CRRC

中国中车股份有限公司
CRRC CORPORATION LIMITED

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

Annual Report
2016

IMPORTANT NOTICE

1. The board of directors (the "Board") and the supervisory committee (the "Supervisory Committee") of the Company and its directors (the "Director(s)"), supervisors (the "Supervisor(s)") and senior management (the "Senior Management") warrant that there are no false representations, misleading statements contained in or material omissions from this annual report and they will assume joint and several legal liabilities for the truthfulness, accuracy and completeness of the contents disclosed herein.

2. This report has been considered and approved at the twenty-first meeting of the first session of the Board of the Company. All Directors of the Company attended the Board meeting.

3. Deloitte Touche Tohmatsu CPA LLP has issued standard unqualified audit report for the Company's financial statements prepared under the PRC GAAP in accordance with PRC Auditing Standards. Deloitte Touche Tohmatsu has issued standard unqualified audit report for the financial statements prepared under the International Financial Reporting Standards ("IFRSs") in accordance with Hong Kong Standards on Auditing.

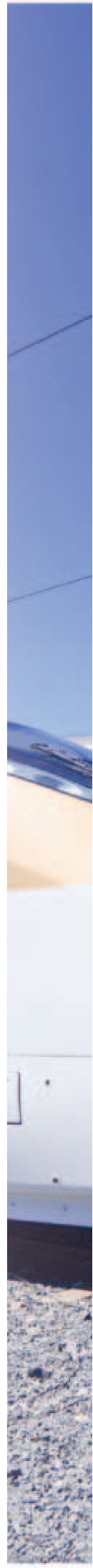
4. Liu Hualong, the Chairman of the Company, Zhan Yanjing, the Chief Financial Officer and Wang Jian, the head of the Accounting Department (person in charge of accounting affairs) warrant the truthfulness, accuracy and completeness of the financial statements in this annual report.

5. Statement for the risks involved in the forward looking statements: this report contains forward-looking statements that involve future plans and development strategies which do not constitute a substantive commitment by the Company to investors. Investors should be aware of the investment risks.

6. The Company has proposed to distribute a cash dividend of RMB0.21 (tax inclusive) per share to all shareholders based on the share capital of 28,698,864,088 shares in aggregate.

7. Unless specified otherwise, the recording currency used in this report is Renminbi.

8. Major risk notice: the major risk factors faced by the Company include policy risks, market risks, product quality risks, industry structure adjustment risks and exchange rate risks, which have been described in detail in this report. Please refer to the discussion and analysis on possible risks that the Company will face in its future development in "Report of Directors – B. Management Discussion and Analysis".



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Results Highlights

Revenue (RMB' 000)

2016:
224,137,964
2015:
237,784,602
-5.74%

Profit after tax (RMB' 000)

2016:
13,909,909
2015:
14,097,878
-1.33%

Profit attributable to shareholders of the Company (RMB' 000)

2016:
11,295,596
2015:
11,818,398
-4.42%

Basic earnings per share (RMB/share)

2016:
0.41
2015:
0.43
-4.65%

Total assets (RMB' 000)

31 December 2016:
338,310,612
31 December 2015:
311,693,729
+8.54%

Total liabilities (RMB' 000)

31 December 2016:
214,505,996
31 December 2015:
198,119,156
+8.27%

Total equity (RMB' 000)

31 December 2016:
123,804,616
31 December 2015:
113,574,573
+9.01%

Including: equity attributable to shareholdersof the Company (RMB' 000)

31 December 2016:
104,856,609
31 December 2015:
96,900,316
+8.21%

Shareholders' equity per share (RMB/share)

31 December 2016:
3.84
31 December 2015:
3.55
+8.17%

Financial Summary

	2016 RMB' 000	2015 RMB' 000	2014 RMB' 000 (Restated)	2013 RMB' 000 (Restated)	2012 RMB' 000 (Restated)
Results					
Revenue	224,137,964	237,784,602	218,450,551	191,219,792	179,316,100
Cost of sales	179,109,812	191,249,660	175,619,726	158,584,767	150,828,440
Gross profit	45,028,152	46,534,942	42,830,825	32,635,025	28,487,660
Other income and gains	4,017,071	3,641,718	2,534,333	1,400,379	2,817,779
Distribution and selling expenses	7,249,871	7,953,534	7,401,891	5,122,880	4,893,102
Administrative expenses	22,426,597	22,486,214	19,726,961	15,540,146	15,182,791
Other expenses, net	1,623,327	1,695,118	2,216,899	1,081,023	303,103
Finance costs	1,264,203	1,412,319	2,269,518	1,882,868	1,888,863
Share of profits and losses of associates and joint ventures	453,354	418,956	733,634	654,455	779,613
Profit before tax	16,934,579	17,048,431	14,483,523	11,062,942	9,817,193
Income tax expense	3,024,670	2,950,553	2,137,162	1,737,318	1,347,620
Profit for the year	13,909,909	14,097,878	12,346,361	9,325,624	8,469,573
Attributable to:					
Owners of the company	11,295,596	11,818,398	10,815,468	8,293,138	7,461,693
Non-controlling interests	2,614,313	2,279,480	1,530,893	1,032,486	1,007,880
	13,909,909	14,097,878	12,346,361	9,325,624	8,469,573
Earnings per share					
Basic	0.41	0.43	0.41	0.33	0.30
Diluted	0.41	0.43	0.41	0.33	0.30
Assets and liabilities					
Total assets	338,310,612	311,693,729	298,813,676	241,585,624	212,095,970
Total liabilities	214,505,996	198,119,156	196,636,447	155,293,954	135,802,824
Equity attributable to owners of the company	104,856,609	96,900,316	89,294,953	74,893,253	67,954,579
Non-controlling interests	18,948,007	16,674,257	12,882,276	11,398,417	8,338,567
Total equity at the end of the period (shares)	27,288,758,333	27,288,758,333	13,803,000,000	13,803,000,000	13,803,000,000
Net cash flows from operating activities	20,986,379	14,981,510	28,437,455	10,298,633	4,297,871

Chairman's Statement

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Chairman's Statement

Dear shareholders,

2016 was the first year of complete operation after the reorganization of CRRC. This year, we have mastered difficult challenges together from strength to strength and promoted integration and synergy among businesses, which initiated a new trend of an in-depth reform and innovative development.

In 2016, we focused on the demand of users and endeavored to explore the market. The business-driven operating model was actively implemented and the lean management system was effectively operated, with the pace of reform and upgrade accelerated, and market synergy and integration effect strengthened. Our development is not possible without the strong support of our shareholders. On behalf of the Board, I would like to take this opportunity to express our sincere gratitude to our investors.

In 2016, we insisted on the strategy of "Innovation-driven Development", which comprehensively launched the establishment of the national high-speed train technology innovation center to continue to boost the overall high-end manufacturing level. By focusing on national strategies including "Made in China 2025", "Internet +" and "Venturing Out", we strengthened our innovative steps and improved the collaborative innovative platform for the industry, academy and research. We thoroughly developed major technologies, including rolling stock system safety protection technology, key technologies for high-speed passenger equipment at a speed of 400km/hour or more and key technologies for maglev transportation systems. We insisted on quality development to develop world class high-end equipment, and successively launched new products, such as China standard EMU, automatic train operation, hanging mass transit vehicles, new energy suspension railway, humpback truck and locomotive EMU, in order to provide quality, safe, reliable and environmental friendly products for our customers. CRRC has become the role model for scientific innovation.

In 2016, we actively participated in the construction surrounding "One Belt One Road", which leveraged on international capacity cooperation to thoroughly expand into the international market. We won the bidding orders of metro vehicles in Chicago, the U.S., and successively obtained orders from Kenya, Thailand, India and Pakistan. The Company has made further efforts to evolve from a traditional single product export model to a composite business model, including "Product + Service", localized investment, joint venture and life service of products. Our change in international operating model from "venturing out" to "venturing to", which accelerated the formulation of international operating advantages based on our core competitiveness in such areas as technology, brand, quality, service and capital, so as to strive for establishing an everlasting brand and a renowned Chinese household name.

2017 is a crucial year for CRRC's implementation of the "New Five-Year Plan" and for a comprehensive in-depth reform, as well as an important year for CRRC to start the new chapter of reform and development to shape a new history. Harbouring enthusiastic aspirations, bravery, exploration and breakthrough to develop a great business, we will continue to uphold "connecting the world to benefit human" as our mission to establish a respectful international corporation. We will focus on the three areas of "innovation", "reform" and "internationalisation" to insist on innovation-driven and sustainable in-depth reform as well as strive to establish a world-class multinational corporation, to serve the community, to reward shareholders and to benefit our employees with further development and more exceptional performances.

Liu Hualong
March 2017

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A. BUSINESS OVERVIEW

I. Main businesses, operation model and industry situation of the company during the Reporting Period

CRRC is the world's largest and most diverse rolling stock supplier with advanced technology. The main business scope of the Company includes: research and development, design, manufacturing, refurbishment, sales, leasing and technical support of locomotives, EMUs, rapid transit vehicles, engineering machinery, various electromechanical equipments, electronic equipments and components, electronic devices and environmental protection equipments; information consultation; industry investment and management; asset management; import and export businesses.

(1) Main businesses of the Company

1. Railway equipment business

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

The Company took the initiative to adapt to changes in the domestic and international railway transport market and trends in the development of technology, accelerated innovations in its railway transport equipment technology, products and service models, and strengthened the application of new technologies and new product research and development, constantly meeting the requirements for smart, green and safe development of an advanced and widely applicable railway system. Based on the stable sales in the high speed EMU business, confronted with the domestic freight wagon market downturn and the sharp fall in the locomotives market, the Company actively explored external and international railway markets, accelerated its structural adjustment, created a systematic, modular, and standardized product structure and technology platform, strengthened the innovative capacity building and internal support for key components and parts, developed its advanced refurbishment capacity, promoted its service transformation and stabilized railway equipment business operations.

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2. Rapid transit vehicles and urban infrastructure business

The rapid transit vehicles and urban infrastructure businesses mainly include: (1) rapid transit vehicles; (2) general contracting of rapid transit vehicles projects; (3) general contracting of other projects.

Facing the global market, the Company expedited its development and innovations in city train products and continued to upgrade its product structure, consolidated a leading position in the domestic market with its high quality products and services and constantly expanded its global market. By fully grasping the huge development opportunity in the construction of urban rail transit and prioritizing the development of its urban rail transit products, the Company gave full play to its comprehensive competitiveness in equipment manufacturing, business portfolio and the integration of industry and finance, actively started the construction of urban rail transit projects in the PPP model, enhanced its order obtainment capacity and market competence in the urban rail transit market, and improved its general contracting capacity of projects, to achieve rapid development in its rapid transit vehicles and urban infrastructure business.

3. New industry businesses

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

In the general mechanical and electrical business, the Company strengthened the core technical advantages of rail transportation equipment, supported the technical upgrade of the Company's main products, actively expanded its application in automotive, marine and other areas, as well as achieved professional and large-scale development. In the emerging industry businesses, in accordance with the principles of "relevance and multi-dimensions, high-end positioning, and industry-leading products and services", the Company focused on new materials, wind power equipment, new energy vehicles and environmental protection water treatment equipment businesses, accelerated the promotion of a number of emerging industries in which it has core competitiveness and a leading industry position. In 2016, benefiting from the continued release of national new energy policies and the increasing attention paid to the energy conservation and environmental protection businesses, the new energy vehicle industry and the environmental protection equipment business achieved rapid development, and the integration work after the mergers and acquisitions of BOGE in Germany and SMD in the United Kingdom has taken remarkable effects.

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4. Modern Service Businesses

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

By focusing on financial, similar financial and logistics businesses, the Company fully leveraged its advantages as a financial institution to promote the integration of the manufacturing industry and the services industry, as well as to accelerate the steady and healthy development of the modern service industry. Through actively exploring the "Internet + high-end equipment + manufacturing services" model, the Company steadily conducted the construction of a "digitalized CRRC". In its logistics and trading business, based on centralized procurement, the "(中車購)" e-commerce platform enjoyed constant improvements.

5. International businesses

The Company constantly accelerated its overseas business layout including setting up regional offices in North America and Latin America. The U.S. Boston Metro Project, a model project marking an enormous change from a product output to a "capital + technology + service + management" output model in developed countries, enjoyed steady progress, and the manufacturing base in Springfield operated smoothly. The Malaysian manufacturing centre of the Company has become a highlight of the ASEAN economic and trade cooperation and the strategic model base among all "One Belt and One Road" projects. The newly-constructed plant of the Company in India started operation, and the mergers and acquisitions of BOGE in Germany, and SMD in the United Kingdom have generated good results. The overseas R&D centers in developed countries such as Germany, the United Kingdom, and the United States proceeded smoothly, further improving the Company's ability to deploy global innovation resources. The Company also generated excellent overseas business performance and received orders for diesel locomotives from Kenya, BTS subway from Thailand, subway from India, freight wagon from Pakistan, etc., consolidating the Company's position in the traditional market. The Company won the bid for the Chicago Metro Project, subway orders from Melbourne, Australia, and received EMU order from the Czech Republic, showcasing that it has become normal for its rail equipment products to enter into developed economies.

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(2) Operation mode of rolling stock industry

1. Production model: as unit costs of manufacturing rolling stock are comparatively high, its production model is to "limit production to market needs", meaning that production is based on purchase order contracts obtained from customers. Not only does this model avoid excess inventory of finished products, it also satisfies the needs of consumers by arranging for production according to the particular order.

2. Purchasing model: a combination of centralized procurement and decentralized procurement, which is commonly used throughout the industry. As for centralized procurement of bulk ordinary goods, the Company compiles procurement requests from its subsidiaries and develops a centralized procurement plan. In addition, the Company also conducts supplier management and assessment on a centralized basis, procurement price management, procurement bidding management, centralised ordering and clearing of goods. The subsidiaries are responsible for procurement of other materials. They can choose appropriate suppliers through tendering and bidding, etc., and negotiate and enter into contracts. Such a model is conducive to guaranteeing the supply of new material and reducing purchase cost.

3. Selling model: as the value of product per unit is comparatively high, the main sales model is through tenders or negotiation of tenders. Through bidding or communications and negotiations with customers on the basis of the historical price, the final price is determined and the order is placed.

(3) Industry situation

During the "13th Five-Year" period, the domestic rail transit market will continue to grow steadily. The recently promulgated and implemented "《Medium to long-term railway network plan》" proposed to "improve the ordinary-speed railway network, build high-speed railway network, construct integrated transport hubs, and build a modern integrated transport system." By 2020, the railway mileage will reach 150,000 km, of which high-speed rail mileage in operation will reach 30,000 km, covering more than 80% of the major cities; railway investment will exceed RMB3.5 trillion; and investment in railway equipment will reach RMB500 billion. Nevertheless, demands such as "zero distance" passenger transfer, "seamless" logistics connection and "integrated" transport services put forward higher standards on railway equipment, highlighting the structural imbalance between markets supply and demand. As urban rail transit operation continues to grow and with the acceleration of new urbanization and urban agglomeration, urban rail transit will gradually constitute a new growth point in the national economy. With the loosening of policies in urban rail transit construction application, urban rail transit construction will welcome better development opportunities, and PPP model will become an important development model in the field of rail transit, providing huge development space for general project contracting businesses, unban infrastructure construction and subsequent operations. At the same time, along with the rapid growth of existing rail transit equipment, a huge amount of rail transit equipment will enter into the maintenance period with more urgent technology upgrade needs, suggesting a rapid growth in the rail transportation equipment maintenance services market.

As the largest rail transportation equipment supplier worldwide, CRRC actively adapted to the ever-changing market environment and rose to market challenges. Through transformation, upgrades, reform and development, the Company made well-targeted efforts in market expansion, international operation, technical innovation and synergized development, etc., occupying a leading position in terms of the domestic market share in its main business areas such as locomotive, passenger carriage, freight wagon, EMU and intercity rail vehicle, etc. While meeting the needs for the domestic railway and intercity rail transit, the Company continued to export all kinds of rail transportation equipment and its export products fully entered into developed countries, making their way to over 100 countries and regions in the six continents across the globe. High speed train has become a highlight among the "venturing out" high-end equipments in the country.

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

For details, please refer to the relevant content under the "(II) Analysis of the structure and changes of major assets and liabilities of the Company during the reporting period" section of the "Management Discussion and Analysis" contained in part B set out in this Report of Directors.

III. Analysis of the core competitiveness during the reporting period

As an important member in the rolling stock industry, aming at "becoming a leading company group with top multinational operation and rolling stock equipment as its core business", CRRC fully grasped opportunities and new challenges, adhered to innovation-driven operation, strengthened its transformation and upgrades and enhanced its operational management, thus constantly improved its development quality and operation efficiency. As a result, CRRC ranked 266th in the Top 500 companies as released by the *Fortune* Magazine in July 2016, ranked 54th among Chinese companies.

1. **Constant improvement of technological innovation system.** The Company achieved material breakthroughs in its core technologies such as the traction control system, brake system, permanent-magnetic electric drive system, high-power IGBT, etc. for the high speed EMUs, as well as made progress in its key technologies including the unmanned driving technology and industrial Ethernet. The standard EMU in China successfully passed the running test by two trains passing each other at a speed of 420 km/hour, i.e. a relative speed of 840 km/hour; the first medium to low speed maglev express train was officially put into operation; the first levitated train successfully went off the production line; key technological research products progressed steadily including piggyback train and the express freight wagons at the speed of 160-200 km/hour. Completed rolling stock equipment products of the Company including high-speed EMU, high power locomotives, heavy-load freight wagon and urban rail vehicles have reached advanced level worldwide. Through continued construction, the Company owns 11 national level industry research and development institutions, 21 national level corporate technological centres as well as 12 overseas research and development centres, primarily building up the three international advanced railway transportation technological platforms covering equipment design, manufacturing and products development. As a pilot company of the national science and technology reform, the Company started the construction of the "National High-speed Train Technological Innovation Centre" which is the first to be undertaken by an enterprise in China. The "National Key Research and Development Plan – Rail Transportation Key Project" is being implemented, which is the first to be organized and led by CRRC with the participation of 65 companies, universities and colleges, and scientific and research institutions, further highlighting CRRC's leading position in the industry in China. CRRC led the establishment of the International Rail Transportation Vehicle Industrial Design Alliance and China IGBT Technological Innovation and Industry Alliance, and was the initiating member of the National Enterprise Electrical Vehicle Industry Alliance, continuing to achieve rapid development in various businesses of the Company. For the "Chinese Enterprises Patent Award List" issued by the State Intellectual Property, CRRC ranked second with 38 awarded patents, and ranked first in the equipment manufacturing sector.

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2. **Advanced industry manufacturing base.** CRRC has formed a nationwide industrial chain with the main machinery company as its core and supporting companies as its backstone, and has finished the construction of a number of rail transportation equipment manufacturing bases at an internationally advanced level. Having become a world leading supplier in rail transportation equipment technologies, CRRC not only met fluctuating domestic market need, but also rapidly responded to the demands of the global rail transportation equipment market. With the continued improvement in the management capability of the Company mainly through refined management, the Company established an advanced quality control system and all-industrial-chain production guarantee system with advanced manufacturing technologies, taking lead worldwide in its product manufacturing capability, industrialization capability, production process technology as well as major technological equipment and methods of measurement and detection, etc.

3. **Continuing upgrade in resources deployment.** Through various measures including enterprise-government cooperation, joint-venture operation and supply chain integration, the Company built up a strategic cooperation system and shifted company resources to the strategic emerging industries and high end of the value chain on the basis of its core rail transportation equipment technologies; while focusing on new energy vehicles, wind energy equipment, environmental protection water treatment equipment and new materials, thus speeding up the transformation and upgrade of the industry structure. The Company has a mature and complete wind power equipment industrial chain with an annual manufacturing capacity of 2000 units/set; the Company has built its leading technological role in the polymer composites industry; CRRC owns core technologies in industrial drive system with a comparatively strong competitiveness and a good brand profile.

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B. MANAGEMENT DISCUSSION AND ANALYSIS

I. Operation discussion and analysis

2016 was the first year of complete operation of CRRC. Facing more prominent structural imbalance between market supply and demand, the Company fully implemented work deployment as decided in the 2016 CRRC Work Meeting at all levels, which surrounded the three topics of "integration", "change" and "upgrade". The Company made concerted efforts in taking initiatives to effectively deal with various difficulties and challenges, making progress in all kinds of tasks.

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(1) Effective quality improvement and efficiency boosting and stable performance

The Company earnestly implemented the decisions and deployment by the SASAC of the State Council by resolutely dealing with the challenges in quality improvement and efficiency boosting. Companies under the Group, all business sectors and all function systems took swift actions for the full implementation of the "1+9" quality improvement and efficiency boosting program, set targets for different layers of performance indicators and vigorously promoted the reduction of procurement costs, the drawdown of proportion of inventory and receivables in the capital of the Company, the control of period costs, and reduction of duplicated development cost, etc. to enhance operational efficiency and to achieve a year-on-year increase in terms of gross profit margin. By strengthening operational monitoring and enhancing monthly operation analysis and quarterly index scheduling, the Company ensured its operation stability. CRRC also promoted a business-oriented operation model and centred the operation on user needs to open up the market. Compared with the same period last year, the overall performance of the Company remained stable.

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(2) Continuously enlarged synergy effect in providing wider market opportunities

The guiding role of the "One CRRC" strategy has been significantly improved, which greatly enhanced regional synergy, market synergy and business collaboration among companies under the Group and enlarged the industrial accumulation effect. For instance, in Qingdao region, Zhuzhou region and Dalian region, enterprises supported each other and shared advantages, had closer market and business connections, and constantly improved the regional influence of the CRRC brand. As market synergies became a consensus, the integration effect continued to benefit the Group. The Company successively won the bids for rail transit PPP projects in Wuhu, Kunming and other cities, enjoying a boom in the general contracting of projects. The Company continued to strengthen its internal development, accelerated the vertical collaboration along the industrial chain and continued to expand the scale of internal support, while gradually releasing the inside vitality of the Company.

(3) Continued optimization of technological structure and significant upgrade of innovation capability

The Company coordinated the promotion of three major technological innovation projects, implemented the system innovation project, and adhered to the organic combination of independent innovation, open innovation and innovative cooperation, constituted a comprehensive, flexible and highly effective technological innovation system. The first national technological national innovation centre in response to the "13th Five-year Plan", i.e. the National High Speed Train Technological Innovation Centre was approved and started construction, which will serve as a model for the pilot technological reform project of state-owned enterprises. The Company set up the Sino-American Rail Transport Research and Development Collaboration Centre and the CRRC–University of Michigan Advanced Manufacturing Research Centre, and a total of 12 overseas R&D centres, The Tongji – CRRC Innovative Research Centre was established; the 191 University-corporate alliance model, namely CRRC + Alliance of 9 top universities including Tongji University + the observer Hunan University started operation; and the synergized innovation platform for industry, teaching, research and application has improved. Eight special technological research and development centres including "CRRC Sensor Measurement Technological Research and Development Centre" was established. The Company implemented the R&D innovation project and undertook the "National Key Research and Development Plan – Key Advanced Rail Transportation Project", which was the first project led by enterprises on behalf of the government, further highlighted the leading and supporting role of CRRC in technological innovations in China. Research and development of key products continued to accelerate. The standard EMU in China at a speed of 350km/hour completed operation assessment and obtained national model permits. China's first medium-to-low-speed magnetic levitation express train was officially put into operation, and the Beijing maglev train was successfully delivered; the first levitated train and the first new energy levitated train successfully went off the production line. The research and development of products such as the overnight EMU at the speed of 350km/hour, the standard EMU at the speed of 250km/hour, the fast passenger and freight locomotives at the speed of 160km/hour, large-axle heavy load freight locomotive with a load of 27T or above, piggyback transport train, fright EMU, and fast freight vehicle at the speed of 160 to 200km/hour and so forth progressed smoothly. The Company implemented capacity innovation projects. By coordinating researches on the use of technological resources and drawing the "CRRC test and verification capability map", the deployment of test and verification resources was further optimized. Intellectual property work has been strengthened continuously. In the selection of the 18th China Patent Award, the Company won 2 gold medals for its invention patents, ranking first in the equipment manufacturing industry. CRRC was among the "2016 Top Global Enterprises with the Most R&D Investment", ranking 96th worldwide. The Beijing-Shanghai high-speed train project undertaken by relevant subsidiaries of the Company won the "National Science and Technology Progress Outstanding Award"; the key technologies in traction control owned by the Zhuzhou Company and related application project won the "Second Prize in the National Technology Invention Award"; and the high-speed train gear transmission system project of the Qishuyan Company won the Grand Prize in the 4th China Industry Awards.

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(4) Steady progress in management improvement and consolidated development basis

In line with national strategies and by soliciting all kinds of opinions, the Company made and implemented the CRRC "13th Five-Year" development strategy. Every business sector, functional system and company completed the "13th Five-Year" plan, and formed a strategic planning system with good work distribution and effective connections. By strengthening strategic cooperation, the Company signed a number of strategic cooperation agreements with provincial and municipal governments, state-owned enterprises, universities and colleges as well as international institutions, to constantly expand areas of cooperation. The Company carried out in depth the "61162" talent project, formed a leading team of 2 academies, 7 CRRC scientists, 61 chief technical experts, 9 chief management experts and 19 chief skills experts, to significantly enhance the talent leading effect. The construction of the refined management system progressed steadily and the standard appraisal system started operation, 3 companies reached Class 2 in refined management, and 3 companies reached Class 3; 6 companies reached Class 1 in refined production and 8 companies reached Class 2. The quality control system framework of CRRC was primarily established. The overall safe production was ensured, energy conservation and emissions reduction work were effectively implemented, and energy consumption and pollutants emissions reduced continuously. The Company fully participated in the national campaign for the integrated management system in digitalization and industrialization, and the "digitalized CRRC" construction progressed steadily. 7 projects of the Company were included in the national intelligent manufacturing pilot projects with certain enterprises engaged in intelligence manufacturing.

II. Major operation results during the reporting period

In 2016, the revenue of the Company decreased by 5.74% to RMB224.138 billion and net profit attributable to owners of the company decreased by 4.42% to RMB11.296 billion. As at the end of December 2016, the consolidated total assets of the Company increased by 8.54% to RMB338.311 billion and the total equity increased by 9.01% to RMB123.805 billion. The gearing ratio was 63.41%, representing a decrease of 0.15% as compared with that at the beginning of the year. In 2016, the Company's newly signed orders amounted to approximately RMB262.6 billion (of which, contracted sales generated by the international businesses amounted to approximately USD8.1 billion, representing a year-on-year increase of 40%). Orders on hand as at the end of the reporting period amounted to approximately RMB188.1 billion.

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(I) Analysis of main businesses

1. Analysis of revenue and costs

(1) Information on main business

Main Business by Segment

Business	Revenue RMB'000	Operating Costs RMB'000	Gross Profit Margin (%)	Increase/ Decrease in Revenue from Last Year (%)	Increase/ Decrease in Operating Costs from Last Year (%)	Increase/ Decrease in Gross Profit Margin from Last Year (%)
Railway equipment	106,174,617	80,566,517	24.12	-18.04	-19.34	An increase of 1.22 percentage points
Rapid transit vehicles and urban infrastructure	26,977,952	22,726,108	15.76	10.22	5.68	An increase of 3.61 percentage points
New businesses	57,561,877	44,118,719	23.35	9.61	8.28	An increase of 0.94 percentage point
Modern service	33,423,518	31,698,468	5.16	6.98	8.86	A decrease of 1.64 percentage points
Total	224,137,964	179,109,812	20.09	-5.74	-6.35	An increase of 0.52 percentage point

Revenue from railway equipment business decreased by 18.04% as compared to the same period of the previous year, mainly due to the decrease in purchase orders for major products in the railway market and a decrease in the number of deliveries during this period. Operating costs decreased by 19.34% as compared to the same period of the previous year, mainly due to a decrease in the costs in line with decreased revenue, which was slightly higher than the decrease in the revenue as a result of changes in the product mix during this period.

Revenue from rapid transit vehicles and urban infrastructure business increased by 10.22% as compared to the same period of the previous year, mainly due to an increase in delivery of rapid transit and metro vehicles in this period. Operating costs increased by 5.68% as compared to the same period of the previous year, mainly due to an increase in the costs in line with the growth in revenue, which was slightly lower than the increase in the revenue due to various types of products.

Revenue from new businesses increased by 9.61% as compared to the same period of the previous year, mainly due to an increase in the number of deliveries of wind power equipment and new energy vehicles and automotive equipment during this period. Operating costs increased by 8.28% as compared to the same period of the previous year mainly due to an increase in the costs in line with the increase in revenue.

Revenue from the modern service business increased by 6.98% as compared to the same period of the previous year, mainly due to a growth in revenue from logistics as a result of increased efforts on centralized procurement during this period. Operating costs increased by 8.86% as compared to the same period of the previous year, primarily attributable to slight differences in costs due to the purchase of different types of goods.

Revenue of the Company decreased by 5.74% as compared to the same period of the previous year, and the contributions made by railway equipment business, rapid transit vehicles and urban infrastructure business, new businesses and modern service business accounted for 47.37%, 12.04%, 25.68% and 14.91% of the total revenue respectively. As to the railway equipment business, revenue generated by the electric locomotive business was RMB12.339 billion with 1,199 locomotives sold (including track engineering machinery products); revenue generated by the passenger carriage business was RMB8.327 billion with 1,269 passenger carriages sold; revenue generated by the EMUs business was RMB74.652 billion with 3,592 EMUs sold; revenue generated by the freight wagon business was RMB10.857 billion with 18,255 wagons sold; and revenue generated by the rapid transit vehicles and metro vehicles business was RMB26.978 billion with 4,962 vehicles sold.

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(2) Information on major suppliers and customers

In 2016, the procurement by the Company from its top 5 suppliers totalled RMB16.033 billion, accounting for 10.42% of the total amount of procurement for the year.

In 2016, the sales of the Company to its top 5 customers totalled RMB120.438 billion, accounting for 53.73% of the total sales of the Company for the year.

The relatively high customers concentration is primarily attributable to China Railway (including the railway bureaus and companies subordinate to China Railway) being the largest customer of the Company, which accounted for 47.18% of the total sales of the Company for the year.

None of the Directors of the Company or its close associates or shareholders holding more than 5% of the shares of the Company has any interests in the above suppliers or customers.

Relationship with customers:

Since the product unit value was relatively high, our sales method mainly consisted of participating in tenders or tender negotiations, through bidding in tenders, communication and negotiation based on historical prices in determining the final price and secure orders. Our sales customers were mainly railway and rail transit transportation operators. Railway customers were divided into railway customers and non-railway customers. Railway customers refer to China Railway and the railway bureaus and companies thereunder, which are the largest customers within the industry, and thus the Company has strong dependence on China Railway and the subordinate railway bureaus and companies. Non-railway customers were mainly large-scale plant, mining groups and ports, etc., the demand of which shows a trend of a year-on-year increase. Such customers were fragmented and thus the Company were not over-reliant on them. For the year ended 31 December 2016, approximately 53.73% of our products were sold to our five largest customers.

Relationship with suppliers:

Our principal raw materials and components were purchased through external procurements while some were supplied by internal production. We have established direct and stable supply channels with our major suppliers and external contracted production units. Since our suppliers were not highly concentrated, there was little risk of over reliance on any single supplier. For the year ended 31 December 2016, approximately 10.42% of our products were manufactured by our five largest suppliers.

(3) Main businesses by region

	Particulars of main businesses by region		
Geographical region	**Revenue RMB'000**	**Percentage of revenue in total revenue (%)**	**Year-on-year increase/decrease in revenue (%)**
Mainland China	205,198,319	91.55	-2.92
Other countries or regions	18,939,645	8.45	-28.28

The Company's operating revenue from Mainland China during the reporting period decreased by 2.92% while its operating revenue from other countries or regions decreased by 28.28%, mainly due to a decrease in the products delivered in this period affected by the delivery cycle of overseas orders.

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(4) **Cost analysis**

Costs of Main Businesses by Item

Cost item	Amount over the current period RMB'000	Proportion in total costs over the current period	Amount over the same period of the previous year RMB'000	Proportion in total costs in the same period of previous year	Year-on-year increase/decrease in operating costs (%)
Cost of materials	150,925,564	84.27%	162,129,955	84.77%	-6.91
Cost of labor	8,956,692	5.00%	9,345,303	4.89%	-4.16
Cost of manufacturing	12,169,834	6.79%	12,544,266	6.56%	-2.98
Other expenses	7,057,722	3.94%	7,230,136	3.78%	-2.38
Total	179,109,812	100%	191,249,660	100%	-6.35

Other explanations about cost analysis

During the reporting period, there was a decrease in the costs due to the decrease in operating revenue. The main products of the Company are railway equipment and direct materials account for a major cost of such products, which decreased in proportion with the decrease in revenue.

2. **Significant changes of administrative expenses and other financial data during the reporting period**

Item	2016 Amount RMB'000	2015 Amount RMB'000	Growth Rate %
Selling and distribution expenses	7,249,871	7,953,534	-8.85
Administrative expenses	22,426,597	22,486,214	-0.27
Financial expenses	1,264,203	1,412,319	-10.49
Share of profits of associated enterprises and joint ventures	453,354	418,956	8.21
Income tax expense	3,024,670	2,950,553	2.51

Selling and distribution expenses decreased by 8.85% as compared to the same period of the previous year, mainly due to the decrease in the provision of warranties as a result of the decrease in revenue and different product mix as well as the decrease in freight costs and overseas selling expenses due to the decrease in overseas revenue.

Administrative expenses decreased by 0.27% as compared to the same period of the previous year, which is substantially similar to the previous year.

Financial expenses decreased by 10.49% as compared to the same period of the previous year, mainly due to a decrease in the interest expenses on interest-bearing liabilities and a decline in cost of funds as compared to the previous year, resulting in a decrease in the financial expenses.

Share of profits of associated enterprises and joint ventures increased by 8.21% as compared to that of the previous year, mainly due to an increase in the profits of the associated enterprises and joint ventures.

The amount of income tax expense increased by 2.51% as compared to that of the previous year, mainly due to the decrease in deferred tax recognised as compared to that of the previous year as a result of a decrease in the movement in provision for product warrantly in the current year as compared to that of the previous year, leading to an increase in the income tax expense as compared to the previous year.

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3. R&D expenses

Information on R&D Expenses

Unit:'000 Currency: RMB

Expensed R&D cost in the current period	9,530,926
Capitalized R&D cost in the current period	153,573
Total R&D costs	9,684,499
Proportion of R&D costs in revenue (%)	4.32
Number of R&D personnel in the Company	34,671
Proportion of R&D personnel in the staff of the Company (%)	18.94
Proportion of the capitalized R&D cost (%)	1.59

Explanation:

In 2016, the Company undertook the National Key Research Project - Advanced Rail Transit Special Project (國家重點研發計劃－先進軌道交通重點專項), China's first implemented project led by an enterprise acting on behalf of the country, further demonstrating the Company's leading and supporting role in national and industrial technological innovation. Based on its "13th Five-Year" scientific development plan, following the national "One Belt and One Road" strategy, the Company focused on breakthrough in the bottleneck of key core technologies and development in new industries, mainly including technology R&D and development of new products in high-speed EMUs, express passenger transit, express freight transit and rapid transit vehicles as well as new materials, new energies, engineering machinery and environmental engineering. Each research project is currently running smoothly, which effectively increased the Company's core competitiveness and market share.

4. Analysis of cash flow during the reporting period

Item	2016 Amount RMB'000	2015 Amount RMB'000	Growth Rate %
Net cash flow from operating activities	20,986,379	14,981,510	40.08
Net cash flow from investment activities	-24,708,539	-5,391,870	—
Net cash flow from financing activities	1,306,378	-16,687,421	—

The net cash flow from operating activities was a net inflow of RMB20.986 billion, representing a increase of RMB6.005 billion as compared to the same period of the previous year, mainly due to a decrease in cash payments for the purchase of commodities or the receipt of labor services during the reporting period as compared to the same period of the previous year.

The net cash flow from investment activities was a net outflow of RMB24.709 billion, representing an increase in net outflow by RMB19.317 billion as compared to the same period of the previous year, mainly due to an increase in cash payments for investments during the reporting period as compared to the same period of the previous year.

The net cash flow from financing activities was a net inflow of RMB1.306 billion while the net outflow for the same period of the previous year was RMB16.687 billion, mainly due to the amount of interest-bearing liabilities incurred being greater that the amount repaid during the reporting period.

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(II) Analysis of the structure and changes of major assets and liabilities of the Company during the reporting period

1. Structure and changes of major assets and liabilities of the Company during the reporting period

Unit: '000 Currency: RMB

	31 December 2016	Proportion %	31 December 2015	Proportion %	Increase/ Decrease %
Interests in associates	7,195,541	2.13	1,975,241	0.63	264.29
Investment held to maturity	966,970	0.29	197,928	0.06	388.55
Bills receivable	15,099,951	4.46	10,166,491	3.26	48.53
Financial assets at fair value through profit or loss	731,916	0.22	3,424	—	21,276.05
Tax recoverable	140,282	0.04	92,375	0.03	51.86
Placements with financial institutions	—	—	1,200,000	0.38	-100.00
Borrowings - due within one year	27,184,026	12.67	15,259,583	7.70	78.14
Customers deposits	2,711,370	1.26	1,861,947	0.94	45.62

Interests in associates increased by 264.29%, mainly due to the acquisition of certain equity interest in China United Insurance during this period.

Investment held to maturity increased by 388.55%, mainly due to the newly issued bonds during this period.

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Bills receivable increased by 48.53%, mainly due to the increase in the number of acceptance bills received during the reporting period.

Financial assets at fair value through profit or loss increased by 21,276.05%, mainly due to the increase in wealth management products purchased during the reporting period.

Tax recoverable increased by 51.86%, mainly due to the decrease in withholding tax during the current period.

Placements with financial institutions decreased by 100% as compared to the beginning of the period, mainly due to the recovery by the Finance Company, a subsidiary of the Company, of placements with financial institution during this period.

Borrowings due within one year increased by 78.14%, mainly due to the relatively large increase in borrowings for operations during this period.

Customer deposits increased by 45.62%, mainly due to the relatively large increase in deposit taking by the Finance Company, a subsidiary of the Company, during this period.

2. Information on assets measured at fair value

Unit: '000 Currency: RMB

Item	Opening Balance	Gains (Losses) from Changes in Fair Value during the Current Period	Aggregate Changes in Fair Value Included in Equity	Provision for Impairment during the Current Period	Other Changes (Increase/ Decrease) during the Current Period	Closing Balance
Financial assets						
Including: 1. Financial assets at fair value through profit or loss	3,424	46,405	—	—	682,087	731,916
Including: derivative financial instruments	3,424	-438	—	—	—	2,986
Including: Corporate wealth management products	—	14,527	—	—	500,000	514,527
Including: Equity instrument investment	—	32,316	—	—	182,087	214,403
2.Available-for-sale financial assets	5,482,018	—	-65,389	-583,526	-1,910,224	2,922,879
Including: Listed equity instrument investment	2,223,018	—	-82,554	-583,526	869,642	2,426,580
Including: Listed perpetual bond investment and listed preference share investment	—	—	2,853	—	441,747	444,600
Including: Non-Listed financial assets	3,259,000	—	14,312	—	-3,221,613	51,699
Subtotal of financial assets	5,485,442	46,405	-65,389	-583,526	-1,228,137	3,654,795

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

Unit: '000 Currency: RMB

Item	Opening Balance	Gains (Losses) from Changes in Fair Value during the Current Period	Aggregate Changes in Fair Value Included in Equity	Provision for Impairment during the Current Period	Other Changes (Increase/ Decrease) during the Current Period	Closing Balance
Financial assets						
Cash and bank balances	1,913,119	–	–	–	6,140,894	8,054,013
Trade receivables	4,666,018	–	–	-259,881	250,018	4,656,155
Prepayments, deposits and other receivables	164,187	–	–	-702	955,884	1,119,369
Long-term receivables	300,264	–	–	–	1,106,109	1,406,373
Other non-current assets	–	–	–	–	831,205	831,205
Available-for-sale financial assets	–	–	2,853	–	441,747	444,600
Held to maturity investment	–	–	–	–	966,970	966,970
Financial assets at fair value through profit or loss	3,424	-438	–	–	–	2,986
Including: derivative financial instruments	3,424	-438	–	–	–	2,986
Subtotal of financial assets	7,047,012	-438	2,853	-260,583	10,692,827	17,481,671
Financial liabilities						
Borrowings	4,646,730	–	–	–	91,148	4,737,878
Trade payables	1,226,268	–	–	–	381,108	1,607,376
Other payables and accruals	109,177	–	–	–	4,942,920	5,052,097
Long-term payables	173,576	–	–	–	-16,139	157,437
Financial liabilities at fair value through profit or loss	359	12,169	–	–	4,455	16,983
Convertible bonds-debt component	–	–	–	–	3,758,742	3,758,742
Convertible bonds-derivative component	–	-88,768	–	–	454,865	366,097
Subtotal of financial liabilities	6,156,110	-76,599	–	–	9,617,099	15,696,610

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

(1) Significant capital expenditure

Item	2016 Amount RMB'000	2015 Amount RMB'000
Property, plant and equipment	9,916,522	8,479,761
Prepaid lease payments	307,256	919,552
Other intangible assets	519,370	640,833
Investment properties	—	673,568
Total capital expenditure	10,743,148	10,713,714

(2) Capital commitment

As at 31 December 2016, the capital expenditure that the Group committed to but had not yet undertaken was RMB5.005 billion, which will be used mainly for property, plant, equipment or used as prepaid lease payments and for other intangible assets.

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

The Company has no significant contingent liabilities other than the warranties provided by the Company as set out in the section headed "Significant Events - V. Significant Contracts and Their Implementation" of this annual report.

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

As at the end of the reporting period, the following assets of the Company were mortgaged for obtaining bank loans or other bank credit facilities:

Item	2016 Amount RMB'000
Time deposits and bank balances	4,561,051
Bills receivable	2,411,482
Trade receivables	337,995
Property, plant and equipment	67,049
Prepaid lease payments	4,240
Total	7,381,817

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7. **Borrowings, corporate bonds and notes**

As at 31 December 2016, the total borrowings, bonds and notes of the Group amounted to approximately RMB41.655 billion, while the total borrowings as at 31 December 2015 amounted to approximately RMB29.576 billion.

Among the total borrowings, bonds and notes of the Group as at 31 December 2016, RMB33.158 billion was denominated in Renminbi; RMB7.873 billion was denominated in USD; and RMB452 million was denominated in Euro.

The long-term interest-bearing borrowings, bonds and notes, and short-term interest-bearing borrowings and bonds and notes of the Group as at 31 December 2016 were RMB14.471 billion and RMB27.184 billion respectively.

As at 31 December 2016, the bank borrowings and other borrowings of the Group with floating interest rates amounted to RMB9.381 billion while such borrowings as at 31 December 2015 amounted to RMB11.248 billion.

The following table shows the maturity dates of the borrowings, bonds and notes of the Group as at 31 December 2015 and 31 December 2016 respectively.

	31 December 2016 Amount RMB'000	31 December 2015 Amount RMB'000
Within one year (starting date and ending date inclusive)	27,184,026	15,259,583
One to two years	1,893,980	5,153,230
Two to five years	9,703,211	6,369,602
More than five years	2,874,221	2,793,421
Total	41,655,438	29,575,836

As at 31 December 2016, the total borrowings, bonds and notes of the Group amounted to approximately RMB41.655 billion, representing an increase of 40.84% from the borrowings as at 31 December 2015 in the amount of RMB29.576 billion, mainly due to the issuance of convertible bonds and corporate bonds by the Company and the increase in short-term borrowings.

8. **Cash Flow**

As at 31 December 2016, the cash and cash equivalents owned by the Group amounted to approximately RMB28.014 billion, of which RMB19.960 billion was denominated in Renminbi; RMB6.926 billion was denominated in USD; and RMB901 million was denominated in Euro.

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(III) Analysis of industrial and operational information

Under the new norm of economic development, rolling stock, as an important infrastructure of the country, is a key investment direction of the country and will play a significant role in promoting economic development. Local governments at all levels now also view the development of rail transit as an important measure in stabilizing growth and a comprehensive urban transportation system as the key in promoting urbanization. Demand for rolling stock products remains at a high level in the country and the industry has good prospects as a whole. However, market demand is imbalanced. The market demand for EMUs and rapid transit vehicles keeps growing while the market demand for freight wagons and locomotives is declining generally.

(IV) Analysis of investment

1. Overall analysis of equity investment

As at the end of the reporting period, the Company's long-term equity investment was RMB8,472 million, representing an increase of RMB4,859 million or 134.49% as compared to the beginning of the year, which was mainly due to the fact that the Company succeeded in the bidding for 2 billion shares in China United Insurance at a consideration of RMB4,455 million. For details, please refer to notes 20 and 21 to the financial statements prepared in accordance with the International Financial Reporting Standards in this annual report.

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(1) ***Significant equity investment***

There was no significant equity investment during the reporting period.

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

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

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

Unit: '000 Currency: RMB

Item	Opening Balance	Gains (Losses) from Changes in Fair Value during the Current Period	Aggregate Changes in Fair Value Included in Equity	Provision for Impairment during the Current Period	Other Changes (Increase/ Decrease) during the Current Period	Closing Balance
1. Financial assets at fair value through profit or loss	3,424	46,405	–	–	682,087	731,916
Including: derivative financial instruments	3,424	-438	–	–	–	2,986
Including: Corporate management wealth products	–	14,527	–	–	500,000	514,527
Including: Equity instrument investment	–	32,316	–	–	182,087	214,403
2. Available-for-sale financial assets	5,482,018	–	-65,389	-583,526	-1,910,224	2,922,879
Including: Listed equity instrument investment	2,223,018	–	-82,554	-583,526	869,642	2,426,580
Including: Listed perpetual bond investment and listed preference share investment	–	–	2,853	–	441,747	444,600
Including: Non-Listed financial assets	3,259,000	–	14,312	–	-3,221,613	51,699
Subtotal of financial assets	5,485,442	46,405	-65,389	-583,526	-1228,137	3,654,795

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(V) Significant sale of assets and equity

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

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

Currency: RMB Unit: '000

Company Name	Product and Scope of Main Business	Registered Capital	Total Assets at the End of the Period	Net Assets at the End of the Period Attributable to the Shareholders of the Company	Net Profit in 2016 Attributable to the Shareholders of the Company	Revenue in 2016	Operating Profit in 2016
CRRC Sifang (Note)	R&D and manufacturing of multiple units, passenger carriages and rapid transit vehicles; and repair services for multiple units and high-end passenger carriages etc.	4,003,794	46,341,027	12,128,780	3,461,694	42,197,601	3,841,687
CRRC Changchun	Design, manufacturing, repair, sale and lease of passenger carriages, multiple units, rapid transit vehicles and the accessories thereof, as well as related technical services and technical consultancy	5,807,947	47,468,614	15,406,377	3,297,095	33,337,564	3,820,668
CRRC ZELRI	Research on electric drive and control technologies related to rail transit; manufacturing of relevant electrical equipment; and R&D and manufacturing of railway locomotives and accessories thereof etc.	5,264,500	49,815,866	11,218,626	1,297,274	31,234,522	2,844,522
CRRC Tangshan	Manufacturing of railway transportation equipment; sale and lease of railway vehicles, electric multiple units, diesel multiple units, maglev trains, special vehicles, test vehicles, rapid transit vehicles and accessories thereof; and technical consulting services etc.	3,990,000	23,940,841	9,242,636	1,458,041	14,412,912	1,698,337
CRRC Zhuzhou locomotive	R&D and manufacturing of electric locomotives, multiple units and rapid transit vehicles etc.	4,401,366	25,495,523	6,527,961	1,006,911	16,782,217	997,023

Note: Net profit of CRRC Sifang attributable to shareholders of the company in 2016 recorded a year-on-year increase of 32.5%, mainly due to increase in sales of multiple units during the reporting period.

