	<b>Amount</b> <b>(RMB in thousand)</b>
Interim review	1,400
Annual audit	6,350
Non-audit services	–
Total fees	7,750

## AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY

On 23 January 2018, the Board considered and approved, among other things, the proposal in relation to amendments to the "Articles of Association of China Railway Signal & Communication Corporation Limited", which is primarily for the amendments to the relevant articles of the Articles of Association concerning the address and the name of the promoter of the Company, the amendment to the relevant articles concerning the general requirements of Party building, and the addition of the relevant articles concerning the general counsel system. This proposal was considered and approved at the 2017 annual general meeting by way of a special resolution on 25 May 2018. The revised Articles of Association shall become effective as from 25 May 2018, and has been published on the websites of the Stock Exchange and the Company. For details, please refer to the Company's announcements dated 23 January 2018 and 25 May 2018 respectively, and its circular dated 25 April 2018 published on the website of the Stock Exchange.

On 25 March 2019, the Board of Directors considered and approved, among other things, the resolutions to amend the Articles of Association of the Company. To further improve and standardize the Articles of Association of the Company, and to comply with the relevant provisions of the Company Law of the PRC, the Guidelines for Articles of Listed Companies of the CSRC and the Listing Rules of Stocks on the Science and Technology Innovation Board of the Shanghai Stock Exchange (《上海證券交易所科創板股票上市規則》), and other relevant laws and regulations and normative documents. And in conjunction with the actual situation of the Company, the Board proposed to amend and improve certain articles of Articles of Association of the Company. Due to the addition and deletion of certain articles on the proposed amendments, the serial number of the Articles of Association of the former Company has been adjusted accordingly. The revised Articles of Association of the Company is subject to the approval of the 2019 first extraordinary general meeting of the Company and will be implemented after the A Shares Offering and Listing. Prior to this, the Company applies prevailing valid Articles of Association of the Company. For details, please refer to the Company's announcement dated 25 March 2019 published on the website of the Stock Exchange and the circular dated 26 March 2019.

Save as disclosed above, for the year ended 31 December 2018, the Company did not make any significant changes to its Articles of Association.

# CORPORATE GOVERNANCE REPORT

## SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, the Company will propose a separate resolution for each substantially separate issue at general meetings, including the election of individual Directors.

All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Shareholders who intend to put forward their enquiries to the Board could send their enquiries to the Company's headquarters in the PRC (at 20/F, CRSC Building A, 1 Compound, Automobile Museum South Road, Fengtai District, Beijing, PRC) or by email to ir@crsc.cn, or by fax at +86-10-51846610. H Shareholders may contact Computershare Hong Kong Investor Services Limited, the H Share Registrar of the Company, if they have any enquiries about their shareholdings and entitlements to dividend.

## CONVENING OF EXTRAORDINARY GENERAL MEETING ON REQUISITION BY SHAREHOLDERS

According to the Articles of Association of the Company, where Shareholders request to hold an extraordinary general meeting or class meeting, the following procedures shall be followed:

- (1) Shareholders who individually or jointly hold more than 10% of the voting Shares at the proposed meeting may make a proposal to the Board on holding an extraordinary general meeting or class meeting by signing one or several written requests with same contents in the same format and define the meeting topic. The above Shareholders shall guarantee that the contents of the proposal shall be in compliance with the laws, regulations and the Articles of Association of the Company. The Board shall convene such meeting as soon as possible upon receipt of the aforesaid written request. The aforesaid number of Shares shall be calculated as of the close of the date on which such Shareholders request to convene the meeting in writing or, if it falls on a non-trading date, the prior trading date on which such Shareholders request to convene the meeting in writing;
- (2) If the Board is unable to or fails to perform its duty of convening an extraordinary general meeting or class meeting, the Supervisory Committee shall convene and preside over such meeting in a timely manner; if the Supervisory Committee cannot convene and preside over such meeting, Shareholders who individually or jointly hold more than 10% of the Company's Shares for more than 90 consecutive days may independently convene and preside over such meeting.

## PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

According to the Articles of Association of the Company, in the event the Company convenes a general meeting, the Board, the Supervisory Committee and Shareholders individually or jointly holding more than 3% of the Company's Shares are entitled to submit proposals in writing to the Company. Shareholders individually or jointly holding more than 3% of the Company's Shares may submit ad hoc proposals to the convener in writing ten days prior to the general meeting. The convener shall issue a supplementary notice of the general meeting and announce the content of such ad hoc proposals within two days after receipt thereof. Except as provided above, the convener shall not amend the proposals set out in the notice of the general meeting or add any new proposals subsequent to the issue of the notice of the general meeting. The general meeting shall not carry out the voting and adopt resolutions on the proposals that are not stated in the notice of the general meeting or fail to meet the requirements under Article 75 of the Articles of Association of the Company.

# CORPORATE GOVERNANCE REPORT

## COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers effective communication with Shareholders essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable Shareholders and investors to make the best investment decisions. General meetings of the Company provide a forum for face-to-face communication between the Board and the Shareholders. The chairman of the Board as well as chairmen of the Nomination Committee, the Remuneration and Evaluation Committee and the Audit and Risk Management Committee or, in their absence, other members of the respective committees and, where applicable, the chairman of the independent Board committee, are available to answer questions at general meetings.

For the year ended 31 December 2018, the Company held a total of two general meetings for the consideration and approval of, among others, report of the Board for 2017, report of the Supervisory Committee for 2017, final account report for 2017, the audit report for 2017, profits distribution plan for 2017, remuneration plan for independent non-executive Directors for 2018, appointment of external auditor for 2018, general authorizations for the issuance of debt financing instruments, general authorizations for the issuance of Shares, appointment of members of the third session of the Board and the third session of the Supervisory Committee, appointment of members of committees of the third session of the Board, etc.

To promote effective communication, the Company establishes its website and posts updates on the Company's business operations and developments, financial information, corporate governance practices and other information for public access.

## DIVIDEND POLICY

The dividend policy of the Company has been defined in the Articles of Association of the Company. According to the Articles of Association, the Company shall withdraw 10% of profits as the statutory reserve fund of the Company when the Company distributes the annual profits after taxation. If the statutory reserve fund is insufficient to make up for the losses of the preceding year, the profits of the current year shall first be used to make up for the said losses before any statutory reserve fund is withdrawn as per above. After statutory reserve fund is withdrawn out of the profits after taxation, discretionary reserve fund may also be withdrawn out of the same as per a resolution made at a general meeting.

The Company may distribute dividends in the form of cash, Shares or other forms as permitted by laws and regulations and the regulatory rules in the place where the Shares are listed. Cash dividends and other monies paid by the Company to domestic Shareholders shall be paid in RMB. Cash dividends and other monies paid by the Company to holders of overseas-listed foreign Shares shall be stated and announced in RMB and paid in foreign currency. Foreign currency needed by the Company to pay cash dividends and other monies to holders of overseas-listed foreign Shares shall be obtained pursuant to relevant state regulations on foreign exchange. In distributing dividends to Shareholders, the Company shall deduct and pay taxes payable by the Shareholders for their dividend income pursuant to PRC tax laws.

After the profit distribution plan is adopted at the general meeting, the Board of the Company shall finish distributing dividends (or Shares) within 2 months after the convention of the general meeting.

## JOINT COMPANY SECRETARIES

The Company engages Ms. NG Wing Shan, the assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited, as one of the joint company secretaries of the Company. Her primary contact person of the Company is Mr. HU Shaofeng, being the other joint company secretary of the Company. Ms. NG and Mr. HU undertook no less than 15 hours of relevant professional training for the year ended 31 December 2018.

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

As at the date of this annual report, the Directors, Supervisors and Senior Management of the Company are as follows:

### Directors

<b>Name</b>	<b>Present Title</b>	<b>Roles and Responsibilities</b>	<b>Date of appointment/ Term of appointment</b>
ZHOU Zhiliang (周志亮)	Executive Director, Chairman	Overseeing the overall work of the Board, and formulating the Company's business strategies and nomination of Directors and Senior Management	31 January 2012 to the expiration of the term of the third session of the Board
YIN Gang (尹刚)	Executive Director, President	Assisting with the work of the chairman, overseeing the management of the Company's daily production and operations, supervising the implementation of the Board resolutions, and advising on the Company's business strategies and quality and safety management	21 May 2015 to the expiration of the term of the third session of the Board
YANG Yongsheng (杨永胜)	Executive Director, Deputy secretary of the Party Committee	Assisting with the work of the chairman, supervising the implementation of the Board resolutions, and advising on the Company's business strategies	28 August 2018 to the expiration of the term of the third session of the Board
WANG Jiajie (王嘉傑)	Independent Non-executive Director	Providing advices with regard to the corporate governance, connected transactions, auditing and risk management, nomination of the Directors and Senior Management, and quality safety management	21 May 2015 to the expiration of the term of the third session of the Board

