中國城市軌道交通科技控股

CHINA CITY RAILWAY TRANSPORTATION TECHNOLOGY

China City Railway Transportation Technology Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1522

ANNUAL REPORT 2016

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Cao Wei *(Vice Chairman)*
(redesignated as Vice Chairman on 28 February 2017)
Ms. Xuan Jing *(Chief Executive Officer)*
(redesignated as Chief Executive Officer on 28 February 2017)

Non-Executive Directors

Mr. Guan Jifa *(Chairman)*
(redesignated as Chairman on 28 February 2017)
Mr. Hao Weiya
Mr. Ren Yuhang

Independent Non-Executive Directors

Mr. Bai Jinrong
Mr. Luo Zhenbang *CPA*
Mr. Huang Lixin

AUTHORISED REPRESENTATIVES PURSUANT TO RULE 3.05 OF THE LISTING RULES

Mr. Cao Wei
Ms. Ng Sin Yee, Clare

COMPANY SECRETARY

Ms. Ng Sin Yee, Clare

AUDIT COMMITTEE

Mr. Luo Zhenbang *CPA (Chairman)*
Mr. Bai Jinrong
Mr. Huang Lixin

REMUNERATION COMMITTEE

Mr. Bai Jinrong *(Chairman)*
Mr. Cao Wei
Mr. Huang Lixin

NOMINATION COMMITTEE

Mr. Guan Jifa *(Chairman)*
Mr. Bai Jinrong
Mr. Huang Lixin

AUDITORS

KPMG
Certified Public Accountants

LEGAL ADVISERS TO THE COMPANY

Chiu & Partners

PRINCIPAL BANKER

The Hong Kong and Shanghai Banking Corporation Limited

REGISTERED OFFICE

P.O. Box 31119 Grand Pavilion
Hibiscus Way, 802 West Bay Road
Grand Cayman, KY1-1205
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 4407, 44/F, COSCO Tower
183 Queen's Road Central, Sheung Wan, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman, KY1-1107
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

WEBSITE

www.ccrtt.com.hk

STOCK CODE

1522

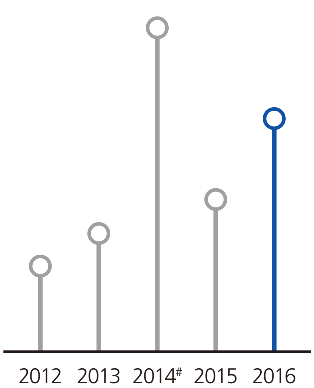
Financial Highlights

	For the year ended 31 December 2016	2015	For the eighteen months ended 31 December 2014	For the year ended 30 June 2013	2012
Key profit or loss items (HK$ Thousand)					
Revenue	**479,309**	320,782	657,241	254,135	190,240
Gross profit	**103,985**	121,452	233,369	98,143	133,837
Profit attributable to equity shareholders of the Company	**25,728**	22,945	65,042	59,042	80,715

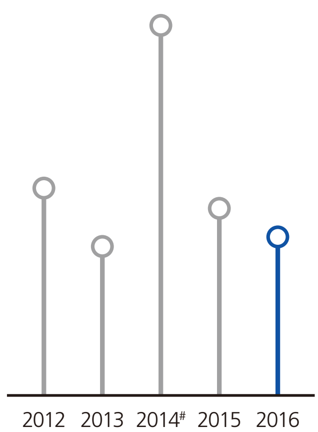
	As at 31 December 2016	2015	2014	As at 30 June 2013	2012
Key statement of financial position items (HK$ Thousand)					
Non-current assets	**654,271**	315,212	261,007	133,303	66,373
Current assets	**1,840,626**	1,231,066	1,165,578	559,275	398,208
Total liabilities	**378,370**	324,776	426,999	203,226	124,767
Equity attributable to equity shareholders of the Company	**2,104,699**	1,211,100	985,621	483,255	339,814

Financial year	2016	2015	2014	2013	2012
Return to shareholders					
Earnings per share					
– Basic (HK$ cent)	**1.7**	1.7	6.0	7.4	12.9
– Diluted (HK$ cent)	**1.7**	1.7	5.9	7.3	n/a

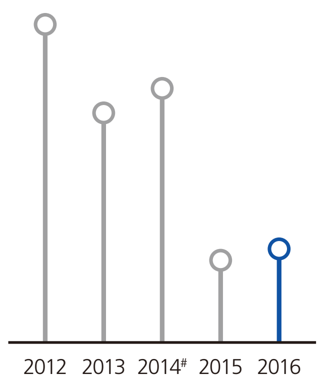
Revenue (HK$ Thousand)



Gross profit (HK$ Thousand)



Profit attributable to equity shareholders of the Company (HK$ Thousand)



For the eighteen months ended 31 December 2014

Chairman's Statement

Guan Jifa,
Chairman

On behalf of the board (the "Board") of directors (the "Directors") of China City Railway Transportation Technology Holdings Company Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2016.

RESULTS

For the year ended 31 December 2016, the Group recorded revenue of approximately HK$479.3 million, representing an increase of approximately HK$158.5 million or 49.4% as compared to revenue of approximately HK$320.8 million for the year ended 31 December 2015. Profit attributable to equity shareholders of the Company for the year ended 31 December 2016 amounted to approximately HK$25.7 million, representing an increase of approximately HK$2.8 million or 12.2% as compared to profit attributable to equity shareholders of approximately HK$22.9 million for the year ended 31 December 2015.

DIVIDENDS

The Board did not recommend payment of any dividend for the year ended 31 December 2016 (year ended 31 December 2015: Nil). The Group will retain cash to finance the continuing development of its business as well as prospective investment opportunities.

BUSINESS OVERVIEW

As at 31 December 2016, the total number of issued shares of the Company increased to 2,106,154,727 shares.

The Company completed allotment and issuance of an aggregate of 669,053,524 new shares of the Company to Beijing Infrastructure Investment (Hong Kong) Limited ("**BII HK**") on 3 November 2016 at the subscription price of HK$1.35 per subscription share. This price was determined on arm's length negotiation by the Company and BII HK by reference to the then market price of the shares of the Company, after taking into account the certain restriction provisions upon subscription of shares of the Company by BII HK. The Directors considered that the subscription would represent an opportunity to raise capital for the Company in order to maintain the cash flow position of the Group and to enhance the capital base of the Company, and was in the interest of the Group and the shareholders of the Company ("**Shareholders**") as a whole. Upon this subscription, BII HK held approximately 55.0% of the enlarged issued share capital of the Company, making it become the controlling shareholder of the Company. There was a one-year lock-up period for this subscription by BII HK, which indicated that Beijing Infrastructure Investment Co., Ltd.* (北京市基礎設施投資有限公司) ("**BII**") attached much importance and confidence to the sole overseas listing platform as held by it. In future, BII will continue to leverage on its advantage in railway transportation business in Beijing, even in the whole nation, and coordinate with the Company for common development.

BII HK, established in Hong Kong, is a wholly-owned subsidiary of BII. BII, as a wholly state-owned enterprise established with capital contribution from the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality, engaging in infrastructure investment and financing and management mainly focusing on railway transportation in Beijing, manufacturing of railway transportation equipments, information technology service, development and operation of land and properties, and operation and services of other relevant resources. Besides, BII is also the owner of all the subway line assets in Beijing. As at the end of 2016, the net assets and total assets of BII amounted to RMB158 billion and RMB430.1 billion, respectively, which made it a comprehensive investment and financing company in the railway transportation industry in Beijing, or even the nation, with considerable influence.

Being the only listed company in Hong Kong that provides a full range of information system application solutions and operation maintenance services at both network-level and line-level, the joint bid between ERG Transit Systems (Beijing) Limited* (億雅捷交通系統(北京)有限公司) ("**ERG BJ**"), a wholly-owned subsidiary of the Company, and Shanghai Baosight Software Co., Ltd.* (上海寶信軟件股份有限公司) was awarded on 17 June 2016 with the letter of acceptance from Chengdu Coordination and Command Centre ("**COCC**"), which was a project out of Beijing, with respect to construction equipment procurement, system integration and service provision. The total contract sum of this project amounted to approximately RMB115,680,000. By way of the joint bid, the Group was enabled to further expand its scope of business into other provinces and cities out of Beijing, demonstrating the Group's strong competitiveness in the industry. Our controlling subsidiary, Beijing BII-ERG Transportation Technology Co., Ltd.* (北京京投億雅捷交通科技有限公司) ("**BII-ERG**"), was granted with letter of acceptance from Beijing Metro Energy Management Centre (Energy Consumption & Monitoring Platform) on 11 April 2016 with respect to equipment procurement. The contract sum of this project amounted to approximately RMB30.5 million. On 20 April 2016, BII-ERG was granted with the contract relating to platform screen door project of Beijing Subway Line No.2, with contract sum of RMB113.2 million. On 29 December 2016, BII-ERG was further granted with the contract relating to the phase two Automated Fare Collection Clearing Centre ("**ACC**") improvement project of the Automated Fare Collection ("**AFC**") system upgrade project of railway transportation in Beijing, with contract sum of RMB47.9 million.

ERG Transit Systems (HK) Limited ("**ERG HK**"), a wholly-owned subsidiary of the Company in Hong Kong, has been maintaining amiable relationships with Mass Transit Railway Corporation Limited ("**MTR**"), New World First Bus Services Limited ("**NWFB**") and Citybus Limited ("**CTB**"). The second generation of bus AFC system provided by ERG HK for NWFB and CTB has been put into official operation, and the average daily use of this system exceeded 800,000 with steady increase constantly. In September 2016, ERG HK won the contract in relation to equipments replacement for over 1,500 sets of ticket vending machines for Light Rail, involving design, system integration and installation. In addition, ERG HK was also granted the contract to upgrade the existing AFC system and equipments for MTR. The new system will provide support for one-way ticket cards and various fare discounting mechanism, and will completely replace the existing AFC system.

On 26 September 2016, the Group announced that, pursuant to an acquisition agreement ("**Acquisition Agreement**") entered into between Beijing BII Zhuoyue Technology Development Co., Ltd* (北京京投卓越科技發展有限公司) ("**BII Zhuoyue**"), an indirect wholly-owned subsidiary of the Company as the purchaser, and BII as the vendor, it would acquire the civil communication assets and the respective income rights of BII's 41 underground stations of the four subway lines of the Beijing Subway and the civil communication wireless coverage system of one subway line of the Beijing Subway (including Phase 2 of Line No. 6, Line No. 7, the eastern and western sections of Phase 1 of Line No. 15, and the connecting line between Line Changping and Line No. 8, of Beijing Subway), the fixed assets of and the income rights to be derived from the civil communication wireless coverage system of Phase 1 eastern section of Line No. 15 of the Beijing Subway and the rights and obligations under certain underlying contracts, at a consideration of RMB57,800,000. The aforesaid acquisition had been completed on 1 November 2016. Through this acquisition, the Group completed acquisition of all the civil communication assets of Beijing Subway held by BII. The Group will provide civil communication system leasing service to a total of 174 stations of the 15 subway lines of Beijing Subway. As for future development of civil communication business, the Group will seek for investment and construction on its own, and carry out independent negotiation with telecom operators to enter into relevant resources usage agreements or cooperative business agreements, so as to place itself in a more advantageous position when negotiating with telecom operators regarding execution of relevant resources usage agreements and cooperative business agreements in the future. In 2015, the Group completed construction of the civil communication transmission system applicable to phase two of Changping Line of Beijing Subway, which was its first project of such kind with own investment. This subway line has 6 stations, and the relevant system had been put into official operation in early 2016. Other new lines are in the process of prophase preparation. This acquisition of civil communication assets will further broaden the business scope of the Group. Being a new light-asset subway business in addition to the Group's city railway transportation system, the civil communication assets would bring stable income to the Group in the future with a bright prospect.

On 5 November 2015, the Company, BII and Beijing Mass Transit Railway Operation Corp., Ltd.* (北京市地鐵運營有限公司) ("**Beijing MTR Operation**") entered into a formal joint venture agreement in relation to establishment of a joint venture named Beijing City Metro Ltd.* (北京京城地鐵有限公司) ("**Beijing City Metro**") by the Company and Beijing MTR Operation. Beijing City Metro was incorporated on 15 February 2016, which was owned by Beijing MTR Operation and the Company as to 51% and 49%, respectively. Its registered capital was RMB500 million, for which, Beijing MTR Operation and the Company made capital injection of RMB255 million and RMB245 million, respectively according to their respective proportion of shareholding in the joint venture. The major business scope of Beijing City Metro covers operation and management of subways, advertisement and property management. The Company intended to firstly acquire, through Beijing City Metro, the operating income right of the existing airport lines of Beijing Subway owned by BII, and strives to obtain additional operating income rights of newly developed subway lines in future, aiming to expanding the Group's business to make it the most important operating entity in city railway transportation industry, thus to provide diversified development option for the Group for future business development.

To enable the Company to achieve its target of transforming from focusing on design and construction integration of the AFC system to a full service chain covering design, construction, operation and maintenance thereof, and thereby expanding the

Group's business scope and enlarge its income sources, China City Railway Transportation Technology Investment Company Limited (中國城市軌道交通科技投資有限公司) ("**CCRTTI**"), a subsidiary held as to 70% indirectly by the Company, and Beijing MTR Operation established a joint venture, namely Beijing Metro Technology Development Co., Ltd.* (北京地鐵科技發展有限公司) ("**Metro Technology Development**"), on 18 February 2016 with a registered capital of RMB30 million, of which 51% was held by Beijing MTR Operation and the remaining 49% was held by CCRTTI. Beijing MTR Operation and CCRTTI invested RMB15.3 million and RMB14.7 million in Metro Technology Development, respectively, with reference to their respective proportion of shareholding in Metro Technology Development. The main scope of operation of Metro Technology Development includes design, installation, maintenance and research of subway AFC system equipment, development of traffic system software and traffic network technology, technical consultation and services. The cooperation with Beijing MTR Operation enables the Group to effectively deal with the defects and challenges existed in design, maintenance and management of the AFC systems, and thereby to improve its capability of design and construction of AFC system, creating advantageous conditions for the expansion of AFC business in other provinces and cities outside Beijing.

Considering the vast development opportunities of city intelligent transportation in the future and to capture the rapid growth of railway transportation related industries in China, BII Zhuoyue, Beijing Cornerstone Entrepreneurial Investment Administration Centre ("**Cornerstone Administration Centre**") and Suqian Chuangweiying Investment Management Centre* (宿遷創為盈投資管理中心) ("**Chuangweiying**") jointly established a limited liability partnership named Beijing Cornerstone Chuangying Investment Management Centre (Limited Liability Partnership)* (北京基石創盈投資管理中心(有限合夥)) ("**Cornerstone Chuangying Centre**"), which was owned as to 20% by BII Zhuoyue, 30% by Cornerstone Administration Centre and 50% by Chuangweiying. Cornerstone Chuangying Centre was incorporated on 25 February 2016, subject to subscription of total capital injection of RMB1 million, for which, BII Zhuoyue, Cornerstone Administration Centre and Chuangweiying made capital contribution of RMB200,000, RMB300,000 and RMB500,000 respectively, by reference to their respective proportion of holding in Cornerstone Chuangying Centre. The main scope of business of Cornerstone Chuangying Centre includes investment management and assets management.

On 10 January 2017, BII Zhuoyue, ICBC Credit Suisse Investment Management Co., Ltd. ("**ICBC Credit Suisse**"), Dr. Peng Telecom Media Group Co., Ltd. ("**Dr. Peng**"), Shenzhen Ever-Rising Industrial Group Co., Ltd. ("**Ever-Rising Industrial**"), Beijing Tonglingtong Telecom Technology Co., Ltd.* (北京通靈通電訊技術有限公司) ("**Tonglingtong**") and Cornerstone Chuangying Centre jointly established a limited liability partnership named Beijing Cornerstone Chuangying Investment Centre (Limited Liability Partnership)* (北京基石創盈投資中心(有限合夥)) ("**Cornerstone Chuangying**"), which was owned as to 24.88% by BII Zhuoyue as limited partner, 49.75% by ICBC Credit Suisse as limited partner, 9.95% by Dr. Peng as limited partner, 9.95% by Ever-Rising Industrial as limited partner, 4.97% by Tonglingtong as limited partner and 0.50% by Cornerstone Chuangying Centre as general partner. The total capital injection subject to subscription for this partnership was RMB201 million, for which, BII Zhuoyue, ICBC Credit Suisse, Dr. Peng, Ever-Rising Industrial, Tonglingtong and Cornerstone Chuangying Centre made capital contribution of RMB50 million, RMB100 million, RMB20 million, RMB20 million, RMB10 million and RMB1 million, respectively. The main scope of business of Cornerstone Chuangying includes investment management and assets management. Cornerstone Chuangying made investment mainly in the sector of city intelligent transportation and internet service. As the general partner of Cornerstone Chuangying, Cornerstone Chuangying Centre is responsible for daily operation and management of Cornerstone Chuangying.

PROSPECTS

With rapid economic development and population increase in China, the Chinese government will vigorously develop urban public transport systems. Of which, urban railway transportation construction, the most effective and efficient way to relieve urban traffic issues, possesses the greatest potential for development. As indicated by 《交通基礎設施重大工程建設三年行動計劃》(the Three-year Action Plan in Relation to Material Construction of Transportation Infrastructure*) as jointly released by the National Development and Reform Commission of the People's Republic of China and the Ministry of Transport recently, it is planned to focus on promotion of 303 transport projects involving railway, road, water path, airport and city railway during the period from 2016 to 2018, with total investment of approximately RMB4,700 billion involved. In particular, urban railway transport projects are viewed as the major construction projects. In detail, prophase preparation for 103 urban railway transport projects will be propelled, and urban railway transport with length of over 2,000 km would be further constructed, which requires total investment of nearly RMB1,600 billion. The investments to be completed during the period of 《中華人民共和國國民經濟和社會發展第十三個五年規劃綱要》("13th Five-Year Plan*") are expected to increase by 50% to 70% as compared to those for the period of 《中華人民共和國國民經濟和社會發展第十二個五年規劃綱要》("12th Five-Year Plan*").

It is noted that the scope of cities available for construction of city railway transport in Mainland China may be expanded. With respect to urban population required for cities applying for developing city railway transport, the previous requirement on urban pollution of 3.0 million or above has been adjusted downwards to not less than 1.5 million. The relaxed threshold on population in relation to construction of city railway transport means that increasing number of prefecture-level cities may be qualified to be included in such system. In medium term, as for the urban railway transport in China, the accumulated length of operation will reach 6,341km by 2018, representing a compound annual growth rate of 23.81%. It is expected that an investment of at least RMB3 trillion will be required. It is expected that by 2020, the number of cities with railway transport in China will reach 50, the scale of railway transport in China will reach nearly 7,000km and the investment in this respect will amount to RMB4 trillion. In the long-term, the number of railway lines will increase to 289 in 2050 and the length of operation will reach 11,700km according to the urban railway transport planning in China. The coming 30 years will be the golden era in which the construction of urban railway transport in China is rapidly underway.

According to the 2016 Statistical Yearbook of Beijing issued by Beijing Statistics Bureau, the railway network (including subway network) in Beijing is challenged by the increasing passenger flow, and approximately 3.32 billion passengers were recorded by the railway transport network in Beijing for 2015. The substantial increase of passenger flow represents room for the railway transport network to further expand in Beijing. Beijing Municipal Government Informationisation Office and Beijing Municipal Commission of Development and Reform have jointly convened a press conference on 5 May 2016 in connection with the Outline of the 13th Five-Year Plan for the National Economy and Social Development of Beijing, and announced that the policy named "區區通軌道 (Make Every District Accessed to Railway Transport*)" would be implemented in Beijing during the 13th Five-Year Plan period, targeting to providing railway connection for every district in Beijing. According to the construction plan of the second phase of the urban railway transport project in Beijing, 12 projects will be constructed in Beijing between 2015 and 2021 with a total investment of approximately RMB212.3 billion. By 2020, a railway transport network with a total length of approximately 1,000km will be constructed in Beijing.

Besides, during the integration of Beijing, Tianjin and Hebei, the municipal governments of Beijing, Tianjin and Hebei and China Railway Corporation jointly established Beijing Tianjin Hebei Intercity Railway Investment Co. Ltd.* (京津冀城際鐵路投資有限公司) according to the capital contribution proportion of 3:3:3:1 by BII, Tianjin Railway Construction Investment Holdings (Group) Co., Ltd.* (天津鐵路建設投資控股（集團）有限公司), Hebei Construction Transportation and Investment Co., Ltd.* (河北建投交通投資有限責任公司) and Beijing Railway Bureau, with BII taking up the chairing unit. It is planned that 23 inter-city railways with a total length of 3,400km connecting Beijing, Tianjin and Hebei will be constructed in the future. Being the major investment force in infrastructure construction in Beijing, BII with its intensified experiences in railway investment and construction, is now enabled to participate in the inter-city construction investment project of phase one of Line No.2 of Xinjiang Urumqi Subway. The Group also expects to expand market presence by virtue of its own competitive strengths and industrial experiences.

Benefited from the national policy of the People's Republic of China (the "**PRC**"), the Group possesses significant growth potential. Being one of the major service providers of city railway transportation in China, the Group will adhere to the principle of "innovation, pragmatism and integrity" and undertake to build the asset-light "Beijing version of Hong Kong MTR".

APPRECIATION

Finally, I would like to take this opportunity to thank our valued shareholders, customers and business partners for their ongoing support and trust. Also, I would like to express my appreciation to my fellow Directors and the staff of the Group for their continuing contribution and unwavering dedication to the Group.

Guan Jifa
Chairman

Hong Kong, 24 March 2017

* *For identification purposes only*

Management Discussion and Analysis

OPERATION REVIEW

For the twelve months ended 31 December 2016, our business operation focused on three business segments, namely 1) system integration related application solution service; 2) application solution maintenance service; and 3) civil communication transmission system leasing service. Discussion on each of the three business segments is set out below:

System integration related application solution service

System integration related application solution service mainly represents, among others, design, testing, installation, debugging, integration, upgrading and replacement of railway transportation application solution and associated systems; sales of self developed software products relating to railway transportation application solution; sales of hardware and spare parts relating to railway transportation application solution system.

For the twelve months ended 31 December 2016, in addition to the projects that had commenced in previous financial years, the Group also generated revenue from certain new projects in connection with the system integration related application solution service, including alteration of platform doors of Beijing Subway Line No.2, and phase 2 of ACC system fare reform project regarding Beijing Subway tickets and pricing system. The system integration related application solution service business during the year outperformed that of the previous financial year, which was mainly attributable to the continuous business development in Beijing, and also the development of Phase one of the Changchun Subway Line No.1 project and the Shenzhen Network Operation Control Centre ("**NOCC**") project. It is expected that the performance of this segment will improve with the support of development plans in relation to inter-city railway and urban railway transport, including the "Collaborative Development Plan Outline for Beijing-Tianjin-Hebei (《京津冀協同發展規劃綱要》)", the "Second Phase of the Construction Plan of the Urban Railway Transport Project in Beijing (2015–2021)"(《北京市城市軌道交通第二期建設規劃(2015–2021年)》) and the draft of "13th Five-Year Plan".