(VII) Use of H shares proceeds raised

As approved by the Reply about Approving China CNR Corporation Limited to Issue Overseas Listed Foreign Shares (CSRC Permit No. [2014] 404) issued by the China Securities Regulatory Commission, CNR issued through its public offering 1,939,724,000 (including over-allotment) overseas listed foreign shares (H-shares) in May 2014 and the proceeds raised totaled HKD 10.028 billion. As at 31 December 2016, the proceeds raised through the issuance of H-shares and used by the Company in aggregate were approximately HKD 9.050 billion, and interest of bank deposits received amounted to HKD115 million in total. As at 31 December 2016, proceeds used by the Company raised through issuance of H-shares amounted to HKD1.093 billion.

On 5 February 2016, the Company issued H Share convertible bonds in an aggregate amount of US$600 million. The net proceeds of such issuance were approximately US$595.80 million. As at 31 December 2016, the Company used approximately US$302.25 million of such proceeds for the following purposes: (1) approximately US$46.90 million for the repayment of bank loans, (2) approximately US$6.00 million for the Group's Boston Metro Project, and (3) approximately US$249.35 million for the business operation needs of CRRC Hong Kong Capital Management Co., Limited, a wholly-owned subsidiary of the Company. As at 31 December 2016, the Company received a deposit interest of approximately US$4.26 million in respect of the proceeds from the issuance of the H Share convertible bonds and the balance of the proceeds was approximately US297.81 million. Please refer to the section headed "Significant Events-VII. Information on the Convertible Corporate Bonds" in this annual report for details of the Company's H Share convertible bonds.

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

(1) Landscape and trend of the industry

1. Political environment

The current domestic and international environment is still intricate. The difficult global economic recovery, strong return of trade protectionism, and the increasing geopolitical risk posed great uncertainties for government-business relationships and the business environment. The global governance system continued to have in-depth reforms and the collective power of developing countries continued to strengthen. With the accelerated restructuring of the international investment and trade rules system, the multilateral trading system was subject to challenges of the high standards of regional free trade system. Affected by the "two way squeeze" of "re-industrialization" and "re-emerging of manufacturing industry" in developed countries and the low-cost competition in developing countries, China's manufacturing industry is confronted with increasingly fierce international competitions. With the increasing downward pressure of the domestic economy, the new norm is taking a more obvious shape in the economy, environmental resource constraints becoming further pronounced, overcapacity in traditional manufacturing industry, changes in economic growth rate, pains caused by the structural economic adjustment and the gradual upgrade from old to new energy sources, enterprises are faced with increasing survival and development pressure. As the supply side reform continues to deepen, there are more urgent needs for quality improvement, efficiency boost, transformation and upgrade.

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2. **Economic environment**

Despite the in-depth development of multi-polarization, economic globalization, cultural diversification, and social informatization, the peace and development theme of the time remained unchanged. In order to promote economic growth, many countries have relaxed the investment restrictions in key areas, provided a rare opportunity for Chinese enterprises to implement global distribution and international operations. The economic fundamentals of the long-term development trend of the country also remained unchanged. The "13th Five-Year" period is the decisive stage of China's comprehensive construction of a well-off society. The new industrialization, informatization, urbanization and agricultural modernization is enjoying in-depth development, forming new growth momentums. There is still large development space in the leading development of the eastern region, the development of the western region, the revitalization of the northeastern region and the rise of the central region. The "One Belt One Road" initiative, the Beijing-Tianjin-Hebei development cooperation and the Yangtze River economic zone strategy added new impetus to economic growth. The reform of state-owned enterprises and state-invested enterprises has entered the crucial period, and the national "13th Five-Year" as well as the 13th five-year plan for central enterprises promoted the notion of "unswervingly building strengths, improving competitiveness and expanding the scale of state-owned enterprises, to cultivate a number of state-owned enterprises with independent innovation capability and international competitiveness", which provided the direction for the reform and development of CRRC.

3. **Market environment**

In the next few years, the overall demand for rail transportation equipment will remain stable. Railway construction will continue to play an important role in economic development and in the improvement of people's livelihood. The recently promulgated and implemented "《Medium to long-term railway network plan》" proposed to "improve the ordinary-speed railway network, build high-speed railway network, construct integrated transport hubs, and build a modern integrated transport system." By 2020, the railway mileage will reach 150,000 km, of which high-speed rail mileage in operation will reach 30,000 km, covering more than 80% of the major cities, railway investment will exceed RMB3.5 trillion, and railway equipment investment will reach RMB500 billion. The demands during the "13th Five-Year" will remain stable. Demands such as "zero distance" passenger transfer, "seamless" logistics connection and "integrated" transport services place higher standard on the railway equipment, highlighting the structural imbalance between the markets supply and demand. As the urban rail transit operation continues to grow and with the acceleration of new urbanization and urban agglomeration, urban rail transit will gradually constitute a new growth point in the national economy. With the loosening of policies in urban rail transit construction application, urban rail transit construction will welcome better development opportunities, and PPP model will become an important development model in the field of rail transit. The Company must give full play to its unique industry advantages, vigorously develop its general contracting business, and strive to extend its businesses in infrastructure construction management to the front end of the industrial chain, in mechanical and electrical system support, and in post-construction operation and maintenance.

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4. Industry Technology Policies

The new round of scientific and technological revolution, characterized by information network, intelligent manufacturing, new energy and new materials, has developed rapidly. The disruptive technological innovation has emerged in large numbers, and as the representative of high-end manufacturing, the rail transportation equipment manufacturing industry has witnessed huge changes. During the period of the "13th Five-Year", the state has listed innovation as the top of the five development concepts, and has carried out a series of innovative actions such as "Internet +", "Public entrepreneurship and innovation" and "Made in China 2025", to deepen the reform of science and technology system, improve the innovation system, and lead the construction of industrial technology innovation alliance. By building a new industry system, promoting the development of strategic emerging industries, and promoting various innovations including industrial organizations, business models, supply chains, logistics chains and other Internet-based innovations, the manufacturing service industry development has been directed to professionalism and the high end of the value chain. New technologies, new industry, and new industry practices are flourishing, providing a huge industrial development space. The "《13th Five-Year' National Planning on Strategic Emerging Industries》", the "《Guiding Catalogue on Key Products and Services of Strategic Emerging Industries》", and related supporting policies will further promote the development of strategic emerging industries and the manufacturing services industry. The Company vigorously explored businesses such as new energy equipment, new energy vehicles, new materials and environmental protection water treatment, which allow it to enjoy broad development prospects.

(2) Development Strategies of the Company

The "13th Five-Year" period is the first five-year for CRRC to advance to new goals under the new situation. Based on China's development of related industries and the comprehensive analysis on major target markets, CRRC has formulated the strategic-planning guiding principles for the "13th Five-Year" period: by implementing the spirits of the 18th National Congress, the successive plenary sessions of 18th Central Committee of the CPC as well as the national plan for the "13th Five-Year", the Company will firmly build and earnestly implement development concepts including innovation, coordination, greenness, openness and sharing, focusing on improving development strategy and efficiency, the Company will integrate the three dynamics of innovation, reform and integration, strive to complete the five tasks including internationalization, diversification, high-end development, digitalization and coordination, as well as strengthen the guarantee in five areas including systems, resources, management, risk control and Party building, and enhance its leading innovation role and its international competitiveness, so as to achieve higher quality, more efficient and more sustainable development and lay a solid foundation to develop into a world leading, cross-national operating first tier enterprises group with railway transformation equipment as its core.

The Company's business development plan:

Railway equipment business: By actively adapting to changes in the domestic and international transport market and technological trends and by accelerating the railway passenger and freight transport technology, product and service model innovation, the Company endeavours to meet the requirements for developing an advanced, and widely-applicable railway system and promote intelligent, green and safe development, as well as fully adapt to the transformation and upgrade of rail transport enterprises and requirements for the construction of an integrated transportation system. The Company will seize the opportunities of "One Belt One Road" and international capacity cooperation, develop and export solutions in a standardized way, including rail transportation equipment, technology and services with the standard Chinese EMU as a representative, and establish a global business collaboration platform to expedite the "venturing to" pace. The Company will build a systematic, modular and standardized product structure and technology platform, strengthen the innovations ability and internal support in key parts and components, develop advanced repair capacity, promote service transformation, and speed up the transformation to provide systematic solutions.

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Rapid transit vehicle and urban infrastructure business: Facing the international market, the Company will expedite the development and innovations in urban rail vehicles and continue to upgrade product structure to firmly occupy the domestic market and continuously expand the international market with its high quality products and services. By grasping the global development opportunity in urbanization and focusing on the urban rail transportation, the Company will give a full play to its comprehensive advantages in equipment manufacturing, business portfolio and the combination of industry and finance, improving its general contracting capability for construction projects, expanding its general contracting capability in operation services and continuing to expand its business scale in rapid transit vehicle and urban infrastructure.

New industry business: Adhering to the principles of "relevance and multi-dimensions, high-end positioning, resources matching and industry-leading products and services", the Company will focus on polymer composite materials, wind power equipment, new energy vehicles and environmental protection water treatment equipment, and marine industry equipment to accelerate the cultivation of a business cluster in which has outstanding core ability, leading industry position and significant leading effects to promote related multi-dimensional development.

Modern service business: Focusing on industrial transformation and upgrades, the Company will fully promote the integrated development of the manufacturing and service industries, steadily expand its financing services, leasing, investment and financing, logistics and trading as well as other modern services.

International business: Fully grasping strategic opportunities including "One Belt One Road" and international capacity cooperation and prioritizing the rail transportation equipment business to promote other related industries, the Company will vigorously target the international market, fully improve its international operation capability, and speed up the transformation from domestic to international market, from "venturing out" to "venturing to" and from a domestic enterprise to a multinational company.

(3) Operation plans

In 2016, the Company faced economic downturn and a sharp fall in the demand of railway equipment, despite the cliff-like decline in the locomotive business and the tough freight vehicle business, all members of the Company withstood the operating pressure, adhered to the fine tradition of CRRC, and achieved basic stable business performance through concerted efforts.

In 2017, the Company will focus on three topics of "innovation, change, and internationalization", focusing on refined management and aiming at improving corporate health, reducing costs and enhancing efficiency, strengthening operation control, enhancing management level, speeding up its international operations, maintaining stable operating income and costs to lay a sound foundation for building a world leading and multinational company with rail transportation equipment as the core.

(4) Potential risks

1. Policy risks

Changes in the market access policies in the rail transportation equipment manufacturing business, urban rail transportation industry policies and industrial policies in emerging industries may lead to a number of uncertainties in the market environment and development space, bringing risks for strategies and operations of the Company.

Responding measures: timely collect information related to the industrial policy or industrial planning; conduct proper studies on policy and trend; positively deal with possible changes in policies and plans. Strengthen internal management; improve operation and management standards of the Company; reduce operation costs; endeavour to improve the efficiency of operations and enhance ability to mitigate policy risks.

2. Market risks

Domestic market risks: With the domestic railway market growth decelerating and the railway passenger and freight transportation reform, as well as product structure adjustment and optimization, the demand in market may face structural adjustments.

Responding measures: proactively communicate with major clients; collect information relating to domestic economy, politics and the industry, etc.; conduct proper studies and forecasts of market trends; transform the development model, optimize the industrial structure of the Company and expand new business models, etc. so as to mitigate against these risks.

International market risks: the international political and economic situations are extremely complex, with slow economic recovery and return of trade protectionism. The international landscape will manifest more uncertain factors beyond our control. The implementation of the "internationalization" strategy of the Company will also increase its market and operational risks in the overseas market.

Responding measures: make fine plans from the top; scientifically plan the medium to long term development path for internationalization; improve the management system for international businesses and strengthen the research and practice of worldwide corporate governance structure, multinational management control models and overseas companies' management; improve the competitiveness of the headquarter and enhance multinational operation capability. Proactively communicate with customers to understand customer needs in depth; strengthen market research and give full play to the Company's advantages in its products, costs and technology; leverage on global resources to provide systematic solutions and value-added services for clients. Promote the four-local model in depth including "local manufacturing, local labour, local procurement and local maintenance", expand its overseas business scale and promote the internationalization of CRRC rapidly and orderly with precise targets, thus achieving the full internationalization of CRRC.

3. Risks related to product quality

In the railway market, a "trinity" safety guarantee mechanism covering related personnel, materials and technologies has been earnestly constructed by major clients to ensure railway safety, thus posed higher standards for the safety and reliability of rail transportation product quality and constituted more challenges for companies which not only continuously improves the product portfolio but also continues to strengthen technological innovations.

Responding measures: promote the construction of the CRRC quality management system in depth, expedite the construction of quality management standards, and create CRRC characteristic quality management standards which are replicable, transferrable, verifiable and scalable; strictly monitor all procedures including design, manufacturing and procurement and strengthen the product realization process and all-life-circle quality management to ensure that the products can go through tests in operation and safeguard rail safety.

4. Risks related to industrial structure adjustment

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

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

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5. Exchange rate risks

With the accelerated pace of internationalization of the Company, the Company's product exports, overseas investment, mergers and acquisitions and other activities continue to increase which face various risks due to fluctuation in exchange rate, including foreign exchange trading risk arising from inconsistencies in the transaction date and settlement date in foreign currency-denominated trading activities, and the risk of changes in the value of overseas enterprises due to exchange rate fluctuations etc..

Responding measures: The Company is closely following the trend of fluctuation exchange rate, strengthen relevant personnel's awareness of risk prevention, establish an exchange rate risk prevention mechanism, adopt different currency transactions and so on, and use financial hedging instruments to deal with exchange rate risks.

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

(1) Formulation, execution or adjustment of cash dividend policy

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

On 29 March 2016, the Company held the 12th meeting of the first session of the Board, pursuant to which the 2015 Proposal for Profit Distribution Plan of CRRC was considered and approved to distribute cash dividend of RMB0.15 (tax inclusive) per share to all shareholders based on the total share capital of the Company of 27,288,758,333 shares as at 31 December 2015. On 16 June 2016, the 2015 annual general meeting of the Company approved the resolution. On 5 August 2016, the 2015 profit distribution plan has been completed.

On 29 March 2017, the Company held the 21st meeting of the first session of the Board, pursuant to which the 2016 Proposal for Profit Distribution Plan of CRRC was considered and approved to distribute cash dividend of RMB0.21 (tax inclusive) per share to all shareholders based on the total share capital of the Company of 28,698,864,088 shares, subject to the consideration and approval of the resolution at the 2016 annual general meeting of the Company.

If the proposal for profit distribution mentioned above is considered and approved by the general meeting of the Company, it is expected that the Company will pay dividends in cash by the end of August 2017. When the specific time is determined for convening the general meeting, the Company will make a separate announcement on further details regarding the suspension of the registration of transfer of the H shares and the expected cash dividend payment date in respect of the relevant dividend distribution.

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(2) Final or preliminary plans about distribution of profits from common stock or about conversion of capital reserve into share capital made by the company during the recent three years (including the reporting period)

Unit:'0,000 Currency: RMB

Year of distribution	Number of bonus shares given for each 10 shares held	Dividends distributed for each 10 shares held (CNY) (tax inclusive)	Number of shares converted from capital reserve for each 10 shares held	Amount of cash bonus (tax inclusive)	Net profits attributable to shareholders of the listed Company contained in the consolidated financial statements for the year of distribution	Percentage of net profits attributable to shareholders of the listed Company contained in the consolidated financial statements (%)
2016	–	2.1	–	602,676	1,129,560	53
2015	–	1.5	–	409,331	1,181,840	35
2014	–	1.2	–	327,465	1,080,731	30

V. Tax and Tax Relief

In accordance with the Enterprise Income Tax Law of the People's Republic of China and its implementation rules which became effective on 1 January 2008, and the circular on Issues Relating to the Withholding of Enterprise Income tax for Dividends Distributed by Resident Enterprises in China to Non-resident Enterprises Holding H Shares issued by the State Administration of Taxation (Guo Shui Han [2008] no. 897), enterprise income tax shall be withheld at a rate of 10% when the Company pays final dividends to non-resident enterprises whose names appear on the register of H shareholders of the Company. The enterprise income tax shall be withheld for the dividends of any H shares under the names of non-individual shareholders (any H shares of the company registered in the name of HKSCC Nominees Limited, other nominees and trustees, or other organisations and institutions, shall be deemed as shares held by non-resident enterprise shareholders).

According to Guo Shui Han [2011] No. 348 issued by the State administration of Taxation, the Company shall withhold and pay individual income tax for dividend payable to individual H shareholders. Individual H shareholders are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax agreements between the countries where they are residents and China or the tax arrangements between mainland China and Hong Kong (Macau). If the individual H shareholders are Hong Kong or Macau residents or residents of the countries having an agreed dividend tax rate of 10% with China, the Company shall withhold and pay the individual income tax at a rate of 10%. Should the individual H shareholders be residents of the countries having an agreed dividend tax rate of less than 10% with China, the Company would apply for entitlement of the relevant agreed preferential tax treatment on their behalf in accordance with the notice of the State Administration of Taxation in relation to the administrative measures on preferential treatment entitled by non-residents under tax treaties (tentative) (Guo Shui Fa [2009] no. 124) (《國家稅務總局關於印發<非居民享受稅收協議待遇管理辦法(試行)>的通知》(國稅發[2009]124號)). Should the individual H shareholders be residents of the countries having an agreed dividend tax rate exceeding 10% but lower than 20% with China, the Company shall withhold and pay the individual income tax at the actual agreed rate. In the cases of individual H shareholders who are residents of countries having not entered into any tax agreement with China or otherwise, the Company shall withhold and pay the individual income tax at a rate of 20%.

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

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

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VI. Connected Transactions

(I) Non-exempt connected transactions

1. The Connected Transaction of the Subscription of New A Shares of the Company by CRRCG

The Company convened the 14th meeting of the first session of the Board on 27 May 2016, and considered and approved the relevant resolution on the non-public issuance of A shares by the Company. Accordingly, the Company intended to issue not more than 1,385,681,291 new A shares (inclusive) to five target subscribers, including the controlling shareholder CRRCG, by way of a non-public issuance. The total proceeds to be raised will not exceed RMB12 billion (inclusive). The Company entered into a subscription agreement with CRRCG on 27 May 2016, pursuant to which CRRCG conditionally agreed to subscribe in cash and the Company conditionally agreed to allot and issue 692,840,646 new A shares at a total consideration of RMB6 billion.

The Company published an announcement on 5 August 2016 to adjust the price and the number of A shares to be issued under the non-public issuance of A shares. After the issue price was adjusted, the number of A shares through the non-public issuance was adjusted to not more than 1,410,105,755 A shares (inclusive), of which 705,052,878 new A shares were subscribed by CRRCG.

Upon completion of the non-public issuance of A shares, it is expected that the capital strength of the Company will be significantly enhanced, the capital structure will be optimized, the pressure on repayment of its liabilities will be mitigated to a certain extent and the Company's resilience against financial risks will be effectively reinforced.

CRRCG is the controlling shareholder of the Company holding, directly and indirectly, 55.63% equity interests of the Company and is thus a connected person of the Company under the Hong Kong Listing Rules. Pursuant to the relevant provisions of Chapter 14A of the Hong Kong Listing Rules, the above transaction constitutes a connected transaction of the Company.

The non-public issuance of A shares by the Company has been approved by the SASAC, was considered and approved by the 2015 annual general meeting of the Company and has been approved by CSRC. The registration of the non-public issuance of A shares was completed on 17 January 2017.

For details of the transaction, please refer to the announcements dated 27 May 2016, 5 August 2016, 2 September 2016 and 18 January 2017 published by the Company on the website of the Stock Exchange and the circular dated 30 May 2016.

2. **Establishment of CRRC Financial Leasing Co., Ltd.**

On 23 December 2015, the Company entered into the Capital Contribution Agreement (the "**2015 Capital Contribution Agreement**") with CRRCG to establish CRRC Financial Leasing Co., Ltd. ("**CRRCFL**") by jointly contributing capital in accordance with the terms and conditions of the 2015 Capital Contribution Agreement. If the transaction were completed under the 2015 Capital Contribution Agreement, CRRCFL would become a subsidiary of the Company and its equity interests would be held as to 91% and 9% respectively by the Company and CRRCG. During the preparation process of establishing CRRCFL, the Company adjusted the plan for the establishment of the CRRCFL pursuant to the relevant policy requirements and future development needs of CRRCFL; and added three other investors, namely, Yanzhou Coal, China Energy Reserve and Tianjin Trust, in addition to the original investors, CRRCG and the Company, to contribute capital for the establishment of CRRCFL. On 16 June 2016, the Company entered into the Capital Contribution Agreement (the "**2016 Capital Contribution Agreement**") with CRRCG, Yanzhou Coal, China Energy Reserve and the Tianjin Trust to establish CRRCFL by contributing capital in accordance with the terms and conditions of the 2016 Capital Contribution Agreement. Upon completion of the transaction, the equity interests of CRRCFL will be held as to 41%, 9%, 25%, 15% and 10% by the Company, CRRCG, Yanzhou Coal, China Energy Reserve and Tianjin Trust, respectively. During the preparation process of establishing CRRCFL, the Company adjusted the plan for the establishment of CRRCFL as Yanzhou Coal has exited from the preparation for such establishment due to relevant policy requirements and entered into a new capital contribution agreement at the beginning of 2017.

On 23 January 2017, the Company entered into the Capital Contribution Agreement (the "**Capital Contribution Agreement**") with CRRCG, China Energy Reserve and Tianjin Trust to establish the CRRCFL by contributing capital in accordance with the terms and conditions of the Capital Contribution Agreement. The registered capital of CRRCFL is RMB3 billion, among which the Company shall contribute RMB1.83 billion in cash to the registered capital, CRRCG shall contribute RMB270 million to the registered capital in cash, China Energy Reserve shall contribute RMB600 million to the registered capital in cash and Tianjin Trust shall contribute RMB300 million to the registered capital in cash. Upon completion of the Transaction, the equity interests of CRRCFL will be held as to 61%, 9%, 20% and 10% by the Company, CRRCG, China Energy Reserve and Tianjin Trust, respectively.

The establishment of CRRCFL is expected to be beneficial in facilitating the implementation of the industrial and financial strategies of the Company, assist the development of the main business and increase the core competence of the Company.

CRRCG is a controlling shareholder of the Company holding, directly and indirectly, 55.63% equity interests of the Company and is thus a connected person of the Company under the Hong Kong Listing Rules. The establishment of CRRCFL constitutes a connected transaction of the Company under the Hong Kong Listing Rules. Since all applicable percentage ratios in respect of the transaction exceed 0.1% but are less than 5%, the transaction is subject to the annual reporting and announcement requirements, but is exempt from shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

For details of the connected transaction, please refer to the connected transaction announcements dated 23 December 2015, 16 June 2016 and 23 January 2017 published by the Company on the website of Stock Exchange.

3. **Transfer of Equity Interest in Ziyang Electrical**

On 23 December 2016, CRRC Ziyang, a subsidiary of the Company, and CRRC Industrial Investment entered into an equity transfer agreement, pursuant to which CRRC Ziyang has agreed to sell and CRRC Industrial Investment has agreed to purchase 51% equity interest in Ziyang Electrical. The consideration for the transaction is RMB448,007,800, which will be paid by CRRC Industrial Investment in cash. Upon the completion of the transaction, 51% equity interest of Ziyang Electrical will be held by CRRC Industrial Investment, while the remaining 49% equity interest of Ziyang Electrical will be held by CRRC Ziyang, and Ziyang Electrical will cease to be a subsidiary of the Company.

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Through this transaction, Ziyang Electrical is expected to achieve a transformation in its operating mechanism and innovation in its development pattern by leveraging on the capital platform of CRRC Industrial Investment, therefore driving further development of its business. In addition, it will also help CRRC Ziyang to improve its asset structure and cash flow, therefore speeding up the process of its transformation and upgrade.

CRRCG is a controlling shareholder holding, directly and indirectly, 55.63% equity interest of the Company and is therefore a connected person of the Company under the Hong Kong Listing Rules. CRRC Industrial Investment is a wholly-owned subsidiary of CRRCG while CRRC Ziyang is a subsidiary of the Company. Therefore, the entering into of the agreement by CRRC Ziyang and CRRC Industrial Investment constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As all applicable percentage ratios in respect of the transaction exceed 0.1% but are less than 5%, the transaction is subject to the annual reporting and announcement requirements, but is exempt from shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

For details of the transaction, please refer to the connected transaction announcements dated 23 December 2016 and 28 December 2016 published by the Company on the website of the Stock Exchange.

(II) Non-exempt continuing connected transactions

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

On 29 March 2016, the Company and CRRCG entered into the Product and Service Mutual Provision Framework Agreement, pursuant to which CRRCG and/or its associates will sell raw materials, accessories, components, packing materials, etc. and provide repairing, training, processing, security and sanitation services to the Group. The Group will sell raw materials, accessories and energy resource, etc. and provide repairing, training, processing, greening, security and sanitation services to CRRCG and/or its associates. The agreement has an effective term from 1 January 2016 to 31 December 2018.

The Company estimates that under the Product and Service Mutual Provision Framework Agreement:(i) the annual caps for the amounts to be paid by CRRCG and/or its associates for provision of products and services by the Group for each of the three years ending 31 December 2018 will amount to RMB2,000 million, RMB2,750 million and RMB3,500 million, respectively; and (ii) the annual caps for the amounts to be paid by the Group for provision of products and services by CRRCG and/or its associates for each of the three years ending 31 December 2018 will amount to RMB1,700 million, RMB2,350 million and RMB3,000 million, respectively.

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

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

For details of the non-exempt continuing connected transaction, please refer to the continuing connected transaction announcement dated 29 March 2016 published by the Company on the website of the Stock Exchange.

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

On 29 March 2016, the Company and CRRCG entered into the Property Leasing Framework Agreement, pursuant to which CRRCG and/or its associates lease their lawfully owned properties to the Company and the Company leases its lawfully owned properties to CRRCG and/or its associates. The agreement has an effective term from 1 January 2016 to 31 December 2018.

The Company estimates that under the Property Leasing Framework Agreement, the annual caps for the amounts to be paid by the Group for leasing of properties from CRRCG and/or its associates for each of the three years ending 31 December 2018 will amount to RMB300 million, RMB400 million and RMB500 million, respectively; while the annual caps for the amounts to be paid by CRRCG and/or its associates for leasing of properties from the Group for the same period will amount to RMB200 million, RMB300 million and RMB400 million, respectively.

The Company considers it is in the interest of the Group to enter into the aforesaid transactions with CRRCG to ensure the stable supply and use of the property leasing business of the Company. CRRCG is familiar with the business needs of the Company and the transactions between the parties, and will therefore minimise the administrative costs of the Group.

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

For details of the non-exempt continuing connected transaction, please refer to the continuing connected transaction announcement dated 29 March 2016 published by the Company on the website of the Stock Exchange.

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

On 29 March 2016, the Finance Company and CRRCG entered into the Financial Services Framework Agreement, pursuant to which the Finance Company will provide deposit services, loan services and other financial services to CRRCG. The agreement has an effective term from 1 January 2016 to 31 December 2018.

The Company estimates that under the Financial Services Framework Agreement: (i) the daily deposit balance (including accrued interests) in respect of the provision by the Finance Company of deposit services to CRRCG and/or its associates for each of the three years ending 31 December 2018 will amount to RMB10,000 million, RMB16,000 million and RMB20,000 million, respectively; (ii) the daily lending balance (including accrued interests) in respect of the provision by the Finance Company of lending services to CRRCG and/or its associates for each of the three years ending 31 December 2018 will amount to RMB3,000 million, RMB6,000 million and RMB7,500 million, respectively; and (iii) the annual caps for the amounts to be received by the Finance Company for provision of miscellaneous financial services to CRRCG and/or its associates for each of the three years ending 31 December 2018 will amount to RMB200 million, RMB300 million and RMB400 million, respectively.

The Finance Company is relatively familiar with the operations of CRRCG, which is advantageous for the Company in providing CRRCG with convenient and efficient financial services, and simultaneously allows the Company to expand its financing channels, enhance its efficiency of fund usage, and minimize its cost of financing. The rates for deposit and lending are set pursuant to the normal business terms and in the interests of the Company and its shareholders.

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

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

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

For details of the non-exempt continuing connected transaction, please refer to the continuing connected transaction announcement dated 29 March 2016 published by the Company on the website of the Stock Exchange.

4. **The Company and Yu Jinkun entered into the Relevant Connected Transactions Master Agreement**

On 30 October 2015, the Company and Yu Jinkun ("**Mr. Yu**") entered into the Relevant Connected Transactions Master Agreement (the "**Master Agreement**"), pursuant to which accessories, commodities, materials and services are mutually provided between Mr. Yu and/or his associates and the Group. The agreement has an effective term from 30 October 2015 to 31 December 2016.

The Company estimates that under the Master Agreement: (i) The annual cap for one year ended 31 December 2016 of the intended payment in respect of sale of products and provision of services by Mr. Yu and his associates to the Group was RMB4,500 million; and (ii) the annual cap for one year ended 31 December 2016 in respect of sale of products and provision of services by the Group to Mr. Yu and his associates was RMB100 million.

The Company considers it is in the interest of the Group to enter into the transactions contemplated under the Master Agreement with Mr. Yu on the basis of: (i) a long-standing and stable business relationship between Mr. Yu and the Group; and (ii) the mutual understanding of the business needs and capabilities to supply the parts and accessories and services required for production use.

CNR Changchun is a 93.54% non-wholly owned subsidiary of the Company, and Mr. Yu is a director of CNR Changchun. Mr. Yu and his associates are connected persons of the Company under the Hong Kong Listing Rules. Therefore, the transactions contemplated under the Master Agreement constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

Since the applicable size test percentage ratios of the continuing connected transactions in respect of the sale of products and provision of service by Mr. Yu and his associates to the Group under the Master Agreement exceed 1% but are less than 5%, such transactions are only subject to the annual review and disclosure requirements but are exempted from the shareholders' approval requirement of the Hong Kong Listing Rules. As all of applicable size test percentage ratios of the continuing connected transactions in respect of the sale of products and provision of service by the Group to Mr. Yu and his associates under the Master Agreement are less than 1%, such transactions are fully exempted from the shareholders' approval, the annual review and all the disclosure requirements.

For details of the continuing connected transaction, please refer to the continuing connected transaction announcement dated 30 October 2015 published by the Company on the website of the Stock Exchange.

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5. **The Actual Transaction Amounts of Non-exempt Continuing Connected Transactions during the Year**

The Company confirms that the actual transaction amounts of the above non-exempt continuing connected transactions did not exceed the relevant caps in 2016. Please refer to the table below for details.

Currency: RMB Unit: million

Serial number	Type of connected transactions	Limit for 2016	Actual transaction amount for 2016
1.	Purchase of products and services under the Product and Service Mutual Provision Framework Agreement with CRRCG	1,700.00	270.72
2.	Sale of products and provision of services under the Product and Service Mutual Provision Framework Agreement with CRRCG	2,000.00	241.59
3.	Rental payment under the Property Leasing Framework Agreement with CRRCG	300.00	65.91
4.	Rental received under the Property Leasing Framework Agreement with CRRCG	200.00	1.76
5.	Maximum daily loan balance of the loan services provided by the Finance Company under the Finance Services Framework Agreement between the Finance Company and CRRCG (accrued interest included)	3,000.00	50.61
6.	Charges for other financial services provided by the Finance Company under the Financial Services Framework Agreement between the Finance Company and CRRCG	200.00	0.38
7.	Total purchases under the Master Agreement with Mr. Yu	4,500.00	4,185.19

6. **Annual review of non-exempt Continuing Connected Transactions**

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

(1) in the ordinary course of business of the Group;

(2) conducted on normal commercial terms or more favorable terms; and

(3) conducted on the term of the relevant transaction agreements, which are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

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

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(1) have not been approved by the listed issuer's board of directors;

(2) were not, in all material respects, in accordance with the pricing policies of the listed issuer's group if the transactions involve the provision of goods or services by the listed issuer's group;

(3) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and

(4) have exceeded the cap.

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

7. Related party transactions

Save as to the above, details of the related party transactions of the Company for the year ended 31 December 2016 are set out in note 45 to the consolidated financial statements. Except for the related party transactions between the company and joint ventures and associates set out in Note 45, all related party transactions are connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. The Company confirms that the related party transactions have complied with the applicable disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

(III) Non-competition Agreements and Undertakings

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

REPORT OF DIRECTORS

VII. Other Disclosable Matters

(I) Principal businesses

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

(II) Major customers and suppliers

For details of the major customers and suppliers of the Company, please refer to the section headed "Directors' Report – B. Management Discussion and Analysis – II. Major Operation Results during the Reporting Period" of this annual report.

(III) Reserves

Detail of changes in the reserves of the Company are set in the Consolidated Statement of Changes in Equity of this annual report prepared under the IFRSs.

(IV) Reserves available for distribution

For details of the reserves of the Company available for distribution, please refer to Note 48 to the financial statements of this annual report prepared under the IFRSs.

(V) Share capital

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

(VI) Bank loans and other loans

Details of the bank loans and other loans of the Company as at 31 December 2016 are set out in Note 36 to the financial statements of this annual report prepared under the IFRSs.

(VII) Property, plant and equipment

Details of changes in the property, plant and equipment of the Company in 2016 are set out in Note 15 to the financial statements of this annual report prepared under the IFRSs.

REPORT OF DIRECTORS

(VIII) Donations

The total charitable and other donations of the Company amounted to approximately RMB11.073 million during the reporting period.

(IX) Service contracts of Directors and Supervisors

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

(X) Directors and Supervisors' interests in contracts

The Company did not enter into any contract of significance in which Director(s) or Supervisor(s) of the Company held, either directly or indirectly, any material interests for the year ended 31 December 2016.

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

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

REPORT OF DIRECTORS

(XII) Directors' interest in businesses competing with the company

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

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

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

(XIV) Management contracts

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

(XV) Pre-emptive rights

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

REPORT OF DIRECTORS

(XVI) Employee retirement plan

Details of the employee retirement plan of the Company are set out in Note 37 to the financial statements of this annual report prepared under the IFRSs.

(XVII) The Company's environmental policies and compliance

In 2016, with an aim of establishing itself as "Green and Low-carbon CRRC", the Company achieved the standard in both energy consumption intensity and gross pollutants emission, completely accomplishing the annual goal for energy conservation and emissions reduction by solidifying its foundation, strengthening risk monitoring and control as well as improving system management.

The Company comprehensively implemented the accountability system and improved the evaluation mechanism of energy conservation and emission reduction, placing risks and indication management as the integral parts of the enterprise's system of performance evaluation. By way of establishing the platform of the "4 Ones", namely, "one book", "one list", "one register" and "one class", the Company has been strengthening the management of foundation for energy and environment protection, while building a specialist bank of energy and environment protection for the purpose of selecting management professionals in technology through the construction of a three-tier management network. All manufacturing enterprises have passed the ISO14001 Environmental Management System certification and 13 subsidiaries have passed the ISO50001Energy Management System certification as a result of the in-depth application of systematic logic and improvement to the energy and environmental management systems. The Company has required the solid implementation of management for the entire process, strict performance of assessment for the influence of construction projects on the environment, energy conservation and the system of "Three Meantimes", the exercise of clean production and the enhancement in monitoring and control of environmental risks. Besides, innovative assessment on a standardized basis has been made with enhanced effort in supervision and inspection and self-improvement, through which exchange between enterprises has been facilitated while ensuring the efficiency of the supervision and inspection. We have initially developed a unified standard for further promotion of the construction of a system for monitoring and control of energy and facilities, and the development of the functions of the application system. In an effort to realise green production throughout the all-life-cycle and laying the foundation for a "respectable international enterprise", the Company combined new technology for energy conservation and emission reduction and the promotion for application of a new model, achieving consumption and pollutants reduction with enhanced efficiency.

For details, please refer to the "2016 Social Responsibility Report of CRRC Corporation Limited" of even date disclosed by the Company on the website of SSE and the Stock Exchange.

(XVIII) Relationship with employees, customers and suppliers

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

(XIX) Compliance with laws, regulations and rules

The Company is aware of the importance of complying with legal and regulatory requirements. The Company has established a relatively sophisticated system to ensure persistent compliance with applicable laws, regulations and rules. More specifically, the legal department of the Company and other relevant departments are primarily responsible for reviewing whether the Group's operations have complied with the relevant laws and regulations. The Company has also deployed corresponding departments and sufficient manpower and resources to monitor the compliance situation at the subsidiary level. For the year ended 31 December 2016, to the best of our knowledge, the Company has complied with the laws and regulations of the relevant areas in all material respects. The Company is listed on the SSE and the Stock Exchange. For the year ended 31 December 2016, the Company has complied with the listing rules of its places of listing and all applicable laws and regulations.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

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

Liu Hualong
Chairman, Executive Director

Xi Guohua
Vice chairman, Executive Director, President

Liu Zhiyong
Non-executive Director

Li Guo'an
Independent non-executive Director

Zhang Zhong
Independent non-executive Director

Wu Zhuo
Independent non-executive Director

Sun Patrick
Independent non-executive Director

Chan Ka Keung, Peter
Independent non-executive Director

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

I. SHAREHOLDING CHANGES AND REMUNERATION

(I) Shareholding Changes and Remuneration of Current and Retired Directors, Supervisors and Senior Management During the Reporting Period

Unit:0'000 Currency: RMB

Name	Position (note)	Gender	Age	Commencement of term of office	Expiration of term of office	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Changes in number of shares for the year	Reason of the change	Remuneration received from the Company during the reporting period	Welfare expenses including basic pension insurance	Total remuneration before tax received from the Company during the reporting period	Whether receiving remuneration from related parties of the Company
Liu Hualong Note 1	Chairman Executive Director Vice president	Male	54	2016.12.06 2015.05.28 2015.06.01	2018.05.27 2018.05.27 2016.12.06	50,000	50,000	0	–	–	–	–	Yes
Xi Guohua	Vice Chairman Executive Director President	Male	53	2016.12.06 2015.05.28 2015.06.01	2018.05.27 2018.05.27 2018.05.27	231,800	231,800	0	–	65.48	10.56	76.04	No
Liu Zhiyong	Non-executive Director	Male	59	2015.05.28	2018.05.27	0	0	0	–	–	–	–	No
Li Guo'an	Independent non-executive Director	Male	64	2015.05.28	2018.05.27	0	0	0	–	14.40	–	14.40	No
Zhang Zhong	Independent non-executive Director	Male	70	2015.05.28	2018.05.27	0	0	0	–	14.90	–	14.90	No
Wu Zhuo	Independent non-executive Director	Male	66	2015.05.28	2018.05.27	0	0	0	–	13.90	–	13.90	No
Sun Patrick	Independent non-executive Director	Male	58	2015.05.28	2018.05.27	0	0	0	–	14.70	–	14.70	No
Chan Ka Keung, Peter	Independent non-executive Director	Male	65	2015.05.28	2018.05.27	0	0	0	–	14.00	–	14.00	No
Wan Jun	Supervisor Chairman of Supervisory Committee	Male	53	2015.05.28 2015.06.01	2018.05.27 2018.05.27	0	0	0	–	58.93	10.56	69.49	No
Chen Fangping	Supervisor	Male	56	2015.05.28	2018.05.27	0	0	0	–	72.80	10.56	83.36	No
Qiu Wei	Employee Representative Supervisor	Male	57	2015.05.28	2018.05.27	30,000	30,000	0	–	72.87	10.56	83.43	No
Zhan Yanjing	Vice President, Chief Financial Officer	Female	53	2015.06.01	2018.05.27	50,000	50,000	0	–	58.93	10.56	69.49	No
Sun Yongcai	Vice President	Male	52	2015.06.01	2018.05.27	111,650	111,650	0	–	58.93	10.56	69.49	No
Wang Jun	Vice President	Male	53	2015.06.01	2018.05.27	0	0	0	–	58.27	10.56	68.83	No
Lou Qiliang	Vice President	Male	53	2015.06.01	2018.05.27	0	0	0	–	58.27	10.56	68.83	No
Yu Weiping	Vice President	Male	50	2015.06.01	2018.05.27	0	0	0	–	58.27	10.56	68.83	No
Xie Jilong	Secretary to the Board	Male	50	2015.06.01	2018.05.27	73,288	73,288	0	–	72.72	10.56	83.28	No
Cui Dianguo Note 2	Former Executive Director Former Chairman	Male	62	2015.05.28 2015.06.01	2016.11.28 2016.11.28	137,500	137,500	0	–	65.48	10.56	76.04	No
Zheng Changhong Note 2	Former Executive Director Former vice Chairman	Male	61	2015.05.28 2015.06.01	2016.11.28 2016.11.28	60,000	60,000	0	–	65.48	10.56	76.04	No
Fu Jianguo Note 3	Former Executive Director	Male	53	2015.05.28	2016.7.22	50,000	50,000	0	–	34.37	6.00	40.37	No
Zhao Guangxing Note 4	Former vice president	Male	58	2015.06.01	2016.12.30	110,000	110,000	0	–	58.93	10.56	69.49	No
Total	/	/	/	/	/	904,238	904,238	0	/	931.63	143.28	1,074.91	/

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

Note 2: Cui Dianguo and Zheng Changhong resigned on 28 November 2016 due to their age.

Note 3: Fu Jianguo resigned on 22 July 2016 due to other work requirement.

Note 4: Zhao Guangxing resigned on 30 December 2016 due to other work requirement.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

(II) Major Work Experiences of the Current Directors, Supervisors and Senior Management for the Recent Five Years

Directors

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

Mr. **Xi Guohua**, born in 1963, a Chinese national with no right of abode overseas, is a holder of doctoral degree and a professor-level senior engineer. He serves as the vice Chairman, executive Director, President and deputy Party Secretary of the Company, as well as the vice chairman, general manager and the deputy Party Secretary of CRRCG. Mr. Xi once served as the deputy director, the director and the deputy Party secretary of Zhuzhou Electric Locomotive Research Institute, and a deputy general manager, a deputy general manager and concurrently the chief engineer and the Party secretary of CNRG. From June 2008 to November 2010, he served as an executive director, the president and a standing member of the Party Committee of the CNR. From November 2010 to May 2015, he served as an executive director, the president and the deputy Party secretary of CNR. He has served as an executive Director, the president and a standing member of the Party Committee of the Company from May 2015 to December 2016, and the vice Chairman, an executive Director and the president of the Company since December 2016. Mr. Xi was granted the award of Zhan Tianyou Award for Railway Science and Technology Achievement (詹天佑鐵道科學技術成就獎), and was an expert in the professional team of modern transportation technology in the State "863" Program (國家"863"計劃).

Mr. **Liu Zhiyong**, born in 1957, a Chinese national with no right of abode overseas, is a holder of bachelor's degree and a professional external director for state-owned enterprises. He serves as an non-executive Director of the Company, an external director of China National Coal Group Corporation (中國中煤能源集團公司) and an non- executive director of China Coal Energy Company Limited (中國中煤能源股份有限公司). Mr. Liu previously served as the deputy division chief, chief and deputy director of Third Secretary Bureau of the General Office of the State Council (國務院辦公廳秘書三局), the deputy party secretary of Liuzhou, Guangxi (seconded for two years), the chief officer and deputy director of Third Secretary Bureau of the General Office of the State Council, inspector and deputy director of First Secretary Bureau of the General Office of the State Council (responsible for day-to day business), executive deputy secretary of the Party Committee of the General Office of the State Council. From June 2014 to May 2015, he served as a non-executive director of CSR. Since May 2015, he has served as a non-executive Director of the Company.

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

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Mr. **Zhang Zhong**, born in 1946, a Chinese national with no right of abode overseas, is a holder of bachelor's degree and a professor-level senior engineer. He serves as an independent non-executive Director of the Company. Mr. Zhang once served as the director of Factory 333 and the head of Development and Planning Bureau, the chief economic manager, the deputy Party secretary and a deputy general manager of China Weapon Industry Group Corporation, and an external director of China Poly Group Corporation. From June 2008 to May 2015, he served as an independent non-executive director of CNR. Since May 2015, he has served as an independent non-executive director of the Company.

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

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

Mr. **Chan Ka Keung**, Peter, born in 1951, is a citizen of Hong Kong, the PRC, and a holder of bachelor's degree. He serves as an independent non-executive Director of the Company and an independent non-executive director of Metallurgical Corporation of China Ltd. (中國冶金科工股份有限公司). 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, the CFO of Dransfield Group, 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. He also served as a member of the executive committee of Hong Kong Chamber of Commerce in China and the chairman of Hong Kong Chamber of Commerce in China from 2000 to 2003. Mr. Chan 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. From June 2014 to May 2015, he served as an independent non-executive director of CSR. Since May 2015, he has served as an independent non-executive Director of the Company.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Supervisors

Mr. **Wan Jun**, born in 1963, a Chinese national with no right of abode overseas, is a holder of bachelor's degree and a senior administrative officer. He serves as the Chairman of Supervisory Committee and the Deputy Party Secretary of the Company, as well as the deputy Party secretary of CRRCG. He once served as the deputy division director, the division director, the deputy chief, the inspector and concurrently the deputy chief in the First Secretary Bureau of the General Office of the State Council, a professional deputy director of the Secrecy Committee of the General Office of the State Council, the deputy director of the management committee of Tianjin Electric and Technological Development Zone (seconded for one year), the deputy Party secretary and the secretary to the Discipline Inspection Committee of China National Machinery Industry Corporation and the deputy Party secretary, the secretary to the Discipline Inspection Committee and the chairman of the labor union of CNRG. From November 2013 to May 2015, he served as an employee director, the deputy Party secretary and the secretary to the Discipline Inspection Committee of CNR. He has served as a Supervisor and the deputy Party secretary of the Company since May 2015, and the Chairman of Supervisory Committee of the Company since June 2015.

Mr. **Chen Fangping**, born in 1960, a Chinese national with no right of abode overseas, is a holder of bachelor's degree and a senior political officer. He serves as a Supervisor and the General Legal Counsel of the Company and CRRCG. Mr. Chen once served as the secretary to the Communist Youth League Committee of Tianjin Locomotive & Rolling Stock Machinery Works, the secretary to the Communist Youth League Committee and the head of the personnel department (HR manager) of China National Railways Locomotive and Rolling Stock Industrial Corporation, a standing committee member and central committee member of the Communist Youth League Committee of the National Railways, and the head of the personnel department (HR Department) and the deputy secretary to the Discipline Inspection Committee of CNRG. He served as a supervisor and the deputy secretary to the Discipline Inspection Committee of CNR from July 2008 to June 2012, and the chairman of the supervisory committee and the deputy secretary to the Discipline Inspection Committee of CNR from June 2012 to May 2015. He has served as a Supervisor of the Company since May 2015, and the General Legal Counsel of the company since June 2015.