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Present Title	Roles and Responsibilities	Date of appointment/ Term of appointment
CHEN Jin'en (陳津恩)	Independent Non-executive Director	Providing advices with regard to the corporate governance, connected transactions, the Company's business strategies, remuneration of Directors and Senior Management and auditing and risk management	21 May 2015 to the expiration of the term of the third session of the Board
CHAN Ka Keung Peter (陳嘉強)	Independent Non-executive Director	Providing advices with regard to the corporate governance, connected transactions, remuneration of Directors and Senior Management and auditing and risk management	28 August 2018 to the expiration of the term of the third session of the Board
YAO Guiqing (姚桂清)	Independent Non-executive Director	Providing advices with regard to the corporate governance, connected transactions, the Company's business strategies, nomination and remuneration of Directors and Senior Management and quality safety management	28 August 2018 to the expiration of the term of the third session of the Board

## Supervisors

Name	Present Title	Roles and Responsibilities	Date of appointment/ Term of appointment
TIAN Liyan (田麗豔)	Chairwoman of the Supervisory Committee	Overseeing the overall work of the Supervisory Committee, organizing the Supervisors to supervise the management and the Board of Directors, and making relevant suggestions	21 May 2015 to the expiration of the term of the third session of the Supervisory Committee
WU Zuowei (吳作威)	External Supervisor	Supervising operations and financial activities	25 May 2018 to the expiration of the term of the third session of the Supervisory Committee
CHEN Shikui (陳世奎)	Employee Representative Supervisor	Supervising operations and financial activities	28 August 2018 to the expiration of the term of the third session of the Supervisory Committee

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

## Senior Management

Name	Present Title	Roles and Responsibilities	Date of appointment
YIN Gang (尹剛)	Executive Director, President	Assisting with the work of the chairman, overseeing the management of the Company's daily production and operations, supervising the implementation of the Board resolutions, and advising on the Company's business strategies and quality and safety management	22 May 2015
KONG Ning (孔寧)	Vice President	Assisting the president in management of daily production and operation	27 July 2016
HU Shaofeng (胡少峰)	Chief Accountant, Board Secretary	In charge of the Company's financial work, in charge of information disclosure, investor relationship coordination, and preparation of general meetings and Board meetings	27 July 2016
ZHAO Xiaodong (趙曉東)	Vice President	Assisting the president in management of daily production and operation	21 January 2019
HUANG Weizhong (黃衛中)	Vice President	Assisting the president in daily production and operation	18 April 2013
ZHANG Zhihui (張志輝)	Vice President, Chief Engineer	Assisting the president in management of daily production and operation, and technology R&D	21 January 2019



# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

## BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### Executive Directors

**Mr. ZHOU Zhiliang**, aged 54, has been the Company's executive Director and chairman since January 2012, and is mainly responsible for overseeing the overall work of the Board and formulating the Company's business strategies and nominating Directors and Senior Management. Mr. Zhou has been the chairman of CRSC Corporation Group since May 2017, and was the general manager of CRSC Corporation Group from January 2012 to May 2017. Mr. Zhou was a vice president of CRCC (listed on the Stock Exchange, stock code: 1186; listed on the Shanghai Stock Exchange, stock code: 601186) from October 2007 to January 2012, during which Mr. Zhou served as the chairman of China Railway Construction Investment Co., Ltd. (中國鐵建投資有限公司) from March 2011 to January 2012. From December 2004 to October 2007, Mr. Zhou was a deputy general manager of China Railway Construction Corp. (中國鐵道建築總公司). From November 2001 to December 2004, Mr. Zhou was the director of MOR No.4 Survey & Design Group Co., Ltd. (鐵道部第四勘察設計院). From January 2000 to November 2001, Mr. Zhou served as the chairman of Labor Union of MOR No.4 Survey & Design Group Co., Ltd. From November 1996 to January 2000, Mr. Zhou served as the director at No.2 Railway Survey and Design Department (第二勘測設計處) of MOR No.4 Survey & Design Group Co., Ltd.

Mr. Zhou graduated from China University of Mining & Technology (中國礦業學院) in July 1985 with a bachelor's degree in engineering and majored in hydrogeology and engineering geology, and from Tsinghua University School of Economic and Management with an EMBA degree in January 2008. In December 2018, Mr. Zhou was conferred the title of senior engineer by the Qualification Review Committee for Senior Engineering Technical Position of CRSC Corporation Group. Mr. Zhou was elected as the deputy managing director of the China Railway Society (中國鐵道學會) in January 2017, as a representative of the 15th Beijing Municipal People's Congress in November 2017, and as a director of the Communication and Signal Branch of the China Railway Society (中國鐵道學會通信信號分會) in June 2018.

**Mr. YIN Gang**, aged 56, has been appointed as an executive Director and president of the Company since May 2015, and is mainly responsible for overseeing the management of the Company's daily production and operations. From June 2018 to July 2018, he served as chairman of CRSC (Beijing) Rail Industry Group Co., Ltd. From December 2010 to May 2015, Mr. Yin was a vice president of the Company, during which, Mr. Yin served as the chairman of CRSCD from January 2012 to November 2012 and as the Board secretary of our Company from April 2011 to May 2013. Mr. Yin has been the general manager of CRSC Corporation Group since May 2017. From August 2001 to May 2015, Mr. Yin was the deputy general manager of CRSC Corporation Group. From December 1996 to August 2001, Mr. Yin successively served as deputy general manager and the general manager of Shenyang Railway Signal Factory (瀋陽鐵路信號工廠) (the predecessor of Shenyang Railway Communication Co., Ltd. (瀋陽鐵路信號有限責任公司)).

Mr. Yin graduated from Dalian Railway Institute (大連鐵道學院) in July 1983, with a bachelor's degree in engineering and majored in metal material and heat treatment. In January 2019, he was conferred the title of senior engineer by the Qualification Review Committee for Senior Engineering Technical Position of CRSC Corporation Group. Mr. Yin was elected as the deputy managing director of China Association of Railway Engineering Construction (中國鐵道工程建設協會) in December 2017 and as the vice president of China Chamber of International Commerce (中國國際商會) in February 2018.

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

**Mr. YANG Yongsheng**, aged 50, has served as an executive Director and deputy secretary of the Party Committee of the Company since August 2018, and has been the adjunct professor of China Business Executives Academy, Dalian since June 2018. He has been the extramural tutor of the Executive Education of School of Economics Peking University since November 2017. He has been the deputy secretary of the Party Committee of CRSC Corporation Group since July 2017. Mr. Yang was the provisional secretary of the Party Committee and the chairman of China Urban and Rural Construction Group Ltd. (中國城鄉建設集團有限公司) from April 2017 to July 2017. From February 2016 to April 2017, Mr. Yang was the secretary of the Party Committee and vice chairman of China Road & Bridge Corporation. From December 2010 to February 2016, Mr. Yang served in several positions in China Communications Construction Company Limited, including serving as the deputy director of the general office, the general manager of the human resources department, the head of the organizational department of the Party Committee, the executive vice president of the management college and the executive deputy principal of the party school. Mr. Yang has been the vice director of the general manager department of Sinohydro Group Ltd. from March 2010 to December 2010. From July 1988 to July 2006, Mr. Yang served in several positions in No.5 Bureau of Sinohydro, including serving as the principal of the staff children secondary school, the director of the education department, the director of the human resources department, the head of the organizational department of the Party Committee, the director of the system reform office, vice director and the chief economist.

Mr. Yang graduated from ISCTE Lisbon University Institute of Portugal in May 2012, with a doctor's degree in management. Mr. Yang is a professor level senior economist and a senior engineer. He has published "From Competitiveness to Core Competitiveness" (China Development Press) and he is an expert entitled to Government Special Allowance by the State Council.

## Independent Non-executive Directors

**Mr. WANG Jiajie**, aged 68, has been the Company's independent non-executive Director since May 2015. Mr. Wang is currently the arbitrator of China International Economic and Trade Arbitration Commission and the arbitrator of Beijing Arbitration Commission. Mr. Wang served in several positions in China General Technology (Group) Holding Co., Ltd. (中國通用技術(集團)控股有限責任公司), including serving as its general counsel from December 2004 to December 2010 and as the general manager of its legal department from July 1999 to December 2004. Mr. Wang also served in several positions in China National Technical Imp. & Exp. Corp. (中國技術進出口總公司), including serving as the general manager of its legal department from November 1998 to July 1999; and the vice general manager of its legal department from December 1991 to November 1998.

Mr. Wang graduated from the law school of Renmin University of China (中國人民大學) with a master's degree in laws in July 1987 and from the legal department of the second campus of Renmin University of China with a bachelor's degree in law in February 1983.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

**Mr. CHEN Jin'en**, aged 64, has been the independent non-executive Director since May 2015. From March 2010 to August 2013, Mr. Chen was the vice chairman of China Energy Conservation and Environmental Protection Group (中國節能環保集團公司). Mr. Chen served as an independent non-executive director of Billion Industrial Holdings Limited (listed on the Stock Exchange, stock code: 2299) from September 2012 to March 2013. Mr. Chen also served several positions in China Energy Conservation Investment Co., Ltd. (中國節能投資公司), including serving as its deputy general manager from October 2004 to March 2010, its vice chairman from September 2001 to October 2004. From November 2000 to September 2001, Mr. Chen was the head of the working department of the supervisory committee of Central Work Committee for Enterprises (中央企業工委). From August 1998 to November 2000, Mr. Chen was the deputy director of General Administration Office of Special Inspector of Ministry of Personnel (人事部稽查特派員總署辦公室). From July 1988 to August 1998, Mr. Chen served as a deputy director, director and assistant supervisor of the Department of Title of Ministry of Personnel (人事部職稱司).