Application solution maintenance service

Application solution maintenance service mainly represents, among others, repair and maintenance of application solution systems developed by the Group as well as other software developers.

For the twelve months ended 31 December 2016, our Group continued to provide Octopus system maintenance service to Kowloon Motor Bus Company (1933) Limited and NWFB in Hong Kong. While in Beijing, the Group continued to provide the ACC system, Traffic Control Centre ("**TCC**") system and inspection centre maintenance services to the Beijing Subway. Most of the existing maintenance service contracts that the Group entered into with its customers did not expire until the end of 2016, and the Group is in the process of renewal of such contracts with Beijing Subway. If the renewal goes well, it will bring constant stable income to the Group during the three contract periods, namely 2017, 2018 and 2019.

Civil communication transmission system leasing service

Civil communication transmission system leasing service mainly represents the provision of communication transmission system leasing service to mobile operators.

For the twelve months ended 31 December 2016, the Group's revenue arising from the civil communication transmission system leasing service was mainly generated from providing 2G, 3G and 4G civil communication transmission system leasing service to 174 stations of 15 subway lines of Beijing Subway. Among the civil communication transmission systems of the above 174 stations of 15 subway lines, the acquisition of the civil communication transmission systems of 41 stations of 4 subway lines were completed by the Company on 1 November 2016 upon approval at the extraordinary general meeting of the Company held on 1 November 2016. Meanwhile, the Group is also considering developing transmission system value-added leasing service in new fields. The civil communication transmission system leasing service is expected to deliver constant stable income to the Group.

FINANCIAL REVIEW

Revenue

The Group recorded an increase of approximately 49.4% in revenue from approximately HK$320.8 million for the year ended 31 December 2015 to approximately HK$479.3 million for the year ended 31 December 2016. The increase was mainly attributable to the Shenzhen NOCC project, alteration of platform doors of Beijing Subway Line No.2, phase 2 of the ACC fare system reform project regarding the Beijing Subway tickets and pricing system, together with recognition of the entire-year revenue from 49 stations of 3 subway lines acquired in August 2015 and recognition of the two-month revenue (for November and December 2016) from 41 stations of 4 subway lines acquired in November 2016 from civil communication transmission leasing service business.

Discussion on each of the business segments is set out below:

PROVISION OF DESIGN, IMPLEMENTATION AND SALE OF APPLICATION SOLUTION SERVICE

Revenue from provision of design, implementation and sale of application solution services increased by approximately 74.6% from approximately HK$180.6 million for the year ended 31 December 2015 to approximately HK$315.3 million for the year ended 31 December 2016. The increase was mainly benefitted from recognition of stage revenue of certain system integration projects, including recognition of revenue in this year from Beijing Subway Line No.2 platform door alteration project in respect of hardware supply and installation, and recognition of revenue from phase 2 of the ACC system fare reform project regarding the Beijing Subway tickets and pricing system and the Shenzhen NOCC project upon completion of engineering supply during the year.

APPLICATION SOLUTION MAINTENANCE SERVICE

Revenue of the Group from maintenance of application solution service decreased by approximately 7.8% from approximately HK$57.4 million for the year ended 31 December 2015 to approximately HK$52.9 million for the year ended 31 December 2016. As compared to the corresponding period of 2015, revenue for the year ended 31 December 2016 recorded a slight decrease, which was mainly due to the fluctuations in exchange rate.

CIVIL COMMUNICATION TRANSMISSION SYSTEM LEASING SERVICE

For the year ended 31 December 2016, the revenue of the Group from civil communication transmission system leasing service was approximately HK$111.2 million, representing an increase of approximately 34.5% as compared to approximately HK$82.7 million for the year ended 31 December 2015. The increase was mainly attributable to the recognition of revenue for the full year of 2016 from the civil communication assets acquired by the Group in August 2015, and the recognition of partial revenue from the civil communication assets of four new lines acquired by the Group in November 2016.

Cost of sales

For the year ended 31 December 2016, the cost of sales of the Group increased by approximately 88.3% to approximately HK$375.3 million from approximately HK$199.3 million for the year ended 31 December 2015. During the year under review, the Group generated its revenue mainly from provision of system integration business, operation and maintenance service and civil communication transmission system leasing service, and costs of these business segments were mainly related to equipment procurement, direct labour cost, maintenance and depreciation of civil communication equipment. The increase in cost of sales in the year was mainly due to that a majority of hardware costs relating to the system integration business contracts newly executed this year was recognised this year. Besides, as the Group increased acquisition of civil communication assets year by year, relevant operating costs would increase accordingly.

Gross profit

For the year ended 31 December 2016, the gross profit of the Group decreased by approximately 14.4% to approximately HK$104 million from approximately HK$121.5 million for the year ended 31 December 2015. The decrease in gross profit as compared to the corresponding period of 2015 was mainly due to increase in cost of sales.

Selling, general and administrative expenses

The Group's selling, general and administrative expenses decreased by approximately 17.5% from approximately HK$94.3 million for the year ended 31 December 2015 to approximately HK$77.8 million for the year ended 31 December 2016. Such decrease was mainly due to exclusion of research and development costs relating to software products in the year and the fluctuations in exchange rate.

Profit attributable to equity shareholders of the company

The Group's profit attributable to equity shareholders of the Company increased by approximately 12.2% from approximately HK$22.9 million for the year ended 31 December 2015 to approximately HK$25.7 million for the year ended 31 December 2016. Such increase was mainly due to increase in revenue as compared to the corresponding period of 2015.

Liquidity, financial and capital resources

CAPITAL STRUCTURE

As at 31 December 2016, the Company's issued share capital consisted of 2,106,154,727 ordinary shares of HK$0.01 each (31 December 2015: 1,423,321,203 ordinary shares of HK$0.01 each).

CASH POSITION

As at 31 December 2016, the Group's cash and cash equivalents were approximately HK$1,118.4 million (31 December 2015: approximately HK$626.8 million).

BANK BORROWINGS AND CHARGES ON THE GROUP'S ASSETS

In 2016, the Group has no bank borrowings and charges on assets (2015: nil).

WORKING CAPITAL AND GEARING RATIO

As at 31 December 2016, the Group had current assets of approximately HK$1,840.6 million (31 December 2015: HK$1,213.1 million), while its current liabilities were approximately HK$354.1 million (31 December 2015: HK$299.7 million), resulting in net current assets of approximately HK$1,486.5 million (31 December 2015: HK$913.4 million). Current ratio as at 31 December 2016, calculated based on current assets divided by current liabilities, was approximately 5.2 (31 December 2015: approximately 4.1).

Gearing ratio is calculated based on total debts at the end of a period divided by total assets at the end of such period multiplied by 100%. As at 31 December 2016, as the Group had no bank borrowings, long term debts or trade payables incurred not in the ordinary course of business, the gearing ratio was Nil (31 December 2015: Nil)

Foreign exchange exposure

The Group has four main operating subsidiaries, one located in Hong Kong and three in China. All of the subsidiaries earn revenue and incur cost mainly in its local currency. The Directors consider the impact of foreign exchange exposure of the Group is minimal.

Contingent liability

As at 31 December 2016, the Group did not have any material contingent liability (31 December 2015: Nil).

Employees and remuneration policies

As at 31 December 2016, the Group employed a total of 297 (31 December 2015: 291) employees, including the executive Directors. The total staff costs, including Directors' remuneration, were approximately HK$80.8 million (for the year ended 31 December 2015: HK$92.6 million).

The Group reviews remuneration package annually by reference to the prevailing market conditions and individual staff's working performance, qualification and experience. In addition to basic remuneration, the Group also pays bonus based on its performance and individual staff's contribution to the Group. Other staff benefits mainly refer to share option, contribution to social insurance scheme in China, contribution to the Mandatory Provident Fund scheme and relevant insurances in Hong Kong. The Group also organised professional and vocational trainings for its employees.

Significant investments held, material acquisitions or disposals of subsidiaries and affiliated companies, and future plans for material investments or capital assets

As disclosed in the announcements of the Company dated 20 May 2015 and 5 November 2015, the Company and Beijing MTR Operation established a joint venture, namely Beijing City Metro, which was owned by Beijing MTR Operation and the Company as to 51% and 49%, respectively. Beijing City Metro was officially incorporated on 15 February 2016 with registered capital of RMB500 million, for which Beijing MTR Operation and the Company made capital injection of RMB255 million and RMB245 million respectively according to their respective proportions of shareholding in Beijing City Metro.

CCRTTI and Beijing MTR Operation established a joint venture, named Metro Technology Development, which was owned by Beijing MTR Operation and CCRTTI as to 51% and 49%, respectively. Metro Technology Development was officially incorporated on 18 February 2016 with registered capital of RMB30 million, for which, Beijing MTR Operation and CCRTTI made capital injection of RMB15.3 million and RMB14.7 million respectively according to their respective proportions of shareholding in Metro Technology Development.

BII Zhuoyue, Cornerstone Administration Centre and Chuangweiying jointly established Cornerstone Chuangying Centre. As a limited liability partnership, Cornerstone Chuangying Centre was owned as to 20% by BII Zhuoyue, 30% by Cornerstone Administration Centre and 50% by Chuangweiying. Cornerstone Chuangying Centre was incorporated on 25 February 2016, subject to subscription of a total capital injection of RMB1 million, for which, BII Zhuoyue, Cornerstone Administration Centre and Chuangweiying made capital contribution of RMB200,000, RMB300,000 and RMB500,000 respectively by reference to their respective proportions of holding in Cornerstone Chuangying Centre.

BII Zhuoyue, ICBC Credit Suisse, Dr. Peng, Ever-Rising Industrial, Tonglingtong and Cornerstone Chuangying Centre jointly established Cornerstone Chuangying which was a limited liability partnership incorporated on 10 January 2017. The total capital injection subject to subscription for this partnership was RMB201 million, for which, BII Zhuoyue, ICBC Credit Suisse, Dr. Peng, Ever-Rising Industrial, Tonglingtong and Cornerstone Chuangying Centre made capital contribution of RMB50 million, RMB100 million, RMB20 million, RMB20 million, RMB10 million and RMB1 million, respectively. Accordingly, it is owned as to 24.88% by BII Zhuoyue as limited partner, 49.75% by ICBC Credit Suisse as limited partner, 9.95% by Dr. Peng as limited partner, 9.95% by Ever-Rising Industrial as limited partner, 4.97% by Tonglingtong as limited partner and 0.50% by Cornerstone Chuangying Centre as general partner.

Besides, as disclosed in the announcement of the Company dated 26 September 2016 and the circular of the Company dated 14 October 2016, the Company had completed acquisition of the civil communication assets of 41 underground stations in aggregate of 4 Beijing Subway lines and the civil communication wireless coverage system of one subway line of the Beijing Subway. For details, please refer to the section headed "Connected Transactions" in this annual report.

Save for above, there were no other significant investments held, material acquisitions or disposals of subsidiaries and affiliated companies, and other plans for material investments or capital assets during the year ended 31 December 2016.

Dividend

The Board did not recommend the payment of any dividend for the year ended 31 December 2016 (year ended 31 December 2015: Nil). The Group will retain cash to finance the continuing development of its business as well as prospective investment opportunities.

Business outlook

In the year 2017, the Group will endeavour to provide systematic and technical professional support based on project enhancement and technology research and development ("**R&D**") to the network operation of Beijing railway transportation. While implementing our long term goal towards commercialising and standardising application solutions for the industry, the Group will continue to build on its industry experience and establish macro data analysis platform, and to monitor and manage the operation of the Beijing Subway equipment. Meanwhile, the Group targets to provide a complete command control centre related solution and implementation programs to customers through business division and technology availability, thus to consolidate its market position in Beijing. It will also seek for potential business opportunities in other provinces, expand its customer base through introducing its extensive experience obtained in Beijing, and bring the operation models and products to the second-tier or third-tier and fourth-tier cities across the nation through business development. In 2017, there will be several new high-valued open tenders for Beijing railway transportation at network-level and line-level, including but not limited to phase two of the ticket improvement project of the Beijing Subway, construction and reconstruction of the passenger information system, and construction of the Passenger Control Centre system.

With the continuous expansion of "smart cities" and the increasing importance of subways in public transport, it has been an integral part of the subway value-added services to provide a convenient and efficient communication services to citizens travelling by urban railway transport vehicles so as to satisfy their diversified communication needs while they are on the move. The Group acquired the civil communication assets of the 41 stations of another 4 Beijing Subway lines and the civil communication wireless coverage system of one subway line of the Beijing Subway from BII for which the final settlement had been completed during the year. Upon completion of the acquisition of the civil communication assets of 41 stations of the 4 subway lines aforesaid, the Group would complete the acquisition of all the civil communication assets of the Beijing Subway held by BII. In 2017, the Group will continue to accelerate investment and construction of the civil communication assets of the newly developed subway lines in Beijing, so as to further expand its presence in subway civil communication business. The Group will also follow the technological development trends in the civil communication field, such as the 4G, 5G and 5.8G technologies. It will also study the development of the internet in order to establish a development model which accommodates the characteristics of subways. The Group will actively explore new value-added information business, such as optimisation of the existing fiber optic network and provision of fiber optic transmission service. Besides, the Group also plans to construct 10 Gigabit Ethernet running for railway transport to serve railway transport value-added business.

In addition, the Group seizes the opportunity of cooperating with Beijing MTR Operation by jointly establishing Beijing City Metro with Beijing MTR Operation, which helps the Group gain experience in managing and operating the Beijing Subway while completing its business expansion and transforming business model to subway operation. Supported by the experience of its partner, Beijing MTR Operation, the Group acquired the operating income rights of the existing Airport Express line of the Beijing Subway, as the first step for it to expand into the Beijing Subway lines operation business. Such reproducible and extensible operation model lays a solid foundation for the Group to develop new line projects in future.

Furthermore, the Group, through cooperation with Beijing MTR Operation established Metro Technology Development, to deliver a market-oriented operating platform which resulted in innovation of the equipment maintenance model, production organisation means and management methods of the AFC system, enabling the Group to improve its core competitive strengths thereby. By major repair, update and alteration of the AFC system equipment and provision of technological supports for construction of new line projects, the Group becomes one of the first class innovative professional railway transport service providers in domestic railway transport industry with sustainable development.

The Group will actively seize any market opportunities and continue to seek high quality assets acquisition opportunities relating to city railway transportation to enhance the Group's core competitiveness and profitability so as to reward its shareholders and investors.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

CAO Wei (曹瑋), Mr. Cao, aged 53, joined our Group in April 2009. He was appointed as Director on 7 January 2011 and redesignated as executive Director on 7 December 2011. He was redesignated as Vice Chairman on 28 February 2017. Mr. Cao obtained a bachelor's degree in industrial automation from Harbin Institute of Technology in July 1985 and received his certification as senior engineer in 1996. Mr. Cao subsequently obtained an executive master's degree in business administration (EMBA) from Tsinghua University in July 2009. From 1996 to 2001, Mr. Cao was the general manager of Beijing Telecom Network Technology Co., Ltd.. Mr. Cao had been a director and the general manager of Beijing Enterprises Teletron Information Technology Co., Ltd., a company which became a subsidiary of Beijing Development (Hong Kong) Limited ("**Beijing Development**"), a company listed on the Main Board of the Stock Exchange (stock code: 154) in 2001. From 2005 to 2010, Mr. Cao was an executive director and vice president of Beijing Development. Mr. Cao has over 20 years of experience in the management technology and communications industry and has developed strong business relationship and networks in the industry. Mr. Cao concurrently serves as the director of Great Legend Development Limited ("**Great Legend Development**"), Beijing City Railway Holdings Company Limited ("**Beijing City Railway**"), Innovation Holding Co., LTD., CCRTTI, ERG HK and BII Zhuoyue (each a subsidiary of the Group) and served as the director of Beijing City Metro, Metro Technology Development (each an associate of the Group) since February 2016. Mr. Cao is currently the chairman of BII Zhuoyue. He resigned as the director of ERG BJ in August 2016 and BII ERG in April 2016. Mr. Cao is the sole director of More Legend Limited ("**More Legend**"), the substantial shareholder of the Company and indirectly holds the shares of the Company through his 75% equity interest in More Legend. More Legend holds as to 11.66% of the issued share capital of the Company.

XUAN Jing (宣晶), Ms. Xuan, aged 43, was appointed as an executive Director on 27 June 2014 and redesignated as Chief Executive Officer on 28 February 2017. Ms. Xuan graduated from Tianjin University in the PRC in July 1995 with a bachelor's degree in engineering majoring in engineering management and obtained a master's degree in business administration from Nankai University in March 2001. In November 2003, Ms. Xuan was qualified as an intermediate economist approved by Beijing Intermediate Specialised Technique Qualification Assessment Committee* (北京市中級專業技術職務任職資格評審委員會). During the period from July 1995 to September 1998, Ms. Xuan acted as the project manager of Changshi International (Tianjin) Group Limited* (長實國際(天津)集團公司). From March 2001 to November 2007, Ms. Xuan acted as the deputy general manager of the finance department of Digital China (China) Ltd. During the period from November 2007 to May 2010, Ms. Xuan served as the secretary to the board of directors and the general manager of the development department of Beijing Jinxin Technology Co., Ltd* (北京神州金信科技股份有限公司). From May 2010 to January 2017, Ms. Xuan successively served as the assistant to the manager, deputy manager and general manager of the investment management department of BII. In July 2015, Ms. Xuan was appointed as the director of BII HK, the controlling shareholder of the Company. Ms. Xuan concurrently serves as the director of Great Legend Development, Beijing City Railway, CCRTTI, ERG HK, BII Zhuoyue, ERG BJ and BII ERG and serves as the director of Beijing City Metro since February 2017.

SHAO Kai (邵凱), Mr. Shao, aged 52, senior engineer, was appointed as an executive Director on 4 March 2015. Mr. Shao graduated from Shanghai Railway College* (上海鐵道學院) with a bachelor's degree majoring in railway signal in July 1985 and obtained a master's degree in business administration from Asia International Open University (Macau) in September 2003. From July 1985 to November 1996, Mr. Shao successively served as trainee, assistant engineer and engineer of China Railway Signal & Communication Co., Ltd* (中國鐵路通信信號股份有限公司). From November 1996 to November 2002, Mr. Shao successively served as senior engineer, chief engineer and head of The Signal Research & Design Department of Beijing National Railway Research & Design Institute of Signal & Communication* (北京全路通信信號研究設計院信號研究設計所). From November 2002 to November 2010, Mr. Shao served as deputy head of Beijing National Railway Research & Design Institute of Signal & Communication* (北京全路通信信號研究設計院(「北京通號院」)), and concurrently served as its secretary to the Party Committee from January 2004 to November 2010. From November 2010 to May 2012, Mr. Shao served as the director and the secretary to the Party Committee of Beijing National Railway Research & Design Institute of Signal & Communication Co., Ltd.* (北京全路通信信號研究設計院有限公司). From April 2003 to February 2005, Mr. Shao concurrently served as head of Beijing National Railway Research & Design Institute of Signal & Communication Shanghai Branch* (北京通號院上海分院). From April 2008 to September 2009, Mr. Shao concurrently served as general manager of China Railway Signal & Communication Co., Ltd. Urban Mass Transit Branch* (中國鐵路通信信號集團公司城市軌道交通分公司). From September 2009 to May 2010, Mr. Shao concurrently served as general manager, committee member of and secretary to the Party General Branch of Beijing Urban Mass Transit Branch* (北京城市軌道交通分公司). From May 2010 to May 2012, Mr. Shao concurrently served as president of Beijing Urban Transit Technology Co., Ltd.* (北京通號國鐵城市軌道技術有限公司(「通號城軌技術有限公司」)), and had respectively served as its deputy secretary to the Party General Branch and deputy secretary to the Party Committee during the period. From May 2012 to November 2014, Mr. Shao served as the president and deputy secretary to the Party Committee of Beijing Urban Transit Technology Co., Ltd.* (通號城軌技術有限公司), and concurrently served as its general manager from March 2013 to November 2014. Mr. Shao resigned as the director of Great Legend Development, Beijing City Railway, CCRTTI, ERG HK, ERG BJ and BII ERG. Mr. Shao resigned as executive Director and executive deputy general manager of the Company on 25 January 2017. For details, please refer to the announcement of the Company dated 25 January 2017.

NON-EXECUTIVE DIRECTORS

GUAN Jifa (關繼發), Mr. Guan, aged 51, was appointed as a non-executive Director on 28 October 2015 and redesignated as Chairman on 28 February 2017. Mr. Guan graduated from Xi'an Institute of Metallurgy and Architecture* (西安冶金建築學院) (now known as Xi'an University of Architecture and Technology) with a bachelor's degree in engineering in July 1987. In September 1999, Mr. Guan obtained the engineer qualification certificate and was qualified as a senior engineer approved by Beijing Senior Specialised Technique Qualification Assessment Committee* (北京市高級專業技術職務任職資格評審委員會). He had taken a post-graduate course in the International Business School of the University of International Business and Economics from March 2002 to August 2004. He obtained a doctorate's degree in engineering from Xi'an University of Architecture and Technology in December 2008. During the period from July 1987 to August 1992, Mr. Guan worked at the Heilongjiang Metallurgical Design and Planning Institute* (黑龍江冶金設計規劃院) as an Engineer. During the period from June 1994 to April 2005, Mr. Guan worked at Beijing Urban Construction No. 3 Development Co., Ltd* (北京城建三建設發展有限公司) as a project manager and subsequently served as a deputy general manager. From April 2005 to January 2008, Mr. Guan acted as the deputy general manager and subsequently the general manager of Beijing Subway Construction Co., Ltd* (北京地下鐵道建設公司). Mr. Guan served as the chairman of Beijing Jing Chuang Investment Ltd. (北京京創投資有限公司) from January 2008 to March 2010. From March 2010, Mr. Guan successively served as the general manager of the Land Development Department of BII, the controlling shareholder of the Company, assistant to general manager of BII and now serves as the deputy general manager of BII. He also serves as a non-executive director of Beijing Urban Construction Design of Development Group Co., Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1599). Mr. Guan served as the director of Beijing City Metro from February 2016 to February 2017.

TIAN Zhenqing (田振清), Dr. Tian, aged 51, is the non-executive Director. Dr. Tian joined our Group and was appointed as a Director on 6 July 2011. Dr. Tian was subsequently redesignated as chairman and non-executive Director on 7 December 2011. Dr. Tian obtained a bachelor's degree in metallurgical machinery from Wuhan University of Science and Technology (formerly known as Wuhan Institute of Iron and Steel) in July 1988, a master's degree in business administration from Renmin University of China in January 2001 and a doctorate degree from Huazhong University of Science and Technology in December 2011. Dr. Tian was accredited as senior engineer by Beijing Senior Specialised Technique Qualification Assessment Committee* (北京市高級專業技術職務任職資格評審委員會) in October 1998. Dr. Tian has extensive industry experience and expertise and currently serves as the chairman of BII and a director of BII HK, each a controlling shareholder of the Company. Dr. Tian has been serving as a director of Metro Land Development Co., Ltd. (formerly known as Metro Land Corporation Ltd.), a company listed on the Shanghai Stock Exchange (stock code: 600683), since May 2009 and as its chairman since August 2013. Dr. Tian was the chairman of Beijing MTR Corporation Limited, a joint venture company formed amongst MTR Corporation Limited, Beijing Capital Group Co., Ltd. and BII. Dr. Tian joined BII in 2005 and prior to that, Dr. Tian was the vice general manager of Beijing Chemical Industry Group Corporation Co., Ltd.. Dr. Tian resigned as the Chairman and non-executive Director on 28 February 2017. For details, please refer to the announcement of the Company dated 28 February 2017.