Mr. **Qiu Wei**, born in 1959, a Chinese national with no right of abode overseas, is a holder of bachelor's degree and a senior political officer. He serves as the employee representative Supervisor and the Chairman of the Labor Union of the Company and CRRCG. Mr. Qiu once served as the deputy director of Party Committee Office of China National Railways Locomotive and Rolling Stock Industrial Corporation, deputy director of the General Affairs Division of the General Office (辦公室綜合處), the head of the Gerneral Office of CSRG, and deputy chairman of CSRG's Labor Union. He successively served as the deputy director of the Working Committee of Labor Union and the chairman of the Labor Union (appointed in July 2014) of CSR from January 2008 to May 2015, and the employee representative supervisor of CSR from December 2009 to May 2015. He has served as the employee representative Supervisor of the Company since May 2015, and the Chairman of the Labor Union of the Company since June 2015.

Senior Management

Mr. **Xi Guohua**, major experience is same as above.

Ms. **Zhan Yanjing**, born in 1963, a Chinese national with no right of abode overseas, is a holder of bachelor's degree and MBA degree, and is also a senior accountant and senior economist. She serves as a Vice President, the Chief Financial Officer and a standing member of the Party Committee of the Company, as well as a standing member of the Party Committee of CRRCG. Ms. Zhan once served as a chief economist as well as a director and deputy general manager of Henan Diesel Engine Plant (河南柴油機廠) of China Shipbuilding Industry Corporation, a deputy manager of the Securities Department, a manager of the Finance Department, a deputy chief accountant and a manager of the Finance Department, an assistant to general manager and a manager of the Financial Planning Department, and an assistant to general manager of Beiqi Foton Motor Co., Ltd. (北汽福田車輛股份有限公司) as well as a chief accountant and a standing member of the Party Committee of CSRG. From December 2007 to May 2015, she served as a vice president and chief financial officer as well as a standing member of the Party Committee of CSR. She has served a standing member of the Party Committee of the Company since May 2015, and a Vice President and the Chief Financial Officer of the Company since June 2015.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Mr. **Sun Yongcai**, born in 1964, a Chinese national with no right of abode overseas, is a holder of doctoral degree and is a professor-level senior engineer. He serves as a Vice President and a standing member of the Party Committee of the Company. Mr. Sun once served as a director and deputy general manager, vice chairman and the Party secretary and deputy general manager of Dalian Locomotive & Rolling Stock Co., Ltd., the vice chairman and deputy general manager of Dalian Dali Railway Transportation Equipment Company Limited and the chief engineer of CNR, as well as a standing member of the Party Committee of CNRG. From December 2010 to May 2015, he served as a vice president and a standing member of the Party Committee of CNR. He has served as a standing member of the Party Committee of the Company since May 2015, and a Vice President of the Company since June 2015.

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

Mr. **Lou Qiliang**, born in 1963, a Chinese national with no right of abode overseas, is a holder of bachelor's degree and a senior engineer. He serves as a Vice President and a standing member of the Party Committee of the Company. Mr. Lou once served as the deputy head, head and deputy Party secretary of Puzhen Co., Ltd. (浦鎮公司), as well as the executive director, general manager and deputy Party secretary of CSR Nanjing Puzhen Rolling Stock Co., Ltd., and a standing member of the Party Committee of CSRG. From October 2012 to May 2015, he served as a vice president and a standing member of the Party Committee of CSR. He has served as a standing member of the Party Committee of the Company since May 2015, and a Vice President of the Company since June 2015.

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

Mr. **Xie Jilong**, born in 1966, a Chinese national with no right of abode overseas, is a holder of bachelor's degree, and is a professor-level senior economist. He serves as the Secretary to the Board of the Company and a director of China United Insurance (中華聯合保險). Mr. Xie once served as a chief accountant, deputy head, head and deputy Party secretary of Changchun Locomotive Factory, a director and general manager and deputy Party secretary of Changchun Locomotive and Rolling Stock Company Limited, the Party secretary of Tianjin Locomotive & Rolling Stock Machinery Works, and the vice chairman of Tianjin JL Railway Transportation Equipment Co., Ltd. From August 2008 to May 2015, he served as the secretary to the board of CNR. Since June 2015, he has served as the Secretary to the Board of the Company.

(III) Share Incentive Scheme Granted to Directors, Supervisors and Senior Management during the Reporting Period

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

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

II. POSITIONS HELD BY CURRENT AND RETIRED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

(I) Positions Held in Shareholder's Entity

Employee's name	Name of the shareholder's entity	Position held in the shareholder's entity	Commencement of term of office	Expiration of term of office
Liu Hualong	CRRCG	Chairman	November 2016	
		Director	September 2015	
		General manager	September 2015	November 2016
Xi Guohua	CRRCG	Vice general manager, Vice Chairman	November 2016	
		Director	September 2015	
Cui Dianguo	CRRCG	Former Chairman	September 2015	November 2016
Zheng Changhong	CRRCG	Former vice Chairman	September 2015	November 2016
Chen Fangping	CRRCG	General Legal Counsel	December 2016	

(II) Positions Held in Other Entities

Employee's name	Name of other entities	Position held in other entities	Commencement of term of office	Expiration of term of office
Liu Zhiyong	SASAC	Professional External Director	August 2013	
	China National Coal Group Corporation	External director	August 2014	
	China Coal Energy Company Limited	Non-executive director	June 2015	
Li Guo'an	Wuhan Iron and Steel (Group) Corporation	External director	September 2014	October 2016
	China Baowu Steel Group Corporation Limited	External director	October 2016	
Zhang Zhong	China Poly Group Corporation	External director	April 2010	
Wu Zhuo	Wuhan Iron and Steel (Group) Corporation	External director	September 2014	October 2016

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Employee's name	Name of other entities	Position held in other entities	Commencement of term of office	Expiration of term of office
Sun Patrick	China Railway Construction Corporation Limited	Independent non-executive director	October 2014	
	Trinity Limited	Independent non-executive director	October 2008	
	China NT Pharma Group Company Limited	Independent non-executive director	March 2010	
	Sihuan Pharmaceutical Holdings Group Ltd.	Independent non-executive director	October 2010	
	China Railway Signal & Communication Corporation Limited	Independent non-executive director	May 2015	
	Kunlun Energy Company Limited	Independent non-executive director	February 2016	
Chan Ka Keung, Peter	Metallurgical Corporation of China Ltd.	Independent non-executive director	November 2014	
Xie Jilong	China United Insurance	Director	September 2016	

Notes:

(1) Metallurgical Corporation of China Ltd. is a company listed on the SSE (stock code: 601618) and the Main Board of the Hong Kong Stock Exchange (stock code: 1618).

(2) China Coal Energy Company Limited is a company listed on the SSE (stock code: 601898) and the Main Board of the Hong Kong Stock Exchange (stock code: 1898).

(3) China Railway Construction Corporation Limited is a company listed on the SSE (stock code: 601186) and the Main Board of the Hong Kong Stock Exchange (stock code: 1186).

(4) Trinity Limited is a company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 891).

(5) China NT Pharma Group Company Limited is a company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 1011).

(6) Sihuan Pharmaceutical Holdings Group Ltd. is a company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 460).

(7) China Railway Signal & Communication Corporation Limited is a company listed on the Main Board of the Stock Exchange (stock code: 3969).

(8) Kunlun Energy Company Limited is a company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 135).

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

III. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision-making procedures of the remuneration of Directors, Supervisors and Senior Management	The Remuneration and Evaluation Committee of the Board submits proposals to the Board in respect of the remuneration for Directors and members of the Senior Management. The Board decides the remuneration, incentives and punishment matters for members of the management. The general meeting of the Company decides matters relating to the remuneration for the relevant Directors and Supervisors.
Determination basis of the remuneration of Directors, Supervisors and Senior Management	The Company determined the remuneration of Directors, Supervisors and Senior Management with reference to the Articles of Association and relevant requirements.
Actual payment of the remuneration of Directors, Supervisors and Senior Management	The Company, pursuant to relevant provisions, paid remunerations to the Directors, Supervisors and Senior Management, except for Liu Zhiyong, a non-executive Director, who is concurrently a professional external director of SASAC and did not receive remuneration from the Company pursuant to the requirement of SASAC, and Liu Hualong, Chairman and executive Director, who has received remuneration from the CRRCG since November 2015.
Total actual remuneration of all the Directors, Supervisors and Senior Management at the end of the reporting period	RMB 10,749,100 in aggregate

During the reporting period, none of the Directors or Supervisors of the Company waived or agreed to waive the remuneration arrangements.

IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

On 22 July 2016, Mr. Fu Jianguo resigned from his position as an executive Director and a member of the Strategy Committee of the Board of the Company due to other work requirement.

On 28 November 2016, Mr. Cui Dianguo resigned from the positions of chairman of the Board, executive Director, chairman and member of the Strategy Committee of the Board and member of the Nomination Committee of the Board due to his age; Mr. Zheng Changhong resigned from positions of vice-chairman of the Board, executive Director, vice-chairman and member of the Strategy Committee of the Board and member of the Nomination Committee of the Board due to his age.

On 6 December 2016, the Company convened the 18th meeting of the first session of the Board, to elect Mr. Liu Hualong as the chairman of the first session of the Board of the Company, the term of office shall commence from the date on which the resolutions are considered and passed at the Board meeting and end on the date of expiry of the term of office of the first session of the Board of the Company. Mr. Liu Hualong concurrently acts as the legal representative and the chairman of the Strategy Committee of the Board of the Company in accordance with the requirements of the rules of the Company including the Articles of Association. Mr. Xi Guohua was elected as the vice chairman of the first session of the Board of the Company, the term of office shall commence from the date on which the resolutions are considered and passed at the Board meeting and end on the date of expiry of the term of office of the first session of the Board of the Company.

Mr. Liu Hualong and Mr. Xi Guohua shall be supplemented as members of the Nomination Committee of the Board of the Company, the term of office shall commence from the date on which the resolutions are considered and passed at the Board meeting and end on the date of expiry of the term of office of the first session of the Board of the Company.

On 30 December 2016, Mr. Zhao Guangxing resigned as vice president due to other work requirement.

V. STAFF OF THE PARENT COMPANY AND PRINCIPAL SUBSIDIARIES

(I) Staff Information

Total number of staff with the parent company	227
Total number of staff with principal subsidiaries	182,834
Total number of staff	183,061
Number of employees whose retirement expenses are borne by the parent company and principal subsidiaries	132,914

By profession

Category of profession	Number of each profession
Production personnel	109,040
Technical personnel	34,671
Management personnel	33,345
Other personnel	6,005
Total	183,061

By education

Education level	Number (person)
Doctors	346
Masters	9,679
University graduates	45,951
Tertiary college graduates	41,280
Secondary school and below	85,805
Total	183,061

(II) Remuneration Policies

According to the production operation features and actual management requirements of CRRC, the Company has strengthened its management of salary and labour costs, made reasonable adjustments to the total salary and labour costs, by formulating and implementing relevant management documents, such as the Measures on Remuneration Management (薪酬管理辦法), the Measures on Performance-based Wage (工效掛鈎辦法) and the Measures on Remuneration Budges (薪酬預算辦法) of CRRC, based on the concept of "efficiency-based wages (效益決定工資)". The Company has worked on improving employees' salaries on the basis of improving efficiency. Meanwhile, the Company has guided its enterprises to implement the reform of distribution and regulated the implementation of remuneration management.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

(III) Personnel Training

The Company formulated the Talent Training and Development Plan of CRRC during the "13th Five-Year" (《中國中車"十三五"人才培訓開發規劃》), which comprehensively deployed the talent training of the Company, and provided a breakdown of the target plan by focusing on the implementation of the "3353 Talent Training and Development" (人才培訓開發3353). We formulated the 2016 Main Points of Talent Training of CRRC (《中國中車2016年人才培訓工作要點》) in respect of the target for the establishment of talent teams and the annual talent training and development task. The Company continued to optimize its training management system, training course system, internal trainer system and internet academy platform by focusing on key points and giving prominence to innovativeness, perspectiveness, pertinence and effectiveness of talent cultivation. In addition, the Company also endeavoured to promote methodology innovation through the development of training programs, strengthened training mode by combining theory with practice, thoroughly promoted the application of such tools as action learning tools and sped up the development of professional managers, international talent and core talent teams. In light of actual operation and management needs, the Company introduced high quality domestic and foreign training resources, systemized design series specific training items, well planned training plans and created elaborate training programs.

In 2016, the Company organized a total of 81 company-level trainings with 2,944 participants and focused on organizing and implementing key training programs, such as outstanding leadership, excellent leadership, development of leadership, internationalized talents, core technical talent, core management talent and core skilled talent. In 2016, there were 501,000 employees who participated in subsidiary-level and workshop-level trainings, of which approximately 76,000 participants were management personnel, approximately 70,000 participants were professional technicians and approximately 355,000 participants were technical personnels. The orderly and thorough implementation of personnel training development has provided a guarantee of talent and intellectual support for the Company's rapid growth.

(IV) Staff Composition by Profession

Category of profession	Number of each profession
Production personnel	109,040
Technical personnel	34,671
Management personnel	33,345
Other personnel	6,005

(V) Staff Structure by Education Level

Education level	Number (person)
Doctors	346
Masters	9,679
University graduates	45,951
Tertiary college graduates	41,280
Secondary school and below	85,805

CORPORATE GOVERNANCE REPORT

I. EXPLANATION OF RELATED CORPORATE GOVERNANCE

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

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

II. SHAREHOLDERS AND GENERAL MEETINGS

(I) Shareholders and general meetings

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

(II) Relationship between the controlling shareholder and the Company

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

CORPORATE GOVERNANCE REPORT

III. DIRECTORS AND THE BOARD

(I) Directors and the Board

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

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

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

In 2016, the Company purchased liability insurance for Directors, Supervisors and Senior Management of the Company to provide security for the compensation liabilities that may rise during the performance of their duties in accordance with laws.

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

Number of the Board meetings convened during the year	10

CORPORATE GOVERNANCE REPORT

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

Name of Directors	Independent Director or not	Attendance at the Board meetings: Required attendance during the year	Attendance in person	Attendance by proxy	Absent	Absent from two consecutive meetings or not	Details of attendance at the general meetings: Number of attendance at the general meetings
CRRC							
Liu Hualong	No	10	10	0	0	No	1
Xi Guohua	No	10	9	1	0	No	1
Liu Zhiyong	No	10	10	0	0	No	1
Li Guo'an	Yes	10	9	1	0	No	1
Zhang Zhong	Yes	10	10	0	0	No	1
Wu Zhuo	Yes	10	10	0	0	No	1
Sun Patrick	Yes	10	10	0	0	No	1
Chan Ka Keung, Peter	Yes	10	9	1	0	No	1
Cui Dianguo[Note]	No	8	8	0	0	No	1
Zheng Changhong[Note]	No	8	8	0	0	No	1
Fu Jianguo[Note]	No	6	5	1	0	No	1

Note: Cui Dianguo and Zheng Changhong have resigned due to their age on 28 November 2016; Fu Jianguo has resigned due to other work requirement on 22 July 2016.

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

The Board Office provided comprehensive services and sufficient information for the Directors, so that the Directors can understand the conditions of the Company in a timely manner. The Board Office delivered to Directors the latest information and bulletins relating to the business changes and development of the Company and the latest laws, rules and regulations in relation to their positions and responsibilities. The Board Office also arranged themed trainings and seminars for Directors. In 2016, pursuant to the requirements under code provision A.6.5 of the Code, Directors of the Company all participated in continuous professional development activities in relation to their positions and responsibilities, developed and refreshed their knowledge and skills, so as to ensure that their contribution to the Board remains informed and relevant. Based on the trainings arranged for the Directors by the Company and the records of learning and trainings submitted by the Directors, the trainings received by each Director in 2016 are as follows:

Name of Director	Trainings *(Note)*
Executive Directors	
Liu Hualong	B,C
Xi Guohua	B,C
Cui Dianguo	B,C
Zheng Changhong	B,C
Fu Jianguo	A,C
Non-executive Directors	
Liu Zhiyong	B,C
Independent Non-executive Directors	
Li Guo'an	B,C
Zhang Zhong	B,C
Wu Zhuo	B,C
Sun Patrick	B,C
Chan Ka Keung, Peter	B,C

CORPORATE GOVERNANCE REPORT

Note: 1. A, B and C in the above table represent trainings of the following types respectively:

A. 2016 training session for Directors, Supervisors and Senior Management organized by the Beijing Securities Regulatory Bureau

B. Attending seminar trainings in aspects such as legal regulation, corporate governance and financial control organized by professional institutes

C. Studying and reading relevant laws and regulations (revised and amended) such as the Hong Kong Listing Rules

2. Cui Dianguo and Zheng Changhong have resigned due to their age on 28 November 2016; Fu Jianguo has resigned due to other work requirement on 22 July 2016.

(V) Independent non-executive Directors and their independence

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

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

(VI) Responsibilities of the Board

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

(VII) Board committees

1. Strategy Committee

During the reporting period, the Strategy Committee, in strict compliance with requirements of the Working Rules for Strategy Committee of the Board of the Company, performed its duties in an independent and objective manner. Mr. Cui Dianguo and Mr. Zheng Changhong (being members of the Strategy Committee) have resigned for age on 28 November 2016, Mr. Fu Jianguo has resigned due to other work requirement on 22 July 2016. The new Strategy Committee of the Board comprises Mr. Liu Hualong, Mr. Liu Zhiyong, Mr. Xi Guohua and Mr. Wu Zhuo. Mr. Liu Hualong serves as the chairman of the committee and Mr. Liu Zhiyong serves as the vice-chairman of the committee. The Strategy Committee shall be held accountable to the Board and its primary responsibilities are to study and make recommendations on the long-term development strategies and major investment decisions of the Company, and to supervise and examine the implementation of the annual business plan and investment plan under the authorization of the Board.

During the reporting period, the Strategy Committee of the first session of the Board of CRRC held three meetings in total, at which 13 resolutions were considered, including, among others, the Resolution on the Project of Railway Test Line Construction of CRRC Qingdao Sifang Co., Ltd. and the Resolution on Non-Public Issuance of A Shares of CRRC Corporation Limited. The attendance of each member is as follows:

Name of Directors	Number of attendance/ Number of meeting	Attendance rate
Liu Hualong	3/3	100%
Liu Zhiyong	3/3	100%
Xi Guohua	2/3	66.7%
Wu Zhuo	3/3	100%
Cui Dianguo	3/3	100%
Zheng Changhong	3/3	100%
Fu Jianguo	2/3	66.7%

Note: Mr. Xi Guohua and Mr. Fu Jianguo failed to attend the sixth meeting of the Strategy Committee in person due to business affairs and appointed Mr. Liu Hualong as proxy to vote on their behalf.

2. Audit and Risk Management Committee

The Audit and Risk Management Committee shall be held accountable to the Board and its primary responsibilities are to propose the appointment or replacement of external auditors, to supervise and assess the work of external auditors, to review the Company's financial information and its disclosure, to monitor the Company's internal audit system and its implementation, to review the Company's internal control and risk management system as well as communication between internal auditors and external auditors.

On 16 June 2016, CRRC convened the 2015 annual general meeting, at which the Resolution on Appointment of Auditors for 2016 was considered and approved. According to the above resolution, the Company appointed Deloitte Touche Tohmatsu as the auditor for 2016 financial report prepared under the IFRSs; and engaged Deloitte Touche Tohmatsu CPA LLP and KPMG Huazhen LLP as the auditors in respect of financial report prepared under domestic financial reporting standards and in respect of internal control for 2016. Deloitte Touche Tohmatsu CPA LLP is the principal auditor.

Deloitte Touche Tohmatsu CPA LLP and KPMG Huazhen LLP, being external auditors of the Company, did not have any relationship with the Company which may affect their independence. In order to maintain the independence of external auditors, external audit work will be conducted only without affecting their independence and with prior approval from the Audit and Risk Management Committee.

During the reporting period, the Audit and Risk Management Committee of the Board, in strict compliance with requirements of the Working Rules for Audit and Risk Management Committee of the Board and the Annual Report Working Procedures for the Audit and Risk Management Committee of the Board, performed its duties in an independent and objective manner. The Audit and Risk Management Committee of the first session was served by Mr. Sun Patrick, Mr. Chan Ka Keung, Peter, Mr. Li Guo'an and Mr. Zhang Zhong, who are independent non-executive Directors; and Mr. Liu Zhiyong, a non-executive Director. Mr. Sun Patrick and Mr. Chan Ka Keung, Peter who have extensive professional knowledge and experience in accounting and are certified public accountants serving as the chairman and vice chairman of the Audit and Risk Management Committee, respectively.

CORPORATE GOVERNANCE REPORT

The Company provides the Audit and Risk Management Committee with sufficient resources to ensure performance of its duties. The Audit and Risk Management Committee regularly meets with the management, internal audit staff and external auditors and reviews their reports.

In 2016, the Audit and Risk Management Committee of the first session of the Board of CRRC held eight meetings in total, at which 27 resolutions were considered, including, among others, the Resolution on Amendments to the Working Rules of the Audit and Risk Management Committee of the Board of CRRC Corporation Limited, the Resolution on the 2015 Annual Report of CRRC Corporation Limited, the Resolution on Appointment of Auditors for 2016, the Resolution on the 2016 Interim Report of CRRC Corporation Limited and the Resolution on the 2016 Third Quarterly Report of CRRC Corporation Limited. The attendance of each member is as follows:

Name of Directors	Number of attendance/ Number of meeting	Attendance rate
Sun Patrick	8/8	100%
Chan Ka Keung, Peter	7/8	87.5%
Liu Zhiyong	7/8	100%
Li Guo'an	7/8	87.5%
Zhang Zhong	8/8	100%

Note: Mr. Liu Zhiyong failed to attend the sixth meeting of the Audit and Risk Management Committee in person due to business affairs and appointed Mr. Chan Ka Keung, Peter as proxy to vote on his behalf; Mr. Li Guo'an failed to attend the sixth meeting of the Audit and Risk Management Committee in person due to business affairs and appointed Mr. Zhang Zhong as proxy to vote on his behalf.

In 2016, the Audit and Risk Management Committee successfully accomplished the following work:

(1) Supervising external audit procedures and quality. The Audit and Risk Management Committee communicated with auditors for annual audit plan in respect of the 2016 annual audit arrangement and timetable. Having been debriefed special reports from the accounting firms, respectively, the committee determined the audit work arrangement of the Company for 2016.

(2) Reviewing the financial information of the Company and the disclosure thereof. The Audit and Risk Management Committee examined and studied the financial information as disclosed in the Company's report and financial statements, and carefully reviewed the resolution in relation to the financial report of the Company.

(3) Providing guidance to the Company's internal audit. The Audit and Risk Management Committee considered the proposals submitted by the audit department and reviewed and approved the internal audit work plan put forward by the Company and gave guidance and lay down requirements for carrying out internal audit.

(4) Reviewing the Company's implementation of internal control and risk management. The Audit and Risk Management Committee considered the proposals regarding internal control and risk management submitted by the Company and expressed review opinions on the internal control audit report of the Company for 2016.

CORPORATE GOVERNANCE REPORT

3. Remuneration and Evaluation Committee

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

During the reporting period, the first session of the Remuneration and Evaluation Committee of the board of CRRC held one meeting in total, at which four resolutions were considered and approved, including, among others, the Resolution on Scheme of Remuneration to the Directors and Supervisors of CRRC Corporation Limited and the Resolution on Scheme of Remuneration to the Senior Management of CRRC Corporation Limited. The attendance of each member is as follows:

Name of Directors	Number of attendance/ Number of meeting	Attendance rate
Wu Zhuo	1/1	100%
Chan Ka Keung, Peter	1/1	100%
Li Guo'an	1/1	100%
Zhang Zhong	1/1	100%
Sun Patrick	1/1	100%

4. Nomination Committee

During the reporting period, the Nomination Committee of the Board, in strict compliance with requirements of the Working Rules for Nomination Committee of the Board, performed its duties in an independent and objective manner. Mr. Cui Dianguo and Mr. Zheng Changhong (being members of first session of the Nomination Committee) have resigned due to their age on 28 November 2016. The new Nomination Committee of the Board of the Company comprises of Mr. Li Guo'an, Mr. Zhang Zhong, Mr. Liu Hualong, Mr. Xi Guohua and Mr. Wu Zhuo. Mr. Li Guo'an serves as the chairman of the committee and Mr. Zhang Zhong serves as the vice chairman of the committee. The Nomination Committee is held accountable to the Board and its primary responsibilities are to formulate the nomination procedures and selection standards of the Directors and Senior Management and to preliminarily review the eligibility and other qualifications of the candidates for the Directors and Senior Management. The standards of recommendation on the nomination of the Directors include suitable professional knowledge and industry experience, personal conduct, integrity and skills and commitment to devote sufficient time; and to monitor the implementation of the Board Diversity Policy and to review and amend the policy, as appropriate, to ensure its effectiveness.

The candidates for Directors, except independent Directors, shall be nominated by the Board or shareholders individually or collectively holding more than 3% of the shares of the Company with voting rights, and elected at a general meeting of the Company. The candidates for independent Directors shall be nominated by the Board, Supervisory Committee of the Company or shareholders individually or collectively holding more than 1% of the shares of the Company and elected at a general meeting.

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

During the reporting period, the first session of the Nomination Committee of the Board of CRRC held one meeting in total, at which the resolutions were considered, including, among others, the Resolution on the Assessment of the Independence of the Independent Non-executive Directors, the Resolution on Consideration of the Structure, Number and Composition Proposal of the Member of the Board. The attendance of each member is as follows:

Name of Directors	Number of attendance/ Number of meeting	Attendance rate
Li Guo'an	1/1	100%
Zhang Zhong	1/1	100%
Liu Hualong	0/0	—
Xi Guohua	0/0	—
Wu Zhuo	1/1	100%
Cui Dianguo	1/1	100%
Zheng Changhong	1/1	100%

Note: Cui Dianguo and Zheng Changhong have resigned due to their age on 28 November 2016. Mr. Liu Hualong and Mr. Xi Guohua are appointed as the members of the Nomination Committee of the Board.

IV. CHAIRMAN AND PRESIDENT

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

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

V. SUPERVISORS AND THE SUPERVISORY COMMITTEE

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

VI. RESPONSIBILITIES OF THE MANAGEMENT

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

VII. SHAREHOLDERS' RIGHTS

(I) Convening of an extraordinary general meeting by shareholders

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

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

(II) Putting enquiry to the Board by shareholders

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

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

Tel: (8610) 5186 2188
Fax: (8610) 6398 4785
Email: crrc@crrcgc.cc
Postal address: No.16-5, Central West Fourth Ring Road, Haidian District, Beijing, the PRC

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

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

VIII. SIGNIFICANT CHANGE IN THE ARTICLES OF ASSOCIATION DURING THE REPORTING PERIOD

In 2016, the Company did not amend the Articles of Association.

IX. ESTABLISHMENT AND IMPLEMENTATION ON THE EVALUATION AND INCENTIVE SYSTEM FOR THE SENIOR MANAGEMENT DURING THE REPORTING PERIOD

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

X. DIRECTORS' RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

The Directors confirm that they are responsible for the preparation of the financial statements of the Company for the year ended 31 December 2016, in order to truly and impartially report the financial conditions and business results of the Company, and undertake relevant responsibilities for preparation of the financial statements of the Company. The Audit and Risk Management Committee of the Company has reviewed the financial statements of the Company for the year ended 31 December 2016.

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

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

XI. CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

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

As of 31 December 2016, after making specific inquiries with all Directors and Supervisors, the Company confirmed that all Directors and Supervisors have complied with the relevant codes on securities transactions by Directors and Supervisors as set out in the Model Code and the Management Method regarding Shareholding of Directors, Supervisors and Senior Management of the Company.

XII. AUDITORS

On 16 June 2016, the Resolution on Engagement of Auditors for 2016 were considered and approved at the 2015 annual general meeting. According to the above resolution, the Company appointed Deloitte Touche Tohmatsu as the auditor for 2016 financial report prepared under the IFRSs; and engaged Deloitte Touche Tohmatsu CPA LLP and KPMG Huazhen LLP as the auditors in respect of financial report prepared under domestic financial reporting standards and in respect of internal control for 2016. Among which, Deloitte Touche Tohmatsu CPA LLP is the principal auditor.

In 2016, the Company had paid the auditors an aggregate fee (tax inclusive) of RMB28.6 million, which included advance payments such as travel expenses and communication costs etc. In particular, the audit fees (tax inclusive) paid in respect of financial statements amounted to RMB22.3 million, audit fees (tax inclusive) paid in respect of internal control amounted to RMB2 million, fees (tax inclusive) paid in respect of interim agree-upon procedures amounted to RMB4.1 million and fees (tax inclusive) paid in respect of verification of placement and actual use of the proceeds of the Company amounted to RMB0.2 million.

XIII. RISK MANAGEMENT AND INTERNAL CONTROL

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

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

CORPORATE GOVERNANCE REPORT

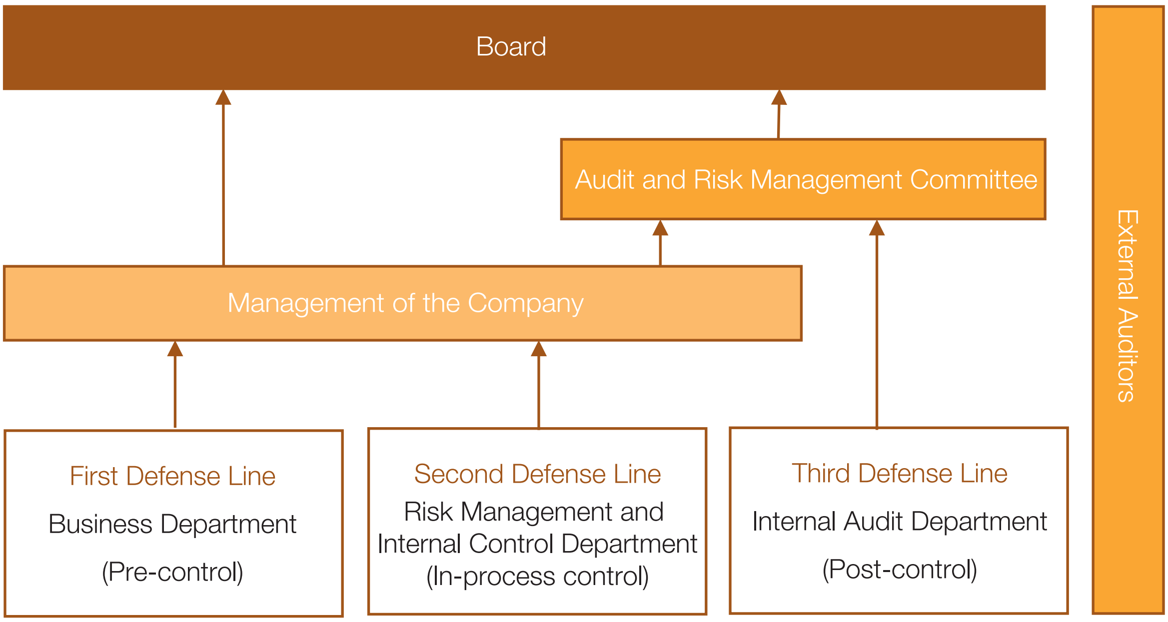
The Company has established a clearly defined organization structure with proper authorization, and has strict rules of procedure and reporting procedures in place. The audit and risk department of the Company assesses the Board and the Audit and Risk Management Committee in the ongoing supervision and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

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

The Company has established appropriate policies and monitoring procedures to ensure that no assets will be used or disposed without authorization. The Company maintains reliable financial and accounting records in accordance with relevant accounting standards and regulatory reporting procedures, and properly identifies major risks which may affect the Company's performance and reasonably ensures that the level of risk is within the acceptable scope of the Company.

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

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



CORPORATE GOVERNANCE REPORT

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

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

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

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

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

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

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

In 2016, the risk management and internal control department of the Company organized various departments and affiliated entities to continuously conduct risk management and internal control activities to improve the effectiveness of risk management and internal control, including but not limited to the following: organized and conducted annual risk assessment and responding management; organized and conducted annual internal control evaluation; carried out five special risk research projects including research on risks in emerging industries and analysis of financial condition and risks conditions; carried out risk management and internal control consultation in respect of its affiliated entities in order to improve their risk management and internal control capacities; organized and conducted risk evaluation on significant projects such as investment, merger & acquisition and export; prepared and released 42 risk management and internal control guidelines and guidebooks; and organized and conducted special risk management and internal control trainings. The risk management and internal control department submitted the latest report on risk management and internal control to the Board and the Audit and Risk Management Committee during the year, and assisted the Board in reviewing the effectiveness of the risk management and internal control systems of the Company.

CORPORATE GOVERNANCE REPORT

In 2016, the internal audit department of the Company carried out special inspection and monitoring on the effectiveness of the risk management and internal control systems of the Company in terms of finance, operation and compliance monitoring and reported the relevant findings to the management and the Board of the Company.

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

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

In 2016, Deloitte Touche Tohmatsu CPA LLP and KPMG Huazhen LLP audited the financial statements and the effectiveness of relevant internal control of the Company, and issued an audit report with unqualified opinion. Relevant report has been reviewed and approved by the Audit and Risk Management Committee.

RELEVANT INFORMATION OF CORPORATE BONDS

I. BASIC INFORMATION OF CORPORATE BONDS

The Company holds a 2013 five-year corporate bond of CSR Corporation Limited (first tranche), a 2013 ten-year corporate bond of CSR Corporation Limited (first tranche) and a 2016 five-year corporate bond of CRRC Corporation Limited (first tranche).

The 2013 five-year corporate bond of CSR Corporation Limited (first tranche) was issued by CSR on 22 April 2013 and will expire on 22 April 2018. The outstanding balance of the bond is RMB1,500 million, and bears an interest rate of 4.70%. The interest on the bond will be paid annually and the principal will be repaid in one sum. The bond is listed and traded on the SSE.

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

The 2016 five-year corporate bond of CRRC Corporation Limited (first tranche) was issued by the Company on 30 August 2016 and will expire on 30 August 2021. The outstanding balance of the bond is RMB2,000 million and bears an interest rate of 2.95%. The interest on the bond will be paid annually and the principal will be repaid in one sum. The bond is listed and traded on the SSE.

II. ENHANCING BOND CREDIT MECHANISM OF THE COMPANY DURING THE REPORTING PERIOD

On 5 August 2015, with the approval from SASAC of the State Council, CNRG and CSRG signed the Merger Agreement of China Northern Locomotive & Rolling Stock Industry (Group) Corporation and CSR Group (《中國北方機車車輛工業集團公司與中國南車集團公司之合併協議》). It was agreed that CNRG will merge with CSRG by way of absorption, CSRG will be de-registered, CNRG will be renamed as "CRRC Group" (中國中車集團公司) and all assets, liabilities, businesses, employees, contracts, qualifications and all other rights and obligations of CSRG will be assumed by CRRCG, the post-merger corporation. On 7 September 2015, the trustee, China International Capital Corporation Limited (中國國際金融股份有限公司), convened a meeting of bondholders, at which the Proposal on CRRCG Assumption of CSR Group' s Obligation of Guarantee for this Tranche of Bond (《關於中國中車集團公司承繼中國南車集團公司對本期債券擔保義務的議案》) was considered. After counting the final voting results, in respect of the votes at this meetng of bondholders, bondholders who have voted for the merger represented 100% of the total bonds held by those bondholders or their proxies present at this meeting of bondholders. On 24 September 2015, CNRG completed the registration of change of name and changed its name to "CRRC Group (中國中車集團公司)". The obligation of CSRG as a guarantor for the 2013 five-year corporate bond of CSR Corporation Limited (first tranche) and the 2013 ten-year corporate bond of CSR Corporation Limited (first tranche) was assumed by CRRCG.

From 2014 to 2016, there was no material default in the course of business dealings of CRRCG with its major customers, nor any delay in the repayment of principal and interest on the debt financing instruments.

RELEVANT INFORMATION OF CORPORATE BONDS

III. ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY FOR LAST TWO YEARS AS AT THE END OF THE REPORTING PERIOD

Unit: '000 Currency: RMB

Major indicator	2016	2015	Change between the period and same period last year (%)
EBITDA	24,568,179	24,543,813	0.10
Current ratio	1.20	1.21	-0.83
Quick ratio	0.76	0.75	1.33
Gearing ratio	63.41%	63.56%	-0.24
EBITDA of total debt ratio	11.45%	12.39%	-7.59
Interest coverage multiple	13.36	12.42	7.57
Cash interest coverage multiple	19.91	10.17	95.77
EBITDA interest coverage multiple	18.18	16.66	9.12
Loan repayment rate	1.00	1.00	—
Interest paid coverage	1.04	1.29	-19.38

Note: The change of cash interest coverage multiple reached 95.77%, mainly attributed to the increase in the net cash inflow from operating activities during the current period.

IV. BANK CREDIT FACILITIES DURING THE REPORTING PERIOD

As at 31 December 2016, the table below sets forth details on the amount of bank credit facilities, the utilized amount and the outstanding credit facilities of the Company:

Unit: ’000 Currency: RMB

Name of bank	Amount of credit facilities	Utilized amount	Outstanding credit facilities
China Minsheng Bank	20,000,000	10,735,040	9,264,960
CITIC Bank	28,000,000	321,780	27,678,220
Rural Commercial Bank	3,500,000	—	3,500,000
China Construction Bank	11,500,000	3,355,533	8,144,467
Bank of Beijing	7,500,000	—	7,500,000
Bank of Communications	6,500,000	—	6,500,000
Agricultural Bank of China	9,440,000	1,890,000	7,550,000
Industrial Bank	3,000,000	—	3,000,000
Bank of China	20,000,000	6,125,790	13,874,210
The Export-Import Bank	24,000,000	535,000	23,465,000
China Merchants Bank	10,000,000	—	10,000,000
Bank of Kunlun	2,300,000	2,000,000	300,000
SPD Bank	2,500,000	—	2,500,000
China Development Bank	15,800,000	3,800,000	12,000,000
ICBC	13,500,000	3,167,168	10,332,832
Total	177,540,000	31,930,311	145,609,689

Unit: ’000 Currency: US dollars

Name of bank	Amount of credit facilities	Utilized amount	Outstanding credit facilities
DBS	100,000	—	100,000
Total	100,000	—	100,000

V. DESCRIPTION OF THE EXECUTION OF RELEVANT COVENANTS OR UNDERTAKING SET OUT IN THE PROSPECTUS OF CORPORATE BONDS OF THE COMPANY DURING THE REPORTING PERIOD

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

VI. SIGNIFICNAT EVENTS OF THE COMPANY AND THEIR IMPACT ON THE OPERATION AND SOLVENCY OF THE COMPANY

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

INVESTOR RELATIONS

2016 is the first year of complete operation for CRRC, and we conducted investor relations work actively through a number of ways, further consolidated the smooth communications mechanism and strengthened external communications. We always remained in touch with investors and potential investors in the interaction and communication to enable investors to fully understand the operation and development policy of the Company and get timely informed of the performance progress of the Company, thus achieving the maximization of shareholders' interests and the coordination in the improvement of internal value.

The Company continued to improve related procedures and system under the existing mechanism, and pursuant to the Company Law, Securities Law, Working Guidelines for the Relationship between Listed Companies and Investors and other relevant laws and regulations and combining the actual situation in the Company, we have revised and improved the Measures on Management of Investors Relation, promoted the orderly and fine investor relations management of the Company.

The Company continuously updated the investor profiles and established the capital market analyst library to facilitate daily communication; conducted regular analysis of shareholder structure and timely reported related information to the Company leadership and related departments, providing support for the Company's daily business activities; at the same time, established a public opinion monitoring system to be informed of the changes in public opinion of the Company and timely understand industry development and carry out rapid response for negative public opinion. The investor relations column on the Company's website was timely updated so that investors could be timely informed of the Company information. Special personnel were arranged to answer investors' phone calls, receive and deal with investors' e-mails, patiently and meticulously record and answer the questions raised by the investors.

Over the past year, through various ways including regular release of performance announcements, global roadshow promotion, participation in annual meeting of investment bank forum, inviting investors to visit the Company and have face-to-face meetings, holding special analyst meetings and conference calls, etc., the Company conducted all-round communications with investors. In early April 2016, the Company organized the 2015 annual performance presentation in Hong Kong. Afterwards, the Company conducted the annual performance roadshow and had a number of one-to-one and one-to-many meetings with investors and potential investors in Hong Kong, New York, Boston, Los Angeles and other places. In mid and late May, the Company organized the non-trading roadshow in Singapore, and communicated with shareholders on various matters including the company's future development prospect. In early August, the Company organized analysts to have reversed roadshow activities, and successively held analysts' inspection and research activities in the Company's production base in Zhuzhou and Ningbo, so as to allow investors to understand the research and development on the Company's core technology of IGBT, as well as the production of maglev train and electric bus. The Company participated in a number of strategic meetings organized by influential securities companies, and communicated with investors face to face in one-to-one or one-to-many forms. The Company held a shareholders' meeting to enable shareholders to keep abreast of the Company's major decision-making projects and participate in the decision-making process, enhancing shareholders' confidence in the development of the Company. In 2016, the Company organized two roadshows and one reverse roadshow, received 63 visits, held 55 conference calls, arranged 18 researches and inspection of its subsidiaries and participated in 18 strategic meetings of securities companies throughout the year.

The core of investor relations work lies in strengthening the communications with investors and potential investors, including communications with the media and customers, to showcase the Company's brand and value to the public in an earnest way. In July 2016, the third Sino-Russian Trade Fair and the seventh Russian Innovation Industry Exhibition were held in Yekaterinburg, Russia at the same time. CRRC used this platform to positively demonstrate the image and strength of CRRC, promote high-end products, and help the progress of its marketing project based on the Mohawk High-speed Train Project, generating good effects, which allowed the Company to win the best contribution award by the organizing committee. This shows the recognition for the products, technology and services of the Company. In August, the second "Fans Reception of CRRC" successfully received over 60 fans from all over the country, all walks of life and all ages. The event not only included enterprise visiting activity, but also included dialogue and communication activity, train story sharing activity and science lectures activity, which was an excellent way for the Company to fulfil its social responsibility and give back to the society. In September, Innotrans 2016 was officially opened in Berlin, Germany, and CRRC participated in the exhibition with the integrated transport solutions. This was the first appearance of the Company in the highest-level global exhibition in the transportation industry after the integration

INVESTOR RELATIONS

of the original CNR and CSR. In order to speed up the international talent solicitation and cultivation of CRRC, the Company set up a CRRC global talent recruitment team, and leveraging the German rail transportation exhibition as the best opportunity to solicit global industry talents, the Company carried out a 7-day international talent recruitment, highlighting CRRC's commitment and confidence in constructing itself to be a strong enterprise with international talents, promoting CRRC's brand image as a good employer, hiring talents with international thinking and vision, improving the international talent recognition capability of the CRRC global talent recruitment team and enhancing the international influence of CRRC. Also in September, CRRC participated in the century-old world's largest commercial auto exhibition – International Commercial Vehicle Exhibition in Hannover, Germany for the first time. Under the topic of "Enjoying a Low-carbon Future with CRRC", the Company not only presented its most advanced electric vehicles and parts and components, but also released the "Low Carbon Future: CRRC Sustainable Public Transport Solutions" on site. In the "2016 New Media Tuanbo Summit and New Media Awards Presentation" held in October in Tianjin, the official WeChat account of CRRC was awarded the "Most Influential New Media among State-owned Enterprises in 2016". In November, the Brazilian Rail Transportation Exhibition, the largest rail transportation exhibition in Latin America was held in in Sao Paulo, where CRRC demonstrated various rail transportation models including high-speed EMU, urban subway, diesel locomotives, freight wagons, etc., among which the Line 4 subway product in Rio serving the Brazil World Cup and the Rio Olympic Games received wide attention. In 2016, CRRC ranked 22th among the Top 400 Chinese Enterprises selected by the Fortune Magazine (Chinese version), and ranked 170th among the Top 500 Global Brands published by Brand Finance. Besides, as SCI Verkehr, the renowned consultancy company from Germany released the 2015 World Rail Transportation Equipment Rankings, CRRC unsurprisingly won the championship in the global rail transportation equipment industry, fully demonstrated the constantly improving international competitiveness of CRRC.

Facing the opportunities and challenges lying ahead, the Company will continue to pay attention to and improve its investor relations management and bring reasonable returns to the shareholders and investors who have always supported the Company, thus achieving a win-win cooperation between CRRC and its investors.

CHANGES IN SHARES AND PARTICULARS OF SHAREHOLDERS

I. CHANGES IN SHARE CAPITAL

(I) Changes in ordinary shares

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

(II) Explanation on the changes in ordinary shares

On 17 January 2017, the Company completed the non-public issuance of 1,410,105,755 A Shares. The lock-up period of the new shares is 36 months. Upon completion of this issuance, the total share capital of the Company increased from 27,288,758,333 Shares to 28,698,864,088 Shares. Please refer to the Announcement on the Results of the Non-Public Issuance of A Shares And Change in Share Capital dated 17 January 2017 published by the Company on the websites of SSE and the Stock Exchange for details.

II. ISSUE AND LISTING OF SECURITIES

(I) Issue of securities during the reporting period

Unit: share Currency: RMB

Type of shares and derivative equities	Date of issue	Interest rate	Size of issuance	Date of listing	Size of issuance permitted to be traded	Date of release of trading moratorium
Convertible corporate bonds, convertible bonds with detachable warrants and corporate bonds						
H Share convertible bonds	5 February 2016	0	US$600 million	11 February 2016	US$600 million	5 February 2021
Corporate bonds	30 August 2016	2.95%	RMB2 billion	22 September 2016	RMB2 billion	30 August 2021

Explanation on the issue of securities during the reporting period

1. Issuance of H Share convertible bonds

   On 5 February 2016, the Company issued five-year zero coupon H Share convertible bonds in an aggregate amount of US$600 million. Please refer to the section headed "Significant Events-VII. Information on the Convertible Corporate Bonds" in this annual report.

2. Issuance of corporate bonds

   Pursuant to the Resolution on the Issuance of Bond Financing Instruments by CRRC Corporation Limited in 2016 (《關於中國中車股份有限公司2016 年度發行債券類融資工具的議案》) considered and approved at the 12th meeting of the first session of the Board convened on 29 March 2016 and the 2015 annual general meeting convened on 16 June 2016, the Company intended to issue corporate bonds of no more than RMB9 billion (inclusive) by a multi-tranche offering. The matter was approved by the CSRC on 19 August 2016. Issuance of the first tranche of bonds completed on 30 August 2016 with an actual issuance size of RMB2 billion and a final coupon rate of 2.95%. Please refer to the relevant announcements dated 22 August 2016, 25 August 2016, 29 August 2016 and 30 August 2016 published by the Company on the websites of the SSE and the Stock Exchange for details.