Mr. Chen graduated from City University of Macau with a master's degree in business administration in July 2000, and from Nanjing University of Aeronautics and Astronautics (南京航空航天大學), majoring in aircraft design in July 1978.

**Mr. CHAN Ka Keung Peter**, aged 68, has served as an independent non-executive Director of the Company since August 2018, and has been the independent non-executive director of Metallurgical Corporation of China Ltd. (listed on the Stock Exchange, stock code: 1618; listed on the Shanghai Stock Exchange, stock code: 601618) since November 2014. He was the independent non-executive director of CRRC Corporation Limited (listed on the Stock Exchange, stock code: 1766; listed on the Shanghai Stock Exchange, stock code: 601766) from May 2015 to May 2018. Mr. Chan served as a senior assistant of the Assurance Department, manager of the Tax Department and senior manager of China Service Department in Ernst & Young and the chief financial officer of Dransfield Group. Mr. Chan served as a Beijing based partner, a Beijing-based managing partner of Tax and Investment Advisory Service Department and a Beijing-based managing partner of the NPA Transaction Advisory Service Department of Ernst & Young from January 1994 to December 2008. He served as a member of the executive committee of Hong Kong Chamber of Commerce in China, and served as the chairman of Hong Kong Chamber of Commerce in China in 2000 and 2003.

Mr. Chan graduated from the Hong Kong Polytechnic University majoring in accounting. He is a member of Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants of UK, an associate member of the Institute of Chartered Secretaries and Administrators of UK and a member of CPA Australia.

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

**Mr. YAO Guiqing**, aged 64, has served as an independent non-executive Director of the Company since August 2018, and served in several positions in China Railway Engineering Corporation from February 1990 to December 2017, including serving as its chairman of the labour union, employee representative director, general manager, director and vice general manager. From September 2007 to October 2017, Mr. Yao served in several positions in CREC (listed on the Stock Exchange, stock code: 390; listed on the Shanghai Stock Exchange, stock code: 601390), including serving as its vice president, chairman of the supervisory committee, vice chairman and chairman of the labour union; and he served as its executive director from August 2010 to June 2017. Mr. Yao was the deputy secretary of the Party Committee of China Railway Construction Engineering Group\* (中鐵建廠工程局) from February 2000 to February 2001. From December 1971 to February 1990, Mr. Yao served in several positions in Engineering No.3 Bureau of the Ministry of Railway\* (中國鐵道部第三工程局), including serving as its head of the organizational department of the committee of the Communist Youth League of China and the secretary to the committee of the Communist Youth League of China.

Mr. Yao graduated from Party School of the Central Committee of the Communist Party of China as an on-the-job postgraduate in economic management. Mr. Yao is a senior economist.

## Supervisors

**Ms. TIAN Liyan**, aged 45, has been appointed as the chairwoman of the Supervisory Committee of the Company since May 2015, and is mainly responsible for overall work of the Supervisory Committee, organizing supervisors to supervise the management and the Board and making relevant suggestions. Meanwhile, she has also served as the head of the audit department of the Company. Ms. Tian has been the general counsel of the Company from September 2017 to December 2018. Ms. Tian has served several positions in CRSCD, including serving as its general counsel from August 2013 to July 2015, as its director from February 2012 to July 2015 and as its chief accountant from February 2007 to July 2015. Ms. Tian has also been a director of Thales Transport Automation Control Systems (Beijing) Co., Ltd. (北京泰雷茲交通自動化控制系統有限公司) from October 2013 to July 2015. From June 2012 to October 2013, Ms. Tian was a supervisor of Thales Transport Automation Control Systems (Beijing) Co., Ltd. From November 2005 to February 2007, Ms. Tian was a deputy chief accountant and head of the asset and finance department of CRSCD; from October 2005 to November 2005, Ms. Tian was an accountant and deputy head of the asset and finance department of CRSCD; from July 1999 to October 2005, Ms. Tian was also an audit manager of the audit department of Deloitte Touche Tohmatsu CPA Ltd. (Beijing Branch).

Ms. Tian graduated from Dongbei University of Finance & Economics (東北財經大學) with a master's degree in economics majoring in accounting in April 1997, and graduated from Shanxi Finance and Economics College (山西財經學院) with a bachelor's degree in economics majoring in accounting in July 1994. Ms. Tian obtained CPA certificate in January 2000 and was qualified as a senior accountant by the Senior Accountant Specialised Technique Qualification Evaluation Committee of Government Offices Administration of the State Council in May 2012.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

**Mr. WU Zuowei**, aged 41, has served as an external Supervisor of the Company since May 2018 and has been the head of the asset management division of the capital operation management department of CRHC since February 2018. Mr. Wu served as a senior manager of the asset management department (subsequently renamed as the capital operation management department) of CRHC from August 2012 to February 2018. He served as the deputy head of the strategic development department of Zhongbing Optoelectronics Technology Co., Ltd.\* (中兵光電科技股份有限公司) (now known as North Navigation Control Technology Co.,Ltd. \* (中國兵器北方導航控制技術股份有限公司) and listed on the Shanghai Stock Exchange, Stock Code: 600435) from March 2011 to August 2012. He served as the deputy head of the operation planning department of Zhongbing Optoelectronics Technology Co., Ltd.\* from May 2009 to March 2011. He served as a technician of the technology institute, a staff of the technical reform office, a staff of the development planning department, the deputy head of the asset management department, the deputy head of the asset operation department and the deputy head of the operation planning department of Beijing Huabei Optical Instrument Co., Ltd.\* (北京華北光學儀器有限公司) successively from July 2002 to May 2009.

Mr. Wu graduated from Beijing Institute of Technology in July 2002 with a bachelor's degree in engineering and majored in mechanical engineering and automation, and graduated from University of Science and Technology Beijing in June 2009 with a master's degree in engineering and majored in project management. Mr. Wu was accredited as a senior engineer in December 2011.

**Mr. CHEN Shikui**, aged 44, has served as an employee representative Supervisor of the Company since August 2018 and has been the head of the legal compliance department of the Company since July 2018. Mr. Chen has been a director of CRSC Construction Group Co., Ltd. (通號建設集團有限公司) since August 2016. He also served as the director of CRSC Communication & Information Group Company Ltd. (通號通信信息集團有限公司) since February 2016 and the supervisor of CRSC (Zhengzhou) Electrification Bureau Co., Ltd. (通號(鄭州)電氣化局有限公司) since May 2015. From November 2015 to July 2018, Mr. Chen worked as the deputy head of the legal affairs department of the Company, and from January 2010 to November 2015, Mr. Chen served in several positions in CRSCD, including deputy general counsel, head of legal archives of the enterprise development and legal affairs department and head of enterprise development and legal affairs department. In the meantime, from August 2013 to November 2015, he was an assistant in the legal affairs department of the Company. From July 2007 to January 2010, he served as the assistant economist and economist of the eastern China region operation & command department of China Railway 22nd Bureau Group Co., Ltd. From May 1997 to September 2004, Mr. Chen worked in the People's Court of Heze City, Shandong Province and the People's Court of Mudan District, Heze City, Shandong Province.

Mr. Chen graduated from Southwest University of Political Science & Law in July 2007 and obtained a master's degree in laws with major studies in criminal law. He graduated from Henan University in July 1996 with a bachelor's degree in laws. In September 1996, he obtained a lawyer qualification certificate. In January 2007, he obtained a corporate legal counsel qualification certificate.

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

## SENIOR MANAGEMENT

**Mr. YIN Gang**, is the executive Director and president of the Company. For biography of Mr. Yin, please see section “Directors” of this chapter.

**Mr. KONG Ning**, aged 54, has been the Company’s vice president since July 2016. He served as the Company’s chief accountant from December 2010 to July 2016, and is mainly in charge of the financial work. Mr. Kong was the chief accountant of CRSC Corporation Group from November 2004 to May 2015, and served as the accountant in the finance department of China Huanqiu Contracting & Engineering Co. Ltd. (中國寰球工程公司) and the head of finance department and the chief accountant of the HQCEC (HB) (華北規劃設計院) from August 2001 to November 2004; as deputy chief of financial department of Anhui Medicament Joint Venture Company (安徽省醫藥聯合經營公司) (renamed as Anhui Hua Shi Medicament Co., Ltd. (安徽華氏醫藥有限公司)) from April 1996 to August 2001.

Mr. Kong graduated from Anhui Ma’anshan Business Technical College (安徽省馬鞍山商業專科學校) in July 1986, with a college diploma in business financial accounting; in June 2009, he graduated from Dongbei University of Finance and Economics (東北財經大學) with an EMBA degree. In November 2003, Mr. Kong was conferred the title of senior accountant by the Qualification Review Committee for Senior Accountant Professional Technology Positions of China Non-metal Mining Industry (Group) Corporation (中國非金屬礦工業(集團)總公司).