HAO Weiya (郝偉亞), Mr. Hao, aged 47, was appointed as a non-executive Director on 6 August 2013. Mr. Hao graduated from the University of Science and Technology Beijing in the PRC with a bachelor's degree in engineering majoring in applied chemistry (industry analysis) in July 1992 and a master's degree in business administration in June 2001. In November 2008, Mr. Hao was qualified as a senior economist approved by Beijing Senior Specialised Technique Qualification Assessment Committee* (北京市高級專業技術職務任職資格評審委員會). Mr. Hao has over 20 years of experience in finance and investment. During the period from January 1994 to March 2000, Mr. Hao worked in various brokerage and investment companies. During the period from March 2000 to April 2001, Mr. Hao acted as the project manager of Beijing Municipality Overseas Finance and Investment Managing Center* (北京市境外融投資管理中心). From April 2001 to January 2002, Mr. Hao acted as the deputy manager of the capital management department of Beijing State-owned Assets Management Co., Ltd.* (北京市國有資產經營有限責任公司). From January 2002 to August 2008, Mr. Hao served as the deputy general manager and subsequently acted as the general manager and chairman of the board of directors of Beijing Integrated Circuit Design Park Co., Ltd.* (北京集成電路設計園有限公司). From August 2008 to July 2014, Mr. Hao successively served as the senior investment manager of financing department, manager of investment management department, assistant to general manager and deputy general manager of BII, the controlling shareholder of the Company. From July 2014 onwards, Mr. Hao serves as a director and the general manager of BII. From January 2010 to June 2011 and from December 2014 onwards, Mr. Hao serves as a director of Metro Land Development Co., Ltd. (formerly known as Metro Land Corporation Ltd.), a company listed on the Shanghai Stock Exchange (Stock Code: 600683). From October 2013 to November 2014, Mr. Hao served as the non-executive director of Beijing Urban Construction Design & Development Group Co., Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1599). From November 2014 and March 2015, Mr. Hao serves as the chairman of Beijing MTR Corporation Limited, a joint venture company formed amongst MTR Corporation Limited, Beijing Capital Group Co., Ltd. and BII, and Beijing Tianjin Hebei Intercity Railway Investment Co. Ltd., respectively.

REN Yuhang (任宇航), Mr. Ren, aged 41, was appointed as non-executive Director on 28 February 2017 and is currently the general manager of the capital operation department of BII. Mr. Ren obtained a bachelor's degree in thermal engineering from Wuhan University in June 1996. He also obtained a master's degree in technology economics and management and a doctorate's degree in business administration from Beijing Institute of Technology in June 2004 and March 2008, respectively. From July 1996 to September 2003, Mr. Ren worked at Henan No. 1 Electrical Power Company* (河南省電力公司火電一公司) as an engineer. From September 2004 to September 2005, he worked for the Credit Management Authority of China Development Bank. From September 2005 to June 2006, he took the position of manager at the research department of Beijing Boxing Investment Consultancy Company Limited*(北京博星投資顧問有限公司). From May to September 2007, he worked as a senior consultant at the business consulting department of INNOFI Financial Information Industry Group* (北京正信嘉華管理顧問有限公司). Mr. Ren has worked as a project manager, senior project manager, general manager of the financial planning department and general manager of the capital operation department of BII since September 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS

BAI Jinrong (白金榮), Mr. Bai, aged 66, joined our Group and was appointed as an independent non-executive Director on 7 December 2011. Mr. Bai graduated from Beijing Normal University in 1985. Mr. Bai has over 30 years of experience in economics, finance and enterprise management. From 1984 to 1992, Mr. Bai served as a deputy director and director of the Policy Research Office of Beijing Chemical Industry Group. From 1992 to 1997, Mr. Bai served as a deputy director of Beijing Economic Structure Reforms Committee* (北京市經濟體制改革委員會). From 2003 to 2004, Mr. Bai was the deputy director of Beijing State-owned Assets Supervision and Administration Commission. From 2005 to 2010, Mr. Bai was the vice board chairman and general manager of Beijing Enterprises Group Company Limited. From June 2005 to June 2011, Mr. Bai was the executive director of Beijing Enterprises Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 392). From February 2015 to March 2016, Mr. Bai also served as the independent non-executive director of Kong Shum Union Property Management (Holding) Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8181).

LUO Zhenbang CPA (羅振邦), Mr. Luo, aged 51, joined our Group on 13 November 2012 and was appointed as an independent non-executive Director. Mr. Luo graduated from the School of Business of Lanzhou in 1991 majoring in enterprise management and obtained a master's degree in corporate governance and innovation from Tsinghua University. Mr. Luo has over 20 years' experience in accounting, auditing and financial management and is a Chinese Certified Public Accountant, Certified Tax Agent, Certified Public Valuer and Certified Accountant in securities and futures industry. Mr. Luo has extensive experience in the audit of listed companies in various sectors and provides business consultation services in corporate restructuring and strategic planning for initial public offerings and assets and debts restructuring. Mr. Luo had been the deputy general manager of Zhong Zhou Certified Public Accountants and Baker Tilly China Certified Public Accountants. He was an expert supervisor of China Cinda Asset Management Co., Ltd. and China Great Wall Asset Management Corporation. Mr. Luo had served as an independent director of several listed companies in the PRC, including Long March Vehicle Technology Company Limited (now known as China Aerospace Times Electronics Company Limited) (stock code: 600879) and AVIC Heavy Machinery Company Limited (stock code: 600765), each a company listed on the Shanghai Stock Exchange; Ning Xia Orient Tantalum Industry Company Limited (stock code: 962), Wuzhong Instrument Company Limited (now known as Ningxia Yinxing Energy Company Limited) (stock code: 862) and Ningxia Zhongyin Cashmere Company Limited (stock code: 982), each a company listed on the Shenzhen Stock Exchange. Mr. Luo has been the independent non-executive director of China Aerospace International Holdings Limited (stock code: 31) since December 2004, the independent non-executive director of Xinjiang Goldwind Science & Technology Co., Ltd. (stock code: 2208) since June 2013 and the independent non-executive director of Guorui Properties Limited (stock code: 2329) since July 2013, each a company listed on the Main Board of the Stock Exchange. Mr Luo has also been the independent director of Digital China Information Service Company Ltd. (stock code: 555), a company listed on the Shenzhen Stock Exchange since January 2014 and is also a member of the internal audit committee of Northeast Securities Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 686). Mr. Luo is the director and managing partner of BDO China Shu Lun Pan Certified Public Accountants LLP.

HUANG Lixin (黃立新), Mr. Huang, aged 45, was appointed as an independent non-executive Director on 9 July 2014. Mr. Huang graduated from the Law School of Renmin University of China with a bachelor's degree in law in July 1993 and obtained a master's degree in law from the University of International Business and Economics in July 1996. Mr. Huang obtained the Postgraduate Certificate in Laws (PCLL) from the University of Hong Kong in June 2001. Mr. Huang was qualified as a lawyer in the PRC since October 1995 and obtained the practising certificate issued by the Law Society of Hong Kong for the period from January to December 2004. Mr. Huang possessed extensive experience in the legal practice and had participated in numerous issues of securities, initial public offerings, post-listing financing as well as merger and acquisition projects over the past 20 years as a practising lawyer. Mr. Huang was an intern in the Department of Legal Affairs of the China Securities Regulatory Commission from November 1993 to February 1996. From August 1996 to July 2000, Mr. Huang was a PRC legal consultant at Herbert Smith LLP. From July 2001 to May 2007, Mr. Huang was appointed as a trainee solicitor and later a solicitor at Herbert Smith LLP. Mr. Huang is now a partner of Beijing Haiwen & Partners which he joined in May 2007.

WANG Xinjiang (王新江), Mr. Wang, aged 50, joined the Group as our Chief Financial Officer on 1 March 2016. Mr. Wang is mainly engaged in the financial affairs of the Group. Mr. Wang was granted with the bachelor degree of accounting from Central University of Finance and Economics in 1991, and the master degree of accounting from Central University of Finance and Economics in 2008. Prior to joining the Group, Mr. Wang served as chief financial officer of 威立雅交通巴黎地鐵中國有限公司 (Veolia Transport-RATP China), and successively served as financial director of Shengkang Group and 中馬綠能(國際)集團有限公司 (KCS Green Energy International (Group) Investments Co. Ltd). Currently, Mr. Wang is a specialist expert of BII.

LIU Yu (劉瑜), Mr. Liu, aged 43, was seconded from BII to our Group in May 2013 and was appointed as deputy general manager of our Group on 1 July 2014. Mr. Liu is primarily responsible for system integration and operation and maintenance business of our Group, and market expansion of the Group as well. Mr. Liu obtained a master's degree in transportation planning and management from Beijing University of Technology in 2008 and was an accredited engineer. Since Mr. Liu's secondment to our Group, Mr. Liu had served as the deputy general manager and executive deputy general manager of BII ERG. From July 2005 to May 2013, Mr. Liu had served as the manager of TCC project department, head of TCC technical workshop, deputy director of technical engineering department, manager of information centre project department and deputy chief engineer of Beijing Metro Network Administration Co., Ltd* (北京軌道交通路網管理有限公司). Since October 2014, Mr. Liu concurrently served as the general manager of BII-ERG and general manager of ERG BJ since August 2016.

LIU Zhongliang (劉忠良), Mr. Liu, aged 43, joined our Group in March 2009 and was appointed as deputy general manager of our Group on 1 September 2012. Mr. Liu is primarily responsible for the strategic planning and civil communication lease business development of our Group. Mr. Liu obtained a master's degree in management information from the Institute of Scientific and Technical Information of China in 2000 and was a visiting scholar at the University of Maryland in 2000. Since he joined the Group, Mr. Liu served as deputy general manager of ERG BJ and was transferred to BII ERG as deputy general manager in October 2009. Mr. Liu has over 15 years of experience in the management Technology and communications industry as well as the metro industry. Prior to joining our Group, Mr. Liu had worked at Anshan Municipal Commission of Development and Reform, and had served as the project manager at Motorola (China) Electronics Limited, the department manager at Samsung SDS (China) Limited, the director of engineering and software development at Telvent Control System (China) Limited (now known as Schneider Electric (China) Company Limited) and the China regional deputy general manager at ERG BJ respectively.

CAO Ying (曹穎), Ms. Cao, aged 42, joined our Group and was appointed as deputy general manager of our Group on 11 April 2011. Ms. Cao is currently primarily responsible for development of new business of our Group. Ms. Cao obtained a bachelor's degree in polymer chemical engineering from the Beijing University of Chemical Technology in 1997. Ms. Cao has over ten years of experience in the management Technology and communications industry. Prior to joining our Group, Ms. Cao was the administrative manager at Beijing Development (Hong Kong) Limited and the business development director at Beijing Beikong Telecom Information Technology Limited.

WU Xiao (吳筱), Ms. Wu, aged 37, joined our Group and was appointed as deputy general manager of our Group on 1 November 2010. Ms. Wu is primarily responsible for investor relations, merger and acquisition as well as marketing and capital markets activities of our Group. Ms. Wu obtained a bachelor's degree in international finance from Jinan University in 2002 and a master's degree in banking and finance from the University of Stirling in 2005. Ms. Wu has more than seven years of experience in asset management, equity capital markets and investment banking. Prior to joining our Group, Ms. Wu held the position of marketing director at CMS Asset Management (HK) Co., Limited. Between 2004 and 2006, Ms. Wu worked in the investment banking and equity capital markets department at China Merchants Securities (HK) Co., Ltd. Ms. Wu resigned as the deputy general manager of the Group on 28 February 2017.

CAO Runlin (曹潤林), Ms. Cao, aged 39, was seconded from BII to our Group in August 2012 and was appointed as deputy general manager of our Group on 1 July 2014. Ms. Cao is primarily responsible for the financial matters related to the subsidiaries of our Group in the PRC. Ms. Cao obtained her bachelor's and master's degree in administration (accounting) from Northeastern University in 1999 and 2002 respectively, and was accredited as an accountant in October 2004. Before joining the Group, Ms. Cao served as the accounting supervisor of the finance department of Altec Beijing Co., Ltd.* (阿爾卑斯科技（北京）有限公司) from September 2003 to September 2004. From October 2004 to January 2010, Ms. Cao had served as financial supervisor, senior supervisor of the planning & finance department and deputy manager of finance management department of BII. From August 2012 to July 2014, Ms. Cao had served as deputy general manager of BII ERG. Ms. Cao serves as deputy general manager of BII Zhuoyue since June 2014.

ZHAO Jingyuan (趙婧媛), Ms. Zhao, aged 37, was seconded from BII to our Group in April 2016 and was appointed as the deputy general manager of the Group on 1 April 2016. Ms. Zhao is mainly responsible for human resources, administration affairs, management of the Board and equity of the Group. Ms. Zhao obtained the bachelor degree of arts from Liaoning University in 2003, and the master degree of history in 2006 from the same university. She was awarded with the practicing qualification as senior human resources administrator in November 2011. Ms. Zhao owns over nine years of experiences in human resource management. Prior to joining the Group, Ms. Zhao worked in Zhongdian Feihua Communication Co., Ltd.* (中電飛華通信股份有限公司), a company held by State Grid Information Communication* (國網信通), as manager of the human resource department from July 2006 to February 2011. For the period from February 2011 to January 2012, she served as the senior director of the human resource department of BII. From January 2012 to October 2013, she took the position of director of human resource and administration department of BII-ERG. For the period from October 2013 to March 2016, she successively served as assistant to general manager and deputy general manager of the human resource department of BII. Ms. Zhao serves as deputy general manager of BII Zhuoyue since June 2016. Ms. Zhao is mainly responsible for the human resource and administration affairs.

COMPANY SECRETARY

Ng Sin Yee, Clare (吳倩儀), Ms. Ng, was appointed as the company secretary of the Company since 24 June 2016. Ms. Ng is now a Director of the Corporate Services Division of Tricor Services Limited, which is a global professional services provider specialising in integrated business, corporate and investor services. She is a Chartered Secretary and a Fellow of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries & Administrators in the United Kingdom. Ms. Ng holds Practitioner's Endorsement from the Hong Kong Institute of Chartered Secretaries. Ms. Ng has over 25 years of experiences as a company secretary and has been providing corporate services to multinational companies and companies listed in Hong Kong.

Directors' Report

The Directors are pleased to present their report for the year ended 31 December 2016:

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities and other particulars of its subsidiaries are set out in Note 14 to the consolidated financial statements.

As far as the Company is aware, for the year ended 31 December 2016, it has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company.

RESULTS

The Group's profit for the year ended 31 December 2016 and the state of affairs of the Group and of the Company as at that date are set out in the consolidated financial statements on pages 73 to 136. The Company is not aware of any arrangement under which a shareholder has waived or agreed to waive any dividends.

CLOSURE OF REGISTER OF MEMBERS

To determine the eligibility of the Shareholders to attend the annual general meeting ("**AGM**") to be held on Wednesday, 28 June 2017, the register of members will be closed from Friday, 23 June 2017 to Wednesday, 28 June 2017, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 22 June 2017, Hong Kong time.

ANNUAL GENERAL MEETING

The AGM will be held on Wednesday, 28 June 2017. Shareholders should refer to details regarding the AGM in the circular to be despatched by the Company and the notice of meeting and form of proxy accompanying therewith.

BUSINESS REVIEW

The business review of the Company for the year ended 31 December 2016 is set out in the sections headed "Management Discussion and Analysis" and "2016 ESG Reporting" of this annual report.

SHARE CAPITAL

Details of the movements in the Company's share capital are set out in Note 23(a) to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Company and the Group for the year ended 31 December 2016 are set out in Note 23(a) to the consolidated financial statements and the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

In accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account is distributable to the Shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business. As at 31 December 2016, the Company's reserves available for distribution amounted to approximately HK$1,859.5 million (31 December 2015: HK$950.8 million). Such amount includes the Company's share premium.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group for the year ended 31 December 2016 are set out in Note 11 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association (the "**Articles**") or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to the existing Shareholders.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years as extracted from the audited consolidated financial statements is set out on page 3 in this annual report. This summary does not form part of the audited financial statements in this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016, the purchases and sales percentage from the major customers and suppliers of the Group are set out below:

	Percentage of total purchases
(1) Purchases	
– the largest supplier	9.9%
– the five largest suppliers combined	33.7%

	Percentage of total sales
(2) Sales	
– the largest customer	15.2%
– the five largest customers combined	58.4%

Save as disclosed under the section headed "Connected Transactions" in this Directors' Report, as far as the Directors are aware, none of the Directors or any of their close associates, or any Shareholders (which, to the knowledge of the Directors, owns more than 5% of the Company's total number of issued shares) had any beneficial interest in the Group's five largest customers and suppliers for the year ended 31 December 2016.

DIRECTORS

The Directors for the year ended 31 December 2016 and up to the date of this report were:

Executive directors

Mr. Cao Wei *(Vice Chairman)*	redesignated as Vice Chairman on 28 February 2017
Ms. Xuan Jing *(Chief Executive Officer)*	redesignated as Chief Executive Officer on 28 February 2017
Mr. Shao Kai	resigned on 25 January 2017

Non-Executive directors

Mr. Guan Jifa *(Chairman)*	redesignated as Chairman on 28 February 2017
Dr. Tian Zhenqing	resigned on 28 February 2017
Mr. Hao Weiya	
Mr. Ren Yuhang	appointed on 28 February 2017

Independent non-executive directors

Mr. Bai Jinrong
Mr. Luo Zhenbang *CPA*
Mr. Huang Lixin

According to article 16.18 of the Articles, Mr. Cao Wei, Mr. Hao Weiya and Mr. Huang Lixin will retire as Directors by rotation at the AGM, and Mr. Ren Yuhang shall hold office until the AGM pursuant to article 16.2 of the Articles. All of the retiring Directors, being eligible, will offer themselves for re-election as Directors at the AGM.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received annual written confirmations from each of its independent non-executive Directors in respect of their independence during the year ended 31 December 2016 pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and all independent non-executive Directors are still being considered to be independent.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on pages 16 to 22 of this annual report.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who was proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group for the twelve months ended 31 December 2016 are set out in Notes 8 and 9 to the consolidated financial statements.

MANAGEMENT CONTRACTS

As at 31 December 2016, other than a contract of service with a Director or any person engaged in the full-time employment of the Company, the Company did not enter into or have any management and administration contracts in respect of the whole or any substantial part of the business of the Company.

EMOLUMENT POLICY

The emoluments of the Directors are decided by the remuneration committee of the Company, having regard to the Company's operating results, market competitiveness, individual performance, dedication and achievement. The Company has also adopted a share option scheme (the "**Share Option Scheme**") as an incentive to Directors and eligible employees, details of the scheme is set out in the section headed "Share Option Scheme" of this Directors' Report.

RELATIONSHIP WITH EMPLOYEES

People are the Group's most valuable asset. The Group believes in communicating with staff and giving them training and career development opportunities is beneficial to the Group and the staff. It also recognises good performance. It provides a variety of activities for staff to help them achieve a balance between work and life. The Group has established good relationship with its employees throughout the year.

REMUNERATION OF SENIOR MANAGEMENT

The remuneration payable to the senior management of the Company for the year ended 31 December 2016 is within the range of HK$0 to HK$1,500,000.

SHARE OPTION SCHEME

The Share Option Scheme was approved for adoption pursuant to a written resolution of all of the Shareholders passed on 8 December 2011 for the purpose to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to eligible participants and for such other purposes as the Board approves from time to time.

The Share Option Scheme was revised on 24 September 2013. It would remain in force for a period of 10 years commencing from 16 May 2012 unless terminated by the Company. As at the date of this annual report, the Share Option Scheme had a remaining life of approximately five years.

The share options granted under the Share Option Scheme must be taken up from the date on which the options are granted to such date as the Board may determine and specify in the offer letter. Upon acceptance of the option, the grantee shall pay HK$1 to the Company as consideration for the grant.

Unless otherwise determined by the Directors and stated in the offer of the grant of options to an eligible participant, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

The exercise price of the options granted under the Share Option Scheme may be determined by the Board at its absolution discretion but in any event will be at least the highest of: (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of offer, which must be a business day; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company.

Subject to the terms of the Share Option Scheme, the Board may, at its absolute discretion, grant or invite any person belonging to any of the following classes to take up options to subscribe for shares: (a) any employee, supplier, service provider, customer, partner or joint-venture partner of the Group (including any director, whether executive or non-executive and whether independent or not, of the Group) who is in full-time or part-time employment with the Company or any subsidiaries; and (b) any person who have contributed or may contribute to the Group. During the year ended 31 December 2016, no options were granted to participants of class (a) and class (b).

The maximum number of shares which may be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares of the Company in issue from time to time.

The total number of shares of the Company issued and to be issued upon exercise of all options granted (including both exercised and outstanding options) in any 12-month period to any eligible participant shall not exceed 1% of the total issued shares of the Company unless (i) a circular is despatched to the Shareholders; (ii) the Shareholders approve the grant of the options in excess of the 1% limit referred to in this paragraph; and (iii) the relevant eligible participant and its associates abstain from voting on such resolution.

As at the date of this annual report, the total number of shares of the Company available for issue under the Share Option Scheme is 130,724,366 Shares, representing approximately 6.21% of the issued shares of the Company.

As at 31 December 2016, there were 33,850,000 outstanding share options granted under the Share Option Scheme, details as follows:

						Number of share options						
Grantee	Position/ Capacity	Date of grant	Exercise price (HK$)	Vesting period	Exercise period	Balance as at 1 January 2016	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Balance as at 31 December 2016	Market value per share on exercise of options**
BII HK	Substantial Shareholder	5 December 2014	2.690	5 December 2014 to 4 December 2015 (Note 3)	5 December 2015 to 4 December 2019 (Note 3)	1,300,000	–	–	–	–	1,300,000	–
Mr. Cao Wei*	Chief Executive Officer and Executive Director	26 July 2012	0.656	26 July 2012 to 25 July 2013 (Note 1)	26 July 2013 to 25 July 2017 (Note 1)	800,000	–	–	–	–	800,000	–
		5 December 2014	2.690	5 December 2014 to 4 December 2015 (Note 3)	5 December 2015 to 4 December 2019 (Note 3)	500,000	–	–	–	–	500,000	–
Others	Employees	26 July 2012	0.656	26 July 2012 to 25 July 2013 (Note 1)	26 July 2013 to 25 July 2017 (Note 1)	11,680,000	–	(10,800,000)	–	–	880,000	HK$1.37
Others	Employees	31 December 2013	1.080	31 December 2013 to 30 December 2014 (Note 2)	31 December 2014 to 30 December 2018 (Note 2)	19,520,000	–	(2,980,000)	–	(1,520,000)	15,020,000	HK$1.36
Others	Employees	5 December 2014	2.690	5 December 2014 to 4 December 2015 (Note 3)	5 December 2015 to 4 December 2019 (Note 3)	18,000,000	–	–	–	(2,650,000)	15,350,000	–
						51,800,000	–	(13,780,000)	–	(4,170,000)	33,850,000	

Notes:

1. On 26 July 2012, a total of 40,000,000 share options were granted to certain Directors and employees of the Company under the Share Option Scheme to subscribe for shares of the Company, exercisable at a price of HK$0.656 per share during a period from 26 July 2013 to 25 July 2017. Out of the share options granted, 39,200,000 share options were taken up. These options were vested and became exercisable in three tranches in the proportion of 20%, 70% and 100% on 26 July 2013, 26 July 2014 and 26 July 2015 respectively.