3. Non-public issuance of A shares

On 27 May 2016, the Company considered and approved the "Resolution for the Plan on Non-public Issuance of A Shares by CRRC Corporation Limited (《關於中國中車股份有限公司非公開發行A股股票預案的議案》)" and other resolutions relating to the non-public issuance of A Shares at the 14th meeting of the first session of the Board. Pursuant to the resolutions, the Company proposed to issue not more than 1,385,681,291 A Shares and proposed to raise not more than RMB12 billion in proceeds. On 7 June 2016, the SASAC of the State Council issued the "Approval Concerning the Non-public Issuance of A Shares by CRRC Corporation Limited (Guo Zi Chan Quan [2016] No. 465) (《關於中國中車股份有限公司非公開發行A股股票有關問題的批復》 (國資產權 [2016]465號))", pursuant to which SASAC had in principle approved the plan relating to the non-public issuance of A shares by the Company. On 16 June 2016, the Company held the 2015 annual general meeting to consider and approve the "Resolution for the Plan on Non-public Issuance of A Shares by CRRC Corporation Limited (《關於中國中車股份有限公司非公開發行A股股票預案的議案》)" and other resolutions relating to the non-public issuance of A Shares. On 5 August 2016, the Company adjusted the price and the number of A Shares to be issued under the non-public issuance of A Shares following the implementation of the 2015 profit distribution plan of the Company. On 17 August 2016, the Company received the "Notice Regarding the Feedback Comments from the China Securities Regulatory Commission on Matters Subject to Administrative Approval (No. 161634) (《中國證監會行政許可項目審查反饋意見通知書》(161634號))" (hereinafter referred to as the "Feedback Comments"). On 2 September 2016, the Company publicly disclosed its response to the Feedback Comments. On 9 November 2016, the Company's application for the non-public issuance of A Shares was approved by the Issuance Examination Committee of CSRC. On 30 December 2016, the Company's application for the non-public issuance of A Shares was approved by CSRC. On 17 Januray 2017, registration and depository procedures of the A shares in the non-public issuance were completed with the Shanghai branch of the China Securities Depository and Clearing Corporation Limited. These shares have a lock-up period of 36 months.

Please refer to the relevant announcements dated 27 May 2016, 13 June 2016, 16 June 2016, 5 August 2016, 17 August 2016, 2 September 2016, 9 November 2016, 30 December 2016 and 18 January 2017 published by the Company on the websites of the SSE and the Stock Exchange for details.

(II) Existing internal employee shares

The Company has no internal employee shares.

III. PARTICULARS OF SHAREHOLDERS AND ULTIMATE CONTROLLER

(I) Total number of shareholders

Total number of shareholders of ordinary shares as of the end of the reporting period (shareholder) [Note]	1,070,288
Total number of shareholders of ordinary shares as of the end of the last month before the disclosure date of the annual report (shareholder) [Note]	1,032,472

Note: As at the end of the reporting period, the Company has 1,067,729 holders of A shares and 2,559 holders of H shares; as at the end of the month prior to the date of the annual report, the Company has 1,029,924 holders of A shares and 2,548 holders of H shares.

CHANGES IN SHARES AND PARTICULARS OF SHAREHOLDERS

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

Unit: share

Shareholdings of the top ten shareholders								
					Shares pledged or frozen			
Name of shareholder (full name)	Change during the reporting period	Number of shares held at the end of the period	Percentage (%)	Number of shares subject to trading moratorium held	Pledged or frozen	Quantity	Nature of shareholder
CRRCG	0	14,786,323,011	54.18	0	Nil	0	State-owned legal person
HKSCC NOMINEES LIMITED Note	-1,266,250	4,360,314,309	15.98	0	Unknown	–	Overseas legal person
China Securities Finance Corporation Limited	164,233,925	784,325,194	2.87	0	Unknown	–	State-owned legal person
CRRC Financial and Securities Investment Co., Ltd.	0	380,172,012	1.39	0	Nil	0	State-owned legal person
Central Huijin Asset Management Ltd.	0	304,502,100	1.12	0	Unknown	–	State-owned legal person
Bosera Funds – Agricultural Bank of China – Bosera China Securities and Financial Assets Management Plan	0	125,366,000	0.46	0	Unknown	–	Unknown
E Fund – Agricultural Bank of China – E Fund China Securities and Financial Assets Management Plan	0	125,366,000	0.46	0	Unknown	–	Unknown
Dacheng Fund – Agricultural Bank of China – Dacheng China Securities and Financial Assets Management Plan	0	125,366,000	0.46	0	Unknown	–	Unknown
Harvest Fund – Agricultural Bank of China – Harvest China Securities and Financial Assets Management Plan	0	125,366,000	0.46	0	Unknown	–	Unknown
GF Fund – Agricultural Bank of China – GF China Securities and Financial Assets Management Plan	0	125,366,000	0.46	0	Unknown	–	Unknown
Zhongou Asset – Agricultural Bank of China – Zhongou China Securities and Financial Assets Management Plan	0	125,366,000	0.46	0	Unknown	–	Unknown
China AMC – Agricultural Bank of China – China AMC China Securities and Financial Assets Management Plan	0	125,366,000	0.46	0	Unknown	–	Unknown
Yinhua Fund – Agricultural Bank of China – Yinhua China Securities and Financial Assets Management Plan	0	125,366,000	0.46	0	Unknown	–	Unknown
China Southern Asset Management– Agricultural Bank of China – China Southern Asset Management China Securities and Financial Assets Management Plan	0	125,366,000	0.46	0	Unknown	–	Unknown
ICBCCS Fund – Agricultural Bank of China – ICBCCS China Securities and Financial Assets Management Plan	0	125,366,000	0.46	0	Unknown	–	Unknown

CHANGES IN SHARES AND PARTICULARS OF SHAREHOLDERS

Unit: share

Particulars of shareholdings of the top ten shareholders not subject to trading moratorium

Name of shareholder	Number of tradable shares held not subject to trading moratorium	Class and number of shares: Class	Number
CRRCG	14,786,323,011	Ordinary shares denominated in RMB	14,786,323,011
HKSCC NOMINEES LIMITED[Note]	4,360,314,309	Overseas listed foreign shares	4,360,314,309
China Securities Finance Corporation Limited	784,325,194	Ordinary shares denominated in RMB	784,325,194
CRRC Financial and Securities Investment Co., Ltd.	380,172,012	Ordinary shares denominated in RMB	380,172,012
Central Huijin Asset Management Ltd.	304,502,100	Ordinary shares denominated in RMB	304,502,100
Bosera Funds — Agricultural Bank of China — Bosera China Securities and Financial Assets Management Plan	125,366,000	Ordinary shares denominated in RMB	125,366,000
E Fund — Agricultural Bank of China — E Fund China Securities and Financial Assets Management Plan	125,366,000	Ordinary shares denominated in RMB	125,366,000
Dacheng Fund — Agricultural Bank of China — Dacheng China Securities and Financial Assets Management Plan	125,366,000	Ordinary shares denominated in RMB	125,366,000
Harvest Fund — Agricultural Bank of China — Harvest China Securities and Financial Assets Management Plan	125,366,000	Ordinary shares denominated in RMB	125,366,000
GF Fund — Agricultural Bank of China — GF China Securities and Financial Assets Management Plan	125,366,000	Ordinary shares denominated in RMB	125,366,000
Zhongou Asset — Agricultural Bank of China — Zhongou China Securities and Financial Assets Management Plan	125,366,000	Ordinary shares denominated in RMB	125,366,000
China AMC — Agricultural Bank of China — China AMC China Securities and Financial Assets Management Plan	125,366,000	Ordinary shares denominated in RMB	125,366,000
Yinhua Fund — Agricultural Bank of China — Yinhua China Securities and Financial Assets Management Plan	125,366,000	Ordinary shares denominated in RMB	125,366,000
China Southern Asset Management — Agricultural Bank of China — China Southern Asset Management China Securities and Financial Assets Management Plan	125,366,000	Ordinary shares denominated in RMB	125,366,000
ICBCCS Fund — Agricultural Bank of China — ICBCCS China Securities and Financial Assets Management Plan	125,366,000	Ordinary shares denominated in RMB	125,366,000
Connections or parties acting in concert among the aforesaid shareholders	CRRC Financial and Securities Investment Co., Ltd. is a wholly-owned subsidiary of CRRCG. Save for the above, the Company is not aware of any connections among the other shareholders above, nor aware of any parties acting in concert as defined in the Administrative Measures on Acquisitions by Listed Companies.		

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

CHANGES IN SHARES AND PARTICULARS OF SHAREHOLDERS

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

As at 31 December 2016, the following Directors and Supervisors have interests in the A Shares and H Shares of the Company and relevant details are set out as follows:

Name	Position	Class of shares	Number of shares
Liu Hualong	Chairman, Executive Director	A Shares	50,000
Xi Guohua	Vice chairman, Executive Director, President	A Shares	231,800
Qiu Wei	Employee representative Supervisor	A Shares	30,000

Save as disclosed in the annual report, as at 31 December 2016, none of the Directors, Supervisors or chief executive of the Company had interests or short positions in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be entered in the register maintained by the Company under section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code by the Directors or Supervisors.

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

As at 31 December 2016, the persons set out in the table below had an interest or short position in the Company's shares as recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholders	Capacity	H Shares or A Shares	Nature of Interest	Number of H shares or A shares held	Percentage of H shares or A shares held in the total issued H shares or total issued A shares (%)	Percentage of total share capital of the Company (%)
CRRCG	Beneficial owner	A Shares	Long position	14,786,323,011	64.51	54.18
	Interest of corporation controlled by the substantial shareholder	A Shares	Long position	473,257,727	2.06	1.73
BlackRock, Inc.	Interest of corporation controlled by the substantial shareholder	H Shares	Long position	267,971,072	6.13	0.98
	Interest of corporation controlled by the substantial shareholder		Short position	4,728,000	0.11	0.02
Himalaya Capital Investors, L.P. (formerly known as LL Investment Partners L.P.)	Beneficial owner	H Shares	Long position	267,904,000	6.13	0.98
Li Lu	Interest of corporation controlled by the substantial shareholder	H Shares	Long position	267,904,000	6.13	0.98
LL Group, LLC	Interest of corporation controlled by the substantial shareholder	H Shares	Long position	267,904,000	6.13	0.98

Notes:

(1) CRRCG held 93,085,715 A Shares through CSR Capital Company and held 380,172,012 A Shares through CRRC Financial and Securities Investment Co., Ltd.. On 27 May 2016, the Company and CRRCG entered into a subscription agreement subject to certain conditions. On 17 January 2017, the Company completed its non-public issuance of A Shares, whereby CRRCG subscribed for 705,052,878 A Shares and held, directly and indirectly, a total of 15,964,633,616 A Shares in the Company.

(2) Except for the 15,259,580,738 A Shares of the Company held by CRRCG and the proportion details, other information disclosed hereby is based on the information available on the website of the Stock Exchange at (www.hkex.com.hk).

Save as disclosed above, as far as the Directors are aware, as at 31 December 2016, no other person had interests and/or short positions in the shares or underlying shares (as the case may be) of the Company which were required to be recorded in the register pursuant to section 336 of Part XV of the SFO, or was otherwise a substantial shareholder (as defined in the Hong Kong Listing Rules) of the Company.

IV. PARTICULARS OF CONTROLLING SHAREHOLDER AND THE ULTIMATE CONTROLLER

(I) Controlling shareholder

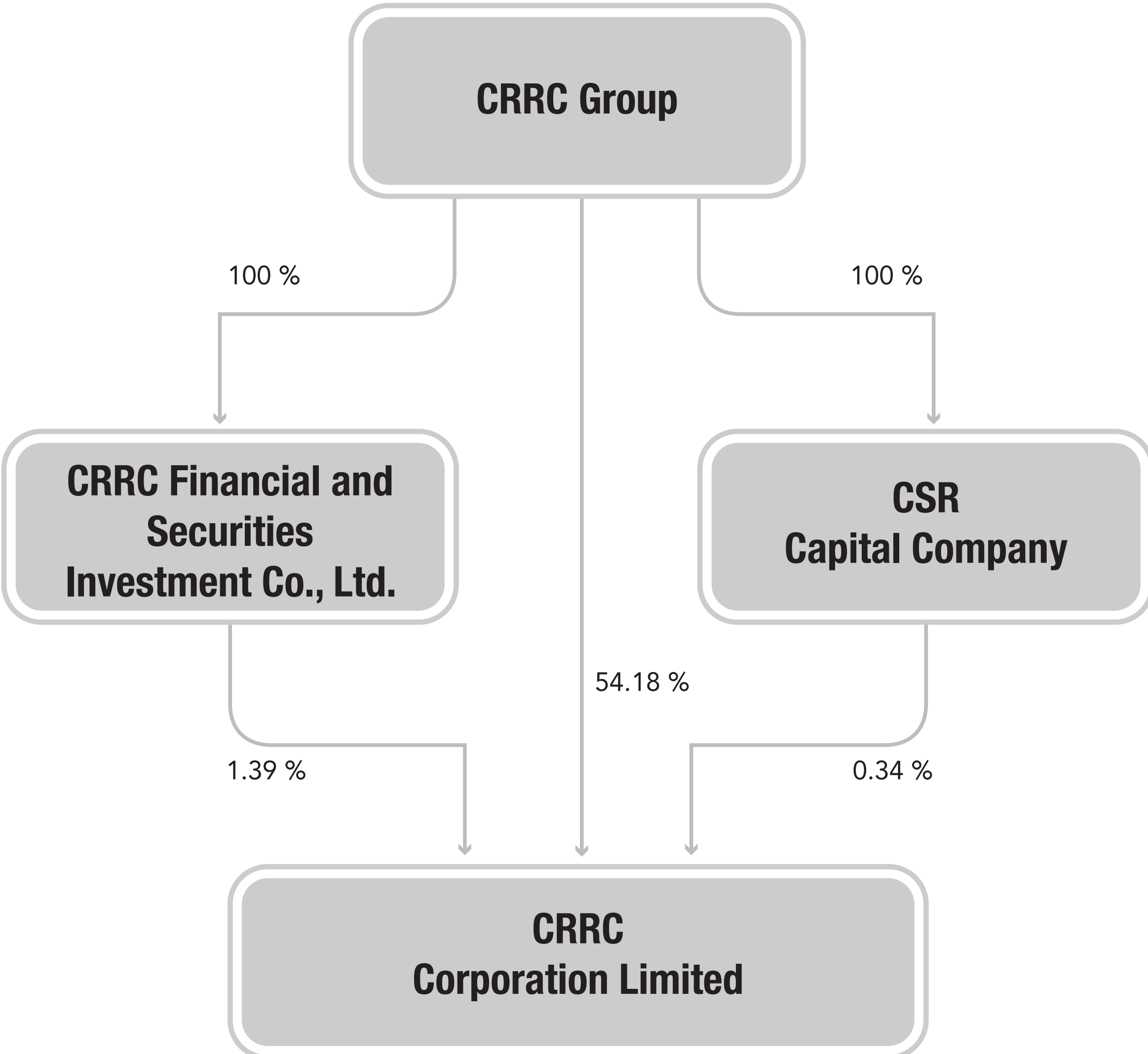
1. Legal person

Name:	CRRC Group (中國中車集團公司)
Legal representative:	Liu Hualong
Establishment date:	1 July 2002
Principal operations:	Research and development, manufacturing, sales, refurbishment and leasing of locomotives, passenger carriages, freight wagons, MUs, rapid transit vehicles and key components as well as other businesses that utilize proprietary rolling stock technologies.
Equity interest in other controlling and investee companies listed in the PRC or overseas during the reporting period:	None of equity interests in other overseas listing company is directly held.
Other explanatory statements:	Nil

2. Index and date on changes in controlling shareholder during the reporting period

During the reporting period, there was no change in the controlling shareholders of the Company.

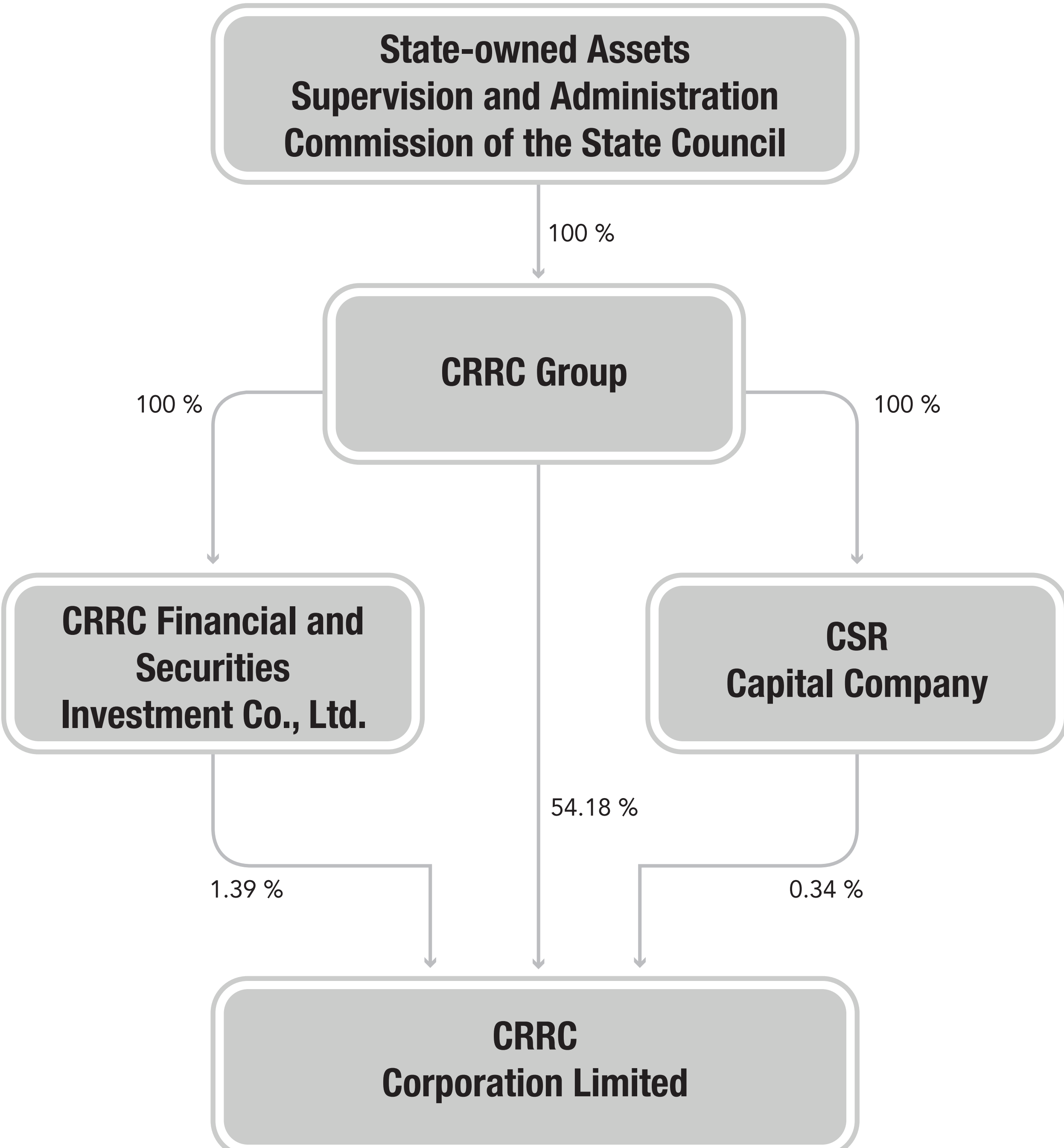
3. **Framework of ownership and controlling relationship between the Company and the controlling shareholder**



(II) Ultimate controller

1. The ultimate controller of the Company is the SASAC of the State Council.

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



V. OTHER CORPORATE SHAREHOLDERS WITH OVER 10% SHAREHOLDINGS

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

VI. SUFFICIENT PUBLIC FLOAT

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

VII. PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During the year ended 31 December 2016, the Company did not purchase, sell or redeem any of the Company's securities.

SIGNIFICANT EVENTS

I. PERFORMANCE OF UNDERTAKINGS

(1) Undertakings by the Company, shareholders, actual controller, acquirer, directors, supervisors, senior management or other related parties during or up to the reporting period

Undertakings by the Company

1. Non-competition undertaking with Times New Material

On 5 August 2015, CRRC issued the letter of undertaking of non-competition with Zhuzhou Times New Material Technology Co., Ltd. (《關於避免與株洲時代新材料科技股份有限公司同業競爭的承諾函》) in order to resolve the issue of competition between CRRC and Times New Material after the merger between CSR and CNR. The specific undertakings are as follows: the current operations of CRRC in fields such as air springs for rail vehicles and rubber-metal parts for rail vehicles compete with the operations of Times New Material, which is indirectly controlled by CRRC. In order to resolve such competition with Times New Material, in accordance with relevant laws and regulations, CRRC undertook that it will resolve such issue with Times New Material within five years from the date of this letter of undertaking in the manner approved by the regulatory authorities (including but not limited to asset restructuring, business integration etc.).

During the reporting period, CRRC complied with its undertakings as stated above.

2. Non-competition undertaking with Times Electric

On 5 August 2015, CRRC issued the letter of undertaking of non-competition with Zhuzhou CSR Times Electric Co., Ltd (《關於避免與株洲南車時代電氣股份有限公司同業競爭的承諾函》) in order to resolve the issue of competition between CRRC and Times Electric after the merger between CSR and CNR. The specific undertakings are as follows: the current operations of CRRC in fields such as transmission control systems, network control systems, traction power supply system, braking system, track construction machinery, electronic components and vacuum sanitation system compete with the operations of Times Electric, which is indirectly controlled by the Company. To safeguard the interests of Times Electric in its future development, in accordance with relevant laws and regulation, CRRC undertook that with respect to the operations of CRRC that compete with the operations of Times Electric: (1) CRRC will grant Times Electric a call option, pursuant to which Times Electric will be entitled to elect, at its own discretion, when to request CRRC to sell the competing businesses of CRRC to Times Electric; (2) CRRC will further grant Times Electric a pre-emptive right, pursuant to which if CRRC proposes to sell the competing business to an independent third party, CRRC shall offer to Times Electric the competing business first on the same terms and conditions, and the sale to an independent third party may only be effective after Times Electric refuses to purchase the competing business; (3) the decision of Times Electric to exercise the aforesaid call option and the pre emptive right shall be made by the independent non-executive directors of Times Electric; (4) the exercise of the aforesaid call option and the pre-emptive right as well as other effective methods to resolve this competition matter will be subject to the applicable regulatory and disclosure requirements and shareholders' approval at the general meeting in the places of listing of CRRC and Times Electric respectively; and (5) the non-competition undertaking will be effective from the date of issuance of this letter of undertaking to the time when Times Electric is de-listed or CRRC ceases to be an indirect controlling shareholder of Times Electric.

During the reporting period, CRRC complied with the undertakings as stated above.

SIGNIFICANT EVENTS

Undertakings by CRRCG

1. **Undertakings in relation to the initial public offering**

The following undertakings have been made by CNRG and CSRG respectively upon the listing of CSR and CNR. Following the merger between CSR and CNR, the following undertakings made by CNRG to CNR shall remain valid for CRRC. Following the merger between CNRG and CSRG, the following undertakings will continue to be performed by CRRCG.

(1) Undertakings on property ownership issues

CSR disclosed in its prospectus that CSR has not yet obtained proper property ownership certificates for 326 properties with a total gross floor area of 282,019.03 square meters, representing 7.85% of the total gross floor area of the property in use of CSR. As for the property which CSR has not yet obtained property ownership certificates, CSRG undertook that properties that could not obtain complete property ownership certificates due to reasons such as incomplete procedures in planning and constructions and, which were included in the asset injection to CSR by CSRG, CSR undertook that such properties satisfy the usage requirements necessary for the production and operations of CSR. Moreover, if there is any loss incurred to CSR due to such properties, CSRG shall undertake all compensation liabilities and all economic losses that CSR incurred. At the end of the reporting period, the Company have not yet obtained the building ownership certificates for 93 houses with the total gross floor area of 55,180.49 sqm of Chengdu company.

During the reporting period, CRRCG complied with the undertakings as stated above.

(2) Undertakings on the state-owned land use certificate without specifying the land use terms or termination date

CNR disclosed in the prospectus that the land use terms or termination date were not specified in the state-owned land use certificate for part of the authorized lands acquired by CNR. CNRG undertook to compensate the relevant wholly-owned subsidiaries of CNR for the loss caused as a result of the state owned land use certificate not specifying the land use terms or termination date for the authorized land.

During the reporting period, CRRCG complied with the undertakings as stated above.

2. **Non-competition undertakings**

As of the time of the listing of CSR and CNR, CSRG and CNRG have respectively undertaken not to have competition. As of the time of the merger between CSR and CNR, CSRG and CNRG have undertaken not to have competition with the post-merger company. As of the time of the merger between CNRG and CSRG, CNRG, by assuming the aforesaid undertakings, issued the letter of undertaking of non-competition with CRRC Corporation Limited (《關於避免與中國中車股份有限公司同業競爭的承諾函》) on 5 August 2015. The specific undertakings are as follows: (1) CNRG undertook that CNRG will not and will, through legal procedures, procure its wholly-owned and non-wholly subsidiaries to not engage in any businesses which might directly compete with the current operating businesses of CRRC; (2) subject to the aforesaid undertaking (1), if CNRG (including its wholly-owned subsidiaries and non-wholly subsidiaries or other connected entities) provide any products or services that might be in competition with the principal products or services of CRRC in the future, CNRG will agree to grant CRRC pre-emptive right to acquire the assets or its entire equity interests in such subsidiaries related to such products or services from CNRG. (3) subject to the aforesaid undertaking (1), CNRG may develop advanced and lucrative projects in the future which fall within the business scope of CRRC, but it should preferentially transfer any achievement on such projects to CRRC for its own operation on equal terms of transfer. (4) CNRG should compensate CRRC for its actual losses arising from any failure to comply with the aforesaid undertakings.

During the reporting period, CRRCG complied with the undertakings stated above.

SIGNIFICANT EVENTS

3. Undertaking to maintain the independence of a listed company

As of the time of the merger between CSR and CNR, CSRG and CNRG have respectively undertaken to maintain the independence of the post-merger company. As of the time of the merger between CNRG and CSRG, CNRG, by assuming the aforesaid undertakings, issued the letter of undertaking to maintain the independence of CRRC Corporation Limited (《關於保持中國中車股份有限公司獨立性的承諾函》) on 5 August 2015. The specific undertakings are as follows: CNRG undertook to be separate from CRRC in respect of areas such as assets, personnel, finance, organization and business and will, in strict compliance with the relevant requirements on the independence of a listed company imposed by the CSRC, not to use its position as the controlling shareholder to violate the standardized operation procedures of a listed company to intervene in the operating decisions of CRRC and to damage the legitimate interests of CRRC and other shareholders. CNRG and other companies under its control undertook not to, by any means, use the funds of CRRC and companies under its control.

During the reporting period, CRRCG complied with the undertakings as stated above.

4. Undertaking to regulate connected transactions

As of the time of the merger between CSR and CNR, CSRG and CNRG have respectively undertaken to regulate the connected transactions with the post-merger company. As of the time of the merger between CNRG and CSRG, CNRG, by assuming the aforesaid undertakings, issued the letter of undertaking to regulate the connected transactions of CRRC Corporation Limited (《關於規範與中國中車股份有限公司關聯交易的承諾函》) on 5 August 2015. The specific undertakings are as follows: CNRG and other companies controlled by CNRG will endeavor not to enter into or minimise the connected transactions with CRRC and other companies in which it holds a controlling interest. For connected transactions that are inevitable or reasonable, CNRG will continue to perform the obligations under the connected transaction framework agreements entered into between CNRG and CNR and succeeded by the post-merger company as well as the related party transaction framework agreements entered into between CSRG and CSR (the rights and obligations of CSR and CNR under these related party transaction framework agreements will be succeeded by CRRC), and will comply with the approval procedures and information disclosure obligations in accordance with the relevant laws and regulations as well as the provisions under the Articles of Association of CRRC. Prices of the connected transactions will be determined based on prices of the same or comparable transactions conducted with other independent third parties in accordance to the principle of fairness and reasonableness.

During the reporting period, CRRCG complied with undertakings as stated above.

The undertaking related to refinancing

The Company issued A Shares by way of non-public issuance in 2016, and each relevant party made the following undertakings:

1. Undertaking to not provide financial assistance or compensation to the target subscriber

On 27 May 2016, the Company issued the letter of undertaking pursuant to which the Company and its relevant parties undertook to not default on provisions including Article 17 of the Administrative Measures on the Offering and Underwriting of Securities, to directly or indirectly, provide financial assistance and compensation to investment companies, asset management products and its trustee or partnership and partners involved in this subscription.

On 27 May 2016, CRRCG have issued the letter of undertaking pursuant to which CRRCG and its relevant parties undertook to not default on provisions including Article 17 of the Administrative Measures on the Offering and Underwriting of Securities, to directly or indirectly, provide financial assistance and compensation to investment companies, asset management products and its trustee or partnership and partners involved in this subscription.

SIGNIFICANT EVENTS

2. **Undertaking to adopt measures of mitigating the potential dilution of return for the current period**

The Directors and senior management of the Company have made the following undertakings on 27 May 2016: (1) to not transfer interests to other entities or individuals without consideration or with unfair consideration nor otherwise damage the Company's interests in any other ways; (2) to constrain expenses relating to the performance of their duties; (3) to not use the Company's assets for investments and consumption activities unrelated to the performance of their duties; (4) that the remuneration system formulated by the Board or the remuneration committee is in line with implementation of the remedial measures for the returns by the Company; (5) that the vesting conditions of share incentives to be formulated by the Company will be in line with the implementation of the remedial measures for returns by the Company if the Company were to make such share incentive plans in the future; (6) to perform the remedial measures for returns formulated by the Company as well as any commitment made by them for such remedial measures. The Directors and senior management will be liable for indemnifying the Company or the investors for their losses in the event of failure to perform the commitment. On 27 May 2016, CRRCG commited not to intervene in the operation and management activities of the Company or unlawfully infringe upon the Company's interests.

3. **Non-disposal undertaking**

On 2 September 2016, CRRCG issued the letter of undertaking pursuant to which it undertook that (1) CRRCG will continue to comply with the provisions of the laws and regulation and regulatory documents for all shares held by CRRCG in CRRC as at the date of the letter of undertaking. CRRCG will ensure that its wholly-owned subsidiaries will continue to comply with the provisions of the laws and regulation and regulatory documents for all shares held by its wholly-owned subsidiaries in CRRC as at the date of the letter of undertaking; (2) as approved by the CSRC through issuing the Approval on Public Issue of Corporate Bond to Public Investors by CRRCG (CSRC Permit No. [2016] 664), CRRCG will elect applicable issuance window to publicly issue convertible corporate bond with carrying amount of no more than RMB 7 billion in aggregate to public investors according to the provisions of the laws and regulation and regulatory documents. The relevant issuance may cause the passive reduction of the number of the CRRC's shares held by CRRCG; (3) during the six months from the date of the letter of undertaking to the completion of non-public issuance of A Shares by CRRC, CRRCG will not dispose of CRRC's shares through securities transactions on the stock exchange, and ensure that its wholly-owned subsidiaries will not dispose CRRC's shares through securities transactions on the stock exchange; (4) CRRCG will strictly fulfill the above undertakings and bear the corresponding legal responsibility. CRRCG will bear all legal responsibility and outcomes as a result of the failure to satisfy the above undertakings and all benefits shall belong to CRRC.

The Company had completed the non-public issuance of A Shares in January 2017. During the reporting period, the above undertakings have been complied with during the implementation period.

II. DESCRIPTION OF INTEGRITY OF THE COMPANY AND ITS SHAREHOLDERS AND ACTUAL CONTROLLERS DURING THE REPORTING PERIOD

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

III. SHARE OPTION SCHEME, EMPLOYEE STOCK OWNERSHIP SCHEME AND OTHER STAFF INCENTIVES OF THE COMPANY AND THEIR IMPACTS

During the reporting period, the Company have no related Share Option Scheme, Employee Stock Ownership Scheme and other staff incentives.

SIGNIFICANT EVENTS

IV. SIGNIFICANT CONTRACTS AND THEIR IMPLEMENTATION

1. Guarantees

Unit: '000 Currency: RMB

Guarantees provided by the Company to external parties (excluding guarantees provided by the Company in favour of its subsidiaries)	
Total guarantee amount provided during the reporting period (excluding guarantees provided by the Company in favour of its subsidiaries)	—
Total guarantee balance at the end of the reporting period (A) (excluding guarantees provided by the Company in favour of its subsidiaries)	—
Guarantees provided by the Company and its subsidiaries in favour of its subsidiaries	
Total guarantee amount provided to the Company's subsidiaries during the reporting period	15,164,533
Total guarantee balance provided to the Company's subsidiaries at the end of the reporting period (B)	40,590,222
Aggregate guarantee amount provided by the Company (including guarantees provided by the Company in favour of its subsidiaries)	
Total guarantee amount (A+B)	40,590,222
Percentage of total guarantee amount to net assets of the Company (%)	38.71
including:	
Provision of guarantee to shareholders, ultimate controller and their respective connected persons (C)	—
Amount of guarantees directly or indirectly provided in favour of parties with gearing ratio over 70% (D)	27,119,954
The total amount of guarantees provided which exceeds 50% of the net asset (E)	—
Total amount of the three above-stated guarantees (C+D+E)	27,119,954
Explanation on guarantees undue that might be involved in any joint and several liability	—

SIGNIFICANT EVENTS

Explanation on guarantees

Percentage of total guarantee amount to net assets of the Company equals the ratio of the guarantee amount over equity attributable to owners of the Company. During the reporting period, total guarantee amount provided by the Company in favour of its subsidiaries was RMB15,165 million. As at 31 December 2016, total guarantee balance was RMB40,590 million, representing 38.71% of the Company's net assets. Out of such guarantee balance, RMB18,826 million and RMB21,764 million were provided to the Company's wholly-owned subsidiaries and non wholly-owned subsidiaries respectively. As far as guarantee type is concerned, RMB6,287 million was provided for bank acceptance bills, RMB4,599 million was provided for loans and medium-term notes, and RMB29,704 million was provided for letters of guarantee, letters of credit and credit facilities, etc.

As at the end of the reporting period, the Company did not provide any guarantees in favour of its controlling shareholders, ultimate controller and their related parties; all guarantees provided by the Company were in favour of its subsidiaries. As at the end of the reporting period, the guarantee balance provided by the Company in favour of its subsidiaries with gearing ratio over 70% was RMB27,120 million. Approval procedures have been complied with at the Board meetings and the general meetings as required by the Articles of Associations in respect of the guarantees provided by the Company in favour of its wholly-owned and non wholly-owned subsidiaries with gearing ratio over 70%.

SIGNIFICANT EVENTS

2. Entrusted Wealth Management

Unit: '000 Currency: RMB

Trustee	Entrusted Wealth Management Product	Entrusted Wealth Management Amount	Starting Date of Entrusted Wealth Management	Ending Date of Entrusted Wealth Management	Method of Reward Determination	Amount of Actually Retracted Principal of Entrusted Wealth Management	Actually Gained Income of Entrusted Wealth Management	Does the Entrusted Wealth Management Pass the Legal Procedure?	Total Amount of Depreciation Reserves of Entrusted Wealth Management	Is Entrusted Wealth Management a Related Transaction?	Whether Any Lawsuit is Involved	Related Party Relationship
Shanghai Pudong Development Bank Zhuzhou Sub-branch	Breakeven guaranteed profit	100,000	16/12/2015	14/02/2016	Payment of due interest and principal	100,000	518	Yes	–	No	No	–
Agricultural Bank of China Zhuzhou Hi-Tech Zone Sub-branch	Breakeven guaranteed profit	100,000	16/12/2015	17/02/2016	Payment of due interest and principal	100,000	527	Yes	–	No	No	–
Bank of China Zhuzhou Branch	Breakeven guaranteed profit	100,000	15/12/2015	16/02/2016	Payment of due interest and principal	100,000	631	Yes	–	No	No	–
Bank of Changsha Zhuzhou Branch	Breakeven guaranteed profit	200,000	17/12/2015	15/03/2016	Payment of due interest and principal	200,000	1,634	Yes	–	No	No	–
Bank of Communication Zhuzhou Branch	Breakeven guaranteed profit	200,000	21/12/2015	22/03/2016	Payment of due interest and principal	200,000	2,042	Yes	–	No	No	–
China Guangfa Bank Zhuzhou Branch	Breakeven guaranteed profit	200,000	17/12/2015	17/06/2016	Payment of due interest and principal	200,000	3,911	Yes	–	No	No	–
CITIC Bank Zhuzhou Branch	Breakeven guaranteed profit	100,000	17/12/2015	17/06/2016	Payment of due interest and principal	100,000	1,705	Yes	–	No	No	–
Bank of China Zhuzhou Branch	Breakeven guaranteed profit	200,000	24/12/2015	13/01/2016	Payment of due interest and principal	200,000	403	Yes	–	No	No	–
Bank of Changsha Zhuzhou Branch	Breakeven guaranteed profit	200,000	28/12/2015	27/06/2016	Payment of due interest and principal	200,000	3,540	Yes	–	No	No	–
CITIC Bank Zhuzhou Branch	Breakeven guaranteed profit	400,000	30/12/2015	02/07/2016	Payment of due interest and principal	400,000	6,995	Yes	–	No	No	–
China Guangfa Bank Zhuzhou Branch	Breakeven guaranteed profit	200,000	29/12/2015	30/06/2016	Payment of due interest and principal	200,000	3,911	Yes	–	No	No	–
Shanghai Pudong Development Bank Zhuzhou Sub-branch	Breakeven guaranteed profit	200,000	30/12/2015	27/06/2016	Payment of due interest and principal	200,000	3,255	Yes	–	No	No	–
Bank of Communication Zhuzhou Branch	Breakeven floating profit	300,000	31/12/2015	28/05/2016	Payment of due interest and principal	300,000	3,877	Yes	–	No	No	–
Huarong Xiangjiang Bank Dongyi Road Branch	Breakeven floating profit	200,000	31/12/2015	30/05/2016	Payment of due interest and principal	200,000	2,896	Yes	–	No	No	–
Zhuzhou Hi-Tech Zone Subbranch of Agricultural Bank of China	Breakeven guaranteed profit	200,000	31/12/2015	29/06/2016	Payment of due interest and principal	200,000	3,322	Yes	–	No	No	–
Shanghai Pudong Development Bank Baoji Branch	Mixed guaranteed profit	60,000	29/12/2015	29/03/2016	Payment of due interest and principal	60,000	525	Yes	–	No	No	–
Bank of China, Baoji Dongcheng Branch	Breakeven guaranteed profit	70,000	28/12/2015	03/03/2016	Payment of due interest and principal	70,000	387	Yes	–	No	No	–
CITIC Bank Baoji Branch	Breakeven guaranteed profit	20,000	29/12/2015	03/02/2016	Payment of due interest and principal	20,000	55	Yes	–	No	No	–

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Trustee	Entrusted Wealth Management Product	Entrusted Wealth Management Amount	Starting Date of Entrusted Wealth Management	Ending Date of Entrusted Wealth Management	Method of Reward Determination	Amount of Actually Retracted Principal of Entrusted Wealth Management	Actually Gained Income of Entrusted Wealth Management	Does the Entrusted Wealth Management Pass the Legal Procedure?	Total Amount of Depreciation Reserves of Entrusted Wealth Management	Is Entrusted Wealth Management a Related Transaction?	Whether Any Lawsuit is Involved	Related Party Relationship
Industrial Bank Baoji Branch	Breakeven floating profit	50,000	28/12/2015	29/01/2016	Payment of due interest and principal	50,000	82	Yes	–	No	No	–
Bank of China, Baoji Dongcheng Branch	Not-breakeven floating profit	50,000	31/12/2015	04/01/2016	Payment of due interest and principal	50,000	39	Yes	–	No	No	–
Agricultural Bank of China Guangzhou Branch Biguiyuan Sub-branch	Breakeven guaranteed profit	10,000	26/12/2015	26/01/2016	Payment of due interest and principal	10,000	–	Yes	–	No	No	–
Industrial and Commercial Bank of China Shidai Branch	Breakeven floating profit	49,000	22/12/2015	15/01/2016	Payment of due interest and principal	49,000	146	Yes	–	No	No	–
Shanghai Pudong Development Bank	Breakeven guaranteed profit	45,000	18/12/2015	17/01/2016	Payment of due interest and principal	45,000	–	Yes	–	No	No	–
Ping An Bank	Breakeven floating profit	5,000	25/09/2015	11/01/2016	Payment of due interest and principal	5,000	–	Yes	–	No	No	–
China Guangfa Bank Zhuzhou Branch	Breakeven floating profit	200,000	03/02/2016	04/05/2016	Payment of due interest and principal	200,000	1,845	Yes	–	No	No	–
CITIC Bank Zhuzhou Branch	Breakeven floating profit	100,000	04/02/2016	07/03/2016	Payment of due interest and principal	100,000	263	Yes	–	No	No	–
Huarong Xiangjiang Bank Dongyi Road Branch	Breakeven floating profit	100,000	04/02/2016	06/04/2016	Payment of due interest and principal	100,000	578	Yes	–	No	No	–
Bank of China Zhuzhou Branch	Breakeven guaranteed profit	350,000	04/02/2016	24/06/2016	Payment of due interest and principal	350,000	4,361	Yes	–	No	No	–
Huarong Xiangjiang Bank Dongyi Road Branch	Breakeven floating profit	100,000	18/04/2016	22/06/2016	Payment of due interest and principal	100,000	588	Yes	–	No	No	–
China Guangfa Bank Zhuzhou Branch	Breakeven floating profit	100,000	05/05/2016	06/06/2016	Payment of due interest and principal	100,000	281	Yes	–	No	No	–
China Guangfa Bank Zhuzhou Branch	Breakeven floating profit	200,000	22/07/2016	20/09/2016	Payment of due interest and principal	200,000	1,118	Yes	–	No	No	–
Bank of China Zhuzhou Branch	Breakeven guaranteed profit	200,000	22/07/2016		Payment of due interest and principal	–	–	Yes	–	No	No	–
China Guangfa Bank Zhuzhou Branch	Breakeven floating profit	100,000	23/09/2016	22/11/2016	Payment of due interest and principal	100,000	542	Yes	–	No	No	–
Bank of China Zhuzhou Branch	Breakeven guaranteed profit	100,000	30/12/2016	20/01/2017	Payment of due interest and principal	–	–	Yes	–	No	No	–
CITIC Bank Zhuzhou Branch	Breakeven floating profit	50,000	30/12/2016	03/02/2017	Payment of due interest and principal	–	–	Yes	–	No	No	–
CITIC Bank Zhuzhou Branch	Breakeven floating profit	50,000	30/12/2016	31/03/2017	Payment of due interest and principal	–	–	Yes	–	No	No	–

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Trustee	Entrusted Wealth Management Product	Entrusted Wealth Management Amount	Starting Date of Entrusted Wealth Management	Ending Date of Entrusted Wealth Management	Method of Reward Determination	Amount of Actually Retracted Principal of Entrusted Wealth Management	Actually Gained Income of Entrusted Wealth Management	Does the Entrusted Wealth Management Pass the Legal Procedure?	Total Amount of Depreciation Reserves of Entrusted Wealth Management	Is Entrusted Wealth Management a Related Transaction?	Whether Any Lawsuit is Involved	Related Party Relationship
CITIC Bank Zhuzhou Branch	Breakeven floating profit	50,000	31/12/2016	04/02/2017	Payment of due interest and principal	–	–	Yes	–	No	No	–
CITIC Bank Zhuzhou Branch	Breakeven floating profit	50,000	31/12/2016	01/04/2017	Payment of due interest and principal	–	–	Yes	–	No	No	–
Bank of Nanjing Co., Ltd.	Not-breakeven floating profit	50,000	12/04/2016	11/04/2017	Payment of due interest and principal	–	–	Yes	–	No	No	–
Bank of Nanjing Co., Ltd.	Not-breakeven floating profit	100,000	19/04/2016	18/10/2016	Payment of due interest and principal	100,000	2,244	Yes	–	No	No	–
Bank of Nanjing Co., Ltd.	Not-breakeven floating profit	50,000	26/04/2016	25/10/2016	Payment of due interest and principal	50,000	1,097	Yes	–	No	No	–
Bank of Nanjing Co., Ltd.	Not-breakeven floating profit	50,000	03/05/2016	01/11/2016	Payment of due interest and principal	50,000	1,097	Yes	–	No	No	–
Industrial Bank Co., Ltd.	Not-breakeven floating profit	100,000	12/07/2016	20/12/2016	Recognition on the basis of the net assets of fund	100,000	-1,767	Yes	–	No	No	–
China Construction Bank Corporation	Not-breakeven floating profit	200,000	12/07/2016	20/12/2016	Recognition on the basis of the net assets of fund	200,000	-3,771	Yes	–	No	No	–
Hua Xia Bank Co., Limited	Not-breakeven floating profit	300,000	12/07/2016	28/12/2016	Recognition on the basis of the net assets of fund	300,000	183	Yes	–	No	No	–
Huarong Xiangjiang Bank Dongyi Road Branch	Breakeven floating profit	200,000	23/06/2016	23/09/2016	Payment of due interest and principal	200,000	1,512	Yes	–	No	No	–
Bank of Communication Zhuzhou Branch	Breakeven guaranteed profit	100,000	24/06/2016	25/07/2016	Payment of due interest and principal	100,000	255	Yes	–	No	No	–
Bank of Changsha Zhuzhou Branch	Breakeven guaranteed profit	90,000	30/06/2016	02/08/2016	Payment of due interest and principal	90,000	236	Yes	–	No	No	–
China Guangta Bank Zhuzhou Branch	Breakeven guaranteed profit	200,000	30/06/2016	29/07/2016	Payment of due interest and principal	200,000	524	Yes	–	No	No	–
Shanghai Pudong Development Bank Zhuzhou Sub-branch	Breakeven guaranteed profit	100,000	01/07/2016	30/08/2016	Payment of due interest and principal	100,000	477	Yes	–	No	No	–
Zhuzhou Hi-Tech Zone Subbranch of Agricultural Bank of China	Breakeven guaranteed profit	100,000	02/07/2016	02/09/2016	Payment of due interest and principal	100,000	459	Yes	–	No	No	–
CITIC Bank Zhuzhou Branch	Breakeven guaranteed profit	200,000	07/07/2016	10/10/2016	Payment of due interest and principal	200,000	1,640	Yes	–	No	No	–
Bank of China Zhuzhou Branch	Breakeven guaranteed profit	100,000	25/07/2016	26/09/2016	Payment of due interest and principal	100,000	501	Yes	–	No	No	–
China Guangfa Bank Zhuzhou Branch	Breakeven guaranteed profit	100,000	07/09/2016	08/10/2016	Payment of due interest and principal	100,000	272	Yes	–	No	No	–
Shanghai Pudong Development Bank Zhuzhou Sub-branch	Breakeven guaranteed profit	80,000	08/09/2016	07/11/2016	Payment of due interest and principal	80,000	355	Yes	–	No	No	–