**Mr. HU Shaofeng**, aged 51, has been the Company’s chief accountant since July 2016. He has been the Company’s Board Secretary since May 2013. Mr. Hu has been the director of CRSC Innovation Investment since August 2012. He served as the Company’s deputy chief accountant from July 2012 to July 2016. Mr. Hu served as deputy general manager, chief accountant and general counsel of China Railway Construction Heavy Industry Co., Ltd. (中國鐵建重工集團有限公司) from December 2011 to July 2012. Mr. Hu served as the chief accountant of China Railway Track Systems Group Co., Ltd. (中鐵軌道系統集團有限公司) from May 2007 to December 2011. Mr. Hu served as deputy chief accountant of the MOR No.4 Survey & Design Group Co., Ltd. (鐵道部第四勘察設計院) from February 2004 to October 2006, as the director of financial department of the China Railway No. 4 Survey & Design Group Co., Ltd. from February 2004 to April 2005, as the assistant to director and deputy director of financial department of the China Railway No. 4 Survey & Design Group Co., Ltd. from February 2002 to February 2004.

Mr. Hu graduated from Zhongnan University of Finance and Economics (中南財經大學) in July 1990, with a bachelor’s degree in economics and majoring in industrial economics; in June 2007, Mr. Hu graduated from Wuhan University (武漢大學) with a Master’s degree in software engineering (financial informatization major). In December 2005, Mr. Hu was conferred the title of senior accountant by Qualification Review Committee for Senior Accounting Professional Technical Positions of China Railway Construction Corporation.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

**Mr. ZHAO Xiaodong**, aged 44, has served as the Company's vice president since January 2019. Mr. Zhao has served as assistant to the president of the Company since October 2016. Since June 2018, he has served as a director of China Railway Signal & Communication International Co., Ltd, a wholly-owned subsidiary of the Company. From September 2015 to October 2016, he served as general manager and director of CRSCD, and served as deputy general manager (responsible for the comprehensive work of operation management) and the director of CRSCD from November 2014 to September 2015. He has served as the deputy general manager of CRSCD from July 2013 to November 2014, during which period, he served as the dean of the Ground Control Research and Design Institute and the general manager of the System Integration Center and secretary of Party General Branch. From March 2012 to July 2013, he served as the dean of the Ground Control Research and Design Institute of CRSCD. From January 2011 to March 2012, he served as director of Beijing National Railway Research & Design Institute of Signal & Communication Station, during which period, he served as manager of Beijing Guotie Xintong Technology Development Co., Ltd. (北京國鐵信通科技發展有限公司).

Mr. Zhao graduated from Lanzhou Railway College majoring in the telecommunications and automatic control in July 1998 with a bachelor's degree in engineering. He graduated from the department of computer science and technology of Tsinghua University in January 2009 with a master's degree in engineering. In December 2018, Mr. Zhao was awarded as a senior engineer by the Qualification Review Committee for Senior Engineering Technical Position of CRSC Corporation Group.

**Mr. HUANG Weizhong**, aged 53, has been the Company's vice president since April 2013. Mr. Huang served as the chairman of CRSCD from November 2012 to September 2014, as the director and general manager of the company from November 2010 to November 2012, as the vice president of Beijing National Railway Research & Design Institute of Signal & Communication (北京全路通信信號研究設計院) from January 2004 to November 2010, as the director of the institute from December 1996 to January 2004.

Mr. Huang graduated from Southwest Jiaotong University (西南交通大學) in July 1987, with a bachelor's degree in engineering and majoring in automatic control; and graduated from Fordham University in the United States in May 2003, with an MBA degree. In December 2018, Mr. Huang was conferred the title of senior engineer by the Qualification Review Committee for Senior Engineering Technical Position of CRSC Corporation Group.

**Mr. ZHANG Zhihui**, aged 43, has served as the Company's vice president since January 2019. Mr. Zhang has been the chief engineer of the Company since October 2016. From November 2015 to October 2016, he served as the deputy chief engineer of the Company and the chief engineer of CRSCD. From March 2012 to November 2015, he served as the chief engineer and director of CRSCD. From June 2015 to November 2015, he served as the dean of the CRSCD Electrification Design Institute. From January 2005 to March 2012, he served as the director of CRSCD Signal Station.

Mr. Zhang graduated from Northern Jiaotong University majoring in automatic control in July 1998 with a bachelor's degree in engineering. In December 2018, Mr. Zhang was awarded as a senior engineer by the Qualification Review Committee for Senior Engineering Technical Position of CRSC Corporation Group.

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

## JOINT COMPANY SECRETARIES

**Mr. HU Shaofeng**, has been the Company's joint company secretary since 17 March 2015. Please refer to section "Senior Management" of this chapter for biographical details of Mr. Hu.

**Ms. NG Wing Shan** was appointed as the Company's joint company secretary on 17 March 2015. Ms. Ng is an assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited (formerly known as SW Corporate Services Group Limited) and is responsible for assisting listed companies in professional company secretarial work. She has over 10 years of professional experience in the company secretarial field and is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

## EMPLOYEES

### Staff Composition

As at 31 December 2018, the Group had a total of 19,215 full-time employees. The number of employees of the respective entities is set out as below:

Distribution	Number of Employees
The Company	140
Subsidiaries of the Company	<u>19,075</u>
Total	<u><u>19,215</u></u>

### Staff Incentive

The Group has established a comprehensive performance evaluation system, linking the annual operation targets with the performance evaluation of all departments and employees. With an all-round performance evaluation system covering the Company, departments, branches, subsidiaries and personal levels, the Group breaks down the key indicators layer by layer to ensure they are all covered, and performs management level by level to assure indicators are being accomplished and implemented. With multiple measures and multi-dimensional approaches, the operational status of the Company and personal incentive are intertwined and bound together, thereby fully stimulating organizational and personal creativity. Upholding the business philosophy of being responsible to Shareholders and the society, the Group is dedicated to realizing the long-term development of the enterprise.



# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

## Staff Training

The Group places high importance on establishing a corporate culture and focuses on improving the overall employee quality by proactively implementing a comprehensive staff training initiative by levels and layers. During the reporting period, in accordance with the Company's strategy and key task arrangement for the year and supported by the training system infrastructure of the Company, the Group focused on coordinating and planning company level training programs, covering aspects including system, courses, teaching staff and management, vigorously developed the training for departments and subsidiaries. As at 31 December 2018, the Group provided training to 48,500 employees with a total of 28,600 learning hours, and the total training cost amounted to RMB32.12 million.

## Employee Evaluation and Remuneration

In conjunction of the human resources strategy, the Group, based on different position categories, has established a performance and capability oriented employee remuneration system as well as formulated a competitive remuneration standard with reference to the remuneration standard in the Beijing area and related enterprises in the same industry. As such, the Group has effectively safeguarded the capability of the Company's human resources strategy to recruit, retain and incentivize talents.

## Pension Scheme

In 2018, the Group had a total of 10,497 retired employees. Retired employees of the Company are entitled to the endowment insurance scheme approved by the Ministry of Labour and Social Security of the local government. The Company has established an enterprise annuity system which serves as a supplementary pension system providing a certain level of income security for retired employees who fulfil certain requirements and participate on a voluntary basis. The Company and participating employees make contributions according to certain ratios while the trustee commissions a third-party legal entity to act as account manager, custodian and investment manager to perform fund management and investment operation. According to the regulation of this pension system, the pension payment will be made when the employee retires.

Further details of the employees policies of the Company are set out in the "Environmental, Social and Governance Report" to be published within 3 months of the date of the 2018 annual report of the Company.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
<b>REVENUE</b>	4	<b>39,844,006</b>	34,433,683
Cost of sales	6	<b>(30,931,850)</b>	(26,043,267)
Gross profit		<b>8,912,156</b>	8,390,416
Other income and gains	4	<b>469,421</b>	380,462
Selling and distribution expenses		<b>(701,572)</b>	(692,598)
Administrative expenses		<b>(3,831,461)</b>	(3,415,537)
Impairment losses on financial and contract assets, net		<b>(113,310)</b>	(175,080)
Other expenses		<b>(54,828)</b>	(183,782)
Finance costs	5	<b>(139,008)</b>	(51,823)
Share of profits of:			
Joint ventures		<b>19,423</b>	12,401
Associates		<b>37,784</b>	21,197
<b>PROFIT BEFORE TAX</b>	6	<b>4,598,605</b>	4,285,656
Income tax expense	7	<b>(802,874)</b>	(772,594)
<b>PROFIT FOR THE YEAR</b>		<b>3,795,731</b>	3,513,062
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods, net of tax:			
Exchange differences on translation of foreign operations		<b>32</b>	16
Effective portion of changes in fair value of a hedging instrument arising during the year		<b>( 11,565)</b>	1,855
Net other comprehensive income/(loss) may be classified as profit or loss in subsequent periods		<b>(11,533)</b>	1,871
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods, net of tax:			
Re-measurement losses on defined benefit plans, net of tax		<b>(9,391)</b>	(70,520)
<b>OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX</b>		<b>(20,924)</b>	(68,649)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>3,774,807</b>	3,444,413
Profit attributable to:			
Owners of the parent		<b>3,501,246</b>	3,310,045
Non-controlling interests		<b>294,485</b>	203,017
		<b>3,795,731</b>	3,513,062
Total comprehensive income attributable to:			
Owners of the parent		<b>3,480,322</b>	3,241,396
Non-controlling interests		<b>294,485</b>	203,017
		<b>3,774,807</b>	3,444,413
Earnings per share attributable to ordinary equity holders of the parent			
Basic and diluted (expressed in RMB per share)	8	<b>0.39</b>	0.38