2. On 31 December 2013, a total of 20,000,000 share options were granted to certain employees of the Company under the revised Share Option Scheme to subscribe for shares of the Company, exercisable at a price of HK$1.080 per share during a period from 31 December 2014 to 30 December 2018. These options were vested and became exercisable in three tranches in the proportion of 20%, 70% and 100% on 31 December 2014, 31 December 2015 and 31 December 2016 respectively.

3. On 5 December 2014, a total of 20,000,000 share options were granted to a substantial shareholder, a Director and certain employees of the Company under the revised Share Option Scheme to subscribe for shares of the Company, exercisable at a price of HK$2.690 per share during a period from 5 December 2015 to 4 December 2019. These options were vested and became exercisable in three tranches in the proportion of 20%, 70% and 100% on 5 December 2015, 5 December 2016 and 5 December 2017 respectively.

* Mr. Cao Wei ceased as Chief Executive Officer and was redesignated as Vice Chairman with effect from 28 February 2017.

** Being the weighted average closing price of the Company's ordinary shares immediately before the dates on which the options were exercised.

DIRECTORS' INTEREST IN CONTRACTS

Saved as disclosed under the section "Connected Transactions" below and disclosed in Note 27 to the consolidated financial statements under the heading "Material related party transactions", (i) no contract of significance to which the Company, or any of its holding company or subsidiaries was a party, and in which a Director or an entity connected with such Director had a material interest, whether directly or indirectly, subsisted at 31 December 2016 or at any time during the year ended 31 December 2016; (ii) no contract of significance had been entered into between the Company or any of its subsidiaries and the controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries; and (iii) no contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling shareholder of the Company or any of its subsidiaries was entered into.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 31 December 2016, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Cap 571 of the Laws of Hong Kong ("**SFO**")) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules were as follows:

Long positions in shares and underlying shares

Name of Director	The Company/ Name of associated corporation	Capacity	Number of shares	Number of underlying shares held in respect of share options under the share option scheme	Approximate percentage of issued share capital of the Company/ associated corporation
Mr. Cao Wei ("**Mr. Cao**")	The Company	Interest of controlled corporation (Note 1)	245,509,815	–	11.66%
	The Company	Beneficial owner	–	1,300,000 (Notes 2 and 3)	0.06%
					11.72%

Notes:

1. These shares are held by More Legend which is owned as to 75% by Mr. Cao and 25% by Ms. Wang Jiangping ("**Ms. Wang**"), the spouse of Mr. Cao. By virtue of the SFO, Mr. Cao is deemed to be interested in the 245,509,815 shares of the Company which More Legend owns. Mr. Cao is the sole director of More Legend.

2. On 26 July 2012, Mr. Cao was granted 800,000 options under the share option scheme of the Company to subscribe for 800,000 shares of the Company, exercisable at a price of HK$0.656 per share during a period from 26 July 2013 to 25 July 2017. These options are vested and become exercisable in three tranches in the proportion of 20%, 70% and 100% on 26 July 2013, 26 July 2014 and 26 July 2015 respectively.

3. On 5 December 2014, Mr. Cao was granted 500,000 options under the share option scheme of the Company to subscribe for 500,000 shares of the Company, exercisable at a price of HK$2.690 per share during a period from 5 December 2015 to 4 December 2019. These options are vested and become exercisable in three tranches in the proportion of 20%, 70% and 100% on 5 December 2015, 5 December 2016 and 5 December 2017 respectively.

Save as disclosed above, as at 31 December 2016, so far as was known to the Directors or the chief executive of the Company, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be recorded in the register referred to therein; or (c) pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

As at 31 December 2016, so far as was known to the Directors or the chief executive of the Company, the persons (other than the Directors and the chief executive of the Company) who had interests and/or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in shares and underlying shares of the Company

Name of substantial shareholder	Capacity	Number of shares	Number of underlying shares held in respect of share options under the share option scheme	Approximate percentage of issued share capital of the Company
More Legend	Beneficial owner (Note 1)	245,509,815	–	11.66%
Ms. Wang	Interest of spouse (Note 2)	245,509,815	1,300,000	11.72%
BII HK	Beneficial owner (Note 3)	1,157,634,900	1,300,000	54.96%
BII	Interest of controlled corporation (Note 3)	1,157,634,900	1,300,000	54.96%
China Property and Casualty Reinsurance Company Ltd.* (中國財產再保險有限責任公司)	Beneficial owner (Note 4)	148,585,534	–	7.05%
China Reinsurance (Group) Corporation* (中國再保險(集團)股份有限公司)	Interest of controlled corporation (Note 4)	168,493,534	–	8.00%
Central Huijin Investment Ltd.	Interest of controlled corporation (Note 4)	168,493,534	–	8.00%

Notes:

1. More Legend is the legal and beneficial owner of 245,509,815 shares of the Company. Mr. Cao and Ms. Wang are the legal and beneficial owners of 75% and 25% respectively of the entire issued share capital of More Legend. Mr. Cao is the sole director of More Legend.

2. Ms. Wang is the spouse of Mr. Cao and by virtue of the SFO, is deemed to be interested in the 245,509,815 shares and the 1,300,000 underlying shares of the Company which Mr. Cao is interested in.

3. BII HK is a wholly-owned subsidiary of BII, a company established under PRC law with limited liability and wholly owned by the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality. By virtue of the SFO, BII is deemed to be interested in the 1,157,634,900 shares and the 1,300,000 underlying shares of the Company owned by BII HK. Dr. Tian Zhenqing is a director of BII HK.

4. China Property and Casualty Reinsurance Company Ltd. and China Life Reinsurance Company Ltd. which hold 148,585,534 shares of the Company and 19,908,000 shares of the Company, respectively, are each a wholly-owned subsidiary of China Reinsurance (Group) Corporation, which is in turn owned as to 71.56% by Central Huijin Investment Ltd. By virtue of the SFO, China Reinsurance (Group) Corporation and Central Huijin Investment Ltd. are deemed to be interested in the 148,585,534 shares of the Company owned by China Property and Casualty Reinsurance Company Ltd. and 19,908,000 shares of the Company owned by China Life Reinsurance Company Ltd.

Save as disclosed above, as at 31 December 2016, the Directors have not been notified by any person (other than the Directors or the chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has devised its own code of conduct for securities transactions regarding Directors' and employees' dealings in the Company's securities (the "**Securities Dealing Code**") on terms no less exacting than the Model Code.

Specific enquiry has been made of all the Directors and employees to whom the Securities Dealing Code applies. The Directors have confirmed that they have complied with the Securities Dealing Code and the Model Code throughout the year ended 31 December 2016. No incident of non-compliance with the Securities Dealing Code by the employees was noted by the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the paragraph headed "Directors' and Chief Executive's interests and short positions in the shares, underlying shares and debentures of the Company or its associated corporations" and in the section "Share Option Scheme", at no time during the year ended 31 December 2016 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their respective spouse or minor children to acquire such rights in any other body corporate.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors or substantial Shareholders or any of their respective associates has engaged in any business that competes or may compete with the businesses of the Group or has any conflict of interests with the Group.

CONNECTED TRANSACTIONS

Material related party transactions entered into by the Group for the year ended 31 December 2016 are disclosed in Note 27 to the consolidated financial statements. Some of these transactions also constitute connected transactions under the Listing Rules, as identified below.

(I) Subscription of new shares

On 29 August 2016, the Company entered into a subscription agreement ("**BII HK Agreement**") with BII HK pursuant to which BII HK conditionally agreed to subscribe for and the Company conditionally agreed to allot and issue an aggregate of 669,053,524 new ordinary shares to BII HK at the subscription price of HK$1.35 per subscription share with a one-year lock-up period. The subscription shares represent approximately 46.60% of the then issued share capital of the Company and approximately 31.79% of the then issued share capital of the Company as enlarged by the allotment and issue of the subscription shares, subject to completion of the subscription. Further details of the subscription were set out in the announcements of the Company dated 31 August 2016, 25 October 2016, 3 November 2016 and the circular of the Company dated 6 October 2016. The aggregate nominal value of the subscription shares was approximately HK$6,690,535. The net subscription price was approximately HK$1.35 per subscription share. The closing price per share of the Company as quoted on the Stock Exchange on 29 August 2016 was HK$1.49.

As at the date of the BII HK Agreement, BII HK was a shareholder of the Company which held 488,581,376 shares, representing approximately 34.03% of the then issued share capital of the Company. Since BII HK was a controlling shareholder of the Company and hence a connected person of the Company under Rule 14A.07(1) of the Listing Rules, the subscription constituted a connected transaction for the Company, and is subject to the announcement, reporting and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Directors considered that the subscription represented an opportunity to raise capital for the Company in order to maintain the cash flow position of the Group and to enhance the capital base of the Company and was in the interest of the Group and the Shareholders as a whole.

The gross proceeds from the subscription are expected to be approximately HK$903,222,257.40 in aggregate. After deducting related professional fees and all related expenses of about HK$0.6 million which was borne by the Company under the subscription, the net proceeds of the subscription was approximately HK$902.62 million.

As disclosed in the circular of the Company dated 6 October 2016, the net proceeds from the subscription would be applied as follows: (i) approximately HK$250 million (accounting for approximately 28% of the net proceeds from the subscription) would be used as general working capital of the Group; (ii) approximately HK$85 million (accounting for approximately 9% of the net proceeds from the subscription) would be used to acquire the civil communication assets, as disclosed in the announcements of the Company dated 29 June 2015 and 26 September 2016, respectively; and (iii) approximately HK$568 million (accounting for approximately 63% of the net proceeds from the subscription) would be used to inject capital to the joint venture company, Beijing City Metro, as jointly established by the Company and Beijing MTR Operation, as disclosed in the announcement of the Company dated 5 November 2015 in relation to establishment of a joint venture company (which constituted a discloseable transaction of the Company under the Listing Rules).

As at the date hereof, approximately HK$68 million was utilised to acquire the civil communication assets as intended. The remaining amount of the net proceeds from the subscription has not been utilised.

(II) Acquisition of civil communication assets

On 26 September 2016, BII Zhuoyue ("**Purchaser**") entered into an acquisition agreement ("**Acquisition Agreement**") with BII ("**Vendor**"), pursuant to which the Purchaser has conditionally agreed to acquire from the Vendor the sale assets (being the civil communication transmission systems of the 41 underground stations of four subway lines of the Beijing Subway and the civil communication wireless coverage system of one subway line of the Beijing Subway, in particular, (i) the fixed assets of and the income rights to be derived from the civil communication transmission systems of Phase 2 of Line No. 6, Line No. 7, the eastern and western section of Phase 1 of Line No. 15, and the connecting line between Line Changping and Line No. 8, of the Beijing Subway; (ii) the fixed assets of and the income rights to be derived from the civil communication wireless coverage system of the eastern section of Phase 1 of Line No. 15 of the Beijing Subway; and (iii) the rights and obligations under certain underlying contracts), at an aggregate consideration of RMB57.8 million.

As at the date of the Acquisition Agreement, BII HK held 488,581,376 shares, representing approximately 34.03% of the issued share capital of the Company. BII HK was a controlling Shareholder and hence a connected person of the Company under Rule 14A.07(1) of the Listing Rules. The Vendor, as the sole owner of BII HK, was an associate of BII HK and hence a connected person of the Company. The acquisition was completed on 1 November 2016. Details of the acquisition were set out in the announcements of the Company dated 26 September 2016, and the circular of the Company dated 14 October 2016.

NON-EXEMPT CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Save as disclosed below, no other transactions are required to be disclosed as continuing connected transactions in accordance with the requirements of the Listing Rules.

(I) Framework agreement entered into between the Company and Beijing Metro Network Administration Co., Ltd* (北京軌道交通路網管理有限公司)

As disclosed in the announcement of the Company dated 25 June 2013 and the circular of the Company dated 17 July 2013 in relation to the former Beijing Metro Network Framework Agreement for a period commencing from 9 August 2013 and ended on 30 June 2016 (both days inclusive). The authorised annual caps of the transaction contemplated under the former Beijing Metro Network Framework Agreement had expired on 30 June 2016.

On 11 May 2016, the Company entered into a framework agreement with Beijing Metro Network Administration Co., Ltd ("**Beijing Metro Network**") to regulate the business relationships between the parties thereto ("**Beijing Metro Network Framework Agreement**") for a period commencing from 1 July 2016 and ending on 30 June 2019 (both days inclusive).

Under Chapter 14A of the Listing Rules, the Beijing Metro Network Framework Agreement and the transaction contemplated thereunder constituted continuing connected transaction of the Company. As of 11 May 2016, Beijing Metro Network was wholly owned by BII which wholly owned BII HK. BII HK, as a Shareholder, held approximately 34.11% of the then issued share capital of the Company. Under the rule 14A.07 of the Listing Rules, since Beijing Metro Network was an associate of BII HK, hence it was regarded as a connected person of the Company.

Pursuant to the Beijing Metro Network Framework Agreement, the Company agrees to provide, and procure members of the Group to provide (i) consultation and technical support services; (ii) logistics and maintenance services; and (iii) information technology support services and other ancillary services that parties thereto agree in writing from time to time in relation to the setting up and operation of the railway transport command centre in Beijing (collectively, the "**Beijing Metro Network Services**") to Beijing Metro Network during the term of the Beijing Metro Network Framework Agreement, provided that (i) the member of the Group is awarded the relevant contract in accordance with the stipulated procedures under the relevant PRC laws and regulations (if required); and (ii) the parties thereto negotiate at arm's length regarding the commercial terms to be set out in the individual agreements for the Beijing Metro Network Services.

Pursuant to the Beijing Metro Network Framework Agreement, parties thereto will enter into individual agreements for the provision of the Beijing Metro Network Services. Pursuant to the Beijing Metro Network Framework Agreement, the terms (including the service fees) of the individual agreements to be entered into will be negotiated by the parties in good faith and will be determined by the parties from time to time under normal commercial terms in the ordinary course of business. The service fees offered by the Group shall be determined with reference to, among other factors, the prevailing market conditions, competition, gross profit margin, costs of sale, duration of project and the associated risk factors. Further details regarding the Beijing Metro Network Framework Agreement and related continuing connected transactions were set out in the announcement and the circular of the Company dated 11 May 2016 and 1 June 2016, respectively.

There has been a long-standing business relationship between the Group and Beijing Metro Network. The Directors consider Beijing Metro Network is a reliable business partner and further business cooperation will be beneficial to and provide a steady income stream to the Company.

For the year ended 31 December 2016, the total amount of transactions carried out under the Beijing Metro Network Framework Agreement amounted to HK$73.0 million.

(II) Framework agreement entered into between the Company and Beijing Railway Construction and Management Co., Ltd.* (北京市軌道交通建設管理有限公司)

As disclosed in the announcement of the Company dated 9 August 2013 and the circular of the Company dated 30 August 2013 in relation to the former Beijing Railway Construction Framework Agreement for a period commencing from 24 September 2013 and ended on 30 June 2016 (both days inclusive). The authorised annual cap of the transaction contemplated under the former Beijing Railway Construction Framework Agreement had expired on 30 June 2016.

On 11 May 2016, the Company entered into a framework agreement with Beijing Railway Construction and Management Co., Ltd. ("**Beijing Railway Construction**") to regulate the business relationships between the parties thereto ("**Beijing Railway Construction Framework Agreement**") for a period commencing from 1 July 2016 and ending on 30 June 2019 (both days inclusive).

As at 11 May 2016, BII-ERG was a non-wholly-owned subsidiary of the Group. Beijing City Railway Transportation Consultation Co., Ltd.* (北京城市軌道交通諮詢有限公司) ("**Beijing Transport Consultation**") was a substantial shareholder of BII-ERG holding 10% of the equity interest in BII-ERG, and hence a connected person of the Group. Beijing Railway Construction is the holding company of Beijing Transport Consultation which holds 93% of the equity interests in Beijing Transport Consultation, hence Beijing Railway Construction is an associate of Beijing Transport Consultation and also a connected person of the Company under Rule 14A.07 of the Listing Rules.

Pursuant to the Beijing Railway Construction Framework Agreement, the Company agrees to provide, and procure members of the Group to provide (i) consultation and technical support services; (ii) logistics services; and (iii) information technology support services and other ancillary services that parties thereto agree in writing from time to time in relation to the organization and management of the construction of new railway transport lines (collectively, the "**Beijing Railway Construction Services**") to Beijing Railway Construction during the term of the Beijing Railway Construction Framework Agreement, provided that (i) the member of the Group is awarded the relevant contract in accordance with the stipulated procedures under the relevant PRC laws and regulations (if required); and (ii) the parties thereto negotiate at arm's length regarding the commercial terms to be set out in the individual agreements for the Beijing Railway Construction Services.

Pursuant to the Beijing Railway Construction Framework Agreement, parties thereto will enter into individual agreements for the provision of the Beijing Railway Construction Services. Pursuant to the Beijing Railway Construction Framework Agreement, the terms (including the service fees) of the individual agreements to be entered into will be negotiated by the parties in good faith and will be determined by the parties from time to time under normal commercial terms in the ordinary course of business. The service fees offered by the Group shall be determined with reference to, among other factors, the prevailing market conditions, competition, gross profit margin, costs of sale, duration of project and the associated risk factors. Further details regarding the Beijing Railway Construction Framework Agreement and related continuing connected transactions were set out in the announcement and the circular of the Company dated 11 May 2016 and 1 June 2016, respectively.

There has been a long-standing business relationship between the Group and Beijing Railway Construction. The Directors consider Beijing Railway Construction is a reliable business partner and further business cooperation will be beneficial to and provide a steady income stream to the Company.

For the year ended 31 December 2016, the total amount of transactions carried out under the Beijing Railway Construction Framework Agreement amounted to HK$6.2 million.

(III) Tenancy agreements in relation to leasing of properties

On 18 January 2016, Beijing Metro Network entered into a tenancy agreement (collectively, "**2016 Tenancy Agreements**") with each of BII Zhuoyue, BII-ERG and ERG BJ (collectively, the "**Tenants**"), whereby the Tenants leased properties from Beijing Metro Network for a term of one year from 1 January 2016 to 31 December 2016.

The consideration in respect of the transactions contemplated under the 2016 Tenancy Agreements for the year ended 31 December 2016 was RMB4.7 million (equivalent to approximately HK$5.5 million), which was calculated with reference to the aggregate annual rental payable by the Tenants to Beijing Metro Network pursuant to the 2016 Tenancy Agreements.

The terms of the 2016 Tenancy Agreements (together with the consideration) were determined after arm's length negotiations between the parties and after making reference to the prevailing market rates. The rental payment will be paid in cash in one-off within 10 days after signing of the 2016 Tenancy Agreements. Details of the transactions contemplated under the 2016 Tenancy Agreements were set out in the announcement of the Company dated 18 January 2016.

The Tenants were subsidiaries of the Company. As at the date of such announcement, BII HK held 482,581,376 shares in the Company, representing approximately 33.90% of the then issued share capital of the Company. BII HK was a controlling shareholder of the Company and a connected person of the Company. BII was the sole beneficial shareholder of BII HK and Beijing Metro Network. Accordingly, Beijing Metro Network was an associate of BII and BII HK, and would therefore become a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the 2016 Tenancy Agreements constitute continuing connected transactions of the Company under the Listing Rules.

Pursuant to Rule 14A.56 of the Listing Rules, the Board has engaged the auditor to report on the Group's continuing connected transactions and the auditor has confirmed that the Group's continuing connected transactions are in accordance with Rule 14A.56 of the Listing Rules and has issued an unqualified letter containing their findings and conclusions accordingly.

The independent non-executive Directors have confirmed the continuing connected transactions in accordance with Rule 14A.55 of the Listing Rules. Specifically, the independent non-executive Directors have reviewed the continuing connected transactions and the unqualified letter from the auditor and have confirmed that the continuing connected transactions entered into by the Group were in the ordinary and usual course of its business, on normal commercial terms or better, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the Shareholders as a whole.

The Board confirms that the Company has complied with the applicable disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of each of the connected transactions set out above.

EVENTS AFTER THE REPORTING PERIOD

Save for the establishment of Cornerstone Chuangying Centre and Cornerstone Chuangying as disclosed in the paragraph headed "Significant investments held, material acquisitions or disposals of subsidiaries and affiliated companies, and future plans for material investments or capital assets" of this annual report and Note 29 to the consolidated financial statements, there is no other material events after the reporting period as at the date of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this annual report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's listed securities.

DONATIONS

No charitable and other donations were made by the Group during the year ended 31 December 2016.

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme as disclosed on pages 26 to 27 of this annual report, no equity-linked agreements were entered into by the Company, or existed during the year ended 31 December 2016.

DIRECTORS' PERMITTED INDEMNITY PROVISION

Under the Articles, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG")

The Group recognises its responsibility to protect the environment when conducting its business activities. The Group continually seeks to identify and manage environmental impacts attributable to its operational activities in order to minimise these impacts if possible. The Group aims to maximise energy conservation in its offices by promoting efficient use of resources and adopting green technologies. For instance, the Group continues to upgrade equipment such as lighting and air conditioning systems in order to increase overall operating efficiency. To identify energy efficiency opportunities, the Group measures and records the energy consumption intensity from time to time. Further details are set out in the section of "2016 ESG Reporting" on page 49 to 63 of this annual report.

AUDITORS

The consolidated financial statements for the year ended 31 December 2016 were audited by KPMG and they have issued an unqualified opinion. KPMG shall retire and, being eligible, offer themselves for re-appointment at the AGM. A resolution to re-appoint KPMG as auditors of the Company and to authorise the Directors to fix the auditors' remuneration will be proposed at the AGM.

By Order of the Board
China City Railway Transportation Technology Holdings Limited
Xuan Jing
Executive Director
Chief Executive Officer

Hong Kong, 24 March 2017

Corporate Governance Report

The Board is pleased to present the Corporate Governance Report for the year ended 31 December 2016.

CORPORATE GOVERNANCE PRACTICES

The Board believes that maintaining high standard of corporate governance practices is crucial to safeguarding shareholders' and stakeholders' interests, as well as enhancing corporate value, transparency and accountability.

The Company has applied the principles as set out in the CG Code. For the year ended 31 December 2016, the Company was in compliance with the CG Code.