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Trustee	Entrusted Wealth Management Product	Entrusted Wealth Management Amount	Starting Date of Entrusted Wealth Management	Ending Date of Entrusted Wealth Management	Method of Reward Determination	Amount of Actually Retracted Principal of Entrusted Wealth Management	Actually Gained Income of Entrusted Wealth Management	Does the Entrusted Wealth Management Pass the Legal Procedure?	Total Amount of Depreciation Reserves of Entrusted Wealth Management	Is Entrusted Wealth Management a Related Transaction?	Whether Any Lawsuit is Involved	Related Party Relationship
Bank of Communication Zhuzhou Branch	Breakeven guaranteed profit	100,000	09/09/2016	09/10/2016	Payment of due interest and principal	100,000	214	Yes	–	No	No	–
Bank of Changsha Zhuzhou Branch	Breakeven guaranteed profit	67,000	14/09/2016	15/11/2016	Payment of due interest and principal	67,000	330	Yes	–	No	No	–
Bank of Changsha Zhuzhou Branch	Breakeven guaranteed profit	33,000	14/09/2016	15/11/2016	Payment of due interest and principal	33,000	163	Yes	–	No	No	–
China Guangfa Bank Zhuzhou Branch	Breakeven guaranteed profit	100,000	24/10/2016	23/11/2016	Payment of due interest and principal	100,000	247	Yes	–	No	No	–
Huarong Xiangjiang Bank Zhuzhou Dongyi Branch	Breakeven guaranteed profit	100,000	27/10/2016	02/12/2016	Payment of due interest and principal	100,000	266	Yes	–	No	No	–
Bank of Communication Zhuzhou Branch	Breakeven guaranteed profit	100,000	28/10/2016	28/11/2016	Payment of due interest and principal	100,000	221	Yes	–	No	No	–
CITIC Bank Zhuzhou Branch	Breakeven floating profit	100,000	28/10/2016	01/02/2017	Payment of due interest and principal	–	–	Yes	–	No	No	–
China Construction Bank Zhuzhou Tianxin Branch	Breakeven floating profit	200,000	28/12/2016	30/03/2017	Payment of due interest and principal	–	–	Yes	–	No	No	–
Huarong Xiangjiang Bank Zhuzhou Dongyi Branch	Breakeven floating profit	100,000	30/12/2016	07/02/2017	Payment of due interest and principal	–	–	Yes	–	No	No	–
Huarong Xiangjiang Bank Zhuzhou Dongyi Branch	Breakeven floating profit	100,000	30/12/2016	30/03/2017	Payment of due interest and principal	–	–	Yes	–	No	No	–
Bank of China Zhuzhou Branch	Breakeven guaranteed profit	150,000	29/12/2016	12/01/2017	Payment of due interest and principal	–	–	Yes	–	No	No	–
Bank of China Zhuzhou Branch	Breakeven guaranteed profit	100,000	29/12/2016	30/03/2017	Payment of due interest and principal	–	–	Yes	–	No	No	–
China Construction Bank Tianxin Branch	Breakeven floating profit	100,000	29/12/2016	31/03/2017	Payment of due interest and principal	–	–	Yes	–	No	No	–
Bank of Changsha Zhu zhou Tianxin Branch	Breakeven guaranteed profit	250,000	30/12/2016	30/03/2017	Payment of due interest and principal	–	–	Yes	–	No	No	–
Shanghai Pudong Development Bank Zhuzhou Sub-branch	Breakeven guaranteed profit	200,000	30/12/2016	29/01/2017	Payment of due interest and principal	–	–	Yes	–	No	No	–
Everbright Bank Zhuzhou Branch	Breakeven floating profit	100,000	30/12/2016		Payment of due interest and principal	–	–	Yes	–	No	No	–
CITIC Bank Zhuzhou Branch	Breakeven floating profit	150,000	30/12/2016	01/02/2017	Payment of due interest and principal	–	–	Yes	–	No	No	–
CITIC Bank Zhuzhou Branch	Breakeven floating profit	200,000	30/12/2016	12/04/2017	Payment of due interest and principal	–	–	Yes	–	No	No	–
China Guangfa Bank Zhuzhou Branch	Breakeven guaranteed profit	150,000	30/12/2016	28/02/2017	Payment of due interest and principal	–	–	Yes	–	No	No	–
China Guangfa Bank Zhuzhou Branch	Breakeven guaranteed profit	50,000	30/12/2016	28/02/2017	Payment of due interest and principal	–	–	Yes	–	No	No	–
Bank of China Zhuzhou Branch	Breakeven floating profit	100,000	30/12/2016		Payment of due interest and principal	–	–	Yes	–	No	No	–

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Trustee	Entrusted Wealth Management Product	Entrusted Wealth Management Amount	Starting Date of Entrusted Wealth Management	Ending Date of Entrusted Wealth Management	Method of Reward Determination	Amount of Actually Retracted Principal of Entrusted Wealth Management	Actually Gained Income of Entrusted Wealth Management	Does the Entrusted Wealth Management Pass the Legal Procedure?	Total Amount of Depreciation Reserves of Entrusted Wealth Management	Is Entrusted Wealth Management a Related Transaction?	Whether Any Lawsuit is Involved	Related Party Relationship
Bank of Communication Zhuzhou Branch	Breakeven floating profit	100,000	30/12/2016		Payment of due interest and principal	–	–	Yes	–	No	No	–
Bank of Communication Zhuzhou Branch	Breakeven guaranteed profit	150,000	30/12/2016	28/02/2017	Payment of due interest and principal	–	–	Yes	–	No	No	–
Beijing International Trust Co., Ltd.	Not-breakeven floating profit	400,000	19/05/2016	29/04/2018	Installment interest, payment of due principal	–	–	Yes	–	No	No	–
Minsheng Royal Asset Management Co., Ltd.	Not-breakeven floating profit	700,000	12/04/2016	11/04/2017	Payment of due interest and principal	–	–	Yes	–	No	No	–
Minsheng Royal Asset Management Co., Ltd.	Not-breakeven floating profit	300,000	12/04/2016	11/04/2017	Payment of due interest and principal	–	–	Yes	–	No	No	–
China Minsheng Banking	Not-breakeven floating profit	700,000	14/09/2016	23/09/2016	Payment of due interest and principal	700,000	452	Yes	–	No	No	–
China Minsheng Banking	Not-breakeven floating profit	500,000	14/09/2016	23/09/2016	Payment of due interest and principal	500,000	345	Yes	–	No	No	–
China Railway Trust Co., Ltd.	Not-breakeven floating profit	1,000,000	01/07/2016	28/12/2016	Payment of due interest and principal	1,000,000	22,500	Yes	–	No	No	–
CITIC Securities Company Limited	Not-breakeven floating profit	220,000	09/05/2016	09/05/2017	Payment of due interest and principal	–	–	Yes	–	No	No	–
CITIC Securities Company Limited	Not-breakeven floating profit	40,000	13/06/2016		Payment of due interest and principal	–	–	Yes	–	No	No	–
CITIC Securities Company Limited	Not-breakeven floating profit	20,000	08/07/2016	07/04/2017	Payment of due interest and principal	–	–	Yes	–	No	No	–
CITIC Securities Company Limited	Not-breakeven floating profit	30,000	19/07/2016		Payment of due interest and principal	–	–	Yes	–	No	No	–
CITIC Securities Company Limited	Not-breakeven floating profit	60,000	27/07/2016	26/07/2017	Payment of due interest and principal	–	–	Yes	–	No	No	–
CITIC Securities Company Limited	Not-breakeven floating profit	40,000	01/08/2016		Payment of due interest and principal	–	–	Yes	–	No	No	–
CITIC Securities Company Limited	Not-breakeven floating profit	30,000	04/08/2016	03/08/2018	Payment of due interest and principal	–	–	Yes	–	No	No	–
CITIC Securities Company Limited	Not-breakeven floating profit	60,000	11/08/2016	10/08/2018	Payment of due interest and principal	–	–	Yes	–	No	No	–
Total	/	14,029,000	/	/	/	9,279,000	80,029	/		/	/	/

Accumulated Amount of Overdue Principal and Income not recovered (RMB)	–
Description of Entrusted Wealth Management	The entrusted wealth management balance of the Company as of the end of this period was RMB4,750 million, representing an increase of 45.75% as compared to the same period of the previous year, which was mainly attributed to the purchase of new wealth management products by the Company.

3. Other Material Contracts

During the reporting period, the Company signed a number of material contracts. For details, please refer to announcements of the Company dated 21 June 2016, 14 November 2016, 25 November 2016 and 28 December 2016 published on the websites of the SSE and the Stock Exchange.

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V. NOTES ON OTHER MATERIAL EVENTS

(I) Issuance of ultra short-term debentures

During the reporting period, the Company successfully issued five batches of ultra short-term debentures in the total amount of RMB15,000 million. The five batches were issued on 23 June 2016, 24 June 2016, 12 July 2016, 25 July 2016 and 25 October 2016 respectively.

(II) Acquisition of certain equity interests in China United Insurance

On 7 and 8 January 2016, the Company participated and succeeded in the bidding for 2 billion shares in China United Insurance held by China Insurance Security Fund Co., Ltd. listed for transfer at the Beijing Financial Assets Exchange for RMB4.455 billion. For details of the Transaction, please refer to relevant announcements dated 8 January 2016, 12 January 2016 and 5 February 2016 published by the Company on the websites of the SSE and the Stock Exchange.

(III) Proposed Acquisition of ŠKODA TRANSPORTATION a.s.

CRRC Zhuzhou Electric Locomotive Co., Ltd. (中車株洲電力機車有限公司), a wholly owned subsidiary of the Company, is contemplating the proposed acquisition of ŠKODA TRANSPORTATION a.s. and related corporations and assets. For details of the transaction, please refer to relevant announcement dated 28 November 2016 published by the Company on the websites of the SSE and the Stock Exchange.

(IV) Issuance of Exchangeable Corporate Bonds by CRRC Group

CRRCG, the controlling shareholder of the Company, proposed to issue not more than RMB7 billion corporate bonds that are exchangeable into the A shares of the Company, including any interests derived thereof (such as share capital converted from capital reserves, bonus shares and dividend distribution etc.). Please refer to relevant announcements dated 22 March 2016 and 11 April 2016 published by the Company on the websites of the SSE and the Stock Exchange for details.

VI. INFORMATION ON THE CONVERTIBLE CORPORATE BONDS

On 5 February 2016, the Company issued H Share convertible bonds in an aggregate principal amount of US$600 million (the "**Convertible Bonds**" or "**Bonds**"). The Convertible Bonds are due on 5 February 2021 with a par value of US$250,000 each and are issued at 100% of its par value with zero coupon. The initial conversion price of the Convertible Bonds is HK$9.65 per H Share, and the adjusted conversion price is HK$9.50 per H Share. Proceeds from the issuance of the Bonds will be used to satisfy the production and international operation needs of the Company, including but not limited to adjusting its debt structure, increasing the capital contribution to its subsidiaries, replenishing working capital and project investments etc., which may be utilised at sole discretion of the Company both inside and outside of the PRC according to actual circumstances.

For details of the Convertible Bonds, please refer to the relevant announcements dated 25 January 2016, 5 February 2016, 7 March 2016 and 27 June 2016 published by the Company on the websites of the SSE and the Stock Exchange.

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(I) Dilution Effect of the Convertible Bonds on Shares

As at 31 December 2016, the outstanding principal amount of the Convertible Bonds was US$600 million. Based on the adjusted conversion price of HK$9.50 per H Share, the maximum number of H Shares issuable by the Company upon full conversion of the Convertible Bonds will be 492,012,631 H Shares. The Company has sufficient general mandate to issue such H Shares. The following table sets out the shareholding structure of the Company upon full conversion of the Convertible Bonds with reference to the shareholding structure of the Company as at 31 December 2016 and assuming no further issuance of Shares by the Company:

Name of Shareholders	Number of Shares	Percentage of issued share capital enlarged by the issuance of Conversion Shares (%)
CRRCG and its associates[Note]	15,259,580,738 A Shares	54.93
Public Shareholders:		
Subscribers of the Bonds	492,012,631 H Shares	1.77
Other public Shareholders	4,371,066,040 H Shares	15.73
	7,658,111,555 H Shares	27.57
Issued share capital enlarged by the issuance of Conversion Shares	**27,780,770,964**	**100.00**

Note: CRRCG holds 93,085,715 A shares through CSR Capital Company and 380,172,012 A Shares through CRRC Financial and Securities Investment Co. Ltd.. An analysis of the impact on the earnings per share if the Convertible Bonds were fully converted into Shares of the Company as at 31 December 2016 is set out in note 14 to the financial statements in this annual report.

(II) Principal Terms of Convertible Bonds

The principal terms of the Convertible Bonds are as follows:

1. Conversion Right

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

The initial conversion price of the Convertible Bonds is HK$9.65 per H Share. The Company distributed a cash dividend of RMB0.15 per Share (tax inclusive) to all shareholders pursuant to the 2015 profit distribution plan considered and approved at the 2015 annual general meeting held on 16 June 2016. The conversion price of the Convertible Bonds was adjusted to HK$9.50 per H Share from the initial conversion price of HK$9.65 per H Share pursuant to the terms and conditions of the Bonds with effect from 28 June 2016. The number of Shares that may be converted is determined by the principal amount of the Bonds divided by the conversion price of the Bonds at the time of conversion. The fixed exchange rate of US dollar against HK dollar is HK$7.7902 to US$1.00. Upon the above conversion price adjustment, assuming the Convertible Bonds are converted in full, the maximum number of shares to be issued by the Company will be 492,012,631 shares, and based on the net proceeds from the issuance of the Convertible Bonds by the Company of US$595,800,000, the net price for each Conversion Share of the Company will be approximately HK$9.43. On 25 January 2016 (i.e. the date of the Subscription Agreement for the Bonds), the closing price of the H Shares of the Company was HK$7.30, while on 28 June 2016 (i.e. the effective date of the above conversion price adjustment), the closing price of the H Shares of the Company was HK$6.68.

SIGNIFICANT EVENTS

2. Redemption Option of the Issuer

(1) Redemption at Maturity

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

(2) Redemption at the option of the Company

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

a. at any time after 5 February 2019 but prior to the Maturity Date, provided that no such redemption may be made unless the closing price of an H Share translated into US dollars at the Prevailing Rate applicable to each H Share Stock Exchange Business Day, for any 20 H Share Stock Exchange Business Days within a period of 30 consecutive H Share Stock Exchange Business Days, the last of such H Share Stock Exchange Business Day shall occur not more than 10 days prior to the date upon which notice of such redemption is given, was for each such 20 H Share Stock Exchange Business Days, at least 130% of the then Conversion price translated into US dollars at the prevailing fixed exchange rate. If there shall occur an event giving rise to a change in the Conversion Price during any such 30 consecutive H Share Stock Exchange Business Day period, appropriate adjustments for the relevant days approved by an Independent Investment Bank shall be made for the purpose of calculating the closing price of the H Shares for such days; or

b. if the aggregate principal of the Convertible Bonds that have not been redeemed or converted is less than 10% of the aggregate principal originally issued prior to the date upon which such notice is given.

(3) Redemption at the Option of the Bondholders

The Company will, at the option of the Bondholders, redeem whole or some of that holder's bonds on 5 February 2019 (the "Put Option Date") at 100% of their outstanding principal amount on the Put Option Date, upon giving not less than 30 nor more than 60 days' notice before the redemption option date (i.e.5 February 2019).

(III) Accounting for the Convertible Bonds

The Convertible Bonds are comprised of debt component of master contract and embedded derivative financial instrument with conversion right and redemption option.

(1) Debt component of master contract was initially measured at fair value amounted to approximately RMB3,488,045,000. It was subsequently measured at amortized cost by applying an effective interest rate of 2.53% after considering the effect of the underwriting fees and other issue costs.

(2) Embedded derivative component was initially recognized and subsequently measured at fair value, relevant transaction costs were charged to current profit or loss.

Transaction cost relating to the Convertible Bonds were apportioned in proportion to the fair values of debt component of master contract and embedded derivative financial instrument. Transaction cost amounting to approximately RMB28,745,000 relating to the debt component of master contract were included in the initial carrying amount of the debts and amortized over the remaining period of the bonds using the effective interest method. Transaction cost amounting to approximately RMB3,550,000 relating to the embedded derivative component were charged to current finance costs directly.

The movements of the debt component and embedded derivative component of the Convertible Bonds for the period are set out below:

	Debt component RMB' 000	Compound derivative component RMB' 000	Total RMB' 000
Issue date of Convertible bonds (5 February 2016)	3,488,045	430,795	3,918,840
Transaction costs	-28,745	—	-28,745
Accrued Interest during the period (5 February 2016 to 31 December 2016)	81,306	—	81,306
Exchange gains or losses (5 February 2016 to 31 December 2016)	218,136	24,070	242,206
Gains or losses on changes in fair value (5 February 2016 to 31 December 2016)	—	-88,768	-88,768
Balance at the end of the period (31 December 2016)	3,758,742	366,097	4,124,839

(IV) Others

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

As at 31 December 2016, neither conversion right nor redemption right has been exercised by the holders of the Convertible Bonds and no redemption has been made by the Company.

VII. FULFILLMENT OF SOCIAL RESPONSIBILITY

For details of the fulfilment of social responsibility by the Group during the reporting period, please see the 2016 Social Responsibility Report of CRRC Corporation Limited disclosed by the Company on the websites of the SSE and the Stock Exchange at the same date.

VIII. OTHER SIGNIFICANT EVENTS

(I) Completion of the Non-public Issuance of A Shares

On 17 January 2017, the Company completed the Non-public Issuance of 1,410,105,755 A Shares. The lock-up period for the new shares is 36 months. Upon completion of the issuance, the total issued share capital of the Company increased from 27,288,758,333 Shares to 28,698,864,088 Shares. For details, please refer to the Announcement in relation to Results of the Non-Public Issuance of A Shares and Change in Share Capital of CRRC Corporation Limited dated 17 January 2017 published by the Company on the websites of the SSE and the Stock Exchange.

(II) Profit Distribution of Ordinary Shares

On 29 March 2017, the Company held the 21st meeting of the first session of the Board, pursuant to which the 2016 Proposal for Profit Distribution Plan of CRRC was considered and approved to distribute cash dividend of RMB0.21(tax inclusive) per share to all shareholders based on 28,698,864,088 shares of the Company after completion of the Non-public Issuance of A Shares mentioned above, subject to the consideration and approval of the total share capital at the 2016 annual general meeting of the Company.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF CRRC CORPORATION LIMITED
(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of CRRC Corporation Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 109 to 224, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill	
We identified the impairment of goodwill as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with the significant degree of judgment by the management associated with the determination of the recoverable amount of goodwill in the annual impairment test. Referring to Note 4 to the consolidated financial statements as one of the significant accounting judgements and key sources of estimation uncertainty and Note 18 to the consolidated financial statements, the Group has aggregate carrying value of goodwill of RMB1,286,760,000 as at 31 December 2016. The management determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill is allocated, which is the higher of the value in use or fair value less costs of disposal. Estimating the recoverable amount requires the management to make an estimate of the expected future cash flows from the cash-generating units based on appropriate long-term growth rates and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These are all subject to management's estimates and judgements.	Our procedures in relation to impairment of goodwill included: – Testing the key internal controls relating to the management's assessment of the impairment of goodwill; – Evaluating the appropriateness of the methodologies in determining the recoverable amount of goodwill in the impairment test; – Testing the underlying data used by the Group in determining the recoverable amount of goodwill in the impairment test by involving the internal valuation specialists to evaluate the appropriateness of management's key assumptions and judgements in the impairment test and evaluating how the external valuer's work were relied on by management; and – Verifing the mathematical accuracy on the calculation of the recoverable amount of goodwill.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

INDEPENDENT AUDITOR'S REPORT

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

The engagement partner on the audit resulting in the independent auditor's report is Wong Tin Chak, Samuel.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
Revenue	6	224,137,964	237,784,602
Cost of sales and services		(179,109,812)	(191,249,660)
Gross profit		45,028,152	46,534,942
Other income and gains and losses	6	4,017,071	3,641,718
Distribution and selling expenses		(7,249,871)	(7,953,534)
Administrative expenses		(22,426,597)	(22,486,214)
Other expenses	7	(1,623,327)	(1,695,118)
Finance costs	8	(1,264,203)	(1,412,319)
Share of profits of:			
Joint ventures		189,247	231,205
Associates		264,107	187,751
Profit before taxation	9	16,934,579	17,048,431
Income tax expense	12	(3,024,670)	(2,950,553)
Profit for the year		13,909,909	14,097,878
Other comprehensive (expense) income, net of income tax			
Items that will not be reclassified to profit or loss:			
Re-measurement of retirement benefit pension plans	37	(2,881)	(24,043)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation		54,007	(52,130)
Net gain (loss) on revaluation of available-for-sale financial assets		428,746	(441,167)
Income tax relating to items that may be reclassified to profit or loss subsequently		(28,121)	73,424
Share of other comprehensive income of associates		45,607	—
Other comprehensive income (expense) for the year, net of income tax		497,358	(443,916)
Total comprehensive income for the year		14,407,267	13,653,962
Profit for the year attributable to:			
Owners of the Company		11,295,596	11,818,398
Non-controlling interests		2,614,313	2,279,480
		13,909,909	14,097,878
Total comprehensive income for the year attributable to:			
Owners of the Company		11,842,648	11,381,479
Non-controlling interests		2,564,619	2,272,483
		14,407,267	13,653,962
Earnings per share (RMB)	14		
– Basic		0.41	0.43
– Diluted		0.41	0.43

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

	Notes	31 December 2016 RMB'000	31 December 2015 RMB'000
Non-current assets			
Property, plant and equipment	15	66,364,108	62,179,704
Investment properties	16	969,537	938,763
Prepaid lease payments	17	14,492,402	14,428,338
Goodwill	18	1,286,760	1,315,234
Other intangible assets	19	2,819,779	3,259,885
Interests in joint ventures	20	1,276,435	1,637,636
Interests in associates	21	7,195,541	1,975,241
Loans and advances to customers		203,144	170,874
Available-for-sale investments	22	3,819,162	3,156,509
Held-to-maturity investment	23	966,970	197,928
Deferred tax assets	24	3,009,338	2,743,530
Other non-current assets	25	14,953,993	14,163,863
		117,357,169	106,167,505
Current assets			
Prepaid lease payments	17	364,163	348,194
Inventories	26	54,401,578	59,746,569
Available-for-sale investments	22	51,699	3,259,000
Trade receivables	27	74,052,872	72,514,398
Bills receivable	28	15,099,951	10,166,491
Prepayments, deposits and other receivables	29	30,501,413	18,787,454
Financial assets at fair value through profit or loss		731,916	3,424
Amounts due from customers for contract work	30	14,586	39,632
Tax recoverable		140,282	92,375
Pledged bank deposits	31	4,561,051	4,613,695
Cash and bank balances	31	41,033,932	34,754,992
Placements with financial institutions	32	—	1,200,000
		220,953,443	205,526,224
Current liabilities			
Trade payables	33	91,949,851	83,179,106
Bills payable	34	19,797,275	22,790,082
Other payables and accruals	35	38,217,294	41,244,977
Financial liabilities at fair value through profit or loss		16,983	359
Borrowings - due within one year	36	27,184,026	15,259,583
Retirement benefit obligations	37	319,782	351,648
Tax payable		1,272,252	1,534,414
Due to customers		2,711,370	1,861,947
Long-term payables - current portion		90,688	76,896
Provision for warranties	38	1,865,822	2,279,999
Deferred income	39	801,832	511,895
		184,227,175	169,090,906

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

	Notes	31 December 2016 RMB'000	31 December 2015 RMB'000
Net current assets		36,726,268	36,435,318
Total assets less current liabilities		154,083,437	142,602,823
Capital and reserves			
Share capital	40	27,288,758	27,288,758
Reserves		77,567,851	69,611,558
Equity attributable to owners of the Company		104,856,609	96,900,316
Non-controlling interests		18,948,007	16,674,257
Total equity		123,804,616	113,574,573
Non-current liabilities			
Borrowings- due after one year	36	10,712,670	14,316,253
Long-term payables		212,679	275,924
Retirement benefit obligations	37	3,516,307	4,054,445
Provision for warranties	38	4,535,894	3,741,417
Deferred income	39	5,944,764	5,556,354
Deferred tax liabilities	24	235,835	241,975
Convertible bonds-debt component	41	3,758,742	—
Convertible bonds-derivative component	41	366,097	—
Other non-current liabilities		995,833	841,882
		30,278,821	29,028,250
Total equity and non-current liabilities		154,083,437	142,602,823

The consolidated financial statements on pages 109 to 224 are approved and authorised for issue by the Board of Directors on 29 March 2017 and are signed on its behalf by:

Liu Hualong
Director

Xi Guohua
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Attributable to owners of the Company												
	Share capital RMB'000	Capital reserve RMB'000 (Note i)	Available-for- sale investments revaluation reserve RMB'000	Share options reserve RMB'000	Retirement benefit obligations re-measurement reserve RMB'000	Statutory surplus reserve RMB'000 (Note ii)	Special reserve RMB'000 (Note iii)	General risk reserve RMB'000 (Note iv)	Translation reserve RMB'000	Retained earnings RMB'000 (Note v)	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016	27,288,758	29,960,109	(209,791)	–	(524,230)	1,801,679	49,957	339,689	(117,066)	38,311,211	96,900,316	16,674,257	113,574,573
Profit for the year	–	–	–	–	–	–	–	–	–	11,295,596	11,295,596	2,614,313	13,909,909
Other comprehensive income for the year:													
Change in fair value of available-for-sale investments, net of tax	–	–	399,836	–	–	–	–	–	–	–	399,836	789	400,625
Share of other comprehensive income of associates	–	–	45,607	–	–	–	–	–	–	–	45,607	–	45,607
Re-measurement gains (losses) on retirement benefit obligations	–	–	–	–	49,615	–	–	–	–	–	49,615	(52,496)	(2,881)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	–	51,994	–	51,994	2,013	54,007
Total comprehensive income for the year	–	–	445,443	–	49,615	–	–	–	51,994	11,295,596	11,842,648	2,564,619	14,407,267
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	509,322	509,322
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	19,003	19,003
Acquisition of non-controlling interests	–	6,238	–	–	–	–	–	–	–	(556)	5,682	(82,794)	(77,112)
Disposal of non-controlling shareholders	–	101,969	–	–	–	–	–	–	–	–	101,969	55,578	157,547
Capital contribution from non-controlling shareholders	–	687	–	–	–	–	–	–	–	–	687	178,007	178,694
Dividends declared to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(944,613)	(944,613)
Dividends distributed	–	–	–	–	–	–	–	–	–	(4,093,314)	(4,093,314)	–	(4,093,314)
Appropriation of general risk reserve	–	–	–	–	–	–	–	211,576		(211,576)	–	–	–
Appropriation of statutory surplus reserve	–	–	–	–	–	472,128	–	–	–	(472,128)	–	–	–
Appropriation of special reserves	–	–	–	–	–	–	614,984	–	–	(614,984)	–	–	–
Utilisation of special reserves	–	–	–	–	–	–	(614,984)	–	–	614,984	–	–	–
Others	–	98,621	–	–	–	–	–	–	–	–	98,621	(25,372)	73,249
At 31 December 2016	27,288,758	30,167,624	235,652	–	(474,615)	2,273,807	49,957	551,265	(65,072)	44,829,233	104,856,609	18,948,007	123,804,616

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Attributable to owners of the Company												
	Share capital RMB'000	Capital reserve RMB'000 (Note i)	Available-for- sale investments revaluation reserve RMB'000	Share options reserve RMB'000	Retirement benefit obligations re-measurement reserve RMB'000	Statutory surplus reserve RMB'000 (Note ii)	Special reserve RMB'000 (Note iii)	General risk reserve RMB'000 (Note iv)	Translation reserve RMB'000	Retained earnings RMB'000 (Note v)	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2015	13,803,000	43,802,925	157,425	47,584	(496,658)	1,123,312	49,957	174,707	(74,935)	30,707,636	89,294,953	12,882,276	102,177,229
Profit for the year	–	–	–	–	–	–	–	–	–	11,818,398	11,818,398	2,279,480	14,097,878
Other comprehensive income for the year:													
Change in fair value of available-for-sale investments, net of tax	–	–	(367,216)	–	–	–	–	–	–	–	(367,216)	(527)	(367,743)
Re-measurement (losses) gains on retirement benefit obligations	–	–	–	–	(27,572)	–	–	–	–	–	(27,572)	3,529	(24,043)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	–	(42,131)	–	(42,131)	(9,999)	(52,130)
Total comprehensive income for the year	–	–	(367,216)	–	(27,572)	–	–	–	(42,131)	11,818,398	11,381,479	2,272,483	13,653,962
Deemed acquisition of additional equity interest in a subsidiary (Note vi)	–	(395,006)	–	–	–	–	–	–	–	(96,823)	(491,829)	491,829	–
Issuance of shares for 2015 Business Combination (defined in Note 1) under common control	13,485,758	(13,485,758)	–	–	–	–	–	–	–	–	–	–	–
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	1,425,518	1,425,518
Acquisition of non-controlling interests	–	(11,616)	–	–	–	–	–	–	–	–	(11,616)	(95,362)	(106,978)
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	519,015	519,015
Dividends declared to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(822,424)	(822,424)
Recognition of equity-settled share based payments	–	–	–	(47,584)	–	–	–	–	–	–	(47,584)	–	(47,584)
Dividends distributed	–	–	–	–	–	–	–	–	–	(3,274,651)	(3,274,651)	–	(3,274,651)
Appropriation of general risk reserve	–	–	–	–	–	–	–	164,982	–	(164,982)	–	–	–
Appropriation of statutory surplus reserve	–	–	–	–	–	678,367	–	–	–	(678,367)	–	–	–
Appropriation of special reserves	–	–	–	–	–	–	546,668	–	–	(546,668)	–	–	–
Utilisation of special reserves	–	–	–	–	–	–	(546,668)	–	–	546,668	–	–	–
Others	–	49,564	–	–	–	–	–	–	–	–	49,564	922	50,486
At 31 December 2015	27,288,758	29,960,109	(209,791)	–	(524,230)	1,801,679	49,957	339,689	(117,066)	38,311,211	96,900,316	16,674,257	113,574,573

Note i: The balance of capital reserve mainly comprises the capital contribution by equity participants, certain items dealt with directly in the capital reserve of the Company and its subsidiaries (the "Group") in the Company's statutory consolidated financial statements prepared in accordance with the relevant accounting standards of the People's Republic of China ("PRC"), and reserve generated from the acquisitions of subsidiaries under common control.

Note ii: According to relevant laws and regulations of the PRC, an entity established under the PRC Company Law is required to make an appropriation at 10 percent of the profit for the year as shown in the PRC statutory financial statements, prepared in accordance with the PRC accounting standards, to the statutory surplus reserve fund until the balance reaches 50 percent of the registered capital of that entity. The reserve appropriated can only be used to make up losses or to increase the registered capital of that entity and is not distributable.

Note iii: Pursuant to the relevant regulations of the PRC, the Group is required to transfer safety production funds at fixed rates based on production volume to a specific reserve accounts. The safety production funds could be utilised when expenses or capital expenditures on safety measures occur. The amount of safety production funds utilised would be transferred from the specific reserve account to retained earnings.

Note iv: According to the relevant provisions of the Ministry of Finance, CRRC Finance Co., Ltd ("Finance Company"), subsidiary of the Company, is required to make an appropriation of general risk reserve from net profit as profit distribution, the balance of general risk reserve should not be less than 1.5 percent of risk assets at the end of the reporting period. According to the resolution of board of directors, Finance Company made provision for general risk reserve amounting to RMB211,576,000 during the year ended 31 December 2016 (31 December 2015: RMB164,982,000).

Note v: It includes statutory surplus reserve provided by subsidiaries amounting to RMB9,544,351,000 as at 31 December 2016 (31 December 2015: RMB7,318,885,000).

Note vi: CRRC Zhuzhou Institute Co., Ltd ("CRRC ZI"), a wholly owned subsidiary of the Company, purchased 141,376,060 new shares issued through non-public offering by Zhuzhou Times New Material Technology Co., Ltd. ("ZTNM"), a subsidiary of the Company listed on the Shanghai Stock Exchange during the year ended 31 December 2015.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 RMB'000	2015 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	16,934,579	17,048,431
Adjustments for:		
Depreciation of property, plant and equipment	5,067,595	4,860,684
Depreciation of items of investment properties	30,100	3,902
Depreciation of items of other non-current assets	54,117	45,818
Amortisation of prepaid lease payments	340,013	429,424
Amortisation of other intangible assets	1,013,195	876,690
Loss on disposal of property, plant and equipment	33,355	51,052
Gain on disposal of other intangible assets	(5,601)	(2)
Gain on disposal of prepaid lease payments	(460)	(2,005)
Provision against obsolete inventories	747,872	604,660
Impairment of property, plants and equipment	23,480	41,395
Impairment of other intangible assets	44,951	15,706
Impairment of available-for-sale investments	585,556	1,806
Impairment of trade receivables	631,421	811,162
Impairment (reversal of impairment) of prepayments, deposits and other receivables	163,807	(76,711)
Impairment of loans and advances to customers	360	1,226
Impairment of other non-current assets	25,070	99,911
Impairment of goodwill	128,470	23,794
Interest income	(280,102)	(563,641)
Dividend income	(54,663)	(19,237)
Finance costs	1,264,203	1,412,319
Share of profits of associates and joint ventures	(453,354)	(418,956)
Equity-settled share option expense	—	(47,153)
Fair value (gain) loss on financial instruments at fair value through profit or loss	(123,004)	316
Gain on disposal of financial instruments at fair value through profit or loss	3,895	(563)
Gain on disposal of available-for-sale investment	(90,340)	(239,224)
Gain on adjustment of fair value of previously held interest	(391,891)	(55,108)
Gain on disposal of investment in an associate	—	(3,884)
(Gain)/loss on disposal of subsidiaries	(484,743)	7,702
Loss on liquidation of a subsidiary	—	1,592
Investment income from corporate wealth management products	(114,756)	(76,827)
Investment income from held-to-maturity investment	(27,244)	—
Operating cash flows before movements in working capital	25,065,881	24,834,279
Decrease in inventories	5,017,309	4,153,002
Increase in trade receivables, bills receivable and prepayments, deposits and other receivables	(5,882,697)	(12,930,803)
Decrease in pledged bank deposits	59,571	334,952
Increase in trade payables, bills payable and other payables and accruals	3,106,163	54,988
Decrease in retirement benefit obligations	(348,720)	(362,436)
Increase in provision for warranties	361,793	1,589,345
(Increase)/decrease in other non-current assets	(4,100,875)	1,359,535
Decrease/(increase) in placements with financial institutions	1,200,000	(1,200,000)
Cash generated from operations	24,478,425	17,832,862
Interest received	151,820	476,811
Income tax paid	(3,643,866)	(3,328,163)
Net cash generated from operating activities	20,986,379	14,981,510

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
INVESTING ACTIVITIES			
Purchases of property, plant and equipment and deposits paid for acquisition of property, plant and equipment		(10,031,517)	(7,386,812)
Addition in investment properties		—	(131,288)
Addition to prepaid lease payments		(275,732)	(1,047,932)
Purchases of other intangible assets and deposits paid for other intangible assets		(65,771)	(640,835)
Purchases of interests in associates		(4,209,935)	(104,942)
Purchases of interests in joint ventures		(110,677)	(59,793)
Purchases of available-for-sale investments		(1,351,115)	(6,337,601)
Purchases of held-to-maturity investment		(761,873)	(197,928)
Purchases of corporate wealth management products		(7,670,000)	—
Purchases of financial assets at fair value through profit or loss		(2,882,087)	—
Purchases of senior notes		(1,153,258)	—
Interest income from senior notes		19,824	—
Refund of consideration		—	49,770
Dividends received from a joint venture		154,799	160,456
Dividends received from available-for-sale investments		59,871	19,237
Dividends received from associates		219,749	160,559
Investment income from held-to-maturity investment		21,441	—
Acquisitions of subsidiaries	42	(72,909)	(487,477)
Proceeds from disposal of prepaid land lease payments		28,235	187,186
Proceeds from disposal of items of property, plant and equipment		334,787	153,399
Proceeds from disposal of interests of associates and joint venture		(430,090)	102,639
Proceeds from disposal of available-for-sale investments		707,792	5,269,828
Proceeds from disposal of subsidiaries	43	505,368	40,900
Proceeds from disposal of other intangible assets		20,695	10,132
Interest income from non-pledged deposits with original maturity of three months or more when acquired		96,017	142,521
Proceeds from disposal of financial assets/liabilities at fair value through profit or loss		2,196,105	569
Proceeds from disposal of corporate wealth management products		7,156,456	—
Withdrawal of non-pledged deposits with original maturity of three months or more when acquired		10,560,393	19,056,005
Placement of non-pledged deposits with original maturity of three months or more when acquired		(18,769,308)	(15,656,096)
Government grants received		994,201	1,305,633
Net cash used in investing activities		(24,708,539)	(5,391,870)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
FINANCING ACTIVITIES			
Repayment of borrowings		(113,536,942)	(104,838,734)
Purchase of non-controlling interests		(77,112)	(106,978)
Distribution to shareholders		(4,063,652)	(3,220,339)
Dividends paid to non-controlling interests		(1,065,472)	(733,830)
Interest paid		(1,302,743)	(1,935,816)
Proceeds from bank and other borrowings		117,089,589	93,544,243
Proceeds of issue of convertible bonds		3,886,545	—
Bonds issue expense		(12,076)	(7,994)
Capital contributions from non-controlling shareholders		178,694	501,369
Proceeds from disposal of non-controlling shareholders		157,547	—
Placement of pledged time deposit for obtaining financing		(8,000)	—
Withdrawal of pledged time deposit for obtaining financing		60,000	110,658
Net cash generated/(used in) from financing activities		1,306,378	(16,687,421)
Effect of foreign exchange rate changes		485,807	7,816
Cash and cash equivalents at beginning of the year		29,944,221	37,034,186
Net decrease in cash and cash equivalents		(1,929,975)	(7,089,965)
Cash and cash equivalents at end of the year	31	28,014,246	29,944,221

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

1. GENERAL INFORMATION

CSR Corporation Limited ("CSR") was incorporated in the PRC on 28 December 2007 as a joint stock company with limited liability under the Company Law of the PRC. CSR's A shares were listed on the Shanghai Stock Exchange (the "SSE") on 18 August 2008 and CSR's H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE") on 21 August 2008.

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

CSR and CNR published a joint announcement on 30 December 2014, announcing that the two companies entered into a merger agreement with respect to a merger proposal ("2015 Business Combination"). CSR and CNR would merge by CSR issuing, on the basis of a single exchange ratio, CSR A shares and CSR H shares to holders of CNR A shares and CNR H shares respectively in exchange for all of the issued shares of CNR. The exchange ratio was 1:1.10, meaning that each CNR A share should be exchanged for 1.10 CSR A shares to be issued by CSR and that each CNR H share should be exchanged for 1.10 CSR H shares to be issued by CSR. As all of the conditions of the above agreement as specified in the merger agreement had been satisfied, the merger agreement became effective on 28 May 2015. CNR A shares were deregistered from the SSE and CNR H shares were deregistered from the Main Board of HKSE. After completion of the merger, CSR has assumed all the assets, liabilities and business of CNR and CNR was deregistered according to law.

On 1 June 2015, the name of CSR was changed from "CSR Corporation Limited" to "CRRC Corporation Limited"("CRRC" or "the Company").

In 2015, the respective holding companies of CSR and CNR, namely CSR Group (formerly China South Locomotive and Rolling Stock Industry (Group) Corporation) and China Northern Locomotive & Rolling Stock Industry (Group) Corporation, had merged as CRRC Group ("CRRCG") following the merger between the CSR and CNR.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied, for the first time, the following amendments to IFRSs that are mandatorily effective for the current year.

Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle

The application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised IFRSs not yet effective and not early adopted

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 15	Clarification to IFRS 15 Revenue from Contracts with Customers[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 7	Disclosure Initiative[4]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

Other than as further explained below, the directors of the Company do not anticipate that the application of the other new and revised IFRSs above will have a material effect on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

New and revised IFRSs not yet effective and not early adopted *(continued)*

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 are described as follows:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to a financial liabilitiy's credit risk are not subsequently reclassified to profit or loss. Under IAS 39 Financial Instruments: Recognition and Measurement, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company anticipate that the adoption of IFRS 9 may affect the measurement of the available-for-sale equity investments currently measured at cost less impairment. Other than these available-for-sale equity investments which will be either measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfilment of the designation criteria) and the potential early recognition of credit losses based on the expected loss model in relation to the Group's financial assets measured at amortised cost, the directors of the Company do not expect IFRS 9 will have a material impact on the results and financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

New and revised IFRSs not yet effective and not early adopted *(continued)*

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the International Accounting Standards Board ("IASB") issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of IFRS 15 in the future may have an impact on the amounts reported and disclosures made in the consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

IFRS 16 Leases

IFRS 16, which upon the effective date will supersede IAS 17 Leases, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them both as financing in the statement of cash flows. Also, the right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As disclosed in Note 44(a), total operating lease commitments for the Group as at 31 December 2016 amounted to RMB549,597,000, the directors of the Company do not expect the application of IFRS 16 would result in significant impact on the Group's results but it is expected that certain lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities unless they qualify for low value or short-term leases upon the application of IFRS 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

New and revised IFRSs not yet effective and not early adopted *(continued)*

Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided upon application.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

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

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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 listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after reassessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that is qualified as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such a treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

The comparative amounts in the consolidated financial statements are presented as if the businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or the group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisitions of associates and joint ventures are described below.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates and joint ventures *(continued)*

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether there are any indication that the Group's investment in an associate or a joint venture may be impaired. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss is recognised in profit or loss and is not allocated to any asset, including goodwill which forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of IAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Service concession arrangements

The Group has entered into service concession arrangements with the various governing bodies or agencies of the government of the People's Republic of China (the "grantors") to build and operate waste water treatment plants. Under the concession arrangements, the Group will construct and/or operate the plants for a concession period of between 20 and 30 years and transfer the plants to the grantors at the end of the concession periods. Such concession arrangements fall within the scope of IFRIC 12 Service Concession Arrangement, and are accounted for as follows:

Financial asset - service concession receivables

The Group recognises a service concession receivable if it has an unconditional contractual right under the service concession arrangements to receive a fixed or determinable amount of payments during the concession period irrespective of the usage of the plants. The service concession receivable is measured on initial recognition at its fair value. Subsequent to initial recognition, the service concession receivable is measured at amortised cost using the effective interest method.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue is recognised when the amount of revenue can be reliably measured: when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

(a) Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods and retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold and the costs incurred or to be incurred in respect of the transaction can be measured reliably;

(b) The Group's policy for the recognition of revenue from the rendering of services is described in the accounting policy for Contracts for services below;

(c) The Group's policy for the recognition of revenue from operating service provided under service concession arrangements is recognised when services are provided.

(d) The Group's policy for the recognition of revenue from construction services is described in the accounting policy for construction contracts below;

(e) The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below;

(f) Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition; and

(g) Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design.

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When a contract covers a number of assets, the construction of each asset is treated as a separate contract when separate proposals have been submitted for each asset, each asset has been separately negotiated and the costs and revenues of each asset can be separately identified. A group of contracts, performed concurrently or in a continuous sequence, is treated as a single construction contract when the contracts were negotiated as a single package and they are so closely inter-related that they constitute a single project with an overall profit margin.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, under "Other payables and accruals". Amounts billed for work performed but not yet paid by the customer are presented in the consolidated statement of financial position under "Trade receivables".

Leasing

Leases that transfer substantially all the rewards and risks of ownership of assets to the lessee, other than legal title, are accounted for as finance leases. Where the Group is the lessee, at the inception of a finance lease, the leased assets are recognised at their fair value or, if lower, at the present value of the minimum lease payments. Assets held under finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated statement of profit or loss and other comprehensive income so as to provide a constant periodic rate of charge over the lease terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing *(continued)*

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Where the Group is the lessor, amounts due from lessees under finance leases are recognised as receivables at the amount of Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Leases that do not transfer substantially all the rewards and risks of ownership of assets to the lessee are accounted for as operating leases. Where the Group is the lessor, the rental income from operating leases is recognised in profit or loss on the straight-line basis over the lease terms. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, such costs are recognized as an expense on a straight-line basis over the lease term. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the consolidated statement of profit or loss and other comprehensive income on the straight-line basis over the lease terms.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Renminbi, "RMB") using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Employee benefits

Retirement benefit costs and termination benefits

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered services entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period.

Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Retirement benefit costs and termination benefits *(continued)*

The Group presents the first two components of defined benefit costs in profit or loss in the line item of administrative expenses' and finance costs respectively. Curtailment gains and losses are accounted for as past service costs. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Remeasurement, comprising actuarial gains and losses, is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income will not be reclassified to profit or loss.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit retirement benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

Short-term and other long-term employee benefits

Short-term employee benefits are recognized at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognized as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognized in profit or loss except to the extent that another IFRS requires or permits their inclusion in the cost of an asset.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before taxation' as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment (except for freehold land and construction in progress) to its residual value over its estimated useful life.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from the continued use of the asset. Any gain or loss on disposal or retirement is determined as the difference between the sales proceeds and the carrying amount of the relevant asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual values using the straight-line method.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

Investment property is transferred to owner-occupied property when there is a change in use as evidenced by the commencement of owner occupation. Owner-occupied property is transferred to investment property when there is a change in use as evidenced by the ending of owner occupation.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment on tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on specific identification, first-in, first-out, or weighted average methods depending on business types and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investment, available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in other income and gains and losses.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading; or (ii) it is designated as at FVTPL; or (iii) contingent consideration that may be received by an acquirer as part of a business combination to which IFRS 3 applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Financial assets at FVTPL (continued)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other income and gains and losses' line item.

Held-to-maturity investment

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and changes in foreign exchange rates are recognised in profit or loss. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of available-for-sale investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the available-for-sale investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, bill receivables, other receivables, loans and advances to customers, placements with financial institutions, senior notes, long-term receivables, cash and bank balances as well as pledged bank deposits) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of around three months to six months, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets that are carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, other receivables and long-term receivables, where the carrying amount is reduced through the use of an allowance account. When a trade or other receivable or long-term receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of available-for-sale investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than those financial liabilities classified as FVTPL, of which interest expense is included in other income and gains and losses.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liabilities is (i) held for trading; or (ii) it is designated as at FVTPL; or (iii) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 Business Combinations applies.

A financial liability is classified as for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term;or
- on initial recognition it is a part of a portfolio of identified financial instrument that the Group manages together and has a recent actual pattern of short-term profit-taking, or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract(asset or liability) to be designated as at FVTPL.

Financial liability at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities and is included in the 'other income and gains and losses' line item.

Financial liabilities at amortised cost

Financial liabilities (including borrowings, trade payables, bills payable, other payables, long-term payables and due to customers) are subsequently measured at amortised cost, using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Convertible Bonds

Convertible bonds issued by the Group that contain both debt and multiple embedded derivatives (including conversion option that will be settled other than by the exchange of fixed amount of cash or another financial instrument for a fixed number of the Company's own equity instruments and redemption options) are classified separately into respective items on initial recognition. Multiple embedded derivatives are generally treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other. At the date of issue, both the debt and the derivative components are recognised at fair value.