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
<b>NON-CURRENT ASSETS</b>			
Investment properties		230,408	243,282
Property, plant and equipment		4,615,907	4,334,707
Prepaid land lease payments		2,106,396	2,137,494
Goodwill		305,324	267,894
Other intangible assets		376,406	366,949
Investments in joint ventures		253,491	361,038
Investments in associates		752,430	642,206
Available-for-sale investments		—	156,002
Equity investments designated at fair value through other comprehensive income		653,814	—
Deferred tax assets		335,865	278,028
Trade receivables	9	1,371,676	901,398
Financial receivables		—	2,131,712
Contract assets		2,968,228	—
Prepayments, other receivables and other assets		334,242	297,003
Total non-current assets		14,304,187	12,117,713
<b>CURRENT ASSETS</b>			
Prepaid land lease payments		58,917	58,055
Inventories		4,086,552	3,329,667
Trade and bills receivables	9	15,546,634	12,427,803
Contract assets		30,941,475	—
Prepayments, other receivables and other assets		3,018,187	2,551,986
Amounts due from contract customers		—	17,686,254
Tax recoverable		10,101	5,876
Pledged deposits	10	160,510	187,844
Cash and cash equivalents	10	11,551,973	12,879,446
Total current assets		65,374,349	49,126,931
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	11	36,018,761	24,232,650
Contract liabilities		7,033,233	—
Amounts due to contract customers		—	3,244,800
Other payables and accruals		2,562,506	5,199,419
Interest-bearing bank and other borrowings		1,437,701	1,328,803
Provisions for supplementary retirement benefits		57,037	62,779
Tax payable		457,862	333,236
Government grants		31,712	24,470
Provisions		32,828	47,489
Total current liabilities		47,631,640	34,473,646
NET CURRENT ASSETS		17,742,709	14,653,285
TOTAL ASSETS LESS CURRENT LIABILITIES		32,046,896	26,770,998

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Note	2018 RMB'000	2017 RMB'000
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>32,046,896</b>	26,770,998
<b>NON-CURRENT LIABILITIES</b>			
Trade payables	11	26,089	20,839
Interest-bearing bank and other borrowings		856,163	546,979
Provisions for supplementary retirement benefits		657,084	672,940
Deferred tax liabilities		48,599	42,062
Government grants		119,659	156,671
Provisions		67,220	106,909
Total non-current liabilities		<b>1,774,814</b>	1,546,400
Net assets		<b>30,272,082</b>	25,224,598
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital		8,789,819	8,789,819
Reserves		20,118,578	15,229,232
		<b>28,908,397</b>	24,019,051
Non-controlling interests		1,363,685	1,205,547
Total equity		<b>30,272,082</b>	25,224,598

# NOTES TO FINANCIAL STATEMENTS

31 December 2018

## 1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) (which include all International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations) issued by the International Accounting Standards Board (“IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements have been prepared under the historical cost convention. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has applied the following new and revised IFRSs for the first time for the current year's financial statements.

IFRS 9	<i>Financial Instruments</i>
IFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>
Amendments to IFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers</i>
Amendments to IAS 40	<i>Transfers of Investment Property</i>
IFRIC Interpretation 22	<i>Foreign Currency Transactions and Advance Consideration</i>
<i>Annual Improvements 2014-2016 Cycle</i>	<i>Amendments to IFRS 1 and IAS 28</i>

Other than as explained below regarding the impact of IFRS 9 and IFRS 15, the adoption of the above new and revised standards have no significant financial impact on these financial statements.

### ***IFRS 9 Financial Instruments***

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

#### **(a) *Classification and measurement***

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("ECLs").

# NOTES TO FINANCIAL STATEMENTS

31 December 2018

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

### IFRS 9 Financial Instruments (continued)

#### (a) Classification and measurement (continued)

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	IAS 39 measurement			Re-classifications RMB'000	ECL RMB'000	IFRS 9 measurement	
	Notes	Category	Amount RMB'000			Amount RMB'000	Category
<u>Financial assets</u>							
Equity investments designated at fair value through other comprehensive income		N/A	—	156,002	—	156,002	FVOCI <sup>1</sup> (equity)
From: Available-for-sale investments	(i)		—	156,002	—	—	
Available-for-sale investments		AFS <sup>2</sup>	156,002	(156,002)	—	—	N/A
<u>To: Equity investments designated at fair value through other comprehensive income</u>							
	(i)		—	(156,002)			
Trade receivables	(ii)	L&R <sup>3</sup>	11,695,131	—	152,429	11,847,560	AC <sup>4</sup>
Bills receivables		L&R	1,423,606	—	—	1,423,606	FVOCI <sup>1</sup> (debt)
Financial assets included in prepayments, other receivables and other assets		L&R	1,709,965	—	5,558	1,715,523	AC
Pledged deposits		L&R	187,844	—	—	187,844	AC
Cash and cash equivalents		L&R	12,879,446	—	—	12,879,446	AC
			<u>28,051,994</u>	<u>—</u>	<u>157,987</u>	<u>28,209,981</u>	
<u>Other assets</u>							
Contract assets	(ii)		<u>20,036,274</u>	<u>—</u>	<u>(158,357)</u>	<u>19,877,917</u>	
Total assets			<u>48,088,268</u>	<u>—</u>	<u>(370)</u>	<u>48,087,898</u>	
<u>Financial liabilities</u>							
Trade and bills payables		AC	24,253,489	—	—	24,253,489	AC
Financial liabilities included in other payables and accruals		AC	2,193,726	—	—	2,193,726	AC
Interest-bearing bank and other borrowings		AC	1,875,782	—	—	1,875,782	AC
			<u>28,322,997</u>	<u>—</u>	<u>—</u>	<u>28,322,997</u>	
<u>Other liabilities</u>							
Contract liabilities	(ii)		<u>5,388,048</u>	<u>—</u>	<u>—</u>	<u>5,388,048</u>	
Total liabilities			<u>33,711,045</u>	<u>—</u>	<u>—</u>	<u>33,711,045</u>	

<sup>1</sup> FVOCI: Financial assets at fair value through other comprehensive income

<sup>2</sup> AFS: Available-for-sale investments

<sup>3</sup> L&R: Loans and receivables

<sup>4</sup> AC: Financial assets or financial liabilities at amortised cost

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

### *IFRS 9 Financial Instruments (continued)*

#### **(a) Classification and measurement (continued)**

Notes:

- (i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income.
- (ii) The gross carrying amounts of the trade receivables, the contract assets and the contract liabilities under the column “IAS 39 measurement – Amount” represent the amounts after adjustments for the adoption of IFRS 15 but before the measurement of ECLs. Further details of the adjustments for the adoption of IFRS 15 are included in IFRS 15 Revenue from Contracts with Customers.

#### **(b) Impairment**

The following table reconciles the aggregate opening impairment allowances under IAS 39 to the ECL allowances under IFRS 9.

	<b>Impairment allowances under IAS 39 at 31 December 2017</b>	<b>Re-measurement</b>	<b>ECL allowances under IFRS 9 at 1 January 2018</b>
	RMB'000	RMB'000	RMB'000
Trade receivables	624,742	(152,429)	472,313
Contract assets	—	158,357	158,357
Financial assets included in prepayments, other receivables and other assets	196,439	( 5,558)	190,881
	<u>821,181</u>	<u>370</u>	<u>821,551</u>

#### **(c) Hedge accounting**

The Group has applied hedge accounting under IFRS 9 prospectively. At the date of initial application of IFRS 9, all of the Group’s existing hedging relationships were eligible to be treated as continuing hedging relationships. Before the adoption of IFRS 9, the Group designated the change in fair value of the entire foreign currency swap contracts in its cash flow hedge relationships. Upon adoption of IFRS 9, the Group continues to designate the entire foreign currency swap contracts in the cash flow hedge relationships. The adoption of the hedge accounting requirements of IFRS 9 has had no impact on the Group’s financial statements.



# NOTES TO FINANCIAL STATEMENTS

31 December 2018

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

### *IFRS 9 Financial Instruments (continued)*

#### *(d) Impact on reserves and retained profits*

The impact of transition to IFRS 9 on reserves and retained profits is as follows:

	<b>Reserves and retained profits</b>
	RMB'000
<b>Retained profits</b>	
Balance as at 31 December 2017 under IAS 39	6,892,046
Recognition of expected credit losses for trade receivables under IFRS 9	152,429
Recognition of expected credit losses for contract assets under IFRS 9	( 158,357)
Recognition of expected credit losses for financial assets included in prepayments, other receivables and other assets under IFRS 9	<u>5,558</u>
Balance as at 1 January 2018 under IFRS 9	<u><u>6,891,676</u></u>

### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 and its amendments replace IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of IFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations.