BOARD OF DIRECTORS

Board Composition

The Board currently has eight Directors, comprising two executive Directors, three non-executive Directors and three independent non-executive Directors. Subsequent to the year ended 31 December 2016, Mr. Shao Kai resigned as executive Director on 25 January 2017, and Dr. Tian Zhenqing resigned as non-executive Director on 28 February 2017. Mr. Ren Yuhang was appointed as non-executive Director on 28 February 2017. Details of the Board composition are set out below:

Executive Directors

Ms. Xuan Jing	(redesignated as Chief Executive Officer on 28 February 2017)
Mr. Cao Wei	(redesignated as Vice Chairman on 28 February 2017 and member of the Remuneration Committee)
Mr. Shao Kai	(resigned on 25 January 2017)

Non-executive Directors

Mr. Guan Jifa	(redesignated as Chairman on 28 February 2017 and chairman of the Nomination Committee)
Mr. Hao Weiya	
Mr. Ren Yuhang	(appointed on 28 February 2017)
Dr. Tian Zhenqing	(resigned on 28 February 2017)

Independent Non-executive Directors

Mr. Bai Jinrong	(chairman of the Remuneration Committee and member of the Audit Committee and the Nomination Committee)
Mr. Luo Zhenbang	(chairman of the Audit Committee)
Mr. Huang Lixin	(member of the Audit Committee, the Remuneration Committee and the Nomination Committee)

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules.

The biographical details of the current Directors are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 16 to 20 of this annual report. None of the members of the Board is related to one another.

Chairman and Chief Executive Officer

The roles of the Chairman and Chief Executive Officer are segregated to ensure their respective independence, accountability and responsibility. During the year ended 31 December 2016, Dr. Tian Zhenqing and Mr. Cao Wei were the Chairman and Chief Executive Officer, respectively. On 28 February 2017, Mr. Guan Jifa was appointed as the Chairman in place of Dr. Tian Zhenqing following Dr. Tian Zhenqing's resignation as non-executive Director on the same day, and Ms. Xuan Jing was appointed as the Chief Executive Officer in place of Mr. Cao Wei. The Chairman provides leadership and is responsible for the Group's strategic planning and the management of the operations of the Board, while the Chief Executive Officer takes the lead in the Group's operations and business development, and focuses on the daily management and operations generally. There is a clear division of responsibilities between the Chairman and Chief Executive Officer which provides a balance of power and authority.

Independent Non-Executive Directors

The Board consists of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise at all times during the year ended 31 December 2016.

The Company has received written annual confirmation from each independent non-executive Director in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive Directors are independent.

Appointment and Re-election of Directors

Each of the executive Directors has entered into a service agreement with the Company for a term of three years which can be terminated by either party by giving to the other not less than three months' prior written notice. Each of the non-executive Directors including independent non-executive Directors has entered into a letter of appointment with the Company for a fixed term of three years which can be terminated by the Company by not less than three months' prior written notice.

According to Article 16.2 of the Articles, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting.

According to Article 16.3 of the Articles, the Company may from time to time in general meeting by ordinary resolution increase or reduce the number of Directors but so that the number of Directors shall not be less than two. Subject to the provisions of these Articles and the Companies Law, Cap. 22 of the Cayman Islands, the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election thereat.

According to Article 16.18 of the Articles, at every annual general meeting of the Company, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Any Director appointed pursuant to Article 16.2 or 16.3 of the Articles shall not be taken into account in determining which Directors are to retire by rotation. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat.

ROLE AND FUNCTION OF THE DIRECTORS

The Board has overall responsibility for the stewardship of the Group, including the responsibilities for the adoption of long-term strategies, and appointing and supervising senior management to ensure that the operation of the Group is conducted in accordance with the objective of the Group.

The Board directly, and indirectly through its committees, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors may, upon request, seek independent professional advice in appropriate circumstances at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his responsibilities to the Company.

BOARD MEETINGS

The Board meets regularly (at least four times a year) to discuss and approve the overall strategies and policies, monitor the financial and operational performance, review corporate governance practices, consider and approve the financial results as well as other significant matters of the Group. Additional meetings are convened as and when the Board considers necessary. In case where conflict of interest arises involving a substantial shareholder or a Director, such matter will not be dealt with by written resolutions. Independent non-executive Directors with no conflict of interest will deal with such issues involving conflict of interest.

A tentative schedule for regular Board meetings for each year is provided to Directors at the beginning of each calender year. Notice of at least 14 days will be given to all Directors for all regular Board meetings and the Directors can include matters for discussion in the agenda if necessary. Agenda and accompanying Board papers in respect of regular Board meetings are sent out in full to all Directors within 7 days and at least 3 days before the meeting. Draft minutes of all Board meetings are circulated to Directors for comment within a reasonable time prior to confirmation.

All Directors have access to Board papers and related materials, and are provided with adequate information on a timely manner, which enable the Board to make an informed decision on matters placed before it.

Four regular Board meetings and ten Board meetings were held during the year ended 31 December 2016. The attendance record of each Director at the Board meetings is set out below:

Name of Directors	Meetings attended/ Number of meetings Regular Board meeting	Other Board meeting
Executive Directors		
Mr. Cao Wei *(Chief Executive Officer)* (Note 1)	4/4	10/10
Ms. Xuan Jing (Note 2)	4/4	10/10
Mr. Shao Kai (Note 3)	4/4	10/10
Non-executive Directors		
Dr. Tian Zhenqing *(Chairman)* (Note 4)	4/4	10/10
Mr. Hao Weiya	4/4	10/10
Mr. Guan Jifa (Note 5)	4/4	10/10
Independent non-executive Directors		
Mr. Bai Jinrong	4/4	9/10
Mr. Luo Zhenbang	4/4	10/10
Mr. Huang Lixin	4/4	10/10

Notes:
(1) Mr. Cao Wei ceased as Chief Executive Officer and was redesignated as Vice Chairman on 28 February 2017;
(2) Ms. Xuan Jing was appointed as Chief Executive Officer on 28 February 2017;
(3) Mr. Shao Kai resigned as executive Director on 25 January 2017;
(4) Dr. Tian Zhenqing resigned as non-executive Director and Chairman on 28 February 2017;
(5) Mr. Guan Jifa was appointed as Chairman on 28 February 2017.

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which have been posted on the Company's website and the website of Hong Kong Exchanges and Clearing Limited ("**HKEx**") and are available to the Shareholders upon request.

Audit Committee

The Company established the Audit Committee on 8 December 2011 with written terms of reference in compliance with Rules 3.21 and 3.22 of the Listing Rules. On 30 December 2015, the Board adopted the revised written terms of reference which became effective on 1 January 2016. The written terms of reference of the Audit Committee was adopted in compliance with code provisions C.3.3 and C.3.7 of the CG Code.

The primary duties of the Audit Committee, among other things, are to make recommendations to the Board on the scope of audit and appointment, re-appointment and removal of external auditor; review the financial statements and material advice in respect of financial reporting; oversee internal control and risk management systems of the Company; review the effectiveness of the internal audit function and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

All members of the Audit Committee are independent non-executive Directors. The Audit Committee is chaired by Mr. Luo Zhenbang. Other members of the Audit Committee include Mr. Bai Jinrong and Mr. Huang Lixin.

The Audit Committee held three meetings during the year ended 31 December 2016 to, among others, review the interim and annual financial results and reports of the Group and significant issues on financial reporting and operational controls. The Audit Committee also reviewed the effectiveness of the Group's risk management and internal control systems, internal audit function and compliance procedures, and considered matters regarding appointment of external auditors, relevant scope of works and connected transactions and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditors twice without presence of the executive Directors.

The attendance record of each member at the Audit Committee meetings is set out below:

	Meetings attended/ Number of meetings
Mr. Luo Zhenbang CPA *(chairman of the Audit Committee)*	3/3
Mr. Bai Jinrong	3/3
Mr. Huang Lixin	3/3

Remuneration Committee

The Company established the Remuneration Committee on 8 December 2011 with written terms of reference in compliance with Rules 3.25 and 3.26 of the Listing Rules. The written terms of reference of the Remuneration Committee was adopted in compliance with code provision B.1.2 of the CG Code.

The primary duties of the Remuneration Committee are to make recommendations to the Board on the remuneration packages of executive Directors, non-executive Directors and senior management and overall remuneration policy and structure relating to all Directors and senior management of the Group, and establish transparent procedures for developing such remuneration policy and structure to ensure that none of the Directors or any of his/her associates will participate in deciding his/her own remuneration.

The Remuneration Committee comprises two independent non-executive Directors and one executive Director, and is chaired by Mr. Bai Jinrong. Other members of the Remuneration Committee include Mr. Cao Wei and Mr. Huang Lixin.

The Remuneration Committee held two meetings during the year ended 31 December 2016 to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the Directors and senior management. Details of the remuneration of Directors are set out in Note 8 to the consolidated financial statements in this annual report.

The attendance record of each member at the Remuneration Committee meetings is set out below:

	Meetings attended/ Number of meetings
Mr. Bai Jinrong *(chairman of the Remuneration Committee)*	2/2
Mr. Cao Wei	2/2
Mr. Huang Lixin	2/2

Nomination Committee

The Company established the Nomination Committee on 8 December 2011 with written terms of reference in compliance with code provisions A.5.1 and A.5.2 of the CG Code. The Nomination Committee adopted a board diversity policy on 30 August 2013 to achieve diversity on the Board which was subsequently revised on 6 December 2013.

The primary duties of the Nomination Committee are to review the structure, size, diversity and composition of the Board on regular basis; develop and formulate relevant procedures for the nomination and appointment of Directors; identify individuals suitably qualified to become Board members; assess the independence of independent non-executive Directors; and make recommendations to the Board on relevant matters relating to the appointment or succession planning of Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience etc. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption. In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained and has not set any measurable objective implementing the Board diversity policy.

The Nomination Committee comprises one non-executive Director and two independent non-executive Directors, and was chaired by Dr. Tian Zhenqing during the year ended 31 December 2016. Other members of the Nomination Committee include Mr. Bai Jinrong and Mr. Huang Lixin. On 28 February 2017, following the resignation of Dr. Tian Zhenqing as a non-executive Director, he ceased to be the chairman of the Nomination Committee, and Mr. Guan Jifa, a non-executive Director, was appointed as the chairman of the Nomination Committee to fill the vacancy.

The Nomination Committee held a meeting during the year ended 31 December 2016 to discuss and review the structure, size and composition of the Board and the independence of the independent non-executive Directors as well as matters regarding appointment and retirement and re-election of Directors at annual general meeting.

The attendance record of each member at the Nomination Committee meeting is set out below:

	Meetings attended/ Number of meetings
Dr. Tian Zhenqing *(chairman of the Nomination Committee)*[*]	1/1
Mr. Bai Jinrong	1/1
Mr. Huang Lixin	1/1

* Dr. Tian Zhenqing resigned and Mr. Guan Jifa was appointed as the chairman of the Nomination Committee on 28 February 2017.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in code provision D.3.1 of the CG Code.

The Board determines the Company's corporate governance policies and performs corporate governance duties set out in the CG Code. Its corporate governance duties include, among others, (i) to develop and review the Company's policies and practices on corporate governance; (ii) to review and monitor the training and continuous professional development of Directors and senior management; (iii) to review and monitor the Company's policies and practices on compliance with legal or regulatory requirements; (iv) to develop, review and monitor the compliance of the code of conduct and compliance manual (if any) applicable to employees and Directors; and (v) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has devised its own code of conduct regarding securities transactions by Directors (the "**Securities Dealing Code**") on terms no less exacting than the required standard of dealings set out in the Model Code. The Company customarily issues notices to its Directors reminding them of the general prohibition on dealing in the Company's listed securities during the blackout periods before the publication of announcements of financial results. Having made specific enquiry of the Directors, all the Directors confirmed that they have complied with the required standards set out in the Securities Dealing Code and the Model Code throughout the year ended 31 December 2016. The Securities Dealing Code also applies to employees to whom the Securities Dealing Code were given. The Company was not aware of any non-compliance for the year ended 31 December 2016.

DIRECTORS' AND OFFICERS' LIABILITIES

The Company has arranged for appropriate insurance covering the liabilities of the Directors and officers in respect of any legal actions taken against the Directors and officers that may arise out of the corporate activities. The insurance coverage will be reviewed on an annual basis.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

All Directors have been given relevant guideline materials and attended briefings regarding the duties and responsibilities of being a director, the relevant laws and regulations applicable to directors, duty of disclosure of interests and business of the Group. Such induction materials and briefings will also be provided to newly appointed Directors shortly upon their appointment as Directors to ensure appropriate understanding of the business and operations of the Group and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Continuing briefings and professional development to Directors will be arranged when necessary. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2016, a directors' training was organised for all Directors to update and refresh them on the Listing Rules, the CG Code and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. This complies with code provision A.6.5 of the CG Code.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for maintaining sound risk management and internal control systems and reviewing their effectiveness in order to safeguard the interests of the Shareholders and the assets of the Company against unauthorised use or disposition, ensuring maintenance of proper books and records for the provision of reliable financial information, and ensuring compliance with the relevant rules and regulations. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing the design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including project management, sales and leasing, financial reporting, human resources and information technology.

All departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by each department.

The management, in coordination with department heads, assessed the likelihood of risk occurrence, provide treatment plans, and monitor the risk management progress, and reported to the Audit Committee and the Board on all findings and the effectiveness of the systems.

The Internal Audit Department is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The Internal Audit Department examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2016.

The Board, as supported by the Audit Committee and with the management report and the internal audit findings, reviewed the risk management and internal control systems including the financial, operational and compliance controls for the year ended 31 December 2016, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources of the Company.

Whistleblowing procedures are in place to facilitate employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Company has developed its disclosure policy which provides a general guide to the Directors, the Company's officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Company for the year ended 31 December 2016 and ensure that the financial statements are prepared in accordance with applicable statutory requirements and financial reporting standards. Appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made.

Having made appropriate enquiries, the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Company's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

The statement of the external auditor of the Company regarding their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 64 to 72 of this annual report.

AUDITORS' REMUNERATION

The fees paid and payable to the Company's external auditors in respect of their audit and non-audit services provided to the Company for the year ended 31 December 2016 were as follows:

	Amount HK$'000
Type of services	
Statutory audit services	2,917
Non-statutory audit services	725
	3,642

COMPANY SECRETARY

Mr. Lau Kwok Fai, Patrick resigned as the company secretary of the Company with effect from 24 June 2016. The Company has engaged Tricor Services Limited, external service provider, and Ms. Ng Sin Yee, Clare has been appointed as the Company's company secretary since 24 June 2016. Ms. Ng's current primary contact person at the Company is Ms. Zhao Jingyuan, deputy general manager of the Company.

All Directors have access to the advice and services of the company secretary on corporate governance and board practices and matters.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of good communications with the Shareholders. The Company believes that maintaining a high level of transparency is a key to enhance investor relations and investor understanding of the Group's business performance and strategies. The Company is committed to a policy of open and timely disclosure of corporate information to its shareholders and investment public.

The Company updates its Shareholders on its latest business developments and financial performance through its corporate publications including interim and annual reports as well as other announcements and circulars. The Company maintains its website (www.ccrtt.com.hk) to provide a communication channel for the public and its shareholders. All corporate communication and the Company's latest updates are available on the Company's website for public information.

The annual general meeting or extraordinary general meeting ("**EGM**") of the Company provide opportunities for direct communication between the Shareholders and the Board and the Directors are available to meet the Shareholders and answer their questions. During the year ended 31 December 2016, an annual general meeting and three EGMs were held.

The attendance record of each Director at the general meetings is set out below:

Name of Directors	Meetings attended/ Number of meetings Annual general meeting	Extraordinary general meeting
Executive Directors		
Mr. Cao Wei (Chief Executive Officer) (Note 1)	1/1	3/3
Ms. Xuan Jing (Note 2)	1/1	2/3
Mr. Shao Kai (Note 3)	1/1	2/3
Non-executive Directors		
Dr. Tian Zhenqing *(Chairman)* (Note 4)	1/1	2/3
Mr. Hao Weiya	0/1	1/3
Mr. Guan Jifa (Note 5)	1/1	3/3
Independent non-executive Directors		
Mr. Bai Jinrong	1/1	3/3
Mr. Luo Zhenbang	1/1	2/3
Mr. Huang Lixin	1/1	2/3

Notes:
(1) Mr. Cao Wei ceased as Chief Executive Officer and was redesignated as Vice Chairman on 28 February 2017;
(2) Ms. Xuan Jing was appointed as Chief Executive Officer on 28 February 2017;
(3) Mr. Shao Kai resigned as executive Director on 25 January 2017;
(4) Dr. Tian Zhenqing resigned as non-executive Director and Chairman on 28 February 2017;
(5) Mr. Guan Jifa was appointed as Chairman on 28 February 2017.

During the year under review, the Company has not made any changes to its Articles. The latest version of the Company's Articles is available on the Company's website and the Stock Exchange's website.

SHAREHOLDERS' RIGHTS

To safeguard shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of HKEx after each general meeting.

The Company engages with Shareholders through various communication channels and a shareholders' communication policy is in place to ensure that Shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

Procedures for Shareholders to Convene an EGM

According to Article 12.3 of the Articles, EGM of the Company may be convened on the written requisition of any two or more members of the Company or any one member of the Company where the member is a recognised clearing house (or its nominee(s)) deposited at the principal place of business of the Company in Hong Kong specifying the objects of the meeting and signed by the requisitionist(s), provided that such requisitionist(s) held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

If the Board does not within 21 days from the date of deposit of the requisition proceed to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the EGM in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) shall be reimbursed to them by the Company.

Procedures for Shareholders to Put Forward Proposals at Shareholders' Meetings

There are no provisions in the Articles or the Companies Law of the Cayman Islands for putting forward proposals of new resolutions by the shareholders at general meetings. Shareholders who wish to move a resolution may request the Company to convene an EGM in accordance with the procedures set out in the preceding paragraph to consider the business specified in the requisition. For proposing a person for election as a Director, please refer to the "Procedures for shareholders to propose individuals for election as a director of the Company" posted on the Company's website.

Procedures for Shareholders to Direct Enquiries to the Board

For putting enquiries to the Board, the Shareholders can contact the Company as follows:

Address:	Unit 4407, 44th Floor, COSCO Tower 183 Queen's Road Central Sheung Wan Hong Kong
Email:	enquiry@ccrtt.com.hk
Tel:	(852) 2805 2588
Fax:	(852) 2805 2488
Attention:	The Board of Directors c/o Investor Relations Department

For share registration related matters, such as share transfer and registration, change of name or address, loss of share certificates or dividend warrants, the registered shareholders shall contact the Company's Hong Kong branch share registrar and transfer office as follows:

Address:	Tricor Investor Services Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
Email:	is-enquiries@hk.tricorglobal.com
Tel:	(852) 2980 1333
Fax:	(852) 2810 8185

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above addresses, where appropriate, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Shareholders may call the Company at (852) 2805 2588 for any assistance.

2016 ESG Reporting

0 OVERVIEW OF THE REPORT

0.1 About this report

This report is the first annual Environmental, Social and Governance ("**ESG**") Report ("**Report**") of the Company. This report mainly introduces the Company's effort on the environmental, social and governance and other aspects, in order to strengthen the connection and understanding among the various stakeholders.

The Board warrant that there are no false representations, misleading statements and material omissions in this report, and are severally and jointly responsible for the authenticity, accuracy and completeness of the content herein.

Main scope of the Report

The Company and its domestic and foreign branches and wholly-owned subsidiaries.

Time scope

This Environmental, Social and Governance Report is an annual report, covering the reporting period from 1 January 2016 to 31 December 2016.

Preparation basis

This Report is prepared in accordance with the requirements of "Environmental, Social and Governance Reporting Guide" ("**ESG Reporting Guide**") of the Stock Exchange.

0.2 ESG management vision and Strategy

Environmental, Social and (Corporate) Governance are the three important factors for assessing the sustainable development and ethnical impact of corporates. The Board assumes full responsibility for the Company's environmental, social and governance strategy and reporting and is responsible for assessing and determining the Company's risks relating to the environment, society and governance, and ensuring that the Company has established appropriate and effective environmental, social and governance risk management and internal monitoring system.

The Company aims to effectively disclose the information through the ESG Report to reflect the Company's long-term development prospects. The Company takes "win-win, credibility, responsiblility and serving the society" as its management principle, takes "pragmatic, innovative, dedicated and efficient" as its management concepts, and works with business partners and employees with the entrepreneurial spirit of "innovation, development and co-prosperity" so as to contribute and serve the community in which the business is located.

1. WE LIVE IN HARMONY WITH THE ENVIRONMENT

The Company focuses on the field of urban rail transit, and is an industrial group that rolls investment and financing, technology research and development, systems engineering construction, line operation and maintenance into one, which produces very little pollutants in its business process. While expanding its business, the company pays active attention to the indirect effect that the operation of the project will bear on environmental protection, for example, the company participates in the subway energy consumption platform monitoring project, so as to ensure the reduction of energy consumption and pollution emissions during the process of the subway operation.

While firmly grasping the opportunity of urban rail transit construction, the Company is aware of the importance to the coordination and sustainable development of society and environment at the same time and knows very well that environmental issues are not a single social problem. Environmental protection will be the specific requirement of the sustainable development strategy of the Company.

In 2016, the Company has no incidents relating to material environmental pollutions or excess emissions.

1.1 Promote energy conservation and emission reduction projects

1.1.1 The Company vigorously develops the "Beijing Subway Energy Consumption Statistics and Monitoring Platform" Project

The Company actively responds to "Beijing to Build Energy-saving and Emission Reduction Fiscal Policy Comprehensive Demonstration City Overall Implementation Plan" issued by Beijing Municipal Development and Reform Commission, vigorously develops the "Beijing Subway Energy Consumption Statistics and Monitoring Platform" Project to establish a sound, energy-saving and emission reduction statistics and monitoring system for subway and to integrate various existing energy-saving statistics and monitoring systems and information resources, to establish a regular feedback and communication mechanism.

The overall objective of the "Beijing Subway Energy Consumption Statistics and Monitoring Platform" Project is to establish the energy metering and management system covering all of the lines of the Beijing subway network, to monitor the energy consumption of various lines, facilities at stations and depots, to realise the refined management of the energy consumption of the rail transit, and to improve the analytical function that assists decision on rail transit Energy management aid to definite factors that impact rail transit energy consumption, and to comprehensively grasp of the current situation of energy consumption of rail transit to provide data support for setting the energy-saving emission reduction targets for the Beijing subway corporations as well as providing information to back up the decision for setting up the energy-saving emission reduction program for the rail transportation industry. Presently, the Company has carried out the following work:

(1) has collected the relevant data of electricity, water, heat energy consumption of the Beijing Subway operating line, while at the same time realised the connections of the passenger traffic data of the Beijing subway;

(2) build energy consumption monitoring platform, to achieve the integration of energy consumption, traffic and other information;

(3) provide real-time monitoring of energy consumption information;

(4) provide the function of energy consumption data classification according to kinds and categories; and

(5) improve the decision analysis function for supporting supplementary decision-making analysis of energy management.

This project realises the real-time monitoring of the whole network of electricity, water, gas and heat energy and supports the decision-making analysing for energy management, and supports problems evaluation of Beijing subway energy management, potential exploration and the evaluation of policy results, and provides data to support the decision making of the Beijing subway energy management strategy, and to comprehensively enhance the company's energy management standards, as well as to promote energy-saving and emission reduction for the operation and management of subway.