In subsequent periods, the debt component of the convertible bonds is carried at amortised cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the debt and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative component is charged to profit or loss immediately. Transaction costs relating to the debt component are included in the carrying amount of the debt portion and amortised over the period of the convertible bonds using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months from the date of acquisition.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions concerning the future. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, which may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill is allocated, which is the higher of the value in use and fair value less costs of disposal. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units based on appropriate long-term growth rates and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2016 was RMB1,286,760,000 (31 December 2015: RMB1,315,234,000). More details are given in Note 18.

Estimated impairment of trade receivables, long-term receivables and other receivables

The Group recognises provision based on the judgement of recovery of trade receivables, long-term receivables and other receivables. Bad debt provision is required to be recognised when there are evidences indicating that the trade receivables, long-term receivables and other receivables cannot be recovered. Recognition of bad debt provision requires the use of judgement and estimates. If the revised estimates deviate from the current estimates, then any difference arising from changes of accounting estimates will affect the carrying value of debtors in the relevant accounting periods. The carrying amounts of trade receivables, long-term receivables(including amounts due within one year) and other receivables at 31 December 2016 were RMB74,052,872,000 (31 December 2015:RMB72,514,398,000), RMB19,169,280,000 (31 December 2015: RMB15,034,315,000) and RMB2,892,358,000 (31 December 2015: RMB2,418,127,000), respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Useful lives and residual value of property, plant and equipment, investment properties and other intangible assets

The Group's management determines the residual value, useful lives and related depreciation and amortisation charges for its property, plant and equipment, investment properties and other intangible assets. The estimates are based on the historical experience of the actual residual value and useful lives of relevant assets of similar nature and functions. It could change significantly as a result of technical innovations and keen competitions from competitors. Management will increase the depreciation and amortisation charges where residual value or useful lives are less than previously estimated, or it will write-off or write-down technically obsolete assets.

Employee retirement benefits

The Group has recognised the defined retirement benefit plans as a liability. The Group's obligations are determined using actuarial valuations, which rely on various assumptions and conditions. The assumptions used in actuarial valuation include discount rates, the growth rate of the benefits and other factors. The actual result may differ from the actuary result. Even though management is of the view that the above assumptions are reasonable, any changes in condition of assumptions will still affect the estimated liability amount of defined retirement benefit plans. The carrying amount of employee retirement benefits obligations at 31 December 2016 was RMB 3,836,089,000 (31 December 2015: RMB4,406,093,000).

Write-down of inventories to net realisable value

The Group determines the write-down for obsolescence of inventories. These estimates are made with reference to aged inventory analyses, projections of expected future saleability of goods and management experience and judgement. Based on this review, write-down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable values. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation. The net carrying amount of inventories at 31 December 2016 was RMB54,401,578,000 (31 December 2015: RMB59,746,569,000).

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and other deductible temporary differences to the extent that it is probable that taxable profit will be available against which the tax losses and other deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of deferred tax assets at 31 December 2016 was RMB3,009,338,000 (31 December 2015: RMB2,743,530,000). Further details are contained in Note 24 to the consolidated financial statements.

Warranty provisions

As explained in Note 38, the Group makes provisions under the warranties it gives on sales of its goods taking into account the Group's recent claim experience. It is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

5. SEGMENT INFORMATION

For management purposes, the Group's operating activities are attributable to a single operating segment, the provision of rolling stock products and services as well as other businesses that utilise proprietary rolling stock technologies. The Group's most senior executive management reviews the Group's revenue and profits as a whole for the purpose of allocating resources and assessing the performances. Therefore, no analysis by operating segment is presented.

Products and services

Revenue from external customers

	2016 RMB'000	2015 RMB'000
Rail transportation products and their extent products and services	224,137,964	237,784,602

Geographical information

Revenue from external customers

	2016 RMB'000	2015 RMB'000
Mainland China	205,198,319	211,378,285
Other countries and regions	18,939,645	26,406,317
	224,137,964	237,784,602

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

Non-current assets

	31 December 2016 RMB'000	31 December 2015 RMB'000
Mainland China	91,967,424	85,050,148
Other countries and regions	5,037,483	3,819,016
	97,004,907	88,869,164

The non-current assets information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about a major customer

Revenue, net of sales tax, generated from a single customer which amounted to more than 10% of the Group's revenue for the year ended 31 December 2016 was RMB105,759,048,000 (2015: RMB119,747,903,000). The customers invested and managed by all PRC local railway departments are regarded as a single customer by the directors of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

6. REVENUE, OTHER INCOME AND GAINS AND LOSSES

Revenue mainly represents the net invoiced value of goods sold, after allowance for returns and trade discounts, and excludes sales taxes and intra-group transactions.

An analysis of revenue, other income and gains and losses is as follows:

	2016 RMB'000	2015 RMB'000
Revenue		
Sale of goods and services	223,894,897	237,334,491
Interest income arising from Finance Company	237,888	434,481
Fee and commission income	5,179	15,630
	224,137,964	237,784,602
Other income		
Government grants	1,352,837	1,681,353
Profit from sundry operations	384,846	63,024
Value-added tax refunds	297,406	121,073
Interest income from banks	280,102	563,641
Technical service income	116,509	271,540
Income from corporate wealth management products	114,756	76,827
Rental of items of properties	105,710	47,157
Dividend income	54,663	19,237
Interest from held-to-maturity investments	27,244	—
Others	78,683	147,013
Total	2,812,756	2,990,865
Other gains and losses		
Gain (loss) on disposal of subsidiaries	484,743	(7,702)
Gain on adjustment of fair value of previously held interest	391,891	55,108
Net foreign exchange gain	102,142	345,209
Gain on disposal of available-for-sale investment	90,340	239,224
Gain on fair value change of convertible bonds-derivative component (Note 41)	88,768	—
Gain on fair value change of derivative financial instrument	34,236	—
Gain on disposal of other intangible assets	5,601	2
Gain on disposal of associates	—	3,884
Gain on disposal of prepaid lease payments	460	2,005
Loss on disposal of property, plant and equipment	(33,355)	(51,052)
Loss on derecognition of trade receivables	(92,145)	—
Others	131,634	64,175
Total	1,204,315	650,853
	4,017,071	3,641,718

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

7. OTHER EXPENSES

	2016 RMB'000	2015 RMB'000
Other expenses included net:		
Impairment of trade receivables	631,421	811,162
Impairment of other non-current assets	25,070	99,911
Impairment (reversal of impairment) of prepayment, deposits and other receivables	163,807	(76,711)
Impairment of property, plant and equipment	23,480	41,395
Impairment of goodwill	128,470	23,794
Impairment of available-for-sale investment	585,556	1,806
Impairment of loans and advances to customers	360	1,226
Impairment of other intangible assets	44,951	15,706
Provision of onerous contracts	7,061	6,893
Relocation expense	13,151	769,936
	1,623,327	1,695,118

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2016 RMB'000	2015 RMB'000
Interest on borrowings	1,191,020	1,389,366
Interest expenses on 2016 Convertible Bonds (Note 41)	81,306	—
Interest on bills discounted	67,870	68,380
Interest cost recognised in respect of defined benefit obligations (Note 37)	119,997	151,216
Interest on finance leases	11,480	15,362
Others	15,626	7,994
Less: interest capitalised in construction in progress	(223,096)	(219,999)
	1,264,203	1,412,319

Borrowing costs capitalised during the year mainly arose on the general borrowing pool and are calculated by applying a capitalisation rate ranging from 1.08% to 6.20% (2015: 1.08% to 6.88%) per annum to expenditure on qualifying assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

9. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging (crediting):

	2016 RMB'000	2015 RMB'000
Cost of inventories sold (Note)	178,992,626	191,026,870
Depreciation of property, plant and equipment	5,067,595	4,860,684
Depreciation of investment properties	30,100	3,902
Depreciation of other non-current assets	54,117	45,818
Amortisation of prepaid lease payments	340,013	429,424
Amortisation of other intangible assets	1,013,195	876,690
Auditors' remuneration	28,600	29,600
Provision for warranties (Note 38)	3,189,752	3,702,365
Minimum lease payments under operating leases:		
Plant and machinery	411,964	464,882
Land and buildings	257,507	242,265
Research and development costs	9,684,499	9,950,212
Less: Amount capitalised	(54,237)	(19,503)
	9,630,262	9,930,709
Staff costs (including directors', supervisors' and chief executive's remuneration, and employees' benefits other than below)	23,512,275	22,696,752
Contribution to government-operated pension schemes	2,871,607	2,860,045
Contribution to annuity pension schemes	413,607	408,444
Equity-settled share option expense	—	(47,153)
Retirement benefit obligations - costs (reversed) recognised	(298,020)	170,528
	26,499,469	26,088,616

Note: Provision against obsolete inventories amounted to RMB747,872,000 during the year (2015:RMB604,660,000) and was included in "Cost of sales and services" on the consolidated statement of profit or loss and other comprehensive income.

10. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors', supervisors' and chief executive's emoluments for the year, disclosed pursuant to the Listing Rules and CO, are as follows:

	2016 RMB'000	2015 RMB'000
Fees	719	797
Other emoluments:		
Salaries	1,598	1,608
Performance-related bonuses (Note i)	2,753	3,945
Social security contribution other than pension (Note ii)	387	415
Pension scheme contributions (Note iii)	309	344
Total	5,766	7,109

Notes:

(i) The performance-related bonuses are determined by the remuneration committee in accordance with the relevant remuneration policies.

(ii) The social security contributions other than pension represent the Company's statutory contributions directly to the PRC government, and are determined based on a certain percentage of the salaries of the directors, supervisors and the chief executive.

(iii) The pension scheme contributions represent the Company's statutory contributions to a defined contribution pension scheme organised by the PRC government, and are determined based on a certain percentage of the salaries of the directors, supervisors and the chief executive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

10. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(continued)*

The names of the directors, supervisors and the chief executive and their emoluments for the year are as follows:

	Fees RMB'000	Salaries RMB'000	Performance-related bonuses RMB'000	Social security contribution other than pension RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2016						
Executive directors:						
Mr. Cui Dianguo (Note i)	–	185	469	59	47	760
Mr. Zheng Changhong (Note ii)	–	185	469	59	47	760
Mr. Liu Hualong (Note iii)	–	–	–	–	–	–
Mr. Xi Guohua (Note iv)	–	185	469	59	47	760
Mr. Fu Jianguo (Note v)	–	97	246	33	27	403
	–	652	1,653	210	168	2,683
Independent non-executive directors:						
Mr. Li Guo'an	144	–	–	–	–	144
Mr. Zhang Zhong	149	–	–	–	–	149
Mr. Wu Zhuo	139	–	–	–	–	139
Mr. Sun Patrick	147	–	–	–	–	147
Mr. Chan Ka Keung, Peter	140	–	–	–	–	140
	719	–	–	–	–	719
Supervisors:						
Mr. Wan Jun	–	167	422	59	47	695
Mr. Chen Fangping	–	389	339	59	47	834
Mr. Qiu Wei	–	390	339	59	47	835
	–	946	1,100	177	141	2,364
	719	1,598	2,753	387	309	5,766

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

10. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(continued)*

	Fees RMB'000	Salaries RMB'000	Performance-related bonuses RMB'000	Social security contribution other than pension RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2015						
Executive directors:						
Mr. Cui Dianguo	–	160	576	53	44	833
Mr. Zheng Changhong	–	160	610	53	44	867
Mr. Liu Hualong (Note iii)	–	133	509	44	36	722
Mr. Xi Guohua (Note iv)	–	160	576	53	44	833
Mr. Fu Jianguo	–	144	537	53	44	778
	–	757	2,808	256	212	4,033
Independent non-executive directors:						
Mr. Li Guo'an	163	–	–	–	–	163
Mr. Zhang Zhong	164	–	–	–	–	164
Mr. Wu Zhuo	156	–	–	–	–	156
Mr. Sun Patrick	158	–	–	–	–	158
Mr. Chan Ka Keung, Peter	156	–	–	–	–	156
	797	–	–	–	–	797
Supervisors:						
Mr. Wan Jun	–	141	496	53	44	734
Mr. Chen Fangping	–	341	361	53	44	799
Mr. Qiu Wei	–	369	280	53	44	746
	–	851	1,137	159	132	2,279
	797	1,608	3,945	415	344	7,109

Notes:

(i) On 28 November 2016, Mr. Cui Dianguo resigned from the positions of chairman of the Board, executive director and chairman upon his age.

(ii) On 28 November 2016, Mr. Zheng Changhong resigned from the positions of vice-chairman of the Board, executive director of the Board and vice-chairman upon his age.

(iii) On 6 December 2016, Mr. Liu Hualong was appointed as the chairman of the Board. In accordance with the provisions of the Articles of Association of the Company, the legal representative of the Company has been changed to Mr. Liu Hualong.

Mr. Liu Hualong holds certain position in CRRCG and his remuneration has been borne by CRRCG since November 2015.

(iv) On 6 December 2016, Mr. Xi Guohua was appointed as the vice chairman of the Board. Mr. Xi Guohua is also the president of the Company and his emoluments disclosed above include those for services rendered as president.

(v) On 22 July 2016, Mr. Fu Jianguo resigned from the position of executive director.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

10. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(continued)*

The executive directors' and supervisors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

No emoluments were paid by the Group to any of the directors or the supervisors and the chief executive of the Company as an inducement to join or upon joining the Group or as compensation for loss of office during both years.

There was no arrangement under which the directors or the supervisors and the chief executive of the Company waived or agreed to waive any remuneration during both years.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during both years are neither directors, supervisors nor chief executive.

Details of the remuneration paid to the five highest paid employees during the year are as follows:

	2016 RMB'000	2015 RMB'000
Salaries	1,710	2,100
Performance-related bonuses	8,559	7,486
Social security contribution other than pension	287	323
Pension scheme contributions	262	217
Total	10,818	10,126

Note: During the year ended 31 December 2015, the share-based payments expenses of RMB839,000 charged to profit or loss in the prior periods was reversed against profit or loss because of failure to satisfy performance condition attached to the share option schemes. For the purpose of this presentation, such reversal of RMB839,000 was not reflected under the remuneration disclosed above.

The number of five highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2016	2015
HK$2,000,001 to HK$2,500,000	3	3
HK$2,500,001 to HK$3,000,000	2	2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

12. INCOME TAX EXPENSE

The major components of income tax expense included in profit or loss are:

	2016 RMB'000	2015 RMB'000
Current tax charge comprises		
PRC enterprise income tax	3,235,947	3,467,313
Hong Kong Profits Tax	23,934	48,281
Other jurisdictions	37,274	35,463
	3,297,155	3,551,057
Underprovision (overprovision) in respect of current tax in previous years	31,125	(9,015)
Deferred tax credit (Note 24)	(303,610)	(591,489)
	3,024,670	2,950,553

Pursuant to the relevant laws and regulations in the PRC, the statutory enterprise income tax rate of 25% (2015:25%) is applied to the Group, except for certain subsidiaries which were either exempted from tax or entitled to different preferential tax rates during both years. Certain subsidiaries of the Company are entitled to the preferential tax rate of 15% (2015: 15%) because they are recognised as the high and new technology enterprises by the local governments in the PRC.

Hong Kong Profits Tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Taxation arising in the jurisdictions other than the PRC and Hong Kong is calculated at rates prevailing in the relevant jurisdictions.

A reconciliation of the income tax expense to profit before taxation on the consolidated statement of profit or loss and other comprehensive income are as follows:

	2016 RMB'000	2015 RMB'000
Profit before taxation	16,934,579	17,048,431
Tax at the applicable tax rate of 25% (2015: 25%)	4,233,645	4,262,108
Tax effect of share of associates and joint ventures	(113,338)	(104,739)
Tax effect of expenses not deductible for tax purpose	249,691	221,097
Entities subject to lower statutory income tax rates	(1,657,717)	(1,639,941)
Underprovision (overprovision) in respect of current tax in previous years	31,125	(9,015)
Utilisation of tax losses and temporary differences previously not recognised	(184,733)	(154,762)
Tax effect of tax losses and temporary differences not recognised	1,361,812	1,095,966
Others (Note)	(895,815)	(720,161)
	3,024,670	2,950,553

Note: Others mainly comprised income tax benefits on research and development expenditure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

13. DIVIDENDS

Dividends recognised as distribution during the year:

	2016 RMB'000	2015 RMB'000
Dividend paid:		
RMB0.15 (2015:RMB0.12) per share by the Company	4,093,314	3,274,651

The final dividend of RMB4,093,314,000 in respect of the year ended 31 December 2015 (2015: final dividend of RMB3,274,651,000 in respect of the year ended 31 December 2014), was approved by shareholders in the annual general meeting in June 2016.

Subsequent to the end of the reporting period a final dividend of RMB6,026,761,000 at RMB0.21 per share in respect of the year ended 31 December 2016, based on 28,698,864,088 shares after private placement of 1,410,105,755 A shares on 13 January 2017, has been proposed by the directors of the Company and is subject to the approval by the shareholders in the forthcoming annual general meeting.

14. EARNINGS PER SHARE

The weighted average number of shares for the purpose of basic and diluted earnings per share for the year ended 31 December 2015 has taken into account the issue of 13,485,758,333 new shares in exchange of the entire equity interest in CNR arising from the 2015 Business Combination.

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2016 RMB'000	2015 RMB'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	11,295,596	11,818,398

	2016 '000 shares	2015 '000 shares
Number of shares		
Number of ordinary shares for the purpose of basic and diluted earnings per share	27,288,758	27,288,758

The computation of diluted earnings per share for the year ended 31 December 2016 does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in earnings per share.

The calculation of the diluted earnings per share for the year ended 31 December 2015 does not assume the exercise of the share options during the period for which they are outstanding as the exercise prices of those share options were higher than the average market price during that period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

15. PROPERTY, PLANT AND EQUIPMENT

	Notes	Freehold Land RMB'000	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Computer equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
Cost								
Balance at 1 January 2015		143,702	33,047,163	36,039,954	2,384,687	3,738,153	8,560,999	83,914,658
Additions		66,621	182,617	1,328,261	112,243	268,634	6,521,385	8,479,761
Transfer from construction in progress		–	3,257,920	2,195,679	130,564	265,615	(5,849,778)	–
Transfer from investment properties	16	–	23,847	–	–	–	–	23,847
Acquisitions of subsidiaries		–	685,768	291,565	910	32,954	29,319	1,040,516
Transfer to construction in progress		–	(22,516)	(8,143)	(4,328)	(7,717)	42,704	–
Transfer to investment property	16	–	(351,008)	–	–	–	(2,244)	(353,252)
Transfer to prepaid lease payments	17	–	–	–	–	–	(376,185)	(376,185)
Transfer to other intangible assets	19	–	–	–	–	–	(162,676)	(162,676)
Disposal of subsidiaries		–	(102,020)	(56,727)	(984)	(2,770)	–	(162,501)
Disposals		(4,658)	(150,012)	(293,399)	(57,345)	(76,160)	–	(581,574)
Exchange adjustments		542	(81,185)	(25,876)	(1,164)	(14,604)	(4,276)	(126,563)
Balance at 31 December 2015		206,207	36,490,574	39,471,314	2,564,583	4,204,105	8,759,248	91,696,031
Additions		5,726	264,910	918,148	66,821	347,202	8,313,715	9,916,522
Transfer from construction in progress		–	4,371,292	2,709,827	90,101	338,760	(7,509,980)	–
Transfer from investment properties	16	–	138,753	–	–	–	–	138,753
Acquisitions of subsidiaries		–	30,043	23,565	617	4,207	85,002	143,434
Transfer to construction in progress		–	(218,999)	(37,961)	(1,290)	(879)	259,129	–
Transfer to investment properties	16	–	(85,536)	–	–	–	(73,998)	(159,534)
Transfer to prepaid lease payments	17	–	–	–	–	–	(99,377)	(99,377)
Transfer to other intangible assets	19	–	–	–	–	–	(158,887)	(158,887)
Disposal of subsidiaries		–	(28,683)	(95,616)	(6,832)	(14,147)	(5,925)	(151,203)
Disposals		–	(68,180)	(1,029,870)	(64,013)	(110,666)	–	(1,272,729)
Exchange adjustments		6,297	(18,266)	(27,470)	391	18,082	(13,599)	(34,565)
Balance at 31 December 2016		218,230	40,875,908	41,931,937	2,650,378	4,786,664	9,555,328	100,018,445
Depreciation								
Balance at 1 January 2015		–	(6,491,261)	(14,887,006)	(1,281,662)	(2,101,135)	(65,441)	(24,826,505)
Provided for the year		–	(1,209,085)	(3,000,392)	(216,041)	(435,166)	–	(4,860,684)
Transfer from investment properties	16	–	(16,073)	–	–	–	–	(16,073)
Transfer to investment properties	16	–	138,300	–	–	–	–	138,300
Transfer to construction in progress		–	7,578	4,109	2,270	4,047	(18,004)	–
Disposal of subsidiaries		–	11,609	20,769	856	2,027	–	35,261
Disposals		–	37,402	225,845	45,229	67,005	–	375,481
Exchange adjustments		–	1,699	2,777	144	1,428	–	6,048
Balance at 31 December 2015		–	(7,519,831)	(17,633,898)	(1,449,204)	(2,461,794)	(83,445)	(29,148,172)
Provided for the year		–	(1,320,234)	(2,977,876)	(230,877)	(538,608)	–	(5,067,595)
Transfer from investment properties	16	–	(61,535)	–	–	–	–	(61,535)
Transfer to investment properties	16	–	26,307	–	–	–	–	26,307
Transfer to construction in progress		–	22,156	23,473	1,226	747	(47,602)	–
Disposal of subsidiaries		–	3,753	42,785	5,226	6,125	–	57,889
Disposals		–	25,964	726,293	49,329	79,568	–	881,154
Exchange adjustments		–	10,334	14,540	(130)	(4,552)	–	20,192
Balance at 31 December 2016		–	(8,813,086)	(19,804,683)	(1,624,430)	(2,918,514)	(131,047)	(33,291,760)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Notes	Freehold Land RMB'000	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Computer equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
Impairment								
Balance at 1 January 2015		–	(46,394)	(270,546)	(6,549)	(8,962)	(12,694)	(345,145)
Provided for the year		–	–	(41,384)	–	(11)	–	(41,395)
Disposals		–	2,732	12,267	364	533	–	15,896
Transfer to investment properties	16	–	2,489	–	–	–	–	2,489
Balance at 31 December 2015		–	(41,173)	(299,663)	(6,185)	(8,440)	(12,694)	(368,155)
Provided for the year		–	(720)	(18,319)	(30)	(21)	(4,390)	(23,480)
Transfer from investment properties	16	–	(2,489)	–	–	–	–	(2,489)
Disposals		–	161	16,920	232	2,168	–	19,481
Disposal of subsidiaries		–	219	10,866	128	853	–	12,066
Balance at 31 December 2016		–	(44,002)	(290,196)	(5,855)	(5,440)	(17,084)	(362,577)
Carrying amount								
Balance at 31 December 2016		218,230	32,018,820	21,837,058	1,020,093	1,862,710	9,407,197	66,364,108
Balance at 31 December 2015		206,207	28,929,570	21,537,753	1,109,194	1,733,871	8,663,109	62,179,704

The estimated useful lives of property, plant and equipment are as follows:

Buildings	10-50 years
Plant, machinery and equipment	6-28 years
Motor vehicles	5-15 years
Computer equipment and others	5-12 years

As at 31 December 2016, all of the Group's properties are located in the PRC with the exception of buildings and freehold land amounting to RMB1,028,877,000 (31 December 2015: RMB1,160,176,000).

The details of the above items of property, plant and equipment pledged to secure general banking facilities granted to the Group are set out in Note 36.

The Group is in the process of applying for the title certificates for certain of its buildings with an aggregate carrying amount of RMB9,006,192,000 (31 December 2015: RMB7,054,874,000) at 31 December 2016. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

16. INVESTMENT PROPERTIES

	Notes	2016 RMB'000	2015 RMB'000
Cost			
Balance at 1 January		1,210,932	207,959
Additions		—	673,568
Transfer from property, plant and equipment	15	159,534	353,252
Acquisitions of subsidiaries		2,376	—
Transfer to property, plant and equipment	15	(138,753)	(23,847)
Balance at 31 December		1,234,089	1,210,932
Depreciation			
Balance at 1 January		(255,786)	(129,657)
Provided for the year	9	(30,100)	(3,902)
Transfer from property, plant and equipment	15	(26,307)	(138,300)
Transfer to property, plant and equipment	15	61,535	16,073
Balance at 31 December		(250,658)	(255,786)
Impairment			
Balance at 1 January		(16,383)	(13,894)
Transfer from property, plant and equipment	15	—	(2,489)
Transfer to property, plant and equipment	15	2,489	—
Balance at 31 December		(13,894)	(16,383)
Carrying amount			
Balance at 31 December		969,537	938,763

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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17. PREPAID LEASE PAYMENTS

	Notes	2016 RMB'000	2015 RMB'000
CARRYING AMOUNT			
Balance at 1 January		14,776,532	13,882,914
Additions		307,256	919,552
Transfer from property, plant and equipment	15	99,377	376,185
Acquisitions of subsidiaries		57,830	221,068
Disposal of subsidiaries		(14,759)	(6,504)
Released to profit or loss	9	(340,013)	(429,424)
Exchange adjustments		(1,883)	(2,080)
Disposals		(27,775)	(185,179)
At 31 December		14,856,565	14,776,532
Analysed for reporting purpose as:			
Current assets		364,163	348,194
Non-current assets		14,492,402	14,428,338

The leasehold lands are held under medium term leases and are situated in the PRC, except for the leasehold lands with a carrying amount of RMB8,168,000 (31 December 2015: RMB8,260,000) are located in Malaysia.

The details of the above prepaid land lease payments pledged to secure general banking facilities granted to the Group are set out in Note 36.

The Group is in the process of obtaining the land use right certificates for certain land use rights with carrying amount of RMB310,024,000 (31 December 2015: RMB361,071,000) located in the PRC. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use these land use rights.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

18. GOODWILL

	2016 RMB'000	2015 RMB'000
COST		
Balance at 1 January	1,385,546	838,604
Acquisitions of subsidiaries	40,427	535,872
Exchange adjustments	59,569	11,070
Balance at 31 December	1,485,542	1,385,546
IMPAIRMENT		
At 1 January	(70,312)	(46,518)
Impairment loss recognised in the year (Note i)	(128,470)	(23,794)
At 31 December	(198,782)	(70,312)
CARRYING AMOUNT		
At 31 December	1,286,760	1,315,234

Note i:

The basis for determining the recoverable amounts of the subsidiaries to which the goodwill has been allocated and the major underlying assumptions are summarised below:

The recoverable amounts in respect of the subsidiaries, which are engaged in manufacturing activities, have been determined based on value in use calculation. That calculation uses cash flow projections based on the most recent financial budgets of five years approved by management and an extrapolated cash flow projections for the following five years, and a post-tax discount rate of 8.2% -12.5% (2015: 8.4% -12.0%) per annum. The cash flows beyond the 5-year period are extrapolated using a growth rate of 1.25% - 2.0% (2015: 1.3% - 2.0%). One major assumption is annual growth rates in revenue which vary among different subsidiaries for the most recent financial budgets period. The growth rates are based on the relevant industry growth forecasts and do not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculations is the stable budgeted gross margin, which is determined based on the subsidiaries' past performance. During the year ended 31 December 2016, the Group recognised an impairment loss of RMB128,470,000 (2015: RMB23,794,000), the recoverable amounts of related cash generating units are RMB847,058,000(2015: RMB37,865,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

19. OTHER INTANGIBLE ASSETS

	Notes	Patents and technical know-how RMB'000	Computer software and others RMB'000	Client relationships RMB'000	Backlogs and technical service preferential orders RMB'000	Total RMB'000
Cost						
Balance at 1 January 2015		1,791,345	1,479,013	247,200	68,122	3,585,680
Additions		420,999	157,485	62,349	—	640,833
Transfer from construction in progress	15	11,870	150,806	—	—	162,676
Acquisitions of subsidiaries		1,318,379	4,614	—	55,753	1,378,746
Disposals		(9,286)	(20,770)	—	—	(30,056)
Disposal of subsidiaries		—	(140)	—	—	(140)
Exchange adjustments		1,994	27,657	17,737	2,641	50,029
Balance at 31 December 2015		3,535,301	1,798,665	327,286	126,516	5,787,768
Additions		265,849	253,521	—	—	519,370
Transfer from construction in progress	15	18,554	140,333	—	—	158,887
Acquisitions of subsidiaries		542	666	—	—	1,208
Disposals		(18,893)	(10,370)	—	—	(29,263)
Disposal of subsidiaries		(64,398)	(4,067)	—	—	(68,465)
Exchange adjustments		(45,441)	(434)	19,135	(6,486)	(33,226)
Balance at 31 December 2016		3,691,514	2,178,314	346,421	120,030	6,336,279

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

19. OTHER INTANGIBLE ASSETS

	Patents and technical know-how RMB'000	Computer software and others RMB'000	Client relationships RMB'000	Backlogs and technical service preferential orders RMB'000	Total RMB'000
Amortisation					
Balance at 1 January 2015	(700,839)	(749,667)	(4,282)	(14,009)	(1,468,797)
Provided for the year	(561,356)	(205,264)	(35,787)	(74,283)	(876,690)
Disposals	3,200	16,726	—	—	19,926
Disposal of subsidiaries	—	140	—	—	140
Exchange adjustments	362	(16,171)	(2,683)	67	(18,425)
Balance at 31 December 2015	(1,258,633)	(954,236)	(42,752)	(88,225)	(2,343,846)
Provided for the year	(724,116)	(243,013)	(30,284)	(15,782)	(1,013,195)
Disposals	7,379	6,790	—	—	14,169
Disposal of subsidiaries	28,618	1,427	—	—	30,045
Exchange adjustments	1,616	24	(3,423)	3,098	1,315
Balance at 31 December 2016	(1,945,136)	(1,189,008)	(76,459)	(100,909)	(3,311,512)
Impairment:					
Balance at 1 January 2015	(168,331)	—	—	—	(168,331)
Provided for the year	(15,706)	—	—	—	(15,706)
Balance at 31 December 2015	(184,037)	—	—	—	(184,037)
Provided for the year	(44,951)	—	—	—	(44,951)
Disposal of subsidiaries	24,000	—	—	—	24,000
Balance at 31 December 2016	(204,988)	—	—	—	(204,988)
Carrying amounts					
Balance at 31 December 2016	1,541,390	989,306	269,962	19,121	2,819,779
Balance at 31 December 2015	2,092,631	844,429	284,534	38,291	3,259,885

Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful lives of intangible assets are as follows:

Patents and technical know-how	3-10 years
Computer software and others	2-10 years
Client relationships	7-15 years
Backlogs and technical service preferential orders	Over the service providing periods

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

20. INTERESTS IN JOINT VENTURES

	2016 RMB'000	2015 RMB'000
Cost of investments, unlisted	590,030	734,312
Share of post-acquisition profit and other comprehensive income, net of dividends received	686,405	903,324
Carrying amount	1,276,435	1,637,636

Aggregate information of joint ventures that are not individually material:

	2016 RMB'000	2015 RMB'000
The Group's share of profit and total comprehensive income for the year	189,247	231,205
Aggregate carrying amount of the Group's interests in these joint ventures	1,276,435	1,637,636

21. INTERESTS IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Cost of investments, unlisted	6,716,612	1,645,799
Share of post-acquisition profits and other comprehensive income, net of dividends received	478,929	329,442
Carrying amount	7,195,541	1,975,241
Representing		
Share of net assets by the Group	4,206,642	1,968,707
Goodwill on acquisition of associates	2,988,899	6,534
Total	7,195,541	1,975,241

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

21. INTERESTS IN ASSOCIATES *(continued)*

Particulars of the principal associate of the Group at 31 December 2016 are as follow:

Company name	Date of establishments	Place of operation	Fully paid up registered capital	Proportion of Ownership interest and voting rights held		Principal activities
				31 December 2016	31 December 2015	
China United Insurance. Holding Corporation ("China United Insurance") 中華聯合保險控股股份有限公司	5 June 2006	PRC	RMB15,310,000,000	13.0633%	—	Insurance

The company holds 13.0633% equity interest of China United Insurance and has the right to appoint a director on the board. Thus the Company has the right to participate in the decision-making procedure of China United Insurance and has significant influence over it.

The English name of the above company represents direct translation of the Chinese name of the company as no English name has been registered.

The above table lists the principal associate of the Group. To give details of other associates would, in the opinion of the directors of the Company, result in particulars of excessive length.

Summarised financial information of material associate

Summarised financial information in respect of the Group's material associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs.

China United Insurance

	31 December 2016 RMB'000
Total assets	64,307,123
Total liabilities	48,764,451

	Period from date of acquisition to 31 December 2016 RMB'000
Revenue	33,148,417
Profit for the period	1,256,092
Profit attributable to owners of China United Insurance	1,180,021
Other comprehensive income for the period	355,888
Total comprehensive income for the period	1,611,980
Dividends received from the associate in the period	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

21. INTERESTS IN ASSOCIATES *(continued)*

China United Insurance *(continued)*

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	31 December 2016 RMB'000
Net assets of China United Insurance	15,542,672
Less: Non-controlling interests of China United Insurance's subsidiaries	1,686,030
Proportion of the Group's ownership interest in China United Insurance	13.0633%
Goodwill on acquisition of China United Insurance	2,982,365
Carrying amount of the Group's interest in China United Insurance	4,792,500

Aggregate information of associates that are not individually material:

	2016 RMB'000	2015 RMB'000
The Group's share of profit and total comprehensive income for the year	109,957	187,751
Aggregate carrying amount of the Group's interests in these associates	2,403,041	1,975,241

22. AVAILABLE-FOR-SALE INVESTMENTS

	2016 RMB'000	2015 RMB'000
Unlisted financial assets, at fair value	51,699	3,259,000
Listed perpetual bond investments, at fair value	208,110	—
Listed preference share investments, at fair value	236,490	—
Listed equity investments, at fair value	2,426,580	2,223,018
Unlisted equity investments, at cost less impairment	947,982	933,491
	3,870,861	6,415,509

Analysed for reporting purpose as:

	2016 RMB'000	2015 RMB'000
Current asset	51,699	3,259,000
Non-current asset	3,819,162	3,156,509
	3,870,861	6,415,509

During the year, the fair value loss in respect of the Group's available-for-sale investments recognised in other comprehensive income before tax amounted to RMB428,746,000 (2015: loss of RMB441,167,000), including a gain of RMB89,391,000 (2015: gain of RMB167,900) which was reclassified to profit or loss upon disposal and a loss of RMB583,526,000 (2015: Nil) which was reclassified to profit or loss due to impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

22. AVAILABLE-FOR-SALE INVESTMENTS *(continued)*

Unlisted financial assets

Unlisted financial assets of the Group represent investment in corporate wealth management products issued by the PRC banks, and are stated at fair value by discounting the expected future cash inflow using the prevailing discount rate of similar products.

Listed perpetual bond investments

Listed perpetual bond investments of the Group are issued by entities incorporated in the PRC and Hong Kong, and stated at fair value which is determined by reference to published price quotations in an active market.

Listed preference share investments

Listed preference share investments of the Group are issued by entities incorporated in the PRC and stated at fair value which is determined by reference to published price quotations in an active market.

Listed equity investments

The fair value of the listed equity investments is determined by reference to published price quotations in an active market.

Unlisted equity investments

Unlisted equity investments are not stated at fair value but at cost less any accumulated impairment losses, because they do not have a quoted market price in an active market, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

23. HELD-TO-MATURITY INVESTMENT

	2016 RMB'000	2015 RMB'000
Debt securities		
– Listed in Hong Kong (Note i)	547,530	197,928
– Listed outside Hong Kong (Note ii)	419,440	—
	966,970	197,928

Note:

(i) The Group's held-to-maturity investment represents debt securities which are listed in Hong Kong, and carry fixed interest range from 4.30% to 5.90% per annum, payable semi-annually in arrear, and will mature from 24 November 2018 to 22 August 2021.

(ii) The Group's held-to-maturity investment represents debt securities which are listed outside Hong Kong, and carry fixed interest range from 3.20%to 8.13% per annum, payable semi-annually in arrear, and will mature from 2 December 2018 to 13 July 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

24. DEFERRED TAX ASSETS/LIABILITIES

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2016 RMB'000	2015 RMB'000
Deferred tax assets	3,009,338	2,743,530
Deferred tax liabilities	(235,835)	(241,975)
	2,773,503	2,501,555

The deferred tax assets (liabilities) recognised by the Group and movements thereon during the year are as follows:

	Warranty claims provision RMB'000	Government grants RMB'000	Accrued commission RMB'000	Assets impairment RMB'000	Unrealised profits in inventories RMB'000	Accrued royalty fee RMB'000	Wages payable RMB'000	Financial assets at fair value through profit or loss RMB'000	Fair value adjustments arising from acquisitions of subsidiaries RMB'000	Depreciation difference RMB'000	Fair value adjustments arising from available-for- sale investments RMB'000	Other temporary differences RMB'000	Total RMB'000
At 1 January 2015	543,144	98,203	138,781	674,442	166,150	39,856	64,432	–	(154,942)	(16,911)	(32,358)	213,390	1,734,187
(Charge)credit to profit or loss	263,787	73,803	(58,690)	218,565	25,412	2,651	(24,303)	54	61,960	(5,097)	–	33,347	591,489
Acquisitions of subsidiaries	101,653	–	–	33,451	–	–	–	–	(136,365)	–	–	113,218	111,957
Exchange adjustments	–	–	–	–	–	–	–	–	(9,302)	(200)	–	–	(9,502)
Credited to other comprehensive income	–	–	–	–	–	–	–	–	–	–	73,424	–	73,424
At 31 December 2015	908,584	172,006	80,091	926,458	191,562	42,507	40,129	54	(238,649)	(22,208)	41,066	359,955	2,501,555
(Charge)credit to profit or loss	69,204	44,446	(20,597)	139,697	(88,240)	2,031	(19,536)	(54)	37,899	(833)	–	139,593	303,610
Acquisitions of subsidiaries	2,969	(1,989)	–	7,631	–	–	–	–	(14,220)	–	–	2,175	(3,434)
Disposals of subsidiaries	(193)	–	–	–	–	–	–	–	–	–	–	86	(107)
Credited to other comprehensive income	–	–	–	–	–	–	–	–	–	–	(28,121)	–	(28,121)
At 31 December 2016	980,564	214,463	59,494	1,073,786	103,322	44,538	20,593	–	(214,970)	(23,041)	12,945	501,809	2,773,503

The Group has tax losses of RMB11,262,797,000 (2015: RMB7,771,932,000) and deductible temporary differences of RMB4,014,933,000 (2015:RMB3,246,020,000) as at 31 December 2016. Deferred tax assets have not been recognised in respect of these losses and deductible temporary differences as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses and deductible temporary differences can be utilised.

The tax losses unrecognised for deferred tax assets that will expire in:

	2016 RMB'000	2015 RMB'000
2016	—	472,131
2017	426,101	520,851
2018	876,432	1,036,827
2019	1,757,604	1,856,395
2020	3,815,095	3,885,728
2021	4,387,565	—
Total	11,262,797	7,771,932

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25. OTHER NON-CURRENT ASSETS

	2016 RMB'000	2015 RMB'000
Prepayments for other intangible assets	1,235,002	1,688,601
Long term prepaid expenses	192,487	170,908
Deposits for acquisition of property, plant and equipment	1,044,282	1,113,099
Build-Transfer project	394,692	405,978
Senior notes	946,595	—
Long-term receivables (Note)	11,012,361	10,623,522
Others	128,574	161,755
	14,953,993	14,163,863

Note: The balances mainly represent receivables arising from finance leases and instalment sales. As at 31 December 2016, the unearned finance income in respect of the long-term receivables amounted to RMB2,895,383,000 (31 December 2015: RMB3,261,967,000).

The carrying amounts of the above long-term receivables are analysed into:

	Note	2016 RMB'000	2015 RMB'000
Within one year		8,156,919	4,410,793
In the second to tenth years, inclusive		11,813,815	10,691,597
		19,970,734	15,102,390
Less: allowance for doubtful debts		(801,454)	(68,075)
		19,169,280	15,034,315
Analysed for reporting purpose as:			
Current assets	29	8,156,919	4,410,793
Non-current assets	25	11,012,361	10,623,522

26. INVENTORIES

	2016 RMB'000	2015 RMB'000
Cost, net of provision		
Raw materials	18,879,793	20,362,718
Work in progress	23,187,373	26,077,124
Finished goods	12,334,412	13,306,727
	54,401,578	59,746,569

27. TRADE RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	78,285,528	76,858,677
Less: allowance for doubtful debts	(4,232,656)	(4,344,279)
	74,052,872	72,514,398

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

27. TRADE RECEIVABLES *(continued)*

An aged analysis of the trade receivables at the end of the reporting period, based on the revenue recognition date and net of provision for impairment of receivables, is as follows:

	2016 RMB'000	2015 RMB'000
Within 6 months	53,235,286	55,938,509
6 months to 1 year	11,213,962	7,131,606
Over 1 year	9,603,624	9,444,283
	74,052,872	72,514,398

Ageing of trade receivables which are past due but not impaired is as follows:

	2016 RMB'000	2015 RMB'000
6 months to 1 year	6,927,398	6,157,462
Over 1 year	664,963	299,638
	7,592,361	6,457,100

Receivables that were past due but not impaired relate to some customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The movements in provision for impairment of trade receivables are as follows:

	Note	2016 RMB'000	2015 RMB'000
At 1 January		4,344,279	3,427,827
Impairment loss recognised	7	1,021,080	1,133,383
Amounts recovered during the year	7	(389,659)	(322,221)
Amount written off as uncollectible		(57,731)	(16,863)
Exchange adjustment		886	(608)
Others		(686,199)	122,761
At 31 December		4,232,656	4,344,279

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

27. TRADE RECEIVABLES *(continued)*

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB2,180,733,000 (31 December 2015: RMB2,458,453,000) with a carrying amount before provision of RMB42,538,801,000 (31 December 2015: RMB43,731,774,000). The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered.

Included in trade receivables are the following amounts denominated in foreign currencies:

	2016 RMB'000	2015 RMB'000
United States dollar ("US$")	2,698,091	2,140,349
Euros ("EUR")	919,188	1,801,329
Malaysian dollars ("MYR")	631,197	254,490
Singapore dollar ("SGD")	174,644	164,737
Japanese yen ("JPY")	121,011	119,720
Australian dollar ("AUD")	57,259	865
Hong Kong dollar ("HK$")	34,498	81
Brazil Real	15,708	—
Great Britain pounds ("GBP")	4,425	93,409
Canadian dollar ("CAD")	134	655
Swiss franc ("SFr")	—	10,211
Turkish lira ("LT")	—	80,172
	4,656,155	4,666,018

The amounts due from the related parties of the Group are included in Note 45.

28. BILLS RECEIVABLE

The maturity profile of the bills receivable of the Group at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000
Within 6 months	12,883,910	9,511,622
6 months to 1 year	2,216,041	654,869
	15,099,951	10,166,491

The above balances are neither past due nor impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

28. BILLS RECEIVABLE *(continued)*

The nature profile of the bills receivable of the Group at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000
Bank acceptance bills	8,613,566	8,665,466
Commercial acceptance bills	6,486,385	1,501,025
	15,099,951	10,166,491

29. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Prepayments	12,236,728	9,533,803
Deposits and other receivables	19,143,407	9,971,914
Less: allowance for doubtful debts	(878,722)	(718,263)
	30,501,413	18,787,454

Movements in provision for impairment of prepayments, deposits and other receivables are as follows:

	Note	2016 RMB'000	2015 RMB'000
At 1 January		718,263	818,463
Impairment loss recognised (reversed)	7	163,807	(76,711)
Written off		(3,793)	(509)
Others		445	(22,980)
At 31 December		878,722	718,263

An analysis of deposits and other receivables is as follows:

	Note	2016 RMB'000	2015 RMB'000
Prepayments		11,872,252	9,194,629
Other receivables		4,420,452	2,870,805
Dividends receivable		39,649	7,363
Interest receivables		25,975	7,791
Long-term receivables - due within one year	25	8,156,919	4,410,793
Value added tax recoverables		1,173,739	2,164,366
Corporate wealth management products		3,837,300	—
Others		975,127	131,707
		30,501,413	18,787,454

The amounts due from the related parties included in the prepayments, deposits and other receivables are disclosed in Note 45.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

30. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	2016 RMB'000	2015 RMB'000
Contract costs incurred plus recognised profits less recognised losses in connection with construction contracts in progress	761,707	912,732
Less: progress billings	(747,121)	(873,100)
Gross amounts due from customers for contract work	14,586	39,632

The gross amounts due from customers for contract work at 31 December 2016 and 2015 were all expected to be recovered within one year.

31. CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS

	2016 RMB'000	2015 RMB'000
Cash and bank balances	45,594,983	39,368,687
Less: Pledged bank deposits	(4,561,051)	(4,613,695)
Cash and bank balances in the consolidated statement of financial position	41,033,932	34,754,992
Less: Non-pledged time deposits with original maturity of three months or more when acquired	(13,019,686)	(4,810,771)
Cash and cash equivalents in the consolidated statement of cash flows	28,014,246	29,944,221

Included in cash and cash equivalents are the following amounts denominated in foreign currencies:

	2016 RMB'000	2015 RMB'000
–US$	6,926,442	1,488,197
–EUR	900,687	164,491
–HK$	80,493	45,975
–JPY	30,601	13,213
–MYR	4,500	—
–SGD	1,555	143,322
–ZAR	18	—
–Other currencies	109,717	57,921
	8,054,013	1,913,119

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The Group's cash and cash equivalents are held in major financial institutions located in the PRC, which management believes are of high credit quality.

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Pledged bank deposits represent balances pledged to banks for the issuance of the Group's bills payable and letters of credit, and for the grant of bank loans to the Group. Further details of the bank loans are set out in Note 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

32. PLACEMENTS WITH FINANCIAL INSTITUTIONS

	2016 RMB'000	2015 RMB'000
Inter-bank borrowing	–	1,200,000

The placements at 31 December 2015 were the inter-bank borrowings that Finance Company made to China Construction Bank, which were completely received by the end of 2016.

33. TRADE PAYABLES

An aged analysis of trade payables at the end of the reporting period, based on the invoice date, is as follows:

	2016 RMB'000	2015 RMB'000
Within 6 months	76,524,078	61,039,748
6 months to 1 year	9,420,030	18,056,462
Over 1 year	6,005,743	4,082,896
	91,949,851	83,179,106

The trade payables are non-interest-bearing and are normally settled on six-month terms.

Included in trade payables are the following amounts denominated in foreign currencies:

	2016 RMB'000	2015 RMB'000
US$	943,210	85,427
JPY	459,478	422,884
EUR	170,278	29,495
CAD	17,175	3,846
HK$	9,075	677,134
AUD	7,845	6,737
GBP	315	745
	1,607,376	1,226,268

The amounts due to the related parties of the Group included in trade payables are disclosed in Note 45.

The above balances are unsecured, interest-free and repayable on similar credit terms to those offered by major suppliers of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

34. BILLS PAYABLE

The maturity profile of the bills payable of the Group at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000
Within 6 months	18,237,079	22,230,845
6 months to 1 year	1,560,196	559,237
	19,797,275	22,790,082

The amounts due to the related parties of the Group included in bills payable are disclosed in Note 45.