# NOTES TO FINANCIAL STATEMENTS

31 December 2018

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

### IFRS 15 Revenue from Contracts with Customers (continued)

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of IFRS 15:

	Increase/(decrease) RMB'000
<b>Non-current assets</b>	
Financial receivables	(2,131,712)
Trade receivables	(210,464)
Contract assets	2,342,176
<b>Current assets</b>	
Amounts due from contract customers	(17,686,254)
Contract assets	17,694,098
<b>Current liabilities</b>	
Other payables and accruals	(2,143,248)
Amounts due to contract customers	(3,244,800)
Contract liabilities	5,388,048
Provisions	7,844

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 as a result of the adoption of IFRS 15. The adoption of IFRS 15 has had no impact on the Group's profit and loss, other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under IFRS 15 and the second column shows what the amounts would have been had IFRS 15 not been adopted:

Consolidated statement of financial position as at 31 December 2018:

	Previous IFRS RMB'000	Increase/ (decrease) RMB'000	IFRS 15 RMB'000
<b>Non-current assets</b>			
Financial receivables	2,946,840	(2,946,840)	—
Trade receivables	1,393,064	(21,388)	1,371,676
Contract assets	—	2,968,228	2,968,228
<b>Current assets</b>			
Amounts due from contract customers	30,929,582	(30,929,582)	—
Contract assets	—	30,941,475	30,941,475
<b>Current liabilities</b>			
Other payables and accruals	5,784,400	(3,221,894)	2,562,506
Amounts due to contract customers	3,811,339	(3,811,339)	—
Contract liabilities	—	7,033,233	7,033,233
Provisions	20,935	11,893	32,828

# NOTES TO FINANCIAL STATEMENTS

31 December 2018

## 3. OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating businesses are structured and managed separately according to their nature. Each of the Group's operating segments represents a strategic business unit that provides services which are subject to risks and returns that are different from those of the other operating segments. Summary details of the operating segments are as follows:

- (a) Rail transportation control system segment engages in design and integration, equipment manufacturing and system implementation with a focus on product design and research & development and through its "three-in-one" business model (that combines design and integration, equipment manufacturing and system implementation) relating to rail transportation control system industry;
- (b) Construction contracting segment engages in the provision of services relating to municipal and other construction projects; and
- (c) the "Others" segment mainly engages in trading and etc.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit before tax except corporate expenses are excluded from such measurement.

Segment assets and liabilities mainly comprise operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

# NOTES TO FINANCIAL STATEMENTS

31 December 2018

## 3. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2018

	Rail transportation control system RMB'000	Construction contracting RMB'000	Others RMB'000	Eliminations RMB'000	Total RMB'000
<b>Segment revenue:</b>					
Sales to external customers	28,267,248	11,516,886	59,872	—	39,844,006
Intersegment sales	57,586	118,171	171,047	(346,804)	—
Total revenue	<u>28,324,834</u>	<u>11,635,057</u>	<u>230,919</u>	<u>(346,804)</u>	<u>39,844,006</u>
<b>Segment results</b>	4,032,186	720,154	19,897	(2,546)	4,769,691
Interest income	303,624	35,384	312	(116,861)	222,459
Finance cost	(103,468)	(86,087)	(2,151)	52,698	(139,008)
Corporate and other unallocated expenses					(254,537)
<b>Profit before tax</b>					4,598,605
<b>Segment assets</b>	<u>51,949,898</u>	<u>28,987,125</u>	<u>183,657</u>	<u>(1,442,144)</u>	<u>79,678,536</u>
Total assets	51,949,898	28,987,125	183,657	(1,442,144)	79,678,536
<b>Segment liabilities</b>	<u>28,218,712</u>	<u>22,513,750</u>	<u>77,337</u>	<u>(1,403,345)</u>	<u>49,406,454</u>
Total liabilities	28,218,712	22,513,750	77,337	(1,403,345)	49,406,454
<b>Other segment information:</b>					
Share of profits and losses of:					
Joint ventures	14,426	4,997	—	—	19,423
Associates	40,085	(2,301)	—	—	37,784
Depreciation and amortization	500,089	31,161	540	—	531,790
Impairment/(reversal of impairment) of trade receivables	92,176	23,006	(279)	—	114,903
Impairment/(reversal of impairment) of deposits and other receivables	(86,874)	43,824	—	—	(43,050)
Impairment of contract assets	19,316	22,141	—	—	41,457
Product warranty provision:					
Additional provision	53,294	—	—	—	53,294
Reversal of provision	(62,796)	—	—	—	(62,796)
Equity investments designated at fair value through other comprehensive income	653,814	—	—	—	653,814
Investments in joint ventures	218,154	35,337	—	—	253,491
Investments in associates	725,230	27,200	—	—	752,430
Capital expenditure	666,140	79,584	755	—	746,479

# NOTES TO FINANCIAL STATEMENTS

31 December 2018

## 3. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2017

	Rail transportation control system RMB'000	Construction contracting RMB'000	Others RMB'000	Eliminations RMB'000	Total RMB'000
<b>Segment revenue:</b>					
Sales to external customers	24,597,085	9,635,243	201,355	—	34,433,683
Intersegment sales	97,545	553,346	136,607	(787,498)	—
Total revenue	<u>24,694,630</u>	<u>10,188,589</u>	<u>337,962</u>	<u>(787,498)</u>	<u>34,433,683</u>
<b>Segment results</b>					
Interest income	3,711,579	673,278	17,937	(21,280)	4,381,514
Finance cost	197,577	32,396	440	(79,291)	151,122
Corporate and other unallocated expenses	(46,965)	(69,999)	(8,005)	73,146	(51,823)
<b>Profit before tax</b>					4,285,656
<b>Segment assets</b>	<u>41,314,336</u>	<u>21,431,023</u>	<u>276,061</u>	<u>(1,776,776)</u>	<u>61,244,644</u>
Total assets	41,314,336	21,431,023	276,061	(1,776,776)	61,244,644
<b>Segment liabilities</b>	<u>21,420,067</u>	<u>15,347,427</u>	<u>182,582</u>	<u>(930,030)</u>	<u>36,020,046</u>
Total liabilities	21,420,067	15,347,427	182,582	(930,030)	36,020,046
<b>Other segment information:</b>					
Share of profits and losses of:					
Joint ventures	18,875	(6,474)	—	—	12,401
Associates	25,352	(4,155)	—	—	21,197
Depreciation and amortisation	502,943	9,694	448	—	513,085
Impairment/(reversal of impairment) of trade receivables	116,632	1,109	(22)	—	117,719
Impairment of deposits and other receivables	11,448	45,913	—	—	57,361
Product warranty provision:					
Additional provision	51,159	—	—	—	51,159
Reversal of provision	(5,793)	—	—	—	(5,793)
Available-for-sale investments	156,002	—	—	—	156,002
Investments in joint ventures	361,038	—	—	—	361,038
Investments in associates	507,490	134,716	—	—	642,206
Capital expenditure	1,035,307	46,151	100	—	1,081,558

# NOTES TO FINANCIAL STATEMENTS

31 December 2018

## 3. OPERATING SEGMENT INFORMATION (Continued)

### Geographical information

#### (a) Revenue from external customers

	2018 RMB'000	2017 RMB'000
Mainland China	39,309,617	33,650,578
Other countries/regions	534,389	783,105
	<u>39,844,006</u>	<u>34,433,683</u>

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

#### (b) Non-current assets

	2018 RMB'000	2017 RMB'000
Mainland China	<u>8,697,956</u>	<u>8,417,436</u>

All the non-current assets are located in Mainland China. The non-current asset information above excludes deferred tax assets and financial instruments.

### Information about major customers

No revenue from a single customer amounted to 10% or more to the Group's revenue for the years ended 31 December 2018 and 2017.

# NOTES TO FINANCIAL STATEMENTS

31 December 2018

## 4. REVENUE, OTHER INCOME AND GAINS

Revenue represents: (1) the net invoiced value of goods sold, after allowance for returns and trade discounts and excludes sales taxes and intra-group transactions; (2) the values of services rendered, and (3) revenue from construction contracts.

An analysis of the Group's revenue is as follows:

	2018 RMB'000	2017 RMB'000
Revenue		
Rail transportation control system		
– Design and integration	8,502,949	8,604,117
– Equipment manufacturing	6,561,649	5,792,247
– System implementation	13,202,650	10,200,721
Construction contracting	11,516,886	9,635,243
Others	59,872	201,355
	<u>39,844,006</u>	<u>34,433,683</u>
<b>Other income and gains</b>		
Bank interest income	222,459	151,122
Government grants	179,874	181,355
Gain on disposal of a joint venture and an associate	21	6,543
Gain on disposal of an available-for-sale investment	—	5,981
Foreign exchange gains, net	30,108	—
Others	36,959	35,461
	<u>469,421</u>	<u>380,462</u>

## 5. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on bank loans and other borrowings wholly repayable	135,696	46,040
Interest on discounted bills receivable	3,312	5,783
	<u>139,008</u>	<u>51,823</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2018