1.1.2 The Company vigorously develop the "Beijing Municipal Domestic Waste Disposal Facilities Integrated Circuit Card Measurement System" Project

The main task of the project is to use Integrated Circuit ("IC") card as a means to define the management responsibility for the disposal of domestic waste in various districts and counties and to adjust the amount of garbage entering into the treatment facilities, in order to control the processing capacity that fails to meet the requirements, and through accurate measurement and real-time transmission, precise statistics, to record the processing capacity of domestic wastes in each district and county, and to use it as a payment base for disposal of domestic waste, economic compensation fees and other related costs. The core of the project is to use the IC card to replace the original practice of filling up the environmental sanitation transport records, digitise and informationise the data generated during the disposal and transportation of garbage so as to support the refined management of domestic waste and the payment of related costs.

The project has improved the efficiency of waste disposal, and also demonstrated the Company's positive response to environmental protection.

1.2 Adheres to low-carbon operation work model

To fully implement the "Decision of the State Council on the Implementing the Scientific View of Development, and Strengthening Environmental Protection", conscientiously abide by the national "Environmental Protection Law" and local environmental protection rules and regulations, strict implementation of national and local pollutant discharge standards, the Company actively establishes the concept of green wealth, promote ecological civilization, promotes the Company's green business and green consumption, actively guides employees activities to carry out resources conservation,such as water, electricity and others to promote the use of resources recycling and its effective use, improves resource utilisation efficiency and reduces resource consumption.

The Company actively explores the construction of an innovative low-carbon company, focusing on building low-carbon, green and environmentally friendly modes of work, promoting low-carbon behaviour, unifies information system construction, introduced Office Automation ("OA") system to achieve an automated and paperless office; in order to improve office efficiency, the Company introduces the information system into the mobile OA system, so that employees can quickly get hold of the latest information of the Company, realising the concept of mobile office. The Company promotes low-carbon development in the workplace and encourages employees to practice low-carbon ideas in the areas of clothing, food, housing, utility and transportation. Encourage the use of low-carbon travel means such as walking, cycling, public transport, carpooling and to ask for a lift and implements conference call, video conferencing and internet conferencing and so on.

The Company takes full account of climatic conditions, maximises the use of natural lighting and ventilation, and the use of new LED lights instead of old fluorescent tubes. Since 2016, the Company through the renewal of hard and software extends the useful life of the computer to realise the effective use of resources; wastes generated in the course of business, such as: ink cartridges, toner cartridges and other electronic wastes, are centralised by the administrative department and disposal to professional companies to reduce pollution of the environment due to improper disposal. In addition, the Company prohibits smoking in the office area, to create a smoke-free, safe office environment.

At present, BII-ERG has passed ISO14001 environmental management system certification, the Company has reached international standards in environmental management and has met the relevant requirements, in the control of various types of pollutants granted in various processes and activities.

2. WE FOCUS ON PRODUCT INNOVATION AND CUSTOMER RELATIONSHIPS

2.1 Increase R&D investment, stimulate enterprise innovation vitality

Enterprise is the main body that druse, for innovation, it is also the main body which is benefited from the transformation of innovation results. Not only is the strengthening of the R&D management of the enterprise the inevitable choice to promote enterprise technology innovation, it also improves the core competitiveness; it is also an important reassurance to enhance segmental innovation and to drive the scheduled development.

In 2015, the Company established a research centre, which keeps the Company abreast of the innovation in the construction, operation and maintenance of urban line traffic network. The Company independently developed AFC Clearing Centre (ACC), Traffic Control Centre (TCC), automated fare collection system (AFC), multiple line centre (MLC), Passenger Information System (PIS) and Platform Screen Door System (PSD). The Company develops together with the development and construction the of Beijing subway, through constantly acquiring and optimising experiences, the Company has the capability of providing the whole life-cycle service for urban line traffic construction projects. Up till now, the Company has independently researched and developed more than 30 software systems based on urban railway transportation and information security and has obtained copy rights of the relevant softwares, and passed CMMI-L3 certification in 2015 and widely applied the results to the construction of urban railway transportation lines and networks.

Considering the target of long-term sustainable development and maximisation of interests of itself, the Company takes the strengthen of R&D investment as its core business development strategy.

2.2 Protection of intellectual property rights

In view of the current situation of globalisation of the world economy and the development of the protection of international intellectual property rights, enterprises face great pressure and challenge in the protection of intellectual property rights. The Company must effectively strengthen the protection of intellectual property rights, through the effective development and implementation of intellectual property rights management mechanism, so that the Group can establish a relative advantage in the resources of professional knowledge, so as to maximise the competitiveness of the Group and secure market profits and promote the continued development and expansion of the Group.

The Company attaches great importance to the protection of intellectual property rights, intellectual property rights and patent applications are one of the key indicators of assessment of the Board. The Company assigned a special staff to be responsible for carrying out the work for the protection of intellectual property rights; who, at the beginning of each year, will, according to the Company's development strategies, as well as the work plans of various departments and communication with heads of various levels prepare of "Annual patent and intellectual property rights application plan", and in conjunction with the development progress of projects tracks and supervises the patent and intellectual property rights application plan, and urges the relevant departments to submit applications in a timely manner to the Intellectual Property Office and the Copyright Bureau.

In 2016, the Company submitted 5 software copyright application plans, 4 Board assessment indicators, and actually obtained 15 software copyright, achieving 125% of the target; there were 11 patent applications from various departments, and 6 patents of utility model were obtained. In addition, there were 3 appearance patents, 2 patents for inventions and 1 utility model patent are under Intellectual Property Office review.

2.3 Improve customer satisfaction

2.3.1 Product quality control

The Company always believes that the quality of products and services is the foundation of our Group, and this concept is inculcated into the hearts of every employee in their daily work and, forms a solid awareness on the quality of products and services, to ensure that our products can provide better services to our customers.

Since establishment, the Company adheres to a standardised, scientific and refined management philosophy and together with its subsidiaries, have passed ISO9000 Quality Control System, ISO14000/ISO18000 Environmental Management and Occupational Health Management System, ITSS – Level II Maturity Model, CMMI Level III Maturity Model Certification Audit and obtained the certificates.

In 2016, the Company carried out multi-departments integration, and organised the optimisation and improvement on business management process, from the setting up of project, sales, implementation, after-sale service, to the close of the project. There is a relevant management control procedure for every phase of the compete life cycle with strict process management and quality control; the Company also developed "Peer review control program", standardising the assessment procedures and requirements of the design documents; developed "Product production management control program", setting up inspection requirements such as, the inspection of production raw materials, the inspection of work process, the inspection on aging material, the inspection of electricity test, and factory inspection; and set up "Non-conforming product control program", detailing the requirements of the return of defective products for repairing and product recall arrangement. If a quality safety incident occurs, the operation and management department will be responsible for conducting an investigation and analysis, issue an analysis report, and formulate improvement plans and measures and to track the results of the remedial work.

As of the end of 2016, the Company did not experience any product recall incident due to significant quality issue or operational violation.

2.3.2 Customer satisfaction survey and protection of customer information

The Company has established the "Customer relationship management control program", which stipulates the communication mechanism between the Company and the customers during pre-sale, sale and after-sales stage. The sales management department is responsible for discussing and resolving the complaint with the customer, and sets up the temporary complaint handling working group, which is responsible for the analysis and handling of complaints, and according to customer complaints to investigate, record, take remedial actions and provide feedback. As of the end of 2016, the Company did not receive customer complaints.

For at least once a year, the operation management department of the Company conducts customer satisfaction survey with customers of projects on progress, analyses the result, issues a "Customer satisfaction survey report", and develops and implements improvement plans and programs. For customers with low satisfaction, the department in charge will have to visit the customers, to understand their demands and to discuss on the progress of the improvement plans. In 2016, the Company conducted two customer satisfaction surveys, and conducted a satisfactory survey on 29 projects in progress involving 13 customers, in relation to five aspects such as of progress management, delivery quality, site management, product quality and service quality. The results showed that the two customer satisfaction surveys scored an average of 93 points which satisfies the Company's quality control objectives (greater than or equal to 90 points).

The Company strictly abide by the national "Infringement Liability Law" and developed a "File management control program" which contains specific requirement on receiving, distributing, borrowing and destructing of the customers' data.

3. WE GROW WITH OUR EMPLOYEES

3.1 Protecting employees' interests

Employees are the cornerstones for the development of the Company, the Company constantly strives to improve the human resources system and corporate culture, build a sound salary system, provide job and salary promotion mechanism, and fully explore the potential of talent, to build a platform for the employees to realise their ideals.

In addition to providing the staff with a safe and favourable working environment along with reasonable remuneration and benefits, the Company also provides a full range of protection and care for the staff, enhances staff identity and sense of belonging, and releases the abilities and potential of employees so that the Company and the employees will keep growing together.

Employment and remuneration benefits

The Company always adheres to fair, just and open employment policies, strictly abide by the national "Labor Law", "Labor Contract Law" and other laws and regulations to provide equal employment opportunities for background of the staffs of different nationalities, races, gender and cultures, backgrounds to create an equal and diversified employment environment. In 2016, the Company has no any material non-compliance relating to recruitment and employment of staff.

The Company's current salary system includes basic salary, performance pay, year-end awards, special incentives, mid-to-long-term incentives and benefits. In addition to paying the statutory five insurance and one fund, the Company also provides the employees with additional health insurance, accident personal injury insurance and free medical examination. Moreover, the Company provides the employees with paid annual leave, paid sick leave, marriage leave, maternity leave and funeral leave. The PRC subsidiaries of the Company have independent unions, which organise various recreational and sports activities and provide staff with holidays, birthdays and other benefits.

In order to protect the legitimate rights and interests of employees, the Company establishes a sound organisational system and a supporting system to ensure that all staff can reflect problems to the seniors, thus strengthening communication between employees at all levels.

Labour standards

As a holding subsidiary of BII, a company established under the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality, the Company has been operating legally and in compliance with the relevant laws and regulations in human resources management and has formulated a recruitment system, labour contract management system and labour management system. In 2016, the Company had no case concerning the employment of minors or forced labour.

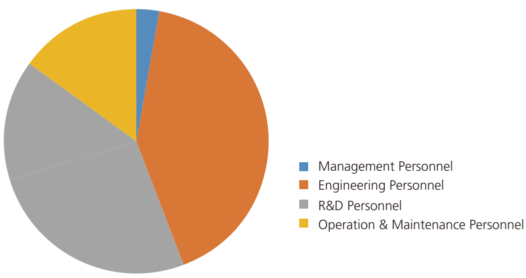
In the recruitment process, the Company's business department is responsible for the assessment of the professional knowledge of the candidates, the human resources department is responsible for the assessment of the other aspects of the qualifications of the candidates, including whether the candidate is of a legal age, whether the candidate is applying in his own will and his career development planning.

All employee labour contracts are prepared with reference to relevant legal system, and staff overtime is reasonably regulated to protect the legitimate rights of employees. In 2016, the Company did not have any labour dispute.

Related information – domestic staff

– The total number of domestic staff in the Company is 268, of which 8 are management personnel, 111 are engineering personnel, 70 are R&D personnel and 39 are frontline operation and maintenance personnel and 40 are functional and marketing personnel accounting for 3%, 40%, 27%, 15% and 14% of the total staff, respectively;

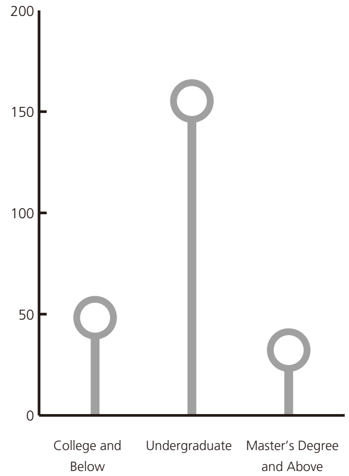
The total number of employees categorised by functions



– by sex, 205 male employees and 63 female employees accounted for 76% and 24% of total employees, respectively; and

– by academic qualifications, 59 employees with college and below accounted for 22%, 166 undergraduate degree accounted for 62%, 43 master's degree and above accounted for 16%.

The total number of employees categorised by academic qualifications



Related information personnel stationed overseas

– There are a total of 29 staff of the Company stationed overseas, of which 1 is administrative, 1 is clerical, 13 is engineering, 5 is maintenance, 1 is warehouse, 2 is finance, 6 is R&D, which accounted for 3%, 3%, 45%, 18%, 3%, 7% and 21% of the total staff, respectively;

– by sex, 25 male employees and 4 female employees accounted for 86% and 14% of total employee, respectively; and

– by academic qualifications, 9 are college or below, 20 are undergraduate, accounting for 31% and 69% of the total staff, respectively.

3.2 Care for the safety and health of the staff

3.2.1 To ensure the safety of office environment

The Company provides the employees with a safe office environment in accordance with government regulations, formulates the office rules that all employees should observe, strengthens the Company's internal safety, security and fire prevention work, ensures the safety of the Company, personal property and employees, and maintains a good office environment.

Access to the Company is restricted to the front entrance only. All doors (main entrance, fire doors) are equipped with automatically closing device, and under no circumstances should the automatic door closing device be switched off by any means, in order to prevent fire hazards. The employees of the Company must access the Company with access control cards, access control cards are for personal use only and cannot be borrowed. Visitors should be accompanied by employees to the front desk for registration before accessing the office building area. To avoid potential safety hazards caused by human error, the Company carries out daily supervision and inspection, including inspection of fire fighting facilities, and inspection on staff compliance with office safety rules.

In 2016, the Company has not violated relevant labour and safety regulations currently applicable in the PRC and there is no material safety issue concerning employee.

3.2.2 Care for the health of employees

The Company's daily management and operations will not cause occupational hazards to employees. Workplaces with security hazards are equipped with professional protective equipments, and the Company carries out workplace security investigation from time to time and carries out remedial actions on the areas with potential hazards in a timely manner.

In order to ensure the physical and mental health of employees, the Company not only provides health check to the new staff, but also provides regular health check for all employees annually, and is gradually increasing the health check items, such as cancer screening etc, and actively organizes employees to participate in various cultural activities, in order to ensure that employees work and live happily.

The Company regularly organises sports events: basketball and badminton competitions

Sports activities can help the staff to broaden their horizons, build up an active team atmosphere, strengthen the communication and collaboration between employees, blend the team spirit into the activities, creating a unified, active and progressive atmosphere. Large-scale collective activities allow all staff and junior management staff to cultivate sentiment, to relax, to reduce stress, to stimulate a passion for life and an enthusiasm for the job, to instil the confidence of growing and developing together with the Company. At the same time, in the course of activities, to enhance communication among colleagues, enhance friendship, strengthen understanding, exchange work and management experience and to inspire team spirit.

3.3 Caring for the career development of the employees

3.3.1 To create a clear promotion channel

A scientific, standardised, professional promotion system can enhance the core competitiveness of the enterprises, encourage employees to continue to work hard and is the driving force behind the sustainable development of the Company.

At present, the company through internal performance appraisal, selects the core backbone staff with outstanding performance and excellent character to be promoted to a post of higher level. In the future, we will assess the staff through assessment models, standardise the design of the categories and channels for promotion so as to clearly define the career path and provide growth potential for the staff. The Company will set up a dual channel development mechanism, consists of management and professional technology and will establish a dual-channel conversion mechanism, to break down the barriers between technology and management in order to better satisfy the requirement of staff development.

3.3.2 Improve professional knowledge and skills

With the development of enterprises, and the ever-changing industry environment, the competition and development among the enterprises is ultimately the competition of talent, the Company adheres to the concept of "people-oriented", and is convinced that training outstanding talents is the key to the Group's development.

At the beginning of each year, according to the Company's business development and the requirements of various departments, the Company develops annual training program, through giving lectures on a series of topics by internal lecturers, inviting experts and scholars to give lectures on a series of topics and the selecting outstanding staff to receive professional training, etc. in order to enhance their academic skills so that they can accomplish their work according to the quality and quantity requirements of the Company.

According to the need for business development, the Company establishes a knowledge base of the Company, nurturing company internal lecturers, and combined with individual performance of the staff, to effectively integrate training into the work of the staff. In the future, the Company will absorb the advanced personnel training experience, combined with its own development characteristics, to establish an independent personnel training system and a standardised and efficient training management system.

Quality control system training:

3.4 Anti-corruption

Corruption will undermine the image of the leaders among the party cadres and the public, endanger the interests of the state and the people, as a result, the management of the state and the enterprise lose credibility, and creates irreparable damages to the future development of the company. Therefore, anti-corruption work is of great significance to national stability and corporate development.

In accordance with the national Anti-corruption Law and the "Employee Handbook", "Employee Code of Conduct" and the corresponding management mechanism formulated by the business department of the BII, the Company established a comprehensive system for preventing and penalising corruption, to propaganda and popularizing anti-corruption knowledge, strengthening the anti-corruption concept building of party members and leading cadres, to optimise the anti-corruption system, and constantly deepening the understanding of the law of governance and the law of anti-corruption work, and profoundly sum up the practical experience of anti-corruption. The Company upholds the principles of openness, fairness and impartiality, standardises large-scale bidding, procurement and competitive (operational) negotiation procedures, strengthens the supervision, enables the separation of functions, separation of personnel, and separation of financial accounting management. Strengthens the supervision and management of the procurement staff of the enterprise as well as the experts they hired, government procurement management office and implementing office must be separated, and strictly regulates the procurement activities, for the staff and leadership who committee corruption, they will be handled in accordance with relevant national policies, according to the law.

The Company announces in the OA internal system, to all employees the contact of the leader (email and telephone), so as to open the access for complaints. Employees can report to the relevant leader for any problems they discover or any suggestions they wish to make.

There were no litigation of corruption against the company and the employees during the reporting period.

4. WE COOPERATE WITH SUPPLIERS TO CREATE WIN-WIN

The Group actively cooperate with suppliers and contractors to build a platform for cooperation and creates win-win, and work closely together to provide customers with quality products and services.

Our suppliers and contractors provide a wide range of products and services in the subway industry, including AFC equipment, platform screen door equipment, video transmission equipment, all kinds of intelligent system integration, hardware product processing, software development services, on-site construction and so on. In 2016, we purchased from more than 300 suppliers, involving a total of RMB230 million, of which 90% is from Beijing, and the other 10% is from Hebei, Shenzhen, Guangdong and other places, strongly supported the local enterprises.

The Company has established a comprehensive supplier classification and management evaluation system. For the new suppliers, we will conduct a comprehensive evaluation basing on aspects; such as, production site, personnel capacity, company funds, financial status, product quality, supply time, supporting services, etc., and successful suppliers will be put into the provisional list of qualified suppliers to allow commencement of procurement. On the first half of each year, according to the supplier's performance, (delivery progress, product quality, after-sales service) a re-evaluation of the suppliers will be conducted, the re-evaluation results will be divided into A, B, C, D grade, Grade D suppliers will be directly eliminated. Grade A, B and C suppliers will be included into the list of qualified suppliers and can have further cooperation.

For key product suppliers, especially custom made product suppliers, the Company will guide and monitor the production process, including the preparation of the handbook for production procedure and operating instructions, the design of test specifications and inspection records, as well as control of nonconforming products, the setting up of rectifications and preventive measures of and the implementation of management for improvements.

5. WE CREATE CONVENIENCE FOR THE COMMUNITY

Making the best use benefits of our advantage in business, we are concerned about the needs of passengers, and actively provide passengers with convenient services. The Company vigorously researches and develops automatic fare collection system and mobile fare collection system. Supported by the AFC (automatic fare collection system), self-purchase tickets, independent credit card entry, effectively reduce the queueing time of the passengers, and to a certain extent, satisfy the individual needs of the passengers. The facilities for this service facilities continue to upgrade and has played a catalytic role in the extension of the subway service.

In the sudden upsurge of large passenger flow, real-time mobile vending machines, gates, by adjusting their numbers and locations, can effectively alleviate the stress on staff and equipment, so as to provide passengers with a smoother travel condition.

6. APPENDIX – HKEX"ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE" GLOSSARY

"Environmental, social and governance reporting guide" Major Aspect A.		Page	Report Content	
Aspect A1: Emissions				
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"Environmental, social and governance reporting guide"		Page	Report Content	
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Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
CHINA CITY RAILWAY TRANSPORTATION TECHNOLOGY HOLDINGS COMPANY LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China City Railway Transportation Technology Holdings Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 73 to 136, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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") issued by the International Accounting Standards Board (the "IASB") 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 (the "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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 judgement, 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.

Recognition of contract revenue

Refer to Note 4 to the consolidated financial statements and the accounting policies in Note 2(t)(i).

The Key Audit Matter

The Group's business involves entering into contractual relationships with customers to provide a range of services, including the provision of design, implementation and sale, and maintenance of, application solutions for the networking and controlling systems of public transport and other companies, and the lease of civil communication transmission systems for use in public transportation systems to telecommunication service providers.

A significant proportion of the Group's revenue and profits is derived from long term contracts, most of which are fixed price contracts.

The recognition of revenue on long term contracts is based on the stage of completion of work performed on a contract at the reporting date. The recognition of revenue for an incomplete project is dependent on estimating the total outcome of the contract as well as the work performed to date.

Forecasting the outcome of a contract involves the exercise of significant management judgement. Errors in contract forecasts could result in a material variance in the amount of profit or loss recognised to date and therefore also in the current period.

How the matter was addressed in our audit

Our audit procedures to assess the recognition of contract revenue included the following:

- obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls over the recognition of contract revenue, including the controls over recording work done, invoicing and cash receipts;
- selecting a sample of contracts, using a variety of quantitative and qualitative criteria, and performing the following procedures for each contract selected:
  - inspecting key terms, including price, deliverables, timetable and milestones, set out in the contract and inquiring of the relevant project managers and engineers about key aspects of the contract, including the estimated total contract costs, key project risks, contingencies and billing schedules;
  - challenging the underlying judgements of senior operational and financial management personnel in their estimations of total estimated contract costs and estimated costs to complete the contract where it was still in progress at the reporting date by comparing their estimates with relevant underlying documentation, including suppliers' quotations and agreed contracts;

KEY AUDIT MATTERS (CONTINUED)

Recognition of contract revenue

Refer to Note 4 to the consolidated financial statements and the accounting policies in Note 2(t)(i).

The Key Audit Matter	How the matter was addressed in our audit
We identified the recognition of contract revenue as a key audit matter because contract revenue accounts for a significant proportion of the Group's revenue and because the recognition of contract revenue involves a significant degree of management judgement in assessing factors which can be inherently uncertain and may be subject to management bias.	• comparing items recorded as contract costs during the year with suppliers' contracts, goods receipt notes and other relevant underlying documentation; • agreeing total contract revenue to the contracted terms; • recalculating the percentage of completion based on contract costs occurred up to the reporting date and estimated total contract costs; and • recalculating revenue recognised to date, based on total contract revenue and the percentage of completion. • on a sample basis, comparing management's estimated costs to complete selected contracts at the end of the previous financial year with actual costs incurred during the current year and enquiring of the management about any significant variances identified; and • performing site visits to a sample of major contracts in progress at the reporting date and discussing with site project managers and engineers the stage of completion, services provided and goods delivered.