The above balances are interest-free and repayable on similar credit terms to those offered by major suppliers of the Group.

35. OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 RMB'000
Other payables	8,053,333	6,996,246
Advances from customers	25,773,476	29,693,134
Accruals	4,390,485	4,555,597
	38,217,294	41,244,977

The amounts due to the related parties included in other payables, advances from customers and accruals are disclosed in Note 45.

The above balances are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

36. BORROWINGS

	2016			2015		
	Effective interest rate per annum %	Maturity	RMB'000	Effective interest rate per annum %	Maturity	RMB'000
Current						
Bank loans						
– Secured	1.19-8.51	2017	5,033,136	1.19-5.91	2016	3,593,162
– Unsecured	0.70-6.03	2017	16,278,020	0.85-6.56	2016	3,718,631
Short-term bonds						
– Unsecured	–	–	–	3.03-3.34	2016	6,000,000
Other loans						
– Secured	–	–	–	10.00	2016	8,000
– Unsecured	1.83-6.00	2017	683,228	6.00	2016	45,720
Current portion of long-term bank loans						
– Secured	0.20-6.22	2017	87,505	Interest free -6.22	2016	24,420
– Unsecured	2.65-6.17	2017	2,402,434	2.90 -6.17	2016	1,864,350
Current portion of long-term bonds						
– Unsecured	5.50-6.20	2017	2,699,397	–	–	–
Current portion of other loans						
– Secured	3.20	2017	306	3.20-4.92	2016	5,300
			27,184,026			15,259,583
Non-current						
Bank loans						
– Secured	0.20-5.20	2018-2039	1,758,454	0.02-5.20	2019-2039	2,653,404
– Unsecured	1.08-5.09	2018-2035	464,053	1.08-6.17	2017-2035	3,980,285
Long-term bonds						
– Unsecured	2.95-5.75	2018-2023	6,991,168	4.70-6.20	2017-2023	7,682,564
Other loans						
– Unsecured	1.08	2018-2028	1,498,995	–	–	–
			10,712,670			14,316,253
			37,896,696			29,575,836

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

36. BORROWINGS *(continued)*

	2016 RMB'000	2015 RMB'000
The carrying amounts of the above borrowings are analysed into:		
Bank loans are repayable:		
Within one year	23,801,095	9,200,563
In the second year	376,680	2,457,833
In the third to fifth years, inclusive	1,724,901	2,882,435
Beyond five years	120,926	1,293,421
	26,023,602	15,834,252
Short term bonds are repayable:	—	6,000,000
Long term bonds are repayable:		
Within one year	2,699,397	—
In the second year	1,500,000	2,695,397
In the third to fifth years, inclusive	3,991,168	3,487,167
Beyond five years	1,500,000	1,500,000
	9,690,565	7,682,564
Other borrowings are repayable:		
Within one year	683,534	59,020
In the second year	17,300	—
In the third to fifth years, inclusive	228,400	—
Beyond five years	1,253,295	—
	2,182,529	59,020

The above secured bank loans and other banking facilities were secured by certain assets and their carrying amounts are as follows:

	2016 RMB'000	2015 RMB'000
Property, plant and equipment	67,049	50,958
Prepaid lease payments	4,240	36,450
Time deposits and bank balances	4,561,051	4,613,695
Trade receivable	337,995	—
Bills receivable	2,411,482	1,437,104
	7,381,817	6,138,207

Included in borrowings are the following amounts denominated in foreign currencies:

	2016 RMB'000	2015 RMB'000
US$	4,114,078	1,821,709
EUR	451,538	2,708,648
ZAR	101,580	—
JPY	69,099	105,891
GBP	1,583	10,482
	4,737,878	4,646,730

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37. RETIREMENT BENEFITS PLANS

In addition to the monthly contributions to various defined contribution pension schemes regulated by the PRC government, the Group provided supplementary pension subsidies to its employees who retired at normal retirement ages on or before 30 June 2007 and early retirement benefits to certain qualified employees before 30 June 2007. The amounts of employee benefit obligations recognised in the consolidated statement of financial position represent the present value of the unfunded obligations.

CNR and its subsidiaries ("CNR Group") also provided supplementary pension subsidies to its employees who retired at normal retirement ages on or before 31 December 2007.

In 2014, the Group acquired and obtained control of Rubber & Plastics Business held by ZF Friedrichshafen AG ("Germany BOGE "). The retirement benefit obligations in Germany are the liabilities which are based on the pension plan provided by Germany BOGE. Germany BOGE's pension plan provides an unfunded schemes. According to the Rentenordnung 2005 and Versorgungszusage 2004, Germany BOGE has provided traditional German pension planning groups which include normal and early retirement benefits and the benefits provided to the disabled people and the dead staff survivors.

During the current year, the Group acquired and obtained control of Blue Engineering S.R.L. ("Blue Engineering") and its subsidiaries (collectively referred to as "Blue Group"). The Blue Group is located in Italy and provides defined retirement benefits plans for all staffs in Italy according to the 2120 del codice civile italiano.

Those plans described above are defined benefit retirement benefit plans.

	2016 RMB'000	2015 RMB'000
Retirement benefit obligations in the PRC (Note i)	2,882,692	3,653,131
Retirement benefit obligations outside the PRC (Note ii)	876,036	699,459
Others	77,361	53,503
	3,836,089	4,406,093
Analysed for reporting purpose as:		
Current liabilities	319,782	351,648
Non-current liabilities	3,516,307	4,054,445

Note i:

The movements in the supplementary pension subsidies recognised in the consolidated statement of financial position are as follows:

	2016 RMB'000	2015 RMB'000
Balance at 1 January	3,653,131	3,864,412
Costs recognised	(370,263)	117,508
– Interest cost	104,172	137,985
– Past service cost	(474,435)	(20,477)
Re-measurement of retirement benefit pension plans	(87,541)	30,050
Benefits paid	(312,635)	(358,839)
Balance at 31 December	2,882,692	3,653,131

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

37. RETIREMENT BENEFITS PLANS *(continued)*

Note i: *(continued)*

The provision for supplementary pension subsidies recognised in the consolidated statement of financial position is determined as follows:

	2016 RMB'000	2015 RMB'000
Present value of unfunded benefit obligations	2,882,692	3,653,131
Amount due within one year	(291,953)	(326,010)
Amount due after one year	2,590,739	3,327,121

The above employee benefit obligations were determined based on actuarial valuation performed by independent actuary. The actuary used the projected unit credit method and the material actuarial assumptions used in valuing these obligations are as follows:

	2016 %	2015 %
Discount rate adopted	3.0	2.8/3.0
Healthcare cost trend	7.0/12.0/8.0	7.0/12.0/8.0

The following sensitivity analysis is based on the reasonably possible changes of relevant assumptions at the end of the reporting period (assuming all other assumptions unchanged).

If the discount rate increases (decreases) by 1% as at 31 December 2016, the defined benefit obligation would decrease by RMB197,810,000 (increase by RMB231,960,000).

If the discount rate increases (decreases) by 1% as at 31 December 2015, the defined benefit obligation would decrease by RMB304,030,000 (increase by RMB364,260,000).

If the healthcare cost increases (decreases) by 1% as at 31 December 2016, the defined benefit obligation would increase by RMB57,140,000 (decrease by RMB49,510,000).

If the healthcare cost increases (decreases) by 1% as at 31 December 2015, the defined benefit obligation would increase by RMB156,710,000 (decrease by RMB130,810,000).

Since some of the assumptions may be associated to each other, an assumption cannot change in isolation, so the above sensitivity analysis may not reflect the actual change of present value of retirement benefit obligations.

Note ii:

For the year ended 31 December 2016, the present value of the defined benefit plan changes as follows:

	2016 RMB'000	2015 RMB'000
Balance at 1 January	699,459	686,962
Acquisition of a subsidiary	13,714	—
Costs recognised	72,243	53,020
– Current service cost	56,418	39,789
– Interest cost	15,825	13,231
Re-measurement of retirement benefit pension plans	90,422	(6,007)
The impact of exchange rate differences	6,919	(30,919)
Benefits paid	(6,721)	(3,597)
Balance at 31 December	876,036	699,459

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

37. RETIREMENT BENEFITS PLANS *(continued)*

Note ii: (continued)

The provision for pensions plans provided by Germany BOGE and Blue Group recognised in the consolidated statement of financial position is determined as follows:

	2016 RMB'000	2015 RMB'000
Present value of unfunded benefit obligations	876,036	699,459
Net liability arising from defined benefit obligations	876,036	699,459
Amount due within one year	(27,829)	(25,638)
Amount due after one year	848,207	673,821

The average duration of the defined benefit obligation at 31 December 2016 is 28 years (2015: 26.5 years).

The retirement benefit obligation of Germany BOGE and Blue Group was determined based on projected unit credit method. In addition to the life forecast of hypothesis, as mentioned above, other important assumptions are as follows:

	2016 %	2015 %
Discount rate adopted	1.3-1.9	2.5
Expected growth of wages and salaries	0.5-2.7	2.7
Growth of pension	1.3	1.3
Fluctuation	1.0	1.7

The expected growth of wages and salaries mainly depends on inflation, wage standards, Germany BOGE's operating performance and other factors.

38. PROVISION FOR WARRANTIES

	2016 RMB'000	2015 RMB'000
At 1 January	6,021,416	3,747,142
Acquisitions of a subsidiary	19,793	684,929
Charged for the year	3,189,752	3,702,365
Disposal of a subsidiary	(1,285)	—
Utilised during the year	(2,827,960)	(2,113,020)
At 31 December	6,401,716	6,021,416
Analysed for reporting purpose as:		
Current liabilities	1,865,822	2,279,999
Non-current liabilities	4,535,894	3,741,417

The above represents the warranty costs for repairs and maintenance, which are estimated based on prevailing after-sales service policies, the sales volume and the past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

39. DEFERRED INCOME

	2016 RMB'000	2015 RMB'000
At 1 January	**6,068,249**	4,885,313
Government grants received during the year	**1,522,190**	2,602,566
Recognised as other income during the year	**(843,843)**	(1,419,630)
At 31 December	**6,746,596**	6,068,249
Analysed for reporting purpose as:		
Current liabilities	**801,832**	511,895
Non-current liabilities	**5,944,764**	5,556,354

Government grants received are mainly for the purpose of research and development, investment in property, plant and equipment and prepaid lease payments from the local government for encouraging the Group to develop.

40. EQUITY

Share capital

	Number of shares '000 shares	Amount RMB'000
Registered capital		
– A shares of RMB1.00 each	22,917,692	22,917,692
– H shares of RMB1.00 each	4,371,066	4,371,066
	27,288,758	27,288,758
Issued and fully paid		
At 1 January 2015		
– A shares of RMB1.00 each	11,779,000	11,779,000
– H shares of RMB1.00 each	2,024,000	2,024,000
	13,803,000	13,803,000

	Number of shares '000 shares	Amount RMB'000
Issue of H shares on the Main Board of the HKSE on 26 May 2015	2,347,066	2,347,066
Issue of A shares on the SSE on 28 May 2015	11,138,692	11,138,692
At 31 December 2015 and 2016		
– A shares of RMB1.00 each	22,917,692	22,917,692
– H shares of RMB1.00 each	4,371,066	4,371,066
	27,288,758	27,288,758

Reserves

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

41. CONVERTIBLE BONDS

On 5 February 2016, the Company issued a zero coupon Convertible Bond due in 2021 in an aggregate principal amount of US$600,000,000 (the "2016 Convertible Bonds"). The 2016 Convertible Bonds are listed on HKSE.

The principal terms of the 2016 Convertible Bonds are set out below:

(a) Conversion right

The 2016 Convertible Bonds will, at the option of the holder ("Bondholders"), be convertible (unless previously converted, redeemed or purchased and cancelled) on or after 17 March 2016 up to the close of business on the date falling 26 January 2021 into fully paid ordinary shares with a par value of RMB1.00 each at an initial conversion price (the "Conversion Price") of HK$9.65 per share and a fixed exchange rate of HK$7.7902 to US$1.00 (the "Fixed Exchange Rate"). The Conversion Price is subject to adjustments in the manner set out in the 2016 Convertible Bonds agreement.

As disclosed in Note 13, a final dividend of RMB0.15 per share for the year ended 31 December 2015 was approved in the annual general meeting in June 2016. Pursuant to the anti-dilutive adjustments on conversion price in accordance with the 2016 Convertible Bonds agreement, the Conversion Price per share was adjusted from HK$9.65 to HK$9.50 effective from 28 June 2016.

(b) Redemption

– Redemption at maturity

Unless previously redeemed, converted or purchased and cancelled as provided herein, the Company will redeem each 2016 Convertible Bond at 100 percent of its outstanding principal amount on 5 February 2021 (the "Maturity Date").

– Redemption at the option of the Company

The Company may, having given not less than 30 nor more than 60 days' notice (which notice will be irrevocable), redeem the 2016 Convertible Bonds in whole but not some only at 100 percent of their outstanding principal amount as at the relevant redemption date:

(i) at any time after 5 February 2019 but prior to the Maturity Date, provided that no such redemption may be made unless the closing price of an H share translated into US dollars at the prevailing rate applicable to each H share stock exchange business day, for any 20 H share stock exchange business days within a period of 30 consecutive H share stock exchange business days, the last of such H share stock exchange business day shall occur not more than 10 days prior to the date upon which notice of such redemption is given, was, for each such 20 H share stock exchange business days, at least 130 percent of the Conversion Price (translated into US dollars at the Fixed Exchange Rate). If there shall occur an event giving rise to a change in the Conversion Price during any such 30 consecutive H share stock exchange business day period, appropriate adjustments for the relevant days approved by an independent investment bank shall be made for the purpose of calculating the closing price of the H shares for such days; or

(ii) if at any time the aggregate principal amount of the 2016 Convertible Bonds outstanding is less than 10 percent of the aggregate principal amount originally issued.

– Redemption at the option of the Bondholders

The Company will, at the option of the Bondholders, redeem whole or some of that holder's bonds on 5 February 2019 (the "Put Option Date") at 100 percent of their outstanding principal amount on the Put Option Date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

41. CONVERTIBLE BONDS *(continued)*

The 2016 Convertible Bonds comprise two components:

(i) Debt component was initially measured at fair value amounted to approximately RMB3,488,045,000. It is subsequently measured at amortised cost by applying an effective interest rate of 2.53% after considering the effect of the transaction costs.

(ii) Derivative comprise:

- Conversion option of the Bondholders;
- Redemption option of the Company;
- Redemption option of the Bondholders.

Transaction costs that relate to the issue of the 2016 Convertible Bonds are allocated to the debt and the derivative (including conversion option and redemption options) components in proportion to their relative fair values. Transaction costs amounting to approximately RMB3,550,000 relating to the derivative component were charged to profit or loss immediately and included in finance costs. Transaction costs amounting to approximately RMB28,745,000 relating to the debt component are included in the carrying amount of the debt portion and amortised over the period of the 2016 Convertible Bonds using the effective interest method.

The derivative component was measured at fair value with reference to valuation carried out by an independent valuation firm. The fair value of derivative component is calculated using Binominal Option Pricing Model. The major inputs used in the models as at 5 February 2016 and 31 December 2016 were as follows:

	5 February 2016	31 December 2016
Stock price	HK$ 6.91	HK$ 6.96
Exercise price	HK$ 9.65	HK$ 9.50
Risk-free rate	1.624%	1.974%
Volatility	43.16%	29.65%

The risk free rates were determined with reference to the Hong Kong five-year government bond yields. The volatilities were determined based on the historical price volatilities of comparable companies under the same periods of the expected life.

Any changes in the major inputs into the model will result in changes in the fair value of the derivative component.

The movement of the debt and derivative component of the 2016 Convertible Bonds for the period is set out below:

	Debt component RMB'000	Derivative component RMB'000	Total RMB'000
Convertible bonds issued on 5 February 2016	3,488,045	430,795	3,918,840
Transaction costs	(28,745)	—	(28,745)
Interest charged during the period from 5 February 2016 to 31 December 2016 (Note 8)	81,306	—	81,306
Exchange adjustments during the period from 5 February 2016 to 31 December 2016	218,136	24,070	242,206
Changes in fair value during the period from 5 February 2016 to 31 December 2016 (Note 6)	—	(88,768)	(88,768)
As at 31 December 2016	3,758,742	366,097	4,124,839

No conversion or redemption of the 2016 Convertible Bonds has occurred up to 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

42. BUSINESS COMBINATION

42.1 Acquisition during the year ended 31 December 2016

(1) CLM

As at 30 April 2016, CRRC KUALA LUMPUR MAINTENANCE SDN BHD ("CKM"), a subsidiary of the Company obtained control of CKM LANDAS MRO SDN BHD ("CLM ") pursuant to the amendments to the Articles of association of CLM which was previously a joint venture of CKM.

The fair value of CLM at the acquisition date were as follows:

	Fair value RMB'000
Net assets acquired:	
Property, plant and equipment	230
Other intangible assets	16
Trade receivables	11,433
Prepayments, deposits and other receivables	710
Cash and bank balances	2,411
Trade payables	(8,674)
Other payables and accruals	(125)
Tax payable	(1,270)
Deferred tax liabilities	(27)
	4,704
Consideration transferred	—
Plus: Non-controlling interests (51%)	2,399
Fair value of previously held interest	2,305
Less: Net assets acquired	(4,704)
Goodwill arising on acquisition	—

The receivables acquired (primarily comprised of trade and other receivables) with a fair value of RMB12,061,000 at the date of acquisition had gross contractual amounts of RMB12,061,000. The whole amount was expected to be collectible at the acquisition date.

An analysis of the cash flow in respect of the acquisition of the above subsidiary is as follows:

	RMB'000
Consideration paid in cash	—
Less: Cash and bank balances acquired	(2,411)
Net inflow of cash and bank balances included in cash flows from the acquisition of the subsidiary	2,411

Included in the profit for the year ended 31 December 2016 was a profit of RMB6,559,000 attributable to CLM. Revenue for the year ended 31 December 2016 included RMB46,877,000 attributable to CLM.

Had the acquisition of CLM been completed on 1 January 2016, total group revenue and profit for year ended 31 December 2016 would have been approximately RMB224,137,964,000 and RMB13,908,512,000, respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016, nor is it intended to be a projection of future results.

42. BUSINESS COMBINATION *(continued)*

42.1 Acquisition during the year ended 31 December 2016 *(continued)*

(2) Zhongxin Municipal

As at 11 August 2016, CRRC Construction Engineering Co., Ltd. ("CRRC Engineering"), a subsidiary of the Company, entered into an agreement with shareholders of Zhongxin Suzhou Industrial Park Municipal Utilities Engineering Construction Co., Ltd. ("Zhongxin Municipal") to acquire 100% equity interest of Zhongxin Municipal at a cash consideration of RMB137,733,000. CRRC Engineering obtained control of Zhongxin Municipal on 18 August 2016.

The fair value of recognised net assets has been evaluated by China Tong Cheng Assets Appraisal Co., Ltd.:

	Fair value RMB'000
Net assets acquired:	
Property, plant and equipment	7,869
Investment properties	2,376
Prepaid lease payments	16,427
Other non-current assets	7,090
Inventories	2,140
Trade receivables	160,204
Prepayments, deposits and other receivables	38,790
Cash and bank balances	77,938
Pledged bank deposits	727
Trade payables	(145,818)
Other payables and accruals	(20,540)
Tax payable	(1,488)
Deferred tax liabilities	(12,030)
	133,685
Consideration transferred	137,733
Less: Net assets acquired	(133,685)
Goodwill arising on acquisition	4,048

Acquisition-related costs relating to the above acquisition are immaterial and have been excluded from the cost of acquisitions and recognised directly as administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

42. BUSINESS COMBINATION *(continued)*

42.1 Acquisition during the year ended 31 December 2016 *(continued)*

(2) Zhongxin Municipal *(continued)*

The trade receivables acquired (primarily comprised of trade and other receivables) with a fair value of RMB176,584,000 at the date of acquisition had gross contractual amounts of RMB176,584,000. The whole amount was expected to be collectible at the acquisition date.

The consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the acquiree. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on the acquisition is expected to be deductible for tax purposes.

An analysis of the cash flow in respect of the acquisition of the above subsidiary is as follows:

	RMB'000
Consideration paid in cash	137,733
Less: Cash and bank balances acquired	(77,938)
Net outflow of cash and bank balances included in cash flows from the acquisition of subsidiaries	59,795

Included in the profit for the year ended 31 December 2016 was a profit of RMB11,686,000 attributable to Zhongxin Municipal. Revenue for the year ended 31 December 2016 included RMB21,945,000 attributable to Zhongxin Municipal.

Had the acquisition of Zhongxin Municipal been completed on 1 January 2016, total group revenue and profit for the year ended 31 December 2016 would have been approximately RMB224,195,074,000 and RMB13,898,919,000 respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achived had the acquisiton been completed on 1 January 2016, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

42. BUSINESS COMBINATION *(continued)*

42.1 Acquisition during the year ended 31 December 2016 *(continued)*

(3) Yongdian Jietong Group

On 15 November 2016, CRRC Yongji Electric Co., Ltd. ("CRRC Yongji"), a subsidiary of the Company, entered into an agreement with other shareholder of Xi'an Yongdian Jietong Electric Co., Ltd. ("Yongdian Jietong", formerly named Hitachi Yongji Electric Equipment (Xi'an) Co., Ltd), which is a joint venture of the Company. According to the agreement, CRRC Yongji acquired 1% equity interest of Yongdian Jietong at a cash consideration of RMB10,298,000. CRRC Yongji obtained control of Yongdian Jietong and its subsidiaries (collectively referred to as "Yongdian Jietong Group") on 9 December 2016 pursuant to the amendments to the Articles of association of Yongdian Jietong.

The fair value of Yongdian Jietong Group at the acquisition date were as follows:

	Fair value RMB'000
Net assets acquired:	
Property, plant and equipment	134,257
Prepaid lease payments	41,403
Deferred tax assets	9,827
Other intangible assets	25
Inventories	454,443
Trade receivables	984,948
Bill receivables	161,103
Prepayments, deposits and other receivables	41,599
Cash and bank balances	31,224
Trade payables	(247,606)
Bills payable	(54,388)
Other payables and accruals	(66,021)
Financial liabilities at fair value through profit or loss	(4,455)
Borrowings	(433,780)
Tax payable	(612)
Provision for warranties	(19,793)
Deferred tax liabilities	(2,366)
	1,029,808
Consideration transferred	10,298
Plus: Non-controlling interests (49%)	504,606
Fair value of previously held interest	514,904
Less: Net assets acquired	(1,029,808)
Goodwill arising on acquisition	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

42. BUSINESS COMBINATION *(continued)*

42.1 Acquisition during the year ended 31 December 2016 *(continued)*

(3) Yongdian Jietong Group *(continued)*

Gain on fair value adjustment of the Group's previously held interest recognised for the year ended 31 December 2016 is RMB6,204,000.

Acquisition-related costs relating to the above acquisition are immaterial and have been excluded from the cost of acquisitions and recognised directly as administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

The trade receivables acquired (primarily comprised of trade and other receivables) with a fair value of RMB1,008,316,000 at the date of acquisition had gross contractual amounts of RMB1,027,204,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to RMB18,888,000.

An analysis of the cash flow in respect of the acquisition of the above subsidiary is as follows:

	RMB'000
Consideration paid in cash	10,298
Less: Cash and bank balances acquired	(31,224)
Net inflow of cash and bank balances included in cash flows from the acquisition of subsidiaries	20,926

Included in the profit for the year ended 31 December 2016 was a profit of RMB740,000 attributable to Yongdian Jietong Group. Revenue for the year ended 31 December 2016 included RMB86,952,000 attributable to Yongdian Jietong Group.

Had the acquisition of Yongdian Jietong Group been completed on 1 January 2016, total group revenue and profit for the year ended 31 December 2016 would have been approximately RMB224,876,720,000 and RMB13,976,301,000 respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achived had the acquisiton been completed on 1 January 2016, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

42. BUSINESS COMBINATION *(continued)*

42.1 Acquisition during the year ended 31 December 2016 *(continued)*

(4) Blue Group

CRRC Tangshan Co., Ltd. ("CRRC Tangshan"), a subsidiary of the Company, entered into an agreement with shareholders of Blue Group. According to the agreement, CRRC Tangshan acquired 60% equity interest of Blue Group at a cash consideration of EUR5,400,000 (equivalent to approximately RMB39,633,000). CRRC Tangshan obtained control of Blue Group on 13 December 2016.

The fair value of Blue Group at the acquisition date were as follows:

	Fair value RMB'000
Net assets acquired:	
Property, plant and equipment	1,078
Other intangible assets	1,167
Available-for-sale investments	7
Deferred tax assets	3,151
Other non-current assets	86
Inventories	94
Trade receivables	24,825
Prepayments, deposits and other receivables	23,834
Cash and bank balances	3,182
Trade payables	(7,007)
Bills payable	(1,501)
Other payables and accruals	(14,519)
Borrowings-due within one year	(2,452)
Tax payable	(6,338)
Borrowings-due after one year	(3,035)
Retirement benefit obligations	(13,724)
Deferred tax liabilities	(1,989)
Other non-current liabilities	(1,288)
	5,571
Consideration transferred	39,633
Plus: Non-controlling interests	2,317
Less: Net assets acquired	(5,571)
Goodwill arising on acquisition	36,379

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

42. BUSINESS COMBINATION *(continued)*

42.1 Acquisition during the year ended 31 December 2016 *(continued)*

(4) Blue Group - continued *(continued)*

Acquisition-related costs relating to the above acquisition are immaterial and have been excluded from the cost of acquisitions and recognised directly as administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

The trade receivables acquired (primarily comprised of trade and other receivables) with a fair value of RMB44,358,000 at the date of acquisition had gross contractual amounts of RMB61,011,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to RMB16,653,000.

The consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the acquiree. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on the acquisition is expected to be deductible for tax purposes.

An analysis of the cash flow in respect of the acquisition of the above subsidiary is as follows:

	RMB'000
Consideration paid in cash	39,633
Less: Cash and bank balances acquired	3,182
Net outflow of cash and bank balances included in cash flows from the acquisition of subsidiaries	36,451

The financial impact of acquisition of Blue Group on the Group was insignificant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

42. BUSINESS COMBINATION *(continued)*

42.2 Acquisition during the prior year

(a) Acquisitions from independent third parties

(1) Bombardier Qingdao

In 2015, CRRC Sifang Co., Ltd. ("Sifang Co") obtained control of Bombardier Sifang (Qingdao) Transportation Ltd. ("Bombardier Qingdao") pursuant to the amendments to the Articles of association of Bombardier Qingdao. Bombardier Qingdao was previously a joint venture of Sifang Co.

The fair value of recognised net assets has been evaluated by Beijing Huaxinzhonghe Assets Appraisal Co., Ltd.

	Fair value RMB'000
Net assets acquired:	
Property, plant and equipment	981,939
Prepaid lease payments	221,068
Other intangible assets	939,122
Deferred tax assets	247,739
Inventories	5,107,110
Trade receivables	1,049,414
Bill receivables	220,944
Prepayments, deposits and other receivables	1,600,693
Cash and bank balances	587,330
Non-pledged time deposits with original maturity of three months or more	1,407,959
Trade payables	(1,055,508)
Bills payable	(290,168)
Other payables and accruals	(6,851,303)
Tax payable	(5,669)
Provision for warranties	(677,686)
Deferred tax liabilities	(46,649)
Other non-current liabilities	(585,299)
	2,851,036
Consideration transferred	—
Plus: Non-controlling interests (50%)	1,425,518
Fair value of previously held interest	1,425,518
Less: Net assets acquired	(2,851,036)
Goodwill arising on acquisition	—

42. BUSINESS COMBINATION *(continued)*

42.2 Acquisition during the prior year *(continued)*

(a) Acquisitions from independent third parties *(continued)*

(1) Bombardier Qingdao *(continued)*

An analysis of the cash flow in respect of the acquisition of the above subsidiary is as follows:

	RMB'000
Consideration paid in cash	—
Less: Cash and bank balances acquired	(587,330)
Net inflow of cash and bank balances included in cash flows from the acquisition of subsidiaries	587,330

Included in the profit for the year ended 31 December 2015 was a profit of RMB691,781,000 attributable to Bombardier Qingdao. Revenue for the year ended 31 December 2015 included RMB11,412,603,000 attributable to Bombardier Qingdao.

(2) SMD Group

On 5 February 2015, the Company's subsidiary, Zhuzhou CRRC Times Electric Co., Ltd. ("ZTE") entered into an agreement with shareholders of Specialist Machine Developments (SMD) Limited ("SMD Limited") and its subsidiary, Specialist Machine Developments (Investment) Limited ("SMD Investment"). According to the agreement, ZTE acquired 100% equity interest of SMD Limited, as well as 100% equity interest of Bywell Holdings Limited and its subsidiaries via SMD Investment ("SMD Group"), at a cash consideration of GBP118,736,000 (equivalent to approximately RMB1,085,220,000). ZTE obtained control of SMD Group on 9 April 2015 and the transaction was accounted for using the acquisition method.

Pursuant to the purchase agreement, if SMD Group's performance for the first financial year (2015) and the second financial year (2016) after the acquisition date meets certain performance targets stipulated by the purchase agreement, the Group shall pay contingent consideration up to GBP10,100,000 (equivalent to approximately RMB92,312,000) by using the retention amount of escrow account paid on the acquisition date. Furthermore, if SMD Group's performance for the first financial year (2015) and the second financial year (2016) after the acquisition date meets certain more stringent performance targets stipulated by the purchase agreement, the Group shall pay certain additional contingent consideration up to GBP7,000,000 (equivalent to approximately RMB63,979,000). The fair value of contingent consideration recognised on the acquisition date amounted to GBP1,456,000 (equivalent to approximately RMB13,308,000) and fair value gain on contingent consideration amounting to GBP815,000 (equivalent to approximately RMB7,882,000) was recognised in profit or loss during the year ended 31 December 2015. During the year ended 31 December 2016, contingent consideration amounting to GBP641,000 (equivalent to approximately RMB5,459,000) was reversed because of SMD Group's failure to satisfy the performance target as stipulated under the purchase agreement.

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FOR THE YEAR ENDED 31 DECEMBER 2016

42. BUSINESS COMBINATION *(continued)*

42.2 Acquisition during the prior year *(continued)*

(a) Acquisitions from independent third parties *(continued)*

(2) SMD Group *(continued)*

SMD Group, incorporated in England and Wales, is engaged in designing and manufacturing the remotely operated vehicles, trenching and mining machinery operating in deep sea or other hazardous environments.

The fair value of recognised net assets has been evaluated by the KPMG Advisory (China) Ltd.

	Fair value RMB'000
Net assets acquired:	
Property, plant and equipment	58,577
Other intangible assets	439,624
Deferred tax assets	583
Interests in joint ventures	2,497
Inventories	212,281
Trade receivables	115,694
Prepayments, deposits and other receivables	21,819
Cash and bank balances	10,413
Trade payables	(170,639)
Other payables and accruals	(26,786)
Tax payable	(4,448)
Provision for warranties	(7,243)
Deferred tax liabilities	(89,716)
	562,656
Consideration transferred	1,098,528
Plus: Non-controlling interests	—
Less: Net assets acquired	(562,656)
Goodwill arising on acquisition	535,872
Consideration satisfied by:	
Cash and cash equivalents	1,085,220
Fair value of contingent consideration	13,308
	1,098,528

42. BUSINESS COMBINATION *(continued)*

42.2 Acquisition during the prior year *(continued)*

(a) Acquisitions from independent third parties *(continued)*

(2) SMD Group *(continued)*

Acquisition-related costs relating to the above acquisition are RMB8,230,000 and have been excluded from the cost of acquisitions and recognised directly in profit or loss.

The trade receivables acquired with a fair value of RMB115,694,000 at the date of acquisition had gross contractual amounts of RMB115,694,000. The whole amount was expected to be collectible at the acquisition date.

The consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the acquiree. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on the acquisition is expected to be deductible for tax purposes.

An analysis of the cash flow in respect of the acquisition of the above subsidiary is as follows:

	RMB'000
Consideration paid in cash	1,085,220
Less: Cash and bank balances acquired	(10,413)
Net outflow of cash and bank balances included in cash flows from the acquisition of subsidiaries	1,074,807

Included in the profit for the year ended 31 December 2015 was a profit of RMB471,000 attributable to SMD Group. Revenue for the year ended 31 December 2015 includes RMB210,677,000 attributable to SMD Group.

Had the acquisition of SMD Group been completed on 1 January 2015, total group revenue and profit for the year ended 31 December 2015 would have been approximately RMB237,920,864,000 and RMB14,032,021,000, respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is it intended to be a projection of future results.

(b) Business combinations under common control

As disclosed in Note 1, the 2015 Business Combination was completed on 28 May 2015 and the principle of merger accounting for business combination involving entities under common control was applied during the year ended 31 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

43. DISPOSAL OF A SUBSIDIARY

43.1 Disposal during the year ended 31 December 2016

(1) Nanjing Tianma Bearing Co, Ltd

On 5 April 2016, CRRC Nanjing Puzhen Co., Ltd. ("CRRC NP") entered into an agreement with Hangzhou Jingzhou Bearing Co., Ltd. According to the agreement, CRRC NP disposed 60% equity interest of Nanjing Tianma Bearing Co., Ltd. at a cash consideration of RMB26,000,000 and assignment of an amount due to a subsidiary of the Company amounting to RMB23,415,000. On 25 April 2016, the transaction was completed and Nanjing Tianma Bearing Co., Ltd was no longer a subsidiary of the Group.

	RMB'000
Consideration received in cash and cash equivalents	26,000

An analysis of assets and liabilities over which control was lost:

	RMB'000
Net assets disposed of	
Property, plant and equipment	6,630
Trade receivables	179
Prepayments, deposits and other receivables	155
Inventories	779
Cash and bank balances	1,520
Other payables and accruals	(23,641)
	(14,378)

Gain on disposal of a subsidiary

	RMB'000
Consideration received	26,000
Net liabilities disposed of	14,378
Non-controlling interests (40%)	(5,751)
Amount due to a subsidiary of the Company	(23,415)
Gain on disposal	11,212

Net cash inflow on disposal of a subsidiary

	RMB'000
Consideration received in cash and cash equivalents	26,000
Less: Cash and bank balances disposed of	(1,520)
	24,480

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

43. DISPOSAL OF A SUBSIDIARY *(continued)*

43.1 Disposal during the year ended 31 December 2016 *(continued)*

(2) Jilin Gaoxin

On 30 September 2016, CRRC Changchun Railway Vehicles Co., Ltd. ("CRRC Changchun") disposed all of its 51% equity interest of a subsidiary, Jilin Gaoxin Electric Vehicle Co, Ltd. ("Jilin Gaoxin") at a cash consideration of RMB53,706,000.

	RMB'000
Consideration received in cash and cash equivalents	53,706

An analysis of assets and liabilities over which control was lost:

	RMB'000
Net assets disposed of	
Property, plant and equipment	52,437
Prepaid lease payments	14,759
Other intangible assets	12,290
Trade receivables	477
Prepayments, deposits and other receivables	13,007
Inventories	39,976
Cash and bank balances	360
Trade payables	(23,783)
Borrowings	(8,000)
Other payables and accruals	(129,615)
Deffered income	(7,979)
	(36,071)

Gain on disposal of a subsidiary

	RMB'000
Consideration received	53,706
Net liabilities disposed of	36,071
Non-controlling interests (49%)	(17,675)
Gain on disposal	72,102

Net cash inflow on disposal of a subsidiary

	RMB'000
Consideration received in cash and cash equivalents	53,706
Less: Cash and bank balances disposed of	(360)
	53,346

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

43. DISPOSAL OF A SUBSIDIARY *(continued)*

43.1 Disposal during the year ended 31 December 2016 *(continued)*

(3) Ziyang Electrical

On 23 December 2016, CRRC Ziyang Co., Ltd. ("CRRC Ziyang") disposed its 51% equity interest of a subsidiary, Ziyang CRRC Electrical Technology Co, Ltd ("Ziyang Electrical") at a cash consideration of RMB448,008,000. After the disposal, CRRC Ziyang retains 49% equity interest of Ziyang Electrical, which is accounted for as an interest in associate.

	RMB'000
Consideration received in cash and cash equivalents	448,008

An analysis of assets and liabilities over which control was lost:

	RMB'000
Net assets disposed of	
Property, plant and equipment	21,573
Other Intangible assets	2,127
Deffered tax assets	107
Other non-current assets	8,373
Trade receivables	75,513
Bills receivables	41,327
Prepayments, deposits and other receivables	12,347
Inventories	97,144
Cash and bank balances	20,109
Pledged bank deposits	1,800
Trade payables	(159,761)
Bills payables	(19,340)
Tax payables	(4,191)
Provision for warranties	(1,285)
Other payables and accruals	(3,912)
Deffered income	(600)
	91,331

Gain on disposal of a subsidiary

	RMB'000
Consideration received	448,008
Net assets disposed of	(91,331)
Non-controlling interests (49%)	44,752
Gain on disposal	401,429

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

43. DISPOSAL OF A SUBSIDIARY *(continued)*

43.1 Disposal during the year ended 31 December 2016 *(continued)*

(3) Ziyang Electrical *(continued)*

Gain on remeasurement of interest remained in the Ziyang Electrical at its fair value when control is lost is RMB385,687,000.

Net cash inflow on disposal of a subsidiary

	RMB'000
Consideration received in cash and cash equivalents	448,008
Less: Cash and bank balances disposed of	(20,109)
	427,899

(4) Changchun Changke

As at 23 August 2016, CRRC Changchun lost control of Changchun Changke Railway Environmental Protection Equipment Co., Ltd. ("Changchun Changke") pursuant to the amendments to the Articles of association of Changchun Changke. Changchun Changke became a joint venture of CRRC Changchun.

	RMB'000
Consideration received in cash and cash equivalents	—
Net assets disposed of	
Property, plant and equipment	608
Other intangible assets	3
Trade receivables	18,151
Prepayments, deposits and other receivables	262
Inventories	33,805
Cash and bank balances	357
Trade payables	(42,507)
Other payables and accruals	(1,833)
	8,846

Net cash outflow on disposal of a subsidiary

	RMB'000
Consideration received in cash and cash equivalents	—
Less: Cash and bank balances disposed of	(357)
	357

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

43. DISPOSAL OF A SUBSIDIARY *(continued)*

43.2 Disposal during the prior year

On 28 February 2015, Sifang Co disposed of its 81% equity interest of a wholly-owned subsidiary, Qingdao Sifang Casting-forging Co., Ltd. at a cash consideration of RMB43,627,000.

	RMB'000
Consideration received in cash and cash equivalents	43,627

An analysis of assets and liabilities over which control was lost:

	RMB'000
Net assets disposed of	
Property, plant and equipment	127,240
Prepaid lease payments	6,504
Other non-current assets	3,371
Prepayments, deposits and other receivables	4,482
Inventories	32,166
Cash and bank balances	2,727
Trade payables	(4,918)
Other payables and accruals	(108,202)
	63,370

Loss on disposal of a subsidiary

	RMB'000
Consideration received	43,627
Net assets disposed of	(63,370)
Non-controlling interests (19%)	12,041
Loss on disposal	(7,702)

Net cash inflow on disposal of a subsidiary

	RMB'000
Consideration received in cash and cash equivalents	43,627
Less: Cash and bank balances disposed of	(2,727)
	40,900

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

44. COMMITMENTS

(a) Operating lease commitments

(i) As lessor

The Group leases certain items of property, plant and equipment under operating lease arrangements negotiated for terms ranging from 1 to 20 years.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	31 December 2016 RMB'000	31 December 2015 RMB'000
Within one year	145,240	133,933
In the second to fifth years, inclusive	497,870	475,548
More than five years	336,851	343,193
	979,961	952,674

(ii) As lessee

The Group's future minimum rental payables under non-cancellable operating leases in respect of plant and machinery and land and buildings at the end of the reporting period are as follows:

	31 December 2016 RMB'000	31 December 2015 RMB'000
Within one year	171,179	147,298
In the second to fifth years, inclusive	295,673	409,838
More than five years	82,745	165,895
	549,597	723,031

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

44. COMMITMENTS *(continued)*

(b) Capital commitments

The Group had the following capital commitments at the end of the reporting period:

	31 December 2016 RMB'000	31 December 2015 RMB'000
Contracted, but not provided for:		
– Property, plant and equipment and prepaid lease payment	4,985,770	4,737,321
– Other intangible assets	19,473	19,209
	5,005,243	4,756,530

In addition, the Group's share of the joint ventures' or associates' capital commitments, which are not included in the above, is as follows:

	31 December 2016 RMB'000	31 December 2015 RMB'000
Contracted, but not provided for:		
– Property, plant and equipment and prepaid lease payment	6,963	182

(c) Other commitments

As at 31 December 2016, the Group's commitment for establishment of new entities amounted to RMB1,830,000,000 (31 December 2015: RMB819,291,000).

45. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these consolidated financial statements, the Group had the following material transactions with related parties during the year ended 31 December 2016 and 2015:

	2016 RMB'000	2015 RMB'000
45.1 Purchase of materials and components from:		
– CRRCG and its subsidiaries, excluding the Group (the "CRRCG Group" (Note i))	246,989	403,859
– Joint ventures	3,106,202	3,842,342
– Associates	1,275,824	1,129,329
	4,629,015	5,375,530

Note i: On 9 December 2016, Yongdian Jietong Group, previously a joint venture of CRRC, became a subsidiary of CRRC (Note 42). Therefore related party transactions with Yongdian Jietong Group during the period from 1 January 2016 to 8 December 2016 are disclosed in the category "Joint ventures".

On 23 December 2016, CRRC Ziyang disposed of its 51% equity interest of Ziyang Electrical to CRRCG. Ziyang Electrical, previously a subsidiary of the Company became an associate of the Group and a subsidiary of CRRCG. Therefore, related party transactions with Ziyang Electrical during the period from 23 December 2016 to 31 December 2016 are disclosed in the category "CRRCG Group".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

45. RELATED PARTY TRANSACTIONS *(continued)*

	2016 RMB'000	2015 RMB'000
45.2 Sale of goods to:		
– CRRCG Group	209,707	359,185
– Joint ventures	1,812,739	1,454,861
– Associates	1,917,259	941,537
	3,939,705	2,755,583
45.3 Provision of service to:		
– CRRCG Group	31,881	22,813
– Joint ventures	4,571	7,023
– Associates	73,153	296,034
	109,605	325,870
45.4 Service fee:		
– CRRCG Group	23,102	10,482
– Joint ventures	21,933	24,171
– Associates	—	1,876
	45,035	36,529
45.5 Rental of investment real estates from:		
– CRRCG Group	65,906	87,760
45.6 Rental of investment real estates to:		
– CRRCG Group	1,759	4,824
– Joint ventures	1,502	5,006
– Associates	6,601	6,772
	9,862	16,602
45.7 Fee and commission income from:		
– CRRCG Group	2,552	5,017
45.8 Interest income on finance lease from:		
– An associate	12,920	—
45.9 Compensation income from:		
– CRRCG Group	120,000	—
45.10 Interest expense:		
– CRRCG Group	123,600	102,190
– An associate	5	3
	123,605	102,193

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

45. RELATED PARTY TRANSACTIONS *(continued)*

45.11 Loans from related parties:

Borrower	Amounts	Start date	Maturity date
CRRCG Group	1,170,105	27 June 2016	24 Decemnber 2035
CRRCG Group	211,980	29 April 2016	29 April 2017
CRRCG Group	19,800	22 July 2016	21 July 2024
CRRCG Group	252,300	22 July 2016	21 July 2027
CRRCG Group	44,990	22 July 2016	21 July 2026
CRRCG Group	12,000	8 November 2016	28 February 2036
	1,711,175		

	2016 RMB'000	2015 RMB'000
45.12 Purchase of property, plant and equipment from:		
– CRRCG Group	625	9,309
45.13 Guarantees received from:		
– CRRCG Group	4,671,477	1,452,130

45.14 Outstanding balances with related parties

The Group had the following outstanding balances with related parties:

	31 December 2016 RMB'000	31 December 2015 RMB'000
(i) Other non-current assets:		
– CRRCG Group	372	2,046
– Joint ventures	10	10
– Associates	129	—
	511	2,056
(ii) Loans and advances to customers:		
– CRRCG Group	10,000	50,000
(iii) Trade receivables:		
– CRRCG Group	74,967	195,915
– Joint ventures	633,823	686,118
– Associates	1,166,896	772,869
	1,875,686	1,654,902
(iv) Bills receivable:		
– CRRCG Group	26,366	3,200
– Joint ventures	610,089	10,109
– Associates	1,102,505	54,792
	1,738,960	68,101

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

45. RELATED PARTY TRANSACTIONS *(continued)*

45.14 Outstanding balances with related parties *(continued)*

		31 December 2016 RMB'000	31 December 2015 RMB'000
(v)	Prepayments, deposits and other receivables:		
	– CRRCG Group	3,415	1,288
	– Joint ventures	199,399	135,395
	– Associates	24,015	26,859
		226,829	163,542
(vi)	Long-term receivables:		
	– Joint ventures	2,362	—
	– Associates	596,824	—
		599,186	—
(vii)	Trade payables:		
	– CRRCG Group	616,090	118,370
	– Joint ventures	1,103,797	2,470,132
	– Associates	642,878	443,823
		2,362,765	3,032,325
(viii)	Bills payable:		
	– CRRCG Group	92,712	16,078
	– Joint ventures	114,460	769,792
	– Associates	86,426	188,133
		293,598	974,003
(ix)	Other payables and accruals:		
	– CRRCG Group	77,375	87,153
	– Joint ventures	44,520	1,364
	– Associates	43,360	22,174
		165,255	110,691
(x)	Borrowings:		
	– CRRCG Group	2,813,705	1,704,510
(xi)	Due to customers:		
	– CRRCG Group	2,709,118	1,861,635
	– Associates	23	18
		2,709,141	1,861,653

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

45. RELATED PARTY TRANSACTIONS *(continued)*

45.15 Compensation of key management personnel of the Group:

	2016 RMB'000	2015 RMB'000
Short-term employee benefits	10,110	15,151
Post-employment benefits	639	854
Total compensation paid/payable to key management personnel	10,749	16,005

45.16 Commitments with related parties:

The Group had the following commitments with related parties at the reporting period, which are contracted for, but not included in the financial statements:

	31 December 2016 RMB'000	31 December 2015 RMB'000
Sale of goods to:		
– CRRCG Group	2	—
– Joint ventures	401,096	790,155
	401,098	790,155
Purchase of materials and components from:		
– CRRCG Group	550	3,384
– Joint ventures	225,241	829,785
– Associates	1,089	5,647
	226,880	838,816

45.17 Transactions with other government-related entities in the PRC:

The company is ultimately controlled by the PRC government and the Group operates in an economic environment currently predominated by entities controlled, jointly controlled or under significant influence by the PRC government ("Government-related Entities"). In addition, the Group itself is part of a larger group of companies under CRRCG which is controlled by the PRC government. During the year, the Group conducts business with other Government-related Entities, including but not limited to, sales and purchases. The China Railway Corporation and entities invested and managed by local railway departments ("CRC Group") are identified as a single Government-related Entity by the directors of the Company. The revenue from CRC Group amounted to RMB105,759,048,000 for the year ended 31 December 2016 (2015:RMB119,747,903,000).