## 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2018 RMB'000	2017 RMB'000
Cost of sales	30,931,850	26,043,267
Depreciation and amortisation of investment properties	12,874	8,736
Depreciation of items of property, plant and equipment	340,864	312,014
Amortisation of prepaid land lease payments	50,711	58,125
Amortisation of other intangible assets	127,341	134,210
	<u>531,790</u>	<u>513,085</u>
Total depreciation and amortization		
Impairment losses of financial and contract assets, net		
Impairment of trade receivables, net	114,903	117,719
Impairment/(reversal of impairment) of deposits and other receivables	(43,050)	57,361
Impairment of contract assets, net	41,457	—
	<u>113,310</u>	<u>175,080</u>
Write-down/(reversal of write-down) of inventories to net realisable value	110	(904)
Reversal of provision for foreseeable losses on contracts	—	(13,387)
Lease expenses under operating leases of land and buildings	182,535	154,611
Auditors' remuneration	9,750	8,730
Employee benefit expenses (including directors' and supervisors' remuneration):		
Wages, salaries and allowances	3,027,193	2,646,605
Retirement benefit costs		
– Defined contribution retirement schemes	535,275	474,315
– Defined benefit retirement schemes and early retirement costs	28,147	7,381
	<u>563,422</u>	<u>481,696</u>
Total retirement benefit costs		
Welfare and other expenses	947,243	899,285
Research and development costs	1,323,503	1,180,165
Government grants	(179,874)	(181,355)
Product warranty provision:		
Additional provision	53,294	51,159
Reversal of provision	(62,796)	(5,793)
	<u>(9,502)</u>	<u>45,366</u>
Bank Interest income	(222,459)	(151,122)
Loss/(gain) on disposal of items of property, plant and equipment	4,137	(975)
Gain on disposal of a joint venture and an associate	(21)	(6,543)
Gain on disposal of an available-for-sale investment	—	(5,981)
Loss/(Gain) on forward commodity purchase contracts	2,060	(688)
Foreign exchange differences, net	<u>(30,108)</u>	<u>70,016</u>



# NOTES TO FINANCIAL STATEMENTS

31 December 2018

## 7. INCOME TAX EXPENSE

Certain subsidiaries have been accredited as “high and new technology enterprises” and were entitled to a preferential income tax rate of 15% for the years ended 31 December 2018 and 2017 in accordance with the PRC Corporate Income Tax Law. Other entities within the Group in Mainland China have been subject to corporate income tax at the statutory rate of 25%.

No Hong Kong profits tax has been provided because the Group did not generate any assessable profits in Hong Kong during the years ended 31 December 2018 and 2017.

	2018 RMB'000	2017 RMB'000
Current income tax - Mainland China		
Charge for the year	857,750	800,090
Underprovision for the prior years	9,337	52,873
Deferred income tax	(64,213)	(80,369)
Tax charge for the year	<u>802,874</u>	<u>772,594</u>

## 8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

For those financial instruments classified as equity, if the distributions are cumulative, the undeclared amounts of the cumulative distributions were deducted in arriving at earnings for the purposes of the basic earnings per share calculation. On the other hand, if the distributions are non-cumulative, only the amount of dividends declared in respect of the year should be deducted in arriving at the profit attributable to ordinary equity holders.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2018.

	2018 RMB'000	2017 RMB'000
Profit for the year attributable to owners of the parent	3,501,246	3,310,045
Less: distribution relating to the perpetual bonds (i)	( 72,062)	—
Profit used to determine basic and diluted earnings per share	<u>3,429,184</u>	<u>3,310,045</u>
Weighted average number of ordinary shares in issue	<u>8,789,819</u>	<u>8,789,819</u>
Basic and diluted earnings per share (expressed in RMB per share)	<u>0.39</u>	<u>0.38</u>

- (i) The Perpetual Bonds issued by the Company in August 2018 were classified as other equity instruments with deferrable cumulative interest distribution and payment. The interest from perpetual bonds which has been generated but not yet declared, during the period of 2018, was deducted from earnings when calculating the earnings per share for the year ended 31 December 2018.

# NOTES TO FINANCIAL STATEMENTS

31 December 2018

## 9. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period offered by the Group is six months. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills receivables are non-interest-bearing.

	Note	2018 RMB'000	2017 RMB'000
Trade receivables		15,667,038	12,530,337
Bills receivable		1,845,117	1,423,606
Provision for impairment		(593,845)	(624,742)
		<b>16,918,310</b>	13,329,201
Portion classified as non-current assets	(i)	(1,371,676)	(901,398)
Current portion		<b>15,546,634</b>	<b>12,427,803</b>

Note:

- (i) The non-current portion of trade receivables mainly represents other long term receivables from certain construction projects.

An ageing analysis of the Group's trade and bills receivables, based on the invoice date and net of loss allowance, as at 31 December 2018 and 2017 respectively is as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	13,323,502	10,312,849
1 to 2 years	2,024,353	2,277,010
2 to 3 years	1,137,544	484,614
Over 3 years	432,911	254,728
	<b>16,918,310</b>	<b>13,329,201</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2018

## 10. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2018 RMB'000	2017 RMB'000
Cash and bank balances	6,707,678	8,187,046
Time deposits	5,004,805	4,880,244
	<u>11,712,483</u>	<u>13,067,290</u>
Less: Pledged bank balances for performance guarantees and for issuance of letters of credits	<u>(160,510)</u>	<u>(187,844)</u>
Cash and cash equivalents in the consolidated statement of financial position	11,551,973	12,879,446
Less: Non-pledged time deposits with original maturity of more than three months when acquired	<u>(743,768)</u>	<u>(1,514,463)</u>
Cash and cash equivalents in the consolidated statement of cash flows	<u>10,808,205</u>	<u>11,364,983</u>
Cash and bank balances and time deposits denominated in:		
– RMB	10,450,638	12,005,724
– Other currencies	<u>1,261,845</u>	<u>1,061,566</u>
	<u>11,712,483</u>	<u>13,067,290</u>

The RMB is not freely convertible into other currencies. However, under Mainland China's prevailing rules and regulations over foreign exchange, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods mainly depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

# NOTES TO FINANCIAL STATEMENTS

31 December 2018

## 11. TRADE AND BILLS PAYABLES

	Note	2018 RMB'000	2017 RMB'000
Trade payables		35,195,582	23,496,672
Bills payable		849,268	756,817
		<b>36,044,850</b>	24,253,489
Portion classified as non-current liabilities	(i)	(26,089)	(20,839)
Current portion		<b>36,018,761</b>	24,232,650

Note:

- (i) The non-current portion of trade and bills payables mainly represents the amount of retentions from suppliers of the Group at 31 December 2018 and 2017.

An ageing analysis of the trade and bills payable, as at the end of the reporting period, based on the invoice date, is as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	29,999,918	19,970,821
1 to 2 years	4,009,057	2,636,502
2 to 3 years	1,127,094	939,601
Over 3 years	908,781	706,565
	<b>36,044,850</b>	24,253,489

Trade payables are non-interest-bearing and are normally settled within six to eight months.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements is set out below.

	Year ended 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
<b>REVENUE</b>	<b>39,844,006</b>	34,433,683	29,402,146	23,951,553	17,328,643
Cost of sales	<b>(30,931,850)</b>	(26,043,267)	(21,973,755)	(17,936,850)	(13,134,039)
Gross profit	<b>8,912,156</b>	8,390,416	7,428,391	6,014,703	4,194,604
Other income and gains	<b>469,421</b>	380,462	411,068	706,792	756,924
Selling and distribution expense	<b>(701,572)</b>	(692,598)	(684,272)	(646,558)	(458,625)
Administrative expenses	<b>(3,831,461)</b>	(3,415,537)	(3,177,721)	(2,826,582)	(2,158,320)
Impairment losses on financial and contract assets, net	<b>(113,310)</b>	(175,080)	—	—	—
Other expenses	<b>(54,828)</b>	(183,782)	(167,780)	(117,616)	(29,466)
Finance costs	<b>(139,008)</b>	(51,823)	(30,032)	(51,758)	(14,736)
Share of profits and losses of:					
Joint ventures	<b>19,423</b>	12,401	10,423	35,037	143,207
Associates	<b>37,784</b>	21,197	26,054	30,144	39,327
<b>PROFIT BEFORE TAX</b>	<b>4,598,605</b>	4,285,656	3,816,131	3,144,162	2,472,915
Income tax expense	<b>(802,874)</b>	(772,594)	(624,642)	(520,684)	(433,000)
<b>PROFIT FOR THE YEAR</b>	<b>3,795,731</b>	3,513,062	3,191,489	2,623,478	2,039,915
Profit attributable to:					
Owners of the parent	<b>3,501,246</b>	3,310,045	3,049,341	2,496,403	2,033,469
Non-controlling interests	<b>294,485</b>	203,017	142,148	127,075	6,446
	<b>3,795,731</b>	3,513,062	3,191,489	2,623,478	2,039,915

	As at 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
TOTAL ASSETS	<b>79,678,536</b>	61,244,644	50,295,007	41,992,159	28,576,548
TOTAL LIABILITIES	<b>(49,406,454)</b>	(36,020,046)	(27,604,536)	(22,256,977)	(16,101,249)
TOTAL NON-CONTROLLING INTERESTS	<b>(1,363,685)</b>	(1,205,547)	(1,033,834)	(891,893)	(811,574)
	<b>28,908,397</b>	24,019,051	21,656,637	18,843,289	11,663,725

## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

In this report, unless the context otherwise requires, the following terms shall have the following meaning:

“A share(s)”	the ordinary shares to be subscribed for in RMB which are proposed to be issued by the Company in accordance with the A Share Offering, which will be listed on the Science and Technology Innovation Board of the SSE and traded in RMB
“A Share Offering” or “A Share Offering and Listing”	the Company’s proposed initial public offering of no more than 2,197,454,750 A Shares, which will be listed on the Science and Technology Innovation Board of the SSE
“Articles of Association”	Articles of Association of the Company (as amended from time to time)
“ALSTOM Holdings”	Alstom Holdings (阿爾斯通控股有限公司), a limited liability company established in France on 14 June 1989, a holding company of ALSTOM IC and a connected person of the Company
“ALSTOM IC”	Alstom Investment Company Limited (阿爾斯通投資(上海)有限公司), a limited liability company established in the PRC on 21 January 2015, holds 49% of the equity interests in CRSC CASCO, and is a connected person of the Company
“ALSTOM”	ALSTOM Holdings and/or its subsidiaries
“associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Audit and Risk Management Committee”	Audit and Risk Management Committee of the Board
“Board” or “Board of Directors”	the board of Directors of the Company
“CASBE”	China Accounting Standards for Business Enterprises promulgated by the MOF
“China” or the “PRC”	the People’s Republic of China excluding, for the purposes of this report, not including Hong Kong, Macau and Taiwan
“CICC Jiacheng”	CICC Jiacheng Investment Management Co., Ltd. (中金佳成投資管理有限公司), a limited liability company established in the PRC on 26 October 2007, and wholly owned by the China International Capital Corporation Limited (中國國際金融有限公司), one of the Shareholders and promoters of the Company
“Company Law”	the Company Law of the PRC (中華人民共和國公司法), as promulgated after being amended by the Standing Committee of the 12th National People’s Congress of the PRC on 28 December 2013 and effective on 1 March 2014 (as amended, supplemented or otherwise modified from time to time)
“Company” or “our Company”	China Railway Signal & Communication Corporation Limited* (中國鐵路通信信號股份有限公司), a joint stock limited liability company established in the PRC on 29 December 2010

## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“connected person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“connected transaction(s)”	has the meaning as defined in the Hong Kong Listing Rules, unless the context otherwise requires
“Controlling Shareholders”	as defined under the Hong Kong Listing Rules, and as of the date of the report, refers to the controlling Shareholder of the Company, being CRSC Corporation Group
“Corporate Governance Code”	the Corporate Governance Code set out in Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Hong Kong Listing Rules
“CRCC”	China Railway Construction Corporation Ltd. (中國鐵建股份有限公司), a joint stock limited liability company established in the PRC on 5 November 2007
“CREC”	China Railway Group Ltd. (中國中鐵股份有限公司), a joint stock limited liability company established in the PRC on 12 September 2007
“CRHC”	China Reform Holdings Corporation Ltd. (中國國新控股有限責任公司), a wholly state-owned enterprise with limited liability established in the PRC on 1 December 2010, one of the Shareholders and promoters of the Company
“CRSC CASCO”	Casco Signal Ltd. (卡斯柯信號有限公司), a limited liability company established in the PRC on 5 March 1986 and a direct non-wholly owned subsidiary of the Company. It is owned as to 51% by the Company and as to 49% by ALSTOM IC respectively
“CRSC” or “Group” or “we”	the Company and its subsidiaries (or the Company and any one or more of its subsidiaries, as the context may require), or where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of the Company at the relevant time
“CRSC Corporation Group”	China Railway Signal and Communication (group) Corporation Limited (中國鐵路通信信號集團有限公司) (formerly known as “China Railway Signal & Communication Corporation (中國鐵路通信信號集團公司)”, a wholly state-owned enterprise approved to be established by MOR on 8 May 1981 and registered in the PRC on 7 January 1984, the sole Controlling Shareholder and one of the promoters of the Company
“CRSC Group”	CRSC Corporation Group and its subsidiaries (other than the Group)
“CRSC Innovation Investment”	CRSC Innovation Investment Company Ltd. (通號創新投資有限公司), a limited liability company established in the PRC on 21 September 2012 and a direct wholly-owned subsidiary of the Company

## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“CRSCD”	Beijing National Railway Research & Design Institute of Signal & Communication Co., Ltd. (北京全路通信信號研究設計院有限公司) (formerly known as Beijing National Railway Research & Design Institute (北京全路通信信號研究設計院)), a limited liability company established in the PRC on 18 November 1994 and a direct wholly-owned subsidiary of the Company
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	a director of the Company
“Domestic Share(s)”	ordinary shares of the Company, with a nominal value of RMB1.00, which are subscribed for or credited as fully paid in Renminbi
“EIT”	enterprise income tax of the PRC
“Ernst & Young”	Ernst & Young/Ernst & Young Hua Ming LLP
“general meeting”	general meeting of the Company
“H Share(s)”	ordinary shares of the Company, being overseas listed foreign shares with nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and listed on the Hong Kong Stock Exchange
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“HK\$” or “HK dollar(s)” or “Hong Kong dollar(s)”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRS”	International Financial Reporting Standards which include standards and interpretations promulgated by the International Accounting Standards Board (IASB)
“Independent Third Parties”	a person who, as far as the Directors are aware after having made all reasonable enquiries, is not a connected person of the Company within the meaning of the Listing Rules
“Listing”	the listing of H Shares on the Main Board of the Hong Kong Stock Exchange



## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Listing Date”	7 August 2015, the date on which the Company’s overseas listed foreign shares (H Shares) were listed on the Main Board of the Stock Exchange
“Listing Rules” or “Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Main Board”	the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel to the GEM
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“MOR”	the former Ministry of Railway of the PRC (中華人民共和國鐵道部)
“Nomination Committee”	Nomination Committee of the Board
“NSSF”	National Council for Social Security Fund of the PRC (中華人民共和國全國社會保障基金理事會)
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“Prospectus”	the prospectus of the Company dated 28 July 2015
“Quality and Safety Committee”	Quality and Safety Committee of the Board
“R&D”	research and development
“Remuneration and Evaluation Committee”	Remuneration and Evaluation Committee of the Board
“reporting period” or “2018” or “the year”	the year beginning from 1 January 2018 and ended on 31 December 2018
“RMB” or “Renminbi”	Renminbi Yuan, the lawful currency of the PRC
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
“Senior Management”	the senior management of the Company
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“SSE”	the Shanghai Stock Exchange

## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Share(s)”	ordinary shares in the share capital of the Company with a nominal value of RMB1.00 each
“Shareholder(s)”	holders of the Shares of the Company
“SINOMACH”	China National Machinery Industry Corporation (中國機械工業集團有限公司), a wholly state-owned enterprise with limited liability incorporated in the PRC on 21 May 1988, one of the Shareholders and promoters of the Company
“Special Committee(s)”	collectively, Strategic and Investment Committee, Remuneration and Evaluation Committee, Audit and Risk Management Committee, Nomination Committee and Quality and Safety Committee
“State Administration of Taxation”	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“State Council”	State Council of the PRC (中華人民共和國國務院)
“state”	the government of the PRC including all political subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities thereof or, where the context requires, any of them
“Strategic and Investment Committee”	Strategic and Investment Committee of the Board
“subsidiary(ies)”	has the meaning as defined under the Hong Kong Listing Rules, unless the context otherwise requires
“substantial shareholder(s)”	has the meaning as defined under the Hong Kong Listing Rules, unless the context otherwise requires
“Supervisors”	the supervisors of the Company
“Supervisory Committee”	the supervisory committee of the Company
“United States”	the United States of America
“US dollars”	United States dollars, the lawful currency of the United States
“%”	per cent

# DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

## GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain technical terms used in this report in connection with the Company and its business. Such terminology and meanings may not correspond to standard industry meanings or usages of those terms.

“balise”	an intermittent device used for ground-to-vehicle information transmission, including passive balise and active balise, whose main function is to provide the on-board train operation control equipment with reliable fixed and changeable data from the ground
“CBTC”	the wireless communication based train control system, a wireless communication system for urban transit that enables bidirectional communication between vehicle and ground to control the operation of trains
“communication system”	a system using information transmission and exchange technology for rail transportation
“high-speed railway”	passenger dedicated railway with an operating speed of 200km/h or higher
“intercity railway”	rapid, convenient and high-density passenger dedicated railway with a designed speed of 200km/h and lower, which is dedicated to serving cities or among cities
“modern tram”	the light-axle transportation system running on the rail and powered by electricity
“normal-speed railway”	railway with an operating speed lower than 160km/h
“PPP”	public-private partnership, a partner relationship based on a framework agreement and formed between the government and private organizations for co-construction of infrastructure projects or providing certain public goods and services
“rail transportation control system”	a system that monitors, controls and adjusts the operation status of trains, such as speed and braking mode, based on the objective conditions and actual situations of trains, which includes rail transportation communication system and rail transportation signal system
“rail transportation”	includes railway, urban transit and modern tram
“railway”	the generic term for national railway and intercity railway. National railway includes normal-speed railway and high-speed railway

## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“signal system”	a system using manual, automatic and remote control technology to ensure train safety and enhance the traffic capacity among areas and stations
“Smart City(ies)”	an advanced form of informationized city, in which the information technology of new generation is fully applied to each industry and every aspect of municipal life, that deeply integrates the informatization, industrialization and urbanization of the city
“track circuit”	a track circuit using steel rail of certain section of railways as conductor, which is used to automatically and continuously detect whether the track is occupied
“train control center”	a system that controls track circuit encoding and active balise information and grants movement authority to trains, based on information such as the location of each train within its monitoring scope, interlocking route, temporary speed limits
“train control system”	a system that monitors, controls and adjusts operation status of trains, such as speed and braking mode, based on the objective conditions and actual situation
“urban transit”	the electricity-powered public transportation operating on rails, which has high carrying capacity, including metro and light rail