KEY AUDIT MATTERS (CONTINUED)

Allowances for doubtful debts

Refer to Note 18 to the consolidated financial statements and the accounting policies in Note 2(k)(i).

The Key Audit Matter

The Group's operations gave rise to significant trade receivable balances and gross amounts due from customers for contract work at the reporting date. As at 31 December 2016, trade receivables and gross amounts due from customers for contract work amounted to HK$494,973,000, which represented 19.8% of the total assets of the Group as at that date.

Trade receivables and gross amounts due from customers for contract work are reviewed by management on an individual customer basis at the end of each reporting period to determine whether there is objective evidence of impairment. These evaluations focus on the ageing of the amounts due, the customer's past history of making payments when due and current ability to pay and also take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate.

We identified assessing allowances for doubtful debts as a key audit matter because of the significance of the balances of trade receivables and gross amounts due from customers for contract work to the consolidated financial statements and because of the significant management judgement required in estimating the allowances for doubtful debts at the reporting date, which can be inherently uncertain.

How the matter was addressed in our audit

Our audit procedures to assess the allowances for doubtful debts included the following:

- obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to credit control, debt collection and recognising allowances for doubtful debts;
- comparing, on a sample basis, the categorisation of trade receivables and gross amounts due from customers for contract work in the ageing report with invoices issued, contract terms, contract progress reports and other relevant underlying documentation;
- inquiring of management about the recoverability of individual balances and evaluating, on a sample basis, the allowances for doubtful debts made by management for these individual balances, if any, with reference to the customer's financial condition, the ageing of overdue balances and historical and post year-end payment records;
- assessing the historical accuracy of management's processes for estimating allowances for doubtful debts by comparing the utilisation, write-offs and new allowances made in the current year with the balances of trade receivables and gross amounts due from customers for contract work as at 31 December 2015; and
- inspecting cash receipts, on a sample basis, from customers subsequent to the financial year end relating to trade receivable balances and gross amounts due from customers for contract work as at 31 December 2016.

KEY AUDIT MATTERS (CONTINUED)

Assessing potential impairment of goodwill and intangible assets

Refer to Notes 12 and 13 to the consolidated financial statements and the accounting policies in Note 2(k)(ii).

The Key Audit Matter

As at 31 December 2016 goodwill amounted to HK$61,113,000 in total and was allocated to operations in the provision of application solutions related services and operations related to the civil communication transmission systems business for the purpose of assessing potential impairment.

As at 31 December 2016, intangible assets, which comprised software relating to certain types of application solutions and income rights relating to the lease of civil communication transmission systems, amounted to HK$125,771,000.

Goodwill is assessed annually for potential impairment and the directors assess potential impairment of intangible assets when they consider that indicators of potential impairment of these assets exist. Management performs impairment assessments of the cash generating units ("CGUs") to which the assets are allocated by considering the value-in-use of these assets.

The value-in-use was determined by preparing discounted cash flow forecasts of the relevant CGUs. This involves a significant degree of management judgement, particularly in determining the key assumptions adopted, which include the value of contracts still to be delivered to customers, the expected timetable for those contracts, contract prices, estimated costs and the discount rates applied.

How the matter was addressed in our audit

Our audit procedures to assess potential impairment of goodwill and intangible assets included the following:

- evaluating management's identification of CGUs and the amounts of goodwill and intangible assets allocated to those CGUs;
- involving our internal valuation specialists to assist us in evaluating the methodology used by management in its preparation of the discounted cash flow forecasts with reference to the requirements of the prevailing accounting standards;
- involving our internal valuation specialists to assist us in evaluating the discount rates applied in the discounted cash flow forecasts by assessing whether they were within the range of those adopted by other companies in the same industry;
- assessing and challenging the key assumptions adopted by management in its discounted cash flow forecasts, which included the value of contracts still to be delivered to customers, the expected timetable for those contracts, contract prices and estimated costs, with reference to historical profit margins of the individual CGUs, the financial budgets approved by the directors and our expectations based on our knowledge of the industry in which the Group operates;

KEY AUDIT MATTERS (CONTINUED)

Assessing potential impairment of goodwill and intangible assets

Refer to Notes 12 and 13 to the consolidated financial statements and the accounting policies in Note 2(k)(ii).

The Key Audit Matter	How the matter was addressed in our audit
We identified assessing potential impairment of goodwill and intangible assets as a key audit matter because the impairment assessment of these assets involves a significant degree of management judgement in relation to the key assumptions adopted in the impairment assessment models some of which are inherently uncertain and may be subject to management bias.	• performing a retrospective review of the prior year's discounted cash flow forecasts and comparing the forecast revenue and profit with the current year's actual results to assess the reliability of management's forecasting process; • obtaining from management sensitivity analyses of the key assumptions, which include the value of contracts still to be delivered to customers, the expected timetable for those contracts, contract prices, estimated costs and the discount rates applied, adopted in the discounted cash flow forecasts and assessing the impact on the conclusion of the impairment assessment, the impairment charge for the year, and whether there were any indicators of management bias; and • considering the disclosures in the consolidated financial statements in respect of impairment testing of goodwill and intangible assets with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than 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 THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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. This report is made solely to you, as a body, 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

From the matters communicated with the Audit Committee, 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 this independent auditor's report is Wan Chi Yau, Charles.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

24 March 2017

Consolidated Statement of Profit or Loss

For the year ended 31 December 2016 (Expressed in Hong Kong dollars ("HK$"))

	Note	**2016 HK$'000**	2015 HK$'000
Revenue	4	**479,309**	320,782
Cost of sales		**(375,324)**	(199,330)
Gross profit	4(b)	**103,985**	121,452
Other income	5	**3,563**	4,935
Selling, general and administrative expenses		**(77,751)**	(94,258)
Profit from operations		**29,797**	32,129
Share of profits of joint ventures	15	**128**	–
Profit before taxation	6	**29,925**	32,129
Income tax	7	**(1,531)**	(11,649)
Profit for the year		**28,394**	20,480
Attributable to:			
Equity shareholders of the Company		**25,728**	22,945
Non-controlling interests		**2,666**	(2,465)
Profit for the year		**28,394**	20,480
Earnings per share			
– Basic (HK$)	10(a)	**0.017**	0.017
– Diluted (HK$)	10(b)	**0.017**	0.017

The notes on pages 79 to 136 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016 (Expressed in HK$)

	2016 HK$'000	2015 HK$'000
Profit for the year	**28,394**	20,480
Other comprehensive income for the year (after tax):		
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements into presentation currency	**(50,326)**	(45,774)
Total comprehensive income for the year	**(21,932)**	(25,294)
Attributable to:		
Equity shareholders of the Company	**(23,358)**	(21,731)
Non-controlling interests	**1,426**	(3,563)
Total comprehensive income for the year	**(21,932)**	(25,294)

The notes on pages 79 to 136 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2016 (Expressed in HK$)

	Note	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment	11	**134,529**	100,326
Intangible assets	12	**125,771**	140,734
Goodwill	13	**61,113**	65,265
Interests in joint ventures	15	**312,570**	–
Deferred tax assets	22(b)	**20,288**	8,887
		654,271	315,212
Current assets			
Available-for-sale debt investments	16	**128,564**	17,904
Inventories	17	**69,021**	50,819
Trade and other receivables	18	**524,610**	535,506
Cash and cash equivalents	19	**1,118,431**	626,837
		1,840,626	1,231,066
Current liabilities			
Trade and other payables	20	**317,908**	254,975
Current taxation	22(a)	**36,205**	44,720
		354,113	299,695
Net current assets		**1,486,513**	931,371
Total assets less current liabilities		**2,140,784**	1,246,583
Non-current liabilities			
Deferred tax liabilities	22(b)	**24,257**	25,081
NET ASSETS		**2,116,527**	1,221,502
CAPITAL AND RESERVES	23		
Share capital		**21,062**	14,233
Reserves		**2,083,637**	1,196,867
Total equity attributable to equity shareholders of the Company		**2,104,699**	1,211,100
Non-controlling interests		**11,828**	10,402
TOTAL EQUITY		**2,116,527**	1,221,502

Approved and authorised for issue by the board of directors on 24 March 2017.

Cao Wei
Director

Xuan Jing
Director

The notes on pages 79 to 136 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016 (Expressed in HK$)

	Attributable to equity shareholders of the Company								
	Share capital HK$'000 (Note 23(c))	Share premium HK$'000 (Note 23(d)(i))	Capital reserve HK$'000 (Note 23(d)(ii))	Statutory reserves HK$'000 (Note 23(d)(iii))	Exchange reserve HK$'000 (Note 23(d)(iv))	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2015	13,060	712,202	21,991	19,949	12,525	205,894	985,621	13,965	999,586
Changes in equity for 2015:									
Profit/(loss) for the year	–	–	–	–	–	22,945	22,945	(2,465)	20,480
Other comprehensive income	–	–	–	–	(44,676)	–	(44,676)	(1,098)	(45,774)
Total comprehensive income	–	–	–	–	(44,676)	22,945	(21,731)	(3,563)	(25,294)
Issuance of shares	1,146	236,173	–	–	–	–	237,319	–	237,319
Shares issued under share option scheme	27	2,444	(478)	–	–	–	1,993	–	1,993
Equity-settled share-based transactions (Note 21)	–	–	7,898	–	–	–	7,898	–	7,898
Appropriation to reserves	–	–	–	3,698	–	(3,698)	–	–	–
Reclassification between reserves	–	–	–	(10,937)	–	10,937	–	–	–
	1,173	238,617	7,420	(7,239)	–	7,239	247,210	–	247,210
Balance at 31 December 2015	14,233	950,819	29,411	12,710	(32,151)	236,078	1,211,100	10,402	1,221,502

The notes on pages 79 to 136 form part of these financial statements.

	Attributable to equity shareholders of the Company								
	Share capital HK$'000 (Note 23(c))	Share premium HK$'000 (Note 23(d)(i))	Capital reserve HK$'000 (Note 23(d)(ii))	Statutory reserves HK$'000 (Note 23(d)(iii))	Exchange reserve HK$'000 (Note 23(d)(iv))	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2016	14,233	950,819	29,411	12,710	(32,151)	236,078	1,211,100	10,402	1,221,502
Changes in equity for 2016:									
Profit for the year	–	–	–	–	–	25,728	25,728	2,666	28,394
Other comprehensive income	–	–	–	–	(49,086)	–	(49,086)	(1,240)	(50,326)
Total comprehensive income	–	–	–	–	(49,086)	25,728	(23,358)	1,426	(21,932)
Issuance of shares (Note 23(c)(ii))	6,691	896,032	–	–	–	–	902,723	–	902,723
Shares issued under share option scheme (Note 23(c)(iii))	138	12,616	(2,451)	–	–	–	10,303	–	10,303
Equity-settled share-based transactions (Note 21)	–	–	3,931	–	–	–	3,931	–	3,931
Appropriation to reserves	–	–	–	6,752	–	(6,752)	–	–	–
	6,829	908,648	1,480	6,752	–	(6,752)	916,957	–	916,957
Balance at 31 December 2016	21,062	1,859,467	30,891	19,462	(81,237)	255,054	2,104,699	11,828	2,116,527

The notes on pages 79 to 136 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2016 (Expressed in HK$)

	Note	2016 HK$'000	2015 HK$'000
Operating activities			
Profit before taxation		**29,925**	32,129
Adjustments for:			
Depreciation and amortisation	6(b)	**36,095**	29,836
Interest income	5	**(4,238)**	(5,181)
Investment income	5	**(1,304)**	(47)
Share of profits of joint ventures	15	**(128)**	–
Equity-settled share-based payment expenses	6(a)	**3,931**	7,898
Net loss/(gain) on disposal of property, plant and equipment and intangible assets	5	**702**	(65)
Changes in working capital:			
Increase in inventories		**(18,202)**	(17,732)
Decrease in trade and other receivables		**10,980**	75,458
Increase/(decrease) in trade and other payables		**39,428**	(124,159)
Cash generated from/(used in) operations		**97,189**	(1,863)
Interest received		**4,238**	5,181
Income tax paid	22(a)	**(21,367)**	(15,094)
Net cash generated from/(used in) operating activities		**80,060**	(11,776)
Investing activities			
Payments for the purchase of property, plant and equipment and intangible assets		**(3,413)**	(2,447)
Proceeds from disposal of property, plant and equipment		**2**	81
Capital contributions upon the establishment of joint ventures	15	**(312,442)**	–
Payment for acquisition of business	24	**(66,178)**	(92,793)
Payments for purchase of available-for-sale debt investments		**(306,849)**	(29,840)
Proceeds from sale of available-for-sale debt investments		**191,480**	11,983
Net cash used in investing activities		**(497,400)**	(113,016)
Financing activities			
Proceeds from issuance of shares, net of transaction costs	23(c)(ii)	**902,723**	237,319
Proceeds from shares issued under share option scheme	23(c)(iii)	**10,303**	1,993
Net cash generated from financing activities		**913,026**	239,312
Net increase in cash and cash equivalents		**495,686**	114,520
Cash and cash equivalents at 1 January	19	**626,837**	528,044
Effect of foreign exchange rate changes		**(4,092)**	(15,727)
Cash and cash equivalents at 31 December	19	**1,118,431**	626,837

The notes on pages 79 to 136 form part of these financial statements.

Notes to the Financial Information

(Expressed in HK$ unless otherwise indicated)

1 CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 7 January 2011 as an exempted company with limited liability under the Companies Law (2011 Revision), Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company were listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 May 2012. The listing of the Company's shares was transferred from the GEM to the Main Board of the Stock Exchange on 6 December 2013. The consolidated financial statements of the Company as at and for the year ended 31 December 2016 comprise the Company and its subsidiaries (collectively referred to as the "Group"). The principal activities of the Group are the design, implementation and sale, and maintenance, of application solutions for the networking and controlling systems of public transport and other companies, and the lease of civil communication transmission systems for use in public transportation systems to telecommunication companies.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board (the "IASB") and the applicable disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the Financial Statements.

(b) Basis of preparation of the financial statements

The Financial Statements comprise the Group and the Group's interests in joint ventures.

The measurement basis used in the preparation of the Financial Statements is the historical cost basis except for available-for-sale debt investments (see Note 2(i)) which are stated at their fair values.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of the financial statements (continued)

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.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those equity interests which would result in the Group as a whole having a contractual obligation in respect of those equity interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries and non-controlling interests (continued)

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire equity interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any equity interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(k)(ii)), unless the investment is classified as held for sale.

(e) Joint ventures

A joint venture is an arrangement whereby the Group or the Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Joint ventures (continued)

When the Group's share of losses exceeds its interest in the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the investees, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's statement of financial position, investment in a joint venture is stated at cost less impairment losses (see Note 2(k)(ii)), unless classified as held for sale.

(f) Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held equity interests in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses (see Note 2(k)(ii)). Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(k)(ii)).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Property, plant and equipment

Property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see Note 2(k)(ii)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight line method over their estimated useful lives as follows:

	Estimated useful lives
Leasehold improvements	Over the unexpired term of the lease
Office equipment, motor vehicles and others	4–5 years
Electronic equipment	3 years
Civil communication transmission systems	The shorter of 10 years or the estimated remaining useful lives

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the estimated useful life of an asset and its residual value, if any, are reviewed annually.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Intangible assets (other than goodwill)

Intangible assets developed or acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(k)(ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. These intangible assets with finite useful lives are amortised from the date they are available for use as follows:

	Estimated useful lives
Software	3–10 years
Income rights	The shorter of 13 years or the estimated remaining useful lives

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(i) Available-for-sale debt investments

Available-for-sale debt investments are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs.

At the end of each reporting period the fair value of available-for-sale debt investments is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. Interest income from available-for-sale debt investments calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in Note 2(t)(iv).

When the investments are derecognised or impaired (see Note 2(k)(i)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(k) Impairment of assets

(i) Impairment of investments in debt and equity securities and receivables

Investments in debt and equity securities and receivables that are stated at cost or amortised cost or are classified as available-for-sale securities, are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of assets (continued)

(i) Impairment of investments in debt securities and receivables (continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in joint ventures accounted for under the equity method in the consolidated financial statements (see Note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with Note 2(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note 2(k)(ii).

– For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as 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 (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale debt investments, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses in respect of available-for-sale debt investments are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of assets (continued)

(i) Impairment of investments in debt securities and receivables (continued)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- intangible assets;
- goodwill; and
- investments in subsidiaries and a joint venture in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare interim financial reports in compliance with IAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Note 2(k)). Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Project contracts in progress

Project contracts in progress represent the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date (see Note 2(t)(i)) less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Project contracts in progress are presented as part of trade and other receivables in the statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the difference is presented as part of trade and other payables in the statement of financial position.

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see Note 2(k)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see Note 2(k)(i)).

(o) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in capital reserve within equity. The fair value is measured at grant date using the Black-Scholes Model, taking into account the terms and conditions upon which the share options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the share options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the share option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the share option expires (when it is released directly to retained profits).

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Income tax (continued)

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group or the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group or the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Contract revenue

When the outcome of a service contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract.

When the outcome of a service contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(ii) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any sales discounts.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income and consequently recognised in profit or loss over the useful life of the related asset.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Translation of foreign currencies

Foreign currency transactions during the period are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency of the entity to which they relate using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into Hong Kong dollars, the Group's presentation currency, at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(v) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group.
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Related parties (continued)

(b) An entity is related to the Group if any of the following conditions applies: (continued)

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

Notes 13 and 26 contain information about the assumptions and their risk factors relating to goodwill impairment and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Revenue recognition

As explained in Notes 2(m) and 2(t)(i), revenue recognition on an uncompleted service project is dependent on estimating the total outcome of the service contract, as well as the work done to date. Based on the Group's recent experience and the nature of the service activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached the amounts due from customers for contract work as disclosed in Note 18 will not include profit which the Group may eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(b) Impairment of receivables

The management maintains an allowance for doubtful accounts for estimated losses resulting from the inability of the debtors to make the required payments. The management bases the estimates on the assessment of recoverability of individual receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

(c) Impairment of tangible and intangible assets

If circumstances indicate that the carrying amount of tangible or intangible asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of tangible and intangible assets as described in Note 2(k)(ii). These assets are tested for impairment periodically or whenever the events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the recoverable amount of the assets and could result in additional impairment charge or reversal of impairment in future years, where applicable.

(d) Deferred tax

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised. In determining the amount of deferred tax assets to be recognised, significant judgement is required relating to the timing and level of future taxable profits, after taking into account future tax planning strategies. The amount of deferred tax assets recognised at future dates are adjusted if there are significant changes from these estimates.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the design, implementation and sale, and maintenance of application solutions for the networking and controlling systems of public transport and other companies, and the lease of civil communication transmission systems for use in public transportation systems to telecommunication companies.

Revenue represents contract revenue from the provision of design, implementation and sale of application solution services, contract revenue from the provision of maintenance of application solution services, and rental income from the lease of civil communication transmission systems. The amount of each significant category of revenue recognised during the year is as follows:

	2016 **HK$'000**	2015 HK$'000
Revenue from the provision of design, implementation and sale of application solution services	**315,252**	180,624
Revenue from the provision of maintenance of application solution services	**52,854**	57,425
Rental income from the lease of civil communication transmission systems	**111,203**	82,733
	479,309	320,782

For the year ended 31 December 2016, revenues from transactions with three (2015: five) customers have exceeded 10% of the Group's revenue. Revenue from these customers amounted to approximately HK$190,381,000 for the year ended 31 December 2016 (2015: HK$216,341,000).

Further details regarding the Group's principal activities are discussed below.

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting

The Group manages its businesses by business lines. In view of the continuous integration of the design and implementation of application solutions with their related software, hardware and spare parts in the contracts with customers, the management of the Group considers it has been increasingly difficult to present these activities separately and decided to change the way in how information is to be reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment. The three operating segments, namely "Design and implementation", "Software" and "Hardware and spare parts" as previously reported for the year ended 31 December 2015 have been combined into one operating segment, namely "System integration" for the year ended 31 December 2016. As a result, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments:

– System integration: this segment provides design, implementation and sale of application solution services, which includes related software, hardware and spare parts.

– Maintenance: this segment provides application solution maintenance services.

– Rental income: this segment leases civil communication transmission systems.

Comparative figures have been adjusted to conform to the current year's segments presentation.

(i) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments. The measure used for reporting segment profit is gross profit. No inter-segment sales have occurred for the years ended 31 December 2016 and 2015. The Group's other income and expense items, such as other income, selling, general and administrative expenses and share of losses of joint ventures, and assets and liabilities, including the sharing of technical know-how, are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure and interest income is presented.

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(i) Segment results (continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2016 and 2015 is set out below.

	2016			
	System integration HK$'000	**Maintenance HK$'000**	**Rental income HK$'000**	**Total HK$'000**
Revenue from external customers and reportable segment revenue	**315,252**	**52,854**	**111,203**	**479,309**
Reportable segment gross profit	**29,233**	**28,365**	**46,387**	**103,985**

	2015			
	System integration HK$'000	Maintenance HK$'000	Rental income HK$'000	Total HK$'000
Revenue from external customers and reportable segment revenue	180,624	57,425	82,733	320,782
Reportable segment gross profit	46,816	33,149	41,487	121,452

(ii) Geographic information

The following table sets out information about the geographical location of the Group's revenue from external customers.

	2016 HK$'000	2015 HK$'000
Mainland China	**431,157**	276,975
Hong Kong	**48,152**	43,703
The People's Republic of China (the "PRC") (place of domicile)	**479,309**	320,678
Thailand	**–**	104
	479,309	320,782

The Group's non-current assets, including property, plant and equipment, intangible assets, goodwill and interests in joint ventures, are all located or allocated to operations located in the PRC.

5 OTHER INCOME

	2016 HK$'000	2015 HK$'000
Interest income	**4,238**	5,181
Investment income	**1,304**	47
Net foreign exchange loss	**(2,267)**	(747)
Government grants	**990**	389
Net (loss)/gain on disposal of property, plant and equipment and intangible assets	**(702)**	65
	3,563	4,935

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	2016 HK$'000	2015 HK$'000
Salaries, wages and other benefits	**70,223**	77,495
Contributions to defined retirement plans	**6,621**	7,202
Equity-settled share-based payment expenses (Note 21)	**3,931**	7,898
	80,775	92,595

The employees of the subsidiaries of the Group established in the PRC (other than Hong Kong) participate in a defined contribution retirement benefit scheme managed by the local government authority, whereby these subsidiaries are required to contribute to the scheme at a rate of 20% of the employees' basic salaries. Employees of these subsidiaries are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC (other than Hong Kong), from the above mentioned retirement scheme at their normal retirement age.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed by the Group's subsidiaries incorporated in Hong Kong under a trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the MPF Scheme vest immediately.

The Group has no further obligation for payment of other retirement benefits beyond the above annual contributions.