Management considers that transactions with other Government-related Entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those other Government-related Entities are ultimately controlled or owned by the government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are other Government-related Entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

46. FINANCIAL INSTRUMENTS

46.1 Categories of financial instruments

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

As at 31 December 2016

Financial assets

	Loans and receivables RMB'000	Available-for-sale investments RMB'000	Held-to-maturity investments RMB'000	Financial assets at fair value through profit or loss RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	–	–	–	731,916	731,916
Available-for-sale investments	–	3,870,861	–	–	3,870,861
Trade receivables	74,052,872	–	–	–	74,052,872
Bills receivable	15,099,951	–	–	–	15,099,951
Financial assets included in prepayments, deposits and other receivables	14,886,577	–	–	–	14,886,577
Pledged bank deposits	4,561,051	–	–	–	4,561,051
Cash and bank balances	41,033,932	–	–	–	41,033,932
Financial assets included in other non-current assets	12,353,648	–	–	–	12,353,648
Loans and advances to customers (including amounts due within one year)	213,033	–	–	–	213,033
Held-to-maturity investments	–	–	966,970	–	966,970
	162,201,064	3,870,861	966,970	731,916	167,770,811

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

46. FINANCIAL INSTRUMENTS *(continued)*

46.1 Categories of financial instruments *(continued)*

As at 31 December 2015

Financial assets

	Loans and receivables RMB'000	Available-for-sale investments RMB'000	Held-to-maturity investments RMB'000	Financial assets at fair value through profit or loss RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	–	–	–	3,424	3,424
Placements with financial institutions	1,200,000	–	–	–	1,200,000
Available-for-sale investments	–	6,415,509	–	–	6,415,509
Trade receivables	72,514,398	–	–	–	72,514,398
Bills receivable	10,166,491	–	–	–	10,166,491
Financial assets included in prepayments, deposits and other receivables	6,828,920	–	–	–	6,828,920
Pledged bank deposits	4,613,695	–	–	–	4,613,695
Cash and bank balances	34,754,992	–	–	–	34,754,992
Financial assets included in other non-current assets	11,029,500	–	–	–	11,029,500
Loans and advances to customers (including amounts due within one year)	200,574	–	–	–	200,574
Held-to-maturity investments	–	–	197,928	–	197,928
	141,308,570	6,415,509	197,928	3,424	147,925,431

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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46. FINANCIAL INSTRUMENTS *(continued)*

46.1 Categories of financial instruments *(continued)*

As at 31 December 2016

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Other financial liabilites RMB'000	Total RMB'000
Trade payables	—	91,949,851	91,949,851
Bills payable	—	19,797,275	19,797,275
Financial liabilities included in other payables and accruals	—	10,232,685	10,232,685
Financial liabilities at fair value through profit or loss	16,983	—	16,983
Borrowings	—	37,896,696	37,896,696
Due to customers	—	2,711,370	2,711,370
Long-term payables (including amounts due within one year)	—	303,367	303,367
Convertible bonds - debt component	—	3,758,742	3,758,742
Convertible bonds - derivative component	366,097	—	366,097
	383,080	166,649,986	167,033,066

As at 31 December 2015

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Other financial liabilites RMB'000	Total RMB'000
Trade payables	—	83,179,106	83,179,106
Bills payable	—	22,790,082	22,790,082
Financial liabilities included in other payables and accruals	—	9,276,826	9,276,826
Financial liabilities at fair value through profit or loss	359	—	359
Borrowings	—	29,575,836	29,575,836
Due to customers	—	1,861,947	1,861,947
Long-term payables (including amounts due within one year)	—	352,820	352,820
	359	147,036,617	147,036,976

46. FINANCIAL INSTRUMENTS *(continued)*

46.2 Financial risk management objectives and policies

The Group's principal financial instruments comprise bank and other borrowings, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities, such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk. The board of directors reviews and agrees on policies for managing each of these risks and they are summarised below:

Credit risk

The Group only transacts with those third parties who are recognised as creditworthy. The Group's policy is to perform credit verification for all customers who have transactions with the Group. Further, credit limits, credit terms and sales methods are determined based on the credit ratings of customers.

For sales under credit terms, a sales contract shall stipulate the payment term and credit amounts. The payment date should not exceed the credit term, and the credit amount in aggregate should not exceed the credit limit.

The Group continuously monitors its trade receivable balances by assigning the salespersons responsible for cash collection. In addition, the Group reviews the recoverable amount of each material individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group's other financial assets include cash and cash equivalents and other receivables. The credit risk of these financial assets arises from default of counterparties who transact with the Group, with a maximum exposure equal to the carrying amounts of these instruments.

Other than the concentration of credit risk in respect of receivables from CRC Group, the Group does not have any other significant concentration of credit risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

46. FINANCIAL INSTRUMENTS *(continued)*

46.2 Financial risk management objectives and policies *(continued)*

Liquidity risk

In the management of the liquidity risk, the Group's objectives are to maintain a balance between continuity and flexibility through measures such as bills settlement, loans and short term commercial paper, to adopt an appropriate combination of long term and short term financing, and to improve the financing structure.

The Group has already obtained banking facilities from various commercial banks for its working capital and capital expenditure.

The Group's management monitors the working capital position to ensure that there is adequate liquidity to meet with all the financial obligations when they become due and to maximise the return of the Group's financial resources.

The table below summarises the maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

As at 31 December 2016

	On demand or less than one year RMB'000	1-2 years RMB'000	3-5 years RMB'000	>5 years RMB'000	Total undiscounted Cash Flows RMB'000	Carrying Amount at 31/12/2016 RMB'000
Non-derivative financial liabilities						
Borrowings	28,073,766	2,217,699	6,428,185	3,053,465	39,773,115	37,896,696
Trade payables	91,949,851	–	–	–	91,949,851	91,949,851
Bills payable	19,797,275	–	–	–	19,797,275	19,797,275
Financial liabilities included in other payables and accruals	10,232,685	–	–	–	10,232,685	10,232,685
Convertible bonds - debt component	–	–	4,162,200	–	4,162,200	3,758,742
Due to customers	2,720,860	–	–	–	2,720,860	2,711,370
Long-term payables (including amounts due within one year)	96,152	139,669	39,362	36,759	311,942	303,367
	152,870,589	2,357,368	10,629,747	3,090,224	168,947,928	166,649,986
Derivatives financial liabilities - gross settlement						
Held-for-trading financial liabilities						
– Foreign currency forward contracts						
– inflow	524,896	–	–	–	524,896	524,896
– outflow	(541,879)	–	–	–	(541,879)	(541,879)
	(16,983)	–	–	–	(16,983)	(16,983)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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46. FINANCIAL INSTRUMENTS *(continued)*

46.2 Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

As at 31 December 2015

	On demand or less than one year RMB'000	1-2 years RMB'000	3-5 years RMB'000	>5 years RMB'000	Total undiscounted Cash Flows RMB'000	Carrying Amount at 31/12/2015 RMB'000
Non-derivative financial liabilities						
Borrowings	16,052,648	5,595,611	7,066,018	2,928,364	31,642,641	29,575,836
Trade payables	83,179,106	–	–	–	83,179,106	83,179,106
Bills payable	22,790,082	–	–	–	22,790,082	22,790,082
Financial liabilities included in other payables and accruals	9,276,826	–	–	–	9,276,826	9,276,826
Due to customers	1,868,464	–	–	–	1,868,464	1,861,947
Long-term payables (including amounts due within one year)	84,812	203,726	77,149	1,234	366,921	352,820
	133,251,938	5,799,337	7,143,167	2,929,598	149,124,040	147,036,617
Derivatives financial liabilities - gross settlement						
Held-for-trading financial liabilities						
– Foreign currency forward contracts						
– inflow	28,296	–	–	–	28,296	28,296
– outflow	(28,655)	–	–	–	(28,655)	(28,655)
	(359)	–	–	–	(359)	(359)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

46. FINANCIAL INSTRUMENTS *(continued)*

46.2 Financial risk management objectives and policies *(continued)*

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk primarily in relation to the Group's fixed-rate borrowings. The Group's exposure to the cash flow interest rate risk of changes in market interest rates relates primarily to the Group's long term debts with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) without considering the effect of capitalisation of borrowing costs.

	2016	2015
Reasonably possible change in interest rate	100 basis points	100 basis points

	2016 RMB'000	2015 RMB'000
Increase (decrease) in profit before taxation for the year		
as a result of increase in interest rate	(13,615)	(35,342)
as a result of decrease in interest rate	13,615	35,342

The sensitivity analysis in interest rate does not affect other components of equity.

Other price risk

The Group is exposed to equity securities price risk in relation to its listed equity investments which are measured based on quoted prices as detailed in Note 22. The management closely monitors such risk by maintaining a portfolio of investments with different risks.

The Group is also exposed to other price risk through its investments in certain corporate wealth management products measured at fair value. The management manages this exposure by only investing in investments operated by banks with good reputation. The management of the Group considers the fluctuation in fair value changes on these investments in corporate wealth management products is insignificant, taking into account the short- term duration of such financial products.

The sensitivity analyses below have been determined based on the exposure to equity price risks for its listed equity investments at the reporting date assuming all other variables were held constant.

	2016	2015
Reasonably possible change in equity price	5%	5%

	2016 RMB'000	2015 RMB'000
Increase (decrease) in other comprehensive income for the year		
as a result of increase in equity price	121,329	111,151
as a result of decrease in equity price	(121,329)	(111,151)

46. FINANCIAL INSTRUMENTS *(continued)*

46.2 Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

Foreign currency risk

The Group's foreign currency risk mainly arise from sales or purchases by operating entities in currencies other than the entities' respective functional currencies.

The Group's businesses are mainly located in the PRC and are mainly transacted and settled in RMB. Certain sales, purchases and borrowings are settled in foreign currencies. The fluctuation of the exchange rates of foreign currencies against RMB will affect the Group's results of operations.

The Group endeavours to reduce foreign currency risk to a minimum mainly by closely monitoring market exchange rate changes and actively adopting measures.

For business contracts denominated in foreign currencies under negotiation, the Group requires price quotations to be based on the expected exchange rate changes and the relevant terms clearly state the range of exchange rate fluctuations so as to have the related risk to be shared by both the seller and buyer. For import activities, the relevant import entities are required to monitor the timing of settlement to reduce the foreign currency risk.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Euro and US dollar exchange rates against RMB, with all other variables held constant, of the Group's profit before taxation (due to changes in the foreign currency denominated monetary assets and liabilities). In the opinion of the directors of the Company, as the currency exposures arising from possible changes in other currencies will not have any significant financial impact on the Group, the sensitivity analysis is not disclosed.

	Increase/ in (decrease) exchange rate %	Increase/ (decrease) in profit before tax RMB'000
Year ended 31 December 2016		
If RMB strengthens against Euro	(4.68)	(53,560)
If RMB weakens against Euro	4.68	53,560
If RMB strengthens against US dollar	(7.40)	(9,843)
If RMB weakens against US dollar	7.40	9,843

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

46. FINANCIAL INSTRUMENTS *(continued)*

46.2 Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

Foreign currency risk (continued)

	Increase/ in (decrease) exchange rate %	Increase/ (decrease) in profit before tax RMB'000
Year ended 31 December 2015		
If RMB strengthens against Euro	(7.72)	62,203
If RMB weakens against Euro	7.72	(62,203)
If RMB strengthens against US dollar	(6.22)	(106,093)
If RMB weakens against US dollar	6.22	106,093

Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to financing at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of liability-to-asset ratio, which is calculated as total liabilities divided by total assets. The liability-to-asset ratio of the Group at 31 December 2016 was 63.41% (at 31 December 2015: 63.56%).

There were no changes in the Group's approach to capital management during the reporting period. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

46. FINANCIAL INSTRUMENTS *(continued)*

46.3 Fair value measurements of financial instruments

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and liabilities are measured at fair value at the end of each reporting period.

	Fair value as at				
	At 31 December 2016 (RMB'000)	At 31 December 2015 (RMB'000)	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Financial assets					
Foreign currency forward contracts classified as financial assets at fair value through profit or loss	2,986	3,424	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.	/
Corporate wealth management products classified as financial assets at fair value through profit or loss	514,527	–	Level 2	Discounted cash flow. Future cash flows are estimated based on expected return, discounted at a rate that reflects the credit risk of issuers.	/
Financial assets designated as at fair value through profit or loss	214,403	–	Level 3	Discounted cash flow	The revenue growth rate is based on the forecast of the management of the invested company. The systematic risk coefficient is based on the historical systematic risk coefficients of comparable companies
Listed perpetual bond investment classified as available-for-sale financial assets	208,110	–	Level 1	Quoted market price	/
Listed preference share investment classified as available-for-sale financial assets	236,490	–	Level 1	Quoted market price	/
Listed equity security classified as available-for-sale financial assets	2,426,580	2,223,018	Level 1	Quoted market price	/

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

46. FINANCIAL INSTRUMENTS *(continued)*

46.3 Fair value measurements of financial instruments *(continued)*

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis *(continued)*

	Fair value as at				
	At 31 December 2016 (RMB'000)	At 31 December 2015 (RMB'000)	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Corporate wealth management products classified as available-for-sale financial assets	51,699	3,259,000	Level 2	Discounted cash flow. Future cash flows are estimated based on expected return, discounted at a rate that reflects the credit risk of issuers	/
Financial liabilities					
Foreign currency forward contracts classified as financial liabilities at fair value through profit or loss	16,983	359	Level 2	Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.	/
Derivative component in relation to the 2016 Convertible Bonds	366,097	–	Level 3	The fair value of derivative component is calculated using Binominal Option Pricing Model.	The volatilities were determined based on the historical price volatilities of comparable companies under the same periods of the expected life. (Note)

Note: An increase in the volatilities of the Company's share price would result in an increase in the fair value measurement of the convertible bonds-derivative component, and vice versa. A 1% increase in the volatilities holding all other variables constant would increase the carrying amount of the convertible bonds-derivative component by RMB6,702,000. A 1% decrease in the volatilities holding all other variables constant would decrease the carrying amount of the convertible bonds-derivative component by RMB5,686,000.

During the year ended 31 December 2016 and 2015, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

46. FINANCIAL INSTRUMENTS *(continued)*

46.3 Fair value measurements of financial instruments *(continued)*

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

Except as detailed in the following table, the directors of the company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

	31 December 2016		31 December 2015	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Held-to-maturity investment	966,970	977,897	197,928	194,450
Long-term receivables - with fixed rate	11,012,361	10,149,290	10,623,522	9,803,993
Other non-current assets- with fixed rate	1,341,287	1,160,390	405,978	369,994
Borrowings - due after one year– with fixed rate	2,089,337	1,693,300	2,471,353	2,108,883
Long-term bonds-due after one year	6,991,168	6,901,527	7,682,564	7,829,488
Convertible bonds (including the derivative component)	4,124,839	3,865,473	—	—

The of held-to-maturity investments are traded in an active market and included in level 1 category. The convertible bonds (including the derivative component) are included in level 2 category and their fair value has been determined with reference to the price released by Bloomberg Limited Partnership. Long-term bonds, long-term receivables,borrowings and other non-current assets are included in level 2 category and have been determined based on a discounted cash flow analysis, with the discount rate that reflects the credit risk of debtors.

46.4 Reconciliation of Level 3 fair value measurements

	Financial assets designated as at fair value through profit or loss RMB'000
As at 1 January 2016	—
Purchase of financial assets designated as at fair value through profit or loss	182,087
Changes in fair value during the year	32,316
As at 31 December 2016	214,403

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

46. FINANCIAL INSTRUMENTS *(continued)*

46.4 Reconciliation of Level 3 fair value measurements *(continued)*

	Convertible bonds - derivative component RMB'000
Convertible bonds issued on 5 February 2016	430,795
Exchange adjustments during the period from 5 February 2016 to 31 December 2016 (Note41)	24,070
Changes in fair value during the period from 5 February 2016 to 31 December 2016 (Note41)	(88,768)
As at 31 December 2016	366,097

46.5 Transfers of financial assets

At 31 December 2016, the Group endorsed certain bills receivable with a carrying amount of RMB5,198,692,000 (31 December 2015: RMB7,580,116,000) to certain of its suppliers in order to settle the trade payables due to such suppliers and discounted certain bills receivable with a carrying amount of RMB851,888,000 (31 December 2015: RMB1,424,498,000) to banks which were derecognised by the Group (the "Derecognised Bills"). In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the acceptor default (the "Continuing Involvement"). In the opinion of the directors of the Company, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills equal to the amounts disclosed above. In the opinion of the directors of the Company, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

At 31 December 2016, the Group endorsed certain bills receivable (the "Endorsed Bills") with a carrying amount of RMB1,835,639,000 (31 December 2015: RMB566,437,000) to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement") and discounted certain bills receivable (the "Discounted Bills") with a carrying amount of RMB105,994,000 (31 December 2015: RMB176,067,000) to banks. In the opinion of the directors of the Company, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills and Discounted Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and Discounted Bills and the associated trade payables. Subsequent to the Endorsement and discounting, the Group does not retain any rights on the use of the Endorsed Bills and Discounted Bills, including sale, transfer or pledge of the bills to any other third parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

46. FINANCIAL INSTRUMENTS *(continued)*

46.5 Transfers of financial assets *(continued)*

At 31 December 2016, trade receivables amounted to RMB1,216,823,000 (31 December 2015: RMB4,198,255,000) had been factored to a bank on a non-recourse basis. These receivables were derecognised as the Group had transferred the significant risks and rewards relating to the receivables to the bank under the non-recourse factoring agreements. The loss related to derecognition of trade receivables was RMB38,718,000 (2015: RMB61,307,000) in total and charged to profit and loss.

At 31 December 2016, trade receivables amounted to RMB337,995,000 (31 December 2015: Nil) had been factored to a bank. The Group has retained the substantial risks and rewards relating to the trade receivables and continue to recognise the trade receivables. Associated liabilities have been recognised and included in borrowings.

At 31 December 2016, trade receivables amounted to RMB2,498,313,000 (31 December 2015: Nil) had been securitized and of which securities of RMB121,000,000 (31 December 2015: Nil) were purchased by CRRCG. In the opinion of the directors of the Company, the Group had transferred the substantial risks and rewards relating to the trade receivables to the trust company under the securitization agreement, and accordingly, the full carrying amounts of the trade receivables were derecognised. The loss related to derecognition of trade receivables was RMB92,145,000 (2015: Nil) in total and charged to profit and loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries at the end of the reporting period are set out below:

Company name	Place and date of incorporation/ establishment and place of operations	Paid-up capital	Percentage of equity interests attributable to the Company Direct (%)		Indirect (%)		Principal activities
		'000	2016	2015	2016	2015	
CRRC Changchun* 中車長春軌道客車股份有限公司	PRC 18 March 2002	RMB5,807,947	93.54	93.54	–	–	Designing and manufacturing passenger coaches, high-speed MUs, rapid transit vehicles and components
CRRC Zhuzhou Locomotive Co., Ltd.* 中車株洲電力機車有限公司	PRC 31 August 2005	RMB4,401,366	100.00	100.00	–	–	Manufacturing, selling and repairing of locomotives
CRRC ZI* 中車株洲電力機車研究所有限公司	PRC 9 September 1992	RMB5,264,500	100.00	100.00	–	–	Investment holding, manufacturing and selling of wind turbines
CRRC Qingdao Sifang Co., Ltd.* 中車青島四方機車車輛股份有限公司	PRC 22 July 2002	RMB4,003,794	97.81	97.81	–	–	Manufacturing, selling and repairing of locomotives
CRRC Tangshan * 中車唐山機車車輛有限公司	PRC 10 July 2007	RMB3,990,000	100.00	100.00	–	–	Manufacturing railway transportation equipment, high-speed MUs, rapid transit vehicles and components
CRRC Dalian Co., Ltd.* 中車大連機車車輛有限公司	PRC 1 January 1981	RMB3,600,000	100.00	100.00	–	–	Manufacturing and refurbishing locomotives and components
CRRC Qiqihar Rolling Stock Co., Ltd.* 中車齊齊哈爾交通裝備有限公司	PRC 26 December 2012	RMB3,100,000	100.00	100.00	–	–	Manufacturing railway transportation equipment and components
CRRC Yangtze Co., Ltd.* 中車長江車輛有限公司	PRC 14 September 2006	RMB2,383,869	100.00	100.00	–	–	Manufacturing, selling and repairing of rolling stock
CRRC Investment & Leasing Co., Ltd.* 中車投資租賃有限公司	PRC 26 April 1999	RMB2,300,000	100.00	100.00	–	–	Trading and finance leasing
CRRC Qishuyan Co., Ltd.* 中車戚墅堰機車有限公司	PRC 26 June 2007	RMB2,092,743	100.00	100.00	–	–	Manufacturing, selling and repairing of locomotives
CRRC Qishuyan Institute Co., Ltd.* 中車戚墅堰機車車輛工藝研究所有限公司	PRC 15 May 1992	RMB2,060,000	100.00	100.00	–	–	Research and development of train- related products
CRRC NP* 中車南京浦鎮車輛有限公司	PRC 27 June 2007	RMB1,759,840	100.00	100.00	–	–	Manufacturing, selling and repairing of rolling stock
CRRC Hong Kong Capital Management Co., Ltd.* 中國中車香港資本管理有限公司	PRC 25 August 2010	RMB1,564,939	100.00	100.00	–	–	Manufacturing and refurbishing railway vehicles (including MUs), rapid transit vehicles and merger and acquisition

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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47. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

Company name	Place and date of incorporation/ establishment and place of operations	Paid-up capital	Percentage of equity interests attributable to the Company Direct (%)		Indirect (%)		Principal activities
		'000	2016	2015	2016	2015	
CRRC Engineering * 中車建設工程有限公司	PRC 10 February 2012	RMB1,500,000	100.00	100.00	–	–	Project management contracting, sales of machinery and construction materials and leasing of machinery equipment
CRRC Beijing Locomotive Co., Ltd.* 中車北京二七機車有限公司	PRC 9 July 2007	RMB1,350,000	100.00	100.00	–	–	Manufacturing railway vehicles and urban rapid transit vehicles
CRRC Yongji * 中車永濟電機有限公司	PRC 9 July 2007	RMB1,290,000	100.00	100.00	–	–	Manufacturing and refurbishing general mechanical and electrical equipment
CRRC Sifang Rolling Stock Research Institute Co., Ltd.* 中車青島四方車輛研究所有限公司	PRC 10 June 1994	RMB1,290,000	100.00	100.00	–	–	Researching and developing and manufacturing vehicles components and related equipment
CRRC Shandong Co., Ltd.* 中車山東機車車輛有限公司	PRC 9 July 2007	RMB1,260,000	100.00	100.00	–	–	Manufacturing and refurbishing locomotives, freight wagons and components
Finance Company* (i) 中車財務有限公司	PRC 30 November 2012	RMB2,200,000	91.36	91.66	–	–	Taking deposits and providing entrusted loans
CRRC Zhuzhou Electric Co., Ltd.* 中車株洲電機有限公司	PRC 14 April 2004	RMB1,043,180	100.00	100.00	–	–	Manufacturing and selling of electric motors
CNR Investment & Leasing Corp., Ltd.* ("I&L Co") 北車投資租賃有限公司	PRC 11 January2008	RMB1,000,000	100.00	100.00	–	–	Leasing and selling of transportation vehicles and machinery equipment
CNR Shenyang Co., Ltd.* 中車沈陽機車車輛有限公司	PRC 25 November 1979	RMB951,532	100.00	100.00	–	–	Manufacturing and refurbishing freight wagons
CRRC Xi'an Co., Ltd.* 中車西安車輛有限公司	PRC 9 July 2007	RMB860,000	100.00	100.00	–	–	Refurbishing passenger coaches, and freight wagons; researching and developing and manufacturing railway box wagons
CRRC Ziyang * 中車資陽機車有限公司	PRC 12 May 2006	RMB834,226	99.61	99.61	–	–	Manufacturing, selling and repairing of locomotives
CRRC Beijing Nankou Co., Ltd.* 中車北京南口機械有限公司	PRC 9 July 2007	RMB805,000	100.00	100.00	–	–	Manufacturing locomotives components

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47. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

Company name	Place and date of incorporation/ establishment and place of operations	Paid-up capital	Percentage of equity interests attributable to the Company Direct (%)		Indirect (%)		Principal activities
		'000	2016	2015	2016	2015	
CRRC Datong Co., Ltd.* 中車大同電力機車有限公司	PRC 18 February 2003	RMB656,000	100.00	100.00	–	–	Manufacturing and refurbishing locomotives and components
CRRC Chengdu Co., Ltd.* 中車成都機車車輛有限公司	PRC 28 June 2007	RMB655,228	64.52	64.52	35.48	35.48	Repairing locomotives and rolling stock
CRRC Hong Kong Co., Ltd.* 中國中車(香港)有限公司	HK 7 April 2008	HK$800,000	100.00	100.00	–	–	Trading and investment management
CRRC Guiyang Co., Ltd. * 中車貴陽車輛有限公司	PRC 30 September 2014	RMB1,030,000	100.00	100.00	–	–	Manufacturing, selling and repairing of rolling stock
CRRC Luoyang Co., Ltd.* 中車洛陽機車有限公司	PRC 27 June 2007	RMB508,956	100.00	100.00	–	–	Repairing locomotives and rolling stock
CRRC Shenzhen Capital Management Co.,Ltd.* 中車深圳資本管理有限公司	PRC 27 September 2013	RMB500,000	100.00	100.00	–	–	Researching and developing, designing and selling railway vehicles (including Mus) and rapid transit vehicles
CRRC Dalian R&D Co., Ltd.* 中車大連電力牽引研發中心有限公司	PRC 16 October 2013	RMB388,000	100.00	100.00	–	–	Researching and developing electric traction and control technologies and selling applicant services and related products
CRRC Beijing Erqi Vehicle Co., Ltd.* 中車北京二七車輛有限公司	PRC 28 June 2007	RMB381,873	100.00	100.00	–	–	Manufacturing, selling and repairing of rolling stock
CRRC Dalian Institute Co., Ltd.* 中車大連機車研究所有限公司	PRC 24 September 1995	RMB350,000	100.00	100.00	–	–	Researching and developing and manufacturing locomotives machinery and electronic devices
Sifang Co* 中車四方車輛有限公司	PRC 4 September 1980	RMB343,096	100.00	100.00	–	–	Repairing locomotives and rolling stock
CRRC Meishan Co., Ltd.* 中車眉山車輛有限公司	PRC 28 June 2007	RMB437,849	100.00	100.00	–	–	Manufacturing and selling of rolling stock
CRRC Taiyuan Co., Ltd.* 中車太原機車車輛有限公司	PRC 9 July 2007	RMB327,000	100.00	100.00	–	–	Manufacturing and refurbishing locomotives and components
CRRC Lanzhou Co., Ltd.* 中車蘭州機車有限公司	PRC 9 July 2007	RMB320,000	100.00	100.00	–	–	Refurbishing diesel and electric locomotives
CRRC Logistics Co., Ltd.* 中車物流有限公司	PRC 4 April 2002	RMB300,000	92.00	92.00	8.00	8.00	Logistics services, agent of international freight and trading of raw materials
CRRC Shijiazhuang Co., Ltd.* 中車石家莊車輛有限公司	PRC 28 June 2007	RMB204,622	100.00	100.00	–	–	Repairing locomotives and rolling stock

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

Company name	Place and date of incorporation/ establishment and place of operations	Paid-up capital	Percentage of equity interests attributable to the Company Direct (%)		Indirect (%)		Principal activities
		'000	2016	2015	2016	2015	
CRRC (AUSTRALIA) Company Limited 中車澳大利亞有限公司	Australia 10 July 2012	Australian Dollar ("AUD") 1,000	100.00	100.00	–	–	Trading and after-sale maintaining
CRRC Industrial Institute Co., Ltd.* 中車工業研究院有限公司	PRC 25 August 2014	RMB200,000	100.00	100.00	–	–	Research and development train - related products
CRRC International Co., Ltd.* 中車國際有限公司	PRC 1 June 1998	RMB100,000	100.00	100.00	–	–	Selling rolling stock equipment
Beijing CNR CR Transportation Equipment Co., Ltd.* 北京北車中鐵軌道交通裝備有限公司	PRC 6 January 2009	RMB20,000	51.00	51.00	–	–	Manufacturing locomotive components; importing and exporting goods and project management contracting
CRRC Information Technology Co., Ltd.* 中車信息技術有限公司	PRC 8 July 1998	RMB17,000	51.00	51.00	–	–	Providing training of computer technology, basic software related services, applicant software related services, computer systematic service and data processing services
CRRC MA Corporation 美國中車麻省公司	USA 18 March 2014	US$30,500	51.00	51.00	49.00	49.00	Technology service, technology consulting related to railway locomotives, project planning, project service, procurement, sales, leasing of railway locomotives and components
CRRC SA Rolling Stock (Pty) Ltd. 南非中車車輛有限公司	Republic of South Africa 27 January 2014	ZAR1	66.00	66.00	–	–	Technology service, technology consulting related to railway locomotives, project planning, project service, procurement, sales, leasing of railway locomotives and components
CRRC Malaysia Corporation 北車(馬來西亞)股份有限公司	Malaysia 26 May 2015	USD450	90.00	90.00	10.00	10.00	Technology service, technology consulting related to railway locomotives, project planning, project service, procurement, sales, leasing of railway locomotives and components
CRRC Capital Management Co., Ltd* 中車資本管理有限公司	PRC 8 January 2016	RMB2,000,000	100.00	N/A	–	N/A	Assets management, investment management, industrial investment, etc.
ZTE* (ii) 株洲中車時代電氣股份有限公司	PRC 26 September 2005	RMB1,175,477	–	–	51.81	51.81	Manufacturing of train - bore systems and components
ZTNM* (iii) 株洲時代新材料科技股份有限公司	PRC 24 May 1994	RMB802,798	–	–	39.55	40.84	Manufacturing and selling of polymer compounds, etc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

* The English name of certain companies above represents the direct translation of the Chinese name of these companies as no English name have been registered.

(i) In 2015, the CNR Finance Co., Ltd. ("CNR Finance") was held by CRRC as to 91.66% and CRRCG as to 8.34%.

In 2016, CNR Finance merged with CSR Finance Co., Ltd. ("CSR Finance") by way of absorption. CSR Finance was de-registered, and CNR Finance was renamed as "CRRC Finance Co., Ltd.". After the absorption, the Finance Company was held by CRRC as to 91.36% and CRRCG as to 8.64%.

(ii) The proportion of voting rights and ownership interests held by the CRRCG was 0.80% of which the CRRCG has authorised the Company to exercise, accordingly, the voting rights of ZTE held by the Company was 52.61% as at 31 December 2016 (31 December 2015: 52.61%).

(iii) In 2015, CRRC ZI, a subsidiary of the Company, purchased 141,376,060 new shares issued by ZTNM through non-public offering, thus the equity interests of ZTNM held by the Company was increased to 40.84%.

In 2016, Sifang Co, a subsidiary of the Company, disposed of 10,393,435 shares of ZTNM, thus the equity interests of ZTNM held by the Company was decreased to 39.55%.

In addition, the proportion of voting rights and ownership interests held by the CRRCG was 11.47% of which the CRRCG has authorised the Company to exercise, accordingly, the voting rights of ZTNM held by the Company was 51.02% as at 31 December 2016 (31 December 2015: 52.31%).

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results for the year or formed a substantial portion of the net assets of the Group as at 31 December 2016. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries had issued debt securities during the year ended 31 December 2015 and 31 December 2016.

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interest held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2016	2015	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
ZTE and its subsidiaries	PRC	48.19%	48.19%	1,409,933	1,441,386	7,832,076	6,858,444
ZTNM and its subsidiaries	PRC	60.45%	59.16%	133,284	185,200	2,988,886	2,832,927
CRRC Changchun and its subsidiaries	PRC	6.46%	6.46%	234,436	132,396	1,784,821	1,649,725
Individually immaterial subsidiaries with non-controlling interests				836,660	520,498	6,342,224	5,333,161
Total				2,614,313	2,279,480	18,948,007	16,674,257

Summarised financial information in respect of each of the Company's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

Details of non-wholly owned subsidiaries that have material non-controlling interests *(continued)*

ZTE and its subsidiaries

	31 December 2016 RMB'000	31 December 2015 RMB'000
Current assets	18,860,365	19,024,169
Non-current assets	4,863,197	3,908,013
Current liabilities	6,751,295	6,732,299
Non-current liabilities	912,320	2,182,414
Equity attributable to owners of ZTE	15,799,781	13,780,144
Non-controlling interests	260,166	237,325

	2016 RMB'000	2015 RMB'000
Revenue	14,657,820	14,800,035
Expenses	11,752,422	11,650,866
Profit for the year	2,918,182	2,978,237
Profit attributable to owners of ZTE	2,903,680	2,965,278
Profit attributable to the non-controlling interests	14,502	12,959
Other comprehensive expense for the year	(52,977)	(11,031)
Total comprehensive income attributable to owners of ZTE	2,855,433	2,954,159
Total comprehensive income attributable to the non-controlling interests	9,772	13,047
Total comprehensive income for the year	2,865,205	2,967,206
Dividends paid to non-controlling interests	6,481	1,944
Net cash inflow from operating activities	1,455,523	1,432,923
Net cash outflow from investing activities	(499,390)	(1,484,391)
Net cash (outflow) inflow from financing activities	(1,335,570)	781,696
Effect of foreign exchange rate changes	3,352	1,471
Net cash (outflow) inflow	(376,085)	731,699

Note: In December 2016, the 100% equity of Zhuzhou National Engineering Research Center Co., Ltd. ("ZNER Center") held by CRRC ZI, a subsidiary of the Company, was transferred to ZTE, the subsidiary of CRRC ZI. As both ZTE and ZNER Center are controlled by CRRC ZI, the transaction is regarded as a business combination under common control. Therefore ZTE restated its financial statement for the year ended 31 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

Details of non-wholly owned subsidiaries that have material non-controlling interests *(continued)*

ZTNM and its subsidiaries

	31 December 2016 RMB'000	31 December 2015 RMB'000
Current assets	8,344,285	8,428,926
Non-current assets	5,062,822	4,655,252
Current liabilities	5,501,952	4,932,359
Non-current liabilities	3,003,508	3,412,170
Equity attributable to owners of ZTNM	4,836,311	4,668,761
Non-controlling interests	65,336	70,888

	2016 RMB'000	2015 RMB'000
Revenue	11,641,393	10,825,107
Expenses	11,502,564	10,592,551
Profit for the year	232,112	257,323
Profit attributable to owners of ZTNM	241,989	255,574
Profit attributable to the non-controlling interests	(9,877)	1,749
Other comprehensive expense for the year	(34,944)	(43,651)
Total comprehensive income attributable to owners of ZTNM	207,045	211,923
Total comprehensive (expense) income attributable to the non-controlling interests	(9,877)	1,749
Total comprehensive income for the year	197,168	213,672
Dividends paid to non-controlling interests	127	163
Net cash inflow from operating activities	659,503	270,815
Net cash outflow from investing activities	(967,594)	(433,382)
Net cash (outflow) inflow from financing activities	(665,628)	1,948,451
Effect of foreign exchange rate changes	26,463	(15,139)
Net cash (outflow) inflow	(947,256)	1,770,745

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

Details of non-wholly owned subsidiaries that have material non-controlling interests *(continued)*

CRRC Changchun and its subsidiaries

	31 December 2016 RMB'000	31 December 2015 RMB'000
Current assets	36,292,982	32,591,067
Non-current assets	11,157,518	11,123,530
Current liabilities	29,668,240	27,634,557
Non-current liabilities	1,600,184	1,422,438
Equity attributable to owners of CRRC Changchun	15,388,263	13,906,219
Non-controlling interests	793,813	751,383

	2016 RMB'000	2015 RMB'000
Revenue	33,835,719	31,949,998
Expenses	30,135,687	28,788,749
Profit for the year	3,319,254	2,841,515
Profit attributable to owners of CRRC Changchun	3,297,095	2,896,215
Profit attributable to the non-controlling interests	22,159	(54,700)
Other comprehensive expense for the year	(2,136)	(16,857)
Total comprehensive income attributable to owners of CRRC Changchun	3,294,959	2,879,357
Total comprehensive income (expense) attributable to the non-controlling interests	22,159	(54,699)
Total comprehensive income for the year	3,317,118	2,824,658
Dividends paid to non-controlling interests	77,520	53,941
Net cash inflow from operating activities	5,416,578	5,966,150
Net cash outflow from investing activities	(4,164,433)	(7,271,290)
Net cash outflow from financing activities	(1,202,670)	(4,933,375)
Effect of foreign exchange rate changes	(3,325)	14,561
Net cash inflow (outflow)	46,150	(6,223,954)

Note: In December 2016, the 51% equity of Shanghai Railway Equipment Development Co., Ltd. ("CRRC Shanghai") held by the Company was transferred to CRRC Changchun, a non-wholly owned subsidiary of the Company. As both CRRC Shanghai and CRRC Changchun are controlled by the Company, the transaction is regarded as a business combination under common control. Therefore CRRC Changchun restated its financial statement for the year ended 31 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

48. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2016 RMB'000	2015 RMB'000
Non-current assets		
Property, plant and equipment	53,414	151,538
Other intangible assets	112,282	116,178
Interests in subsidiaries	403,653,751	400,798,773
Interests in an associate	5,336,278	820,421
Available-for-sale investments	422,163	—
Other non-current assets	524,000	—
	410,101,888	401,886,910
Current assets		
Trade receivables	48,440	11,013
Bills receivable	2,000	6,000
Prepayments, deposits and other receivables	27,986,700	26,174,013
Financial assets at fair value through profit or loss	514,527	—
Available-for-sale investments	51,700	—
Pledged bank deposits	1,005,988	1,002,932
Cash and bank balances	7,781,156	5,669,504
	37,390,511	32,863,462
Current liabilities		
Trade payables	98,547	10,184
Other payables and accruals	26,629,083	13,514,369
Borrowings - due within one year	15,286,577	19,496,540
Retirement benefit obligations	1,200	1,470
Tax payable	—	2,212
	42,015,407	33,024,775
Net current liabilities	(4,624,896)	(161,313)
Total assets less current liabilities	405,476,992	401,725,597
Capital and reserves		
Share capital	27,288,758	27,288,758
Reserves	365,213,573	364,724,647
Total equity	392,502,331	392,013,405
Non-current liabilities		
Borrowings - due after one year	8,842,693	9,702,639
Retirement benefit obligations	7,129	9,553
Convertible bonds- debt component	3,758,742	—
Convertible bonds-derivative component	366,097	—
	12,974,661	9,712,192
Total equity and non-current liabilities	405,476,992	401,725,597

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

48. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Movement in the Company's reserves

	Capital reserve RMB'000	Share option reserve RMB'000	Retirement benefit obligations re-measurement reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2015	13,959,047	47,584	(8,187)	–	1,123,312	3,814,641	18,936,397
Profit for the year	–	–	–	–	–	6,783,680	6,783,680
Re-measurement losses on retirement benefit obligations	–	–	(2,620)	–	–	–	(2,620)
Issuance of shares for 2015 Business Combination under common control	342,329,425	–	–	–	–	–	342,329,425
Appropriation of statutory surplus reserves	–	–	–	–	678,367	(678,367)	–
Dividends distributed	–	–	–	–	–	(3,274,651)	(3,274,651)
Recognition of equity-settled share based payments	–	(47,584)	–	–	–	–	(47,584)
At 31 December 2015	356,288,472	–	(10,807)	–	1,801,679	6,645,303	364,724,647
Profit for the year	–	–	–	–	–	4,556,337	4,556,337
Re-measurement losses on retirement benefit obligations	–	–	2,040	–	–	–	2,040
Change in fair value of available-for-sale investments	–	–	–	23,863	–	–	23,863
Appropriation of statutory surplus reserves	–	–	–	–	472,128	(472,128)	–
Dividends distributed	–	–	–	–	–	(4,093,314)	(4,093,314)
At 31 December 2016	356,288,472	–	(8,767)	23,863	2,273,807	6,636,198	365,213,573

49. EVENT AFTER THE REPORTING PERIOD

(i) Non-public Issuance

The Company completed the non-public issuance (the "Issuance") of 1,410,105,755 A shares in January 2017 which was approved by the State-owned Assets Supervision and Administration Commission of the State Council and China Securities Regulatory Commission. The issue price is RMB8.51 per A share. The total proceeds raised through the Issuance on 13 January 2017 amounted to 12,000,000,000. After deducting the relevant expenses for the Issuance, the net proceeds from the Issuance amounted to RMB11,934,105,000. The total issued shares of the Company has increased to 28,698,864,088 shares.

CRRCG has participated in the subscription for A shares. Up to the date of issuance of the consolidated financial statements, CRRCG directly holds 15,491,375,889 A shares of the Company, representing approximately 53.98% of the total issued share capital of the Company.

(ii) On 29 March 2017, the Board of Directors proposed a final dividend of RMB0.21 per ordinary share totaling RMB6,026,761,000 in respect of the year ended 31 December 2016, based on 28,698,864,088 shares to shareholders of the Company after issuance of 1,410,105,755 A ordinary shares on 13 January 2017, and the proposal is subject to the approval by the shareholders in the forthcoming annual general meeting.

DEFINITION

Articles of Associations	the Articles of Associations of the Company
BOGE	BOGE Rubber & Plastics
BST	Bombardier Sifang (Qingdao) Transportation Ltd.（青島四方龐巴迪鐵路運輸設備有限公司）
China Energy Reserve	China Energy Reserve and Chemicals Group Company Limited（中國國儲能源化工集團股份公司）
China United Insurance	China United Insurance Holding Corporation（中華聯合保險控股股份有限公司）
CNR	former China CNR Corporation Limited（中國北車股份有限公司）
CNRG	former China Northern Locomotive & Rolling Stock Industry (Group) Corporation（中國北方機車車輛工業集團公司）
Company Law	the Company Law of the People' s Republic of China
CRC	China Railway Corporation（中國鐵路總公司）
CRRC or Company	CRRC Corporation Limited（中國中車股份有限公司）
CRRC Changchun	CRRC Changchun Railway Vehicles Co., Ltd.（中車長春軌道客車股份有限公司）
CRRCG	CRRC Group（中國中車集團公司）
CRRC Industrial Investment	CRRC Industrial Investment Co., Ltd. (中車產業投資有限公司)
CRRC Sifang	CRRC Qingdao Sifang Co., Ltd.（中車青島四方機車車輛股份有限公司）
CRRC Sifang Ltd.	CRRC Sifang Co., Ltd.（中車四方車輛有限公司）
CRRC Tangshan	CRRC Tangshan Co., Ltd.（中車唐山機車車輛有限公司）
CRRC ZELRI	CRRC Zhuzhou Institute Co., Ltd.（中車株洲電力機車研究所有限公司）
CRRC Zhuzhou	CRRC Zhuzhou Locomotive Co., Ltd.（中車株洲電力機車有限公司）
CRRC Ziyang	CRRC Ziyang Co., Ltd. (中車資陽機車有限公司)
CSR	former CSR Corporation Limited（中國南車股份有限公司）
CSR and CNR	CSR and CNR
CSRC	the China Securities Regulatory Commission
CSRG	former CSR Group（中國南車集團公司）
Finance Company	CRRC Finance Co., Ltd. (中車財務有限公司)
Hong Kong Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

DEFINITION

Model Code	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
Qishuyan Institute	CRRC Qishuyan Institute Co., Ltd. (中車戚墅堰機車車輛工藝研究所有限公司)
SASAC	State-owned Asset Supervision and Administration Commission of the State Council
Securities Law	the Securities Law of the People' s Republic of China
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Shanghai Listing Rules	the Listing Rules of Shanghai Stock Exchange
SMD	Soil Machine Dynamics Ltd
South Huiton	South Huiton Co., Ltd.（南方匯通股份有限公司）
SSE	Shanghai Stock Exchange
Stock Exchange	The Stock Exchange of Hong Kong Limited
Tianjin Trust	Tianjin Trust Co., Ltd. (天津信托有限責任公司)
Times Electric	Zhuzhou CRRC Times Electric Co., Ltd.（株洲中車時代電氣股份有限公司）
Times New Material	Zhuzhou Times New Material Technology Co., Ltd.（株洲時代新材料科技股份有限公司）
Yanzhou Coal	Yanzhou Coal Mining Company Limited (兗州煤業股份有限公司)
Ziyang Electrical	Ziyang CRRC Electrical Technology Co., Ltd.* (資陽中車電氣科技有限公司)

COMPANY PROFILE

CHINESE NAME	中國中車股份有限公司
ENGLISH NAME	CRRC Corporation Limited
REGISTERED OFFICE	No. 16 Central West Fourth Ring Road, Haidian District, Beijing 100036, the PRC
BUSINESS ADDRESS OF THE HEAD OFFICE	No. 16 Central West Fourth Ring Road, Haidian District, Beijing 100036, the PRC
PR INCIPA L PLACE OF BUSINESS IN HONG KONG	Unit H, 41/F., Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong
LEGAL REPRESENTATIVE	Liu Hualong
EXECUTIVE DIRECTORS	Liu Hualong, Xi Guohua
NON-EXECUTIVE DIRECTOR	Liu Zhiyong
INDEPENDENT NON-EXECUTIVE DIRECTORS	Li Guo'an Zhang Zhong Wu Zhuo Sun Patrick Chan Ka Keung, Peter
AUTHORIZED REPRESENTATIVES	Xi Guohua, Wong Kai Yan, Thomas
JOINT COMPANY SECRETARIES	Xie Jilong, Wong Kai Yan, Thomas
SECRETARY TO THE BOARD	Xie Jilong
SECURITIES REPRESENTATIVE	Tan Mu
TELEPHONE FOR INFORMATION INQUIRY	(8610) 5186 2188
FAX	(8610) 6398 4785
WEBSITE	http://www.crrcgc.cc
E-MAIL ADDRESS	crrc@crrcgc.cc
H SHARE REGISTRAR	Computershare Hong Kong Investor Services Limited 17M Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
PLACES OF LISTING	The Stock Exchange of Hong Kong Limited Shanghai Stock Exchange

COMPANY PROFILE

STOCK NAME	中國中車(CRRC)
STOCK CODE	1766 (Hong Kong) 601766 (Shanghai)
PRC INDEPENDENT AUDITORS	Deloitte Touche Tohmatsu Certified Public Accountants LLP Certified Public Accountants 30th Floor, Bund Center 222 Yan An Road East Shanghai the PRC
	KPMG Huazhen LLP Certified Public Accountants 8th Floor, Office Tower II (East), Oriental Plaza, Dongcheng District, Beijing, the PRC
INTERNATIONA L INDEPENDENT AUDITORS	Deloitte Touche Tohmatsu Certified Public Accountants 35th Floor, One Pacific Place 88 Queensway, Admiralty Hong Kong
LEGAL ADVISERS	As to Hong Kong laws: Baker & McKenzie 14th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong
	As to PRC laws: Jia Yuan Law Firm F408 Ocean Plaza, 158 Fuxing Men Nei Avenue, Beijing, the PRC

CRRC