6 PROFIT BEFORE TAXATION (CONTINUED)

(b) Other items

	2016 HK$'000	2015 HK$'000
Cost of inventories (Note 17(b))	**194,256**	80,906
Auditor's remuneration:		
– statutory audit services	**2,917**	2,849
– other services	**725**	861
Depreciation and amortisation (Notes 11 and 12)	**36,095**	29,836
Operating lease charges in respect of office premises	**8,328**	9,397

7 INCOME TAX

(a) Income tax in the consolidated statement of profit or loss represents:

	2016 HK$'000	2015 HK$'000
Current taxation (Note 22(a)):		
– Hong Kong Profits Tax	**807**	826
– PRC Corporate Income Tax	**12,045**	11,467
– PRC Withholding Tax	**–**	2,755
	12,852	15,048
Deferred taxation (Note 22(b)):		
– Origination and reversal of temporary differences	**(11,321)**	(2,733)
– Effect on deferred tax balances at 1 January resulting from a change in tax rate	**–**	(666)
	(11,321)	(3,399)
	1,531	11,649

7 INCOME TAX (CONTINUED)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2016 HK$'000	2015 HK$'000
Profit before taxation	**29,925**	32,129
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned (Notes (i), (ii) and (iii))	**8,852**	10,329
Tax effect of non-deductible expenses	**1,734**	4,474
Tax effect of non-taxable income	**(21)**	(77)
Tax concessions (Note (iv))	**(9,034)**	(5,166)
Tax effect of PRC Withholding Tax	**–**	2,755
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**–**	(666)
Income tax	**1,531**	11,649

Notes:

(i) The Company and the subsidiaries of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the year ended 31 December 2016 (2015: 16.5%).

(ii) The Company and the subsidiaries of the Group incorporated in countries other than the PRC (including Hong Kong) are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.

(iii) The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% for the year ended 31 December 2016 (2015: 25%).

(iv) Certain subsidiaries of the Group established in the PRC have obtained approvals from the tax bureau to be taxed as enterprises with advanced and new technologies. As a result, these subsidiaries enjoyed a preferential PRC Corporate Income Tax rate of 15% for the three years ending 31 December 2017 or 31 December 2018.

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2016						
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	Sub-total HK$'000	Share-based payments HK$'000 (Note 21)	Total HK$'000
Executive directors							
Cao Wei	1,200	130	–	72	1,402	122	1,524
Xuan Jing	–	–	–	–	–	–	–
Shao Kai (resigned on 25 January 2017)	1,000	222	–	54	1,276	–	1,276
Non-executive directors							
Tian Zhenqing (resigned on 28 February 2017)	–	–	–	–	–	–	–
Guan Jifa	–	–	–	–	–	–	–
Hao Weiya	–	–	–	–	–	–	–
Ren Yuhang (apponited on 28 February 2017)	–	–	–	–	–	–	–
Independent non-executive directors							
Bai Jinrong	240	–	–	–	240	–	240
Luo Zhenbang	240	–	–	–	240	–	240
Huang Lixin	240	–	–	–	240	–	240
	2,920	352	–	126	3,398	122	3,520

8 DIRECTORS' EMOLUMENTS (CONTINUED)

	2015						
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	Sub-total HK$'000	Share-based payments HK$'000 (Note 21)	Total HK$'000
Executive directors							
Cao Wei	1,200	130	–	74	1,404	173	1,577
Xuan Jing	–	–	–	–	–	–	–
Shao Kai (appointed on 4 March 2015)	1,000	289	–	56	1,345	–	1,345
Non-executive directors							
Tian Zhenqing	–	–	–	–	–	–	–
Hao Weiya	–	–	–	–	–	–	–
Guan Jifa (appointed on 28 October 2015)	–	–	–	–	–	–	–
Zhang Jie (resigned on 28 October 2015)	–	–	–	–	–	–	–
Independent non-executive directors							
Bai Jinrong	240	–	–	–	240	–	240
Luo Zhenbang	240	–	–	–	240	–	240
Huang Lixin	240	–	–	–	240	–	240
	2,920	419	–	130	3,469	173	3,642

There were no amounts paid during the year ended 31 December 2016 to the directors or any of the five highest paid individuals set out in Note 9 as an inducement to join or upon joining the Group or as compensation for loss of office. Other than Ms Xuan Jing, Mr Tian Zhenqing, Mr Hao Weiya and Mr Guan Jifa (2015: Ms Xuan Jing, Mr Tian Zhenqing, Mr Hao Weiya, Mr Guan Jifa and Mr Zhang Jie), no other directors waived or agreed to waive any emoluments during the year ended 31 December 2016. Ms Xuan Jing, Mr Tian Zhenqing, Mr Hao Weiya and Mr Guan Jifa waived their respective directors' fees of HK$240,000 during the year ended 31 December 2016 (2015: HK$240,000, HK$240,000, HK$240,000, HK$40,000 and HK$200,000, respectively).

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2015: two) are directors whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other there (2015: three) individuals are as follows:

	2016 HK$'000	2015 HK$'000
Salaries, allowances and benefits in kind	**2,634**	2,619
Discretionary bonuses	**–**	101
Retirement scheme contributions	**126**	101
Share-based payments (Note 21)	**735**	706
	3,495	3,527

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS (CONTINUED)

The emoluments of the three (2015: three) individuals who are not directors and who are amongst the five highest paid individuals of the Group are within the following bands:

	2016	2015
HK$1,000,001 – HK$1,500,000	**3**	3

10 BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2016 is based on the profit attributable to ordinary equity shareholders of the Company of HK$25,728,000 (2015: HK$22,945,000) and the weighted average of 1,540,269,000 ordinary shares (2015: 1,373,331,000 ordinary shares) in issue during the year, calculated as follows:

	2016 '000	2015 '000
Issued ordinary shares at 1 January	**1,423,321**	1,305,976
Effect of issuance of shares (Note 23(c)(ii))	**107,853**	65,944
Effect of shares issued under share option scheme (Note 23(c)(iii))	**9,095**	1,411
Weighted average number of ordinary shares at 31 December	**1,540,269**	1,373,331

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2016 is based on the profit attributable to ordinary equity shareholders of the Company of HK$25,728,000 (2015: HK$22,945,000) and the weighted average number of ordinary shares (diluted) of 1,547,780,000 (2015: 1,393,182,000 ordinary shares (diluted)), calculated as follows:

	2016 '000	2015 '000
Weighted average number of ordinary shares at 31 December	**1,540,269**	1,373,331
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (Note 21)	**7,511**	19,851
Weighted average number of ordinary shares (diluted) at 31 December	**1,547,780**	1,393,182

11 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Office equipment, motor vehicles and others HK$'000	Electronic equipment HK$'000	Civil communication transmission systems HK$'000	Total HK$'000
Cost:					
At 1 January 2015	738	4,026	4,421	115,284	124,469
Exchange adjustments	–	(255)	(298)	(7,783)	(8,336)
Additions	–	1,054	1,283	–	2,337
Additions through acquisition of business	–	–	–	65,886	65,886
Disposals	–	(311)	(5)	–	(316)
At 31 December 2015	738	4,514	5,401	173,387	184,040
Accumulated depreciation:					
At 1 January 2015	696	1,472	2,590	51,603	56,361
Exchange adjustments	–	(93)	(182)	(4,070)	(4,345)
Additions through acquisition of business	–	–	–	16,566	16,566
Charge for the year	11	826	874	13,721	15,432
Written back on disposals	–	(295)	(5)	–	(300)
At 31 December 2015	707	1,910	3,277	77,820	83,714
Carrying amount:					
At 31 December 2015	31	2,604	2,124	95,567	100,326
Cost:					
At 1 January 2016	**738**	**4,514**	**5,401**	**173,387**	**184,040**
Exchange adjustments	**–**	**(265)**	**(324)**	**(12,533)**	**(13,122)**
Additions	**–**	**77**	**589**	**5,892**	**6,558**
Additions through acquisition of business (Note 24)	**–**	**–**	**–**	**54,965**	**54,965**
Disposals	**–**	**–**	**(48)**	**–**	**(48)**
At 31 December 2016	**738**	**4,326**	**5,618**	**221,711**	**232,393**
Accumulated depreciation:					
At 1 January 2016	**707**	**1,910**	**3,277**	**77,820**	**83,714**
Exchange adjustments	**–**	**(140)**	**(220)**	**(5,702)**	**(6,062)**
Charge for the year	**8**	**874**	**947**	**18,427**	**20,256**
Written back on disposals	**–**	**–**	**(44)**	**–**	**(44)**
At 31 December 2016	**715**	**2,644**	**3,960**	**90,545**	**97,864**
Carrying amount:					
At 31 December 2016	**23**	**1,682**	**1,658**	**131,166**	**134,529**

12 INTANGIBLE ASSETS

	Software HK$'000	Golf club membership HK$'000	Income rights HK$'000	Total HK$'000
Cost:				
At 1 January 2015	89,888	760	57,085	147,733
Exchange adjustments	(6,214)	(38)	(4,100)	(10,352)
Additions	110	–	–	110
Additions through acquisition of business	–	–	48,124	48,124
At 31 December 2015	83,784	722	101,109	185,615
Accumulated amortisation and impairment losses:				
At 1 January 2015	31,312	–	1,824	33,136
Exchange adjustments	(2,151)	–	(508)	(2,659)
Charge for the year	7,415	–	6,989	14,404
At 31 December 2015	36,576	–	8,305	44,881
Carrying amount:				
At 31 December 2015	47,208	722	92,804	140,734
Cost:				
At 1 January 2016	**83,784**	**722**	**101,109**	**185,615**
Exchange adjustments	**(6,334)**	**(22)**	**(6,668)**	**(13,024)**
Additions	**245**	**–**	**–**	**245**
Additions through acquisition of business (Note 24)	**–**	**–**	**10,979**	**10,979**
Disposals	**–**	**(700)**	**–**	**(700)**
At 31 December 2016	**77,695**	**–**	**105,420**	**183,115**
Accumulated amortisation and impairment losses:				
At 1 January 2016	**36,576**	**–**	**8,305**	**44,881**
Exchange adjustments	**(2,485)**	**–**	**(891)**	**(3,376)**
Charge for the year	**7,121**	**–**	**8,718**	**15,839**
At 31 December 2016	**41,212**	**–**	**16,132**	**57,344**
Carrying amount:				
At 31 December 2016	**36,483**	**–**	**89,288**	**125,771**

13 GOODWILL

	HK$'000
Cost:	
At 1 January 2015	69,175
Exchange adjustments	(3,910)
At 31 December 2015 and 1 January 2016	65,265
Exchange adjustments	(4,152)
At 31 December 2016	61,113
Accumulated impairment losses:	
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	–
Carrying amount:	
At 31 December 2016	61,113
At 31 December 2015	65,265

Impairments tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGUs") identified according to the operations of the Group as follows:

	Note	**2016 HK$'000**	2015 HK$'000
Operations in the provision of application solutions related services	(i)	**51,089**	54,562
Operations related to the civil communication transmission systems business	(ii)	**10,024**	10,703
		61,113	65,265

Note (i): The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets prepared by the directors of the Company covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% (2015: 3%). The cash flows are discounted using a discount rate of 16% (2015: 16%). The discount rate used is pre-tax and reflect specific risks relating to the relevant CGU.

Note (ii): The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets prepared by the directors of the Company covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% (2015: 3%). The cash flows are discounted using a discount rate of 16.5% (2015: 16.5%). The discount rate used is pre-tax and reflect specific risks relating to the relevant CGU.

(Expressed in HK$ unless otherwise indicated)

14 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets and liabilities of the Group:

Name of subsidiary	Place of establishment/ incorporation and operations	Particulars of registered/issued and paid-up capital	Proportion of ownership interest: The Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiaries	Principal activities
ERG Transit Systems (Beijing) Ltd.* 億雅捷交通系统(北京)有限公司**	The PRC	Renminbi ("RMB") 12,550,000	100%	–	100%	Design, implementation and sale, and maintenance, of application solutions for the networking and controlling systems of public transport and other companies
ERG Transit Systems (HK) Limited	Hong Kong	1,000 shares	100%	–	100%	Design, implementation and maintenance of application solutions for the networking and controlling systems of public transport companies
Beijing BII-ERG Transportation Technology Co., Ltd. ("BII-ERG")* 北京京投億雅捷交通科技有限公司***	The PRC	RMB80,000,000	90%	–	90%	Design, implementation and sale, and maintenance, of application solutions for the networking and controlling systems of public transport and other companies
Beijing BII Technology Development Co., Ltd.* 北京京投卓越科技发展有限公司**	The PRC	RMB300,000,000	100%	–	100%	Design and sale of application solution software, and the lease of civil communication transmission systems to telecommunication companies

*   The English translation of the names are for reference only and the official names of these entities are in Chinese.
** These companies are wholly foreign owned enterprises established in the PRC.
*** This company is a foreign investment enterprise established in the PRC.

14 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The following table lists out the financial information of BII-ERG and China City Railway Transportation Technology Investment Company Limited ("CCRTT Investments"), the subsidiaries of the Group which have non-controlling interests ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	BII-ERG		CCRTT Investments	
	2016 HK$'000	2015 HK$'000	**2016 HK$'000**	2015 HK$'000
NCI percentage	**10%**	10%	**30%**	–
Turnover	**290,199**	92,339	**–**	–
Profit/(loss) for the year	**23,780**	(24,653)	**960**	–
Profit/(loss) attributable to NCI	**2,378**	(2,465)	**288**	–
Non-current assets	**23,761**	17,815	**18,680**	–
Current assets	**439,181**	386,059	**3,930**	–
Current liabilities	**(344,226)**	(296,027)	**(21,650)**	–
Non-current liabilities	**(3,321)**	(3,832)	**–**	–
Net assets	**115,395**	104,015	**960**	–
Net assets attributable to NCI	**11,540**	10,402	**288**	–

15 INTERESTS IN JOINT VENTURES

	2016 HK$'000	2015 HK$'000
Unlisted, at cost	312,442	–
Add: share of net assets	128	–
	312,570	–

Details of the Group's interests in joint ventures, which are accounted for using the equity method in the consolidated financial statements, are as follows:

				Proportion of ownership interest			
Name of joint venture	Note	Place of establishment and operations	Particulars of registered and paid up capital	The Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Beijing Metro Science and Technology Development Co., Ltd. ("Metro Science and Technology")* 北京地鐵科技發展有限公司	(i)	The PRC	RMB30,000,000	49%	–	49%	Maintenance of application solutions for the networking and controlling systems of public transport companies
Beijing Metro Co., Ltd. ("Beijing Metro")* 北京京城地鐵有限公司	(ii)	The PRC	RMB500,000,000	49%	49%	–	Subway operations management

* The English translation of the names are for reference only and the official names of these entities are in Chinese.

Note (i): Metro Science and Technology was established on 18 February 2016 by the Group, through a wholly-owned subsidiary, with a major subway operation company in Beijing, the other investor to this joint venture, to carry out the maintenance of application solutions for the networking and controlling systems of public transport companies in Mainland China. Metro Science and Technology is an unlisted entity whose quoted market price is not available.

Note (ii): Beijing Metro was established on 15 February 2016 by the Company with a major subway operation company in Beijing, the other investor to this joint venture, to carry out the operational management for subway lines in Beijing. Beijing Metro is an unlisted entity whose quoted market price is not available.

15 INTERESTS IN JOINT VENTURES (CONTINUED)

Summarised financial information of the joint ventures, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	Metro Science and Technology 2016 HK$'000	Beijing Metro 2016 HK$'000
Gross amounts of the joint ventures		
Current assets	53,847	599,293
Non-current assets	2,797	976
Current liabilities	(18,520)	(496)
Net assets	38,124	599,773
Included in the above assets and liabilities:		
Cash and cash equivalents	20,730	556,762
Revenue	84,957	957
Profit/(loss) for the period from the data of establishment to 31 December 2016	1,989	(1,727)
Included in the above profit/(loss):		
Depreciation	(121)	(40)
Interest income	168	3,480
Reconciled to the Group's interests in the joint venture		
Gross amounts of the joint ventures' net assets	38,124	599,773
The Group's effective interests	49%	49%
The Group's share of the joint ventures' net assets	18,681	293,889
Carrying amounts in the consolidated financial statements	18,681	293,889

16 AVAILABLE-FOR-SALE DEBT INVESTMENTS

	2016 HK$'000	2015 HK$'000
Unlisted debt investments	**128,564**	17,904

The unlisted debt investments represent wealth management products issued by a financial institution with guaranteed principal amounts plus variable returns.

17 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2016 HK$'000	2015 HK$'000
Application solution related software, hardware and spare parts	**62,707**	50,681
Materials to be assigned to services contracts	**6,314**	138
	69,021	50,819

(b) The analysis of the amount of inventories recognised as an expense and included in the consolidated statement of profit or loss during the year is as follows:

	2016 HK$'000	2015 HK$'000
Carrying amount of inventories sold	**194,256**	80,906

18 TRADE AND OTHER RECEIVABLES

	Note	2016 HK$'000	2015 HK$'000
Trade receivables due from:	18(a), (b), (d)		
– third parties		**246,746**	269,977
– the ultimate holding company of the Company		**27**	28
– an affiliate of an equity shareholder of the Company		**86,326**	63,993
– an equity holder of the non-controlling equity holder of a subsidiary of the Group		**20,605**	32,883
		353,704	366,881
Gross amount due from customers for contract work:	18(c)		
– third parties		**122,178**	106,782
– an affiliate of an equity shareholder of the Company		**14,606**	21,402
– an equity holder of the non-controlling equity holder of a subsidiary of the Group		**4,485**	3,169
		141,269	131,353
Amounts due from related parties:	18(e)		
– equity shareholders of the Company and their affiliates		**186**	688
– the ultimate holding company of the Company		**84**	8,911
		270	9,599
Prepayments, deposits and other receivables		**29,367**	27,673
		524,610	535,506

All of the trade and other receivables are expected to be settled or recognised as expenses within one year.

18 TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date, is as follows:

	2016 HK$'000	2015 HK$'000
Within 1 month	**119,628**	169,682
More than 1 month but less than 3 months	**10,161**	26,076
More than 3 months but less than 6 months	**7,367**	12,594
More than 6 months	**216,548**	158,529
	353,704	366,881

The Group's credit policy is set out in Note 26(a).

(b) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2016 HK$'000	2015 HK$'000
Current	**25,371**	16,564
Less than 1 month past due	**112,824**	168,740
1 to 3 months past due	**10,161**	26,076
3 to 6 months past due	**7,367**	12,594
More than 6 months past due	**197,981**	142,907
	353,704	366,881

Given the nature of the Group's business, except for progress billings and retention receivables under credit terms granted, all receivables are considered past due once billings have been made by the Group and the customers have not settled the billings within the credit terms granted, where applicable.

Receivables that were past due but not impaired relate to customers that have a good credit record. Based on past experience, management believes that no impairment allowance 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 Group does not hold any collateral over these balances.

(c) Project contracts in progress

At 31 December 2016, the aggregate amount of costs incurred plus recognised profits less recognised losses to date, included in the gross amount due from customers for contract work, is approximately HK$657,237,000 (2015: HK$382,089,000).

18 TRADE AND OTHER RECEIVABLES (CONTINUED)

(d) Retention receivables

At 31 December 2016, included in trade receivables are retention receivables in respect of project contracts of approximately HK$18,567,000 (2015: HK$16,292,000).

(e) Amounts due from related parties

Amounts due from related parties are unsecured, non-interest bearing and have no fixed terms of repayment.

19 CASH AND CASH EQUIVALENTS

	2016 HK$'000	2015 HK$'000
Cash at bank and on hand	**1,118,431**	626,837

The Group's operations in the PRC (excluding Hong Kong) are conducted in RMB. RMB is not a freely convertible currency and the remittance of RMB out of the PRC (excluding Hong Kong) is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

20 TRADE AND OTHER PAYABLES

	Note	**2016 HK$'000**	**2015** HK$'000
Trade payables due to third parties		**211,939**	185,683
Bills payables		**21,354**	3,467
	20(a)	**233,293**	189,150
Amounts due to related parties:	20(b)		
– an affiliate of an equity shareholder of the Company		**235**	–
– a non-controlling equity holder of a subsidiary of the Group		**5,400**	–
		5,635	–
Other taxes payables		**17,487**	12,614
Accrued expenses and other payables		**15,275**	12,364
		32,762	24,978
Financial liabilities measured at amortised cost		**271,690**	214,128
Receipts in advance from:			
– third parties		**37,276**	40,847
– an equity holder of the non-controlling equity holder of a subsidiary of the Group		**8,942**	–
		317,908	254,975

At 31 December 2016, all of the trade and other payables are expected to be settled or recognised as revenue within one year or are repayable on demand.

20 TRADE AND OTHER PAYABLES (CONTINUED)

(a) Ageing analysis

Included in trade and other payables are trade payables with the following ageing analysis, based on the maturity date, as of the end of the reporting period:

	2016 HK$'000	2015 HK$'000
Due within 1 month or on demand	**213,608**	185,683
Due after 1 month but within 6 months	**19,685**	3,467
	233,293	189,150

(b) Amounts due to related parties

The amounts are unsecured and non-interest bearing. Except for an amount of HK$5,400,000 at 31 December 2016 (2015: HK$nil) which is repayable within one year, all of the remaining balances have no fixed terms of repayment.

21 EQUITY-SETTLED SHARE-BASED TRANSACTION

The Company has a share option scheme which was adopted on 8 December 2011 and revised on 24 September 2013 whereby the directors of the Company are authorised, at their discretion, to invite (i) any employee or proposed employee (whether full-time or part-time) of any member of the Group or any entity in which any member of the Group holds an equity interest ("Invested Entity"); (ii) any executive or non-executive directors including independent non-executive directors of any member of the Group or any Invested Entity; (iii) any supplier of goods or services to any member of the Group or any Invested Entity; (iv) any customer of the Group or any Invested Entity; (v) any shareholder of any member of the Group or any Invested Entity; or (vi) any other group or classes of participants from time to time determined by the directors of the Company as having contributed or may contribute by way of joint ventures, business alliances or other business arrangements to the developments and growth of the Group, to take up options at HK$1.00 as consideration to subscribe for ordinary shares in the Company.

For the share options granted on 26 July 2012, 31 December 2013 and 5 December 2014, 20% will vest after one year from the respective dates of grant; another 50% will vest after two years from the respective dates of grant; and the remaining 30% will vest after three years from the respective dates of grant. The share options granted will lapse on 25 July 2017, 30 December 2018 and 4 December 2019, respectively. Each share option gives the holder the right to subscribe for one ordinary share in the Company.

(Expressed in HK$ unless otherwise indicated)

21 EQUITY-SETTLED SHARE-BASED TRANSACTION (CONTINUED)

(a) The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
– on 26 July 2012	480,000	One year from the date of grant	5 years
– on 26 July 2012	1,200,000	Two years from the date of grant	5 years
– on 26 July 2012	720,000	Three years from the date of grant	5 years
– on 5 December 2014	100,000	One year from the date of grant	5 years
– on 5 December 2014	250,000	Two years from the date of grant	5 years
– on 5 December 2014	150,000	Three years from the date of grant	5 years
Options granted to equity shareholder:			
– on 5 December 2014	260,000	One year from the date of grant	5 years
– on 5 December 2014	650,000	Two years from the date of grant	5 years
– on 5 December 2014	390,000	Three years from the date of grant	5 years
Options granted to employees:			
– on 26 July 2012	7,360,000	One year from the date of grant	5 years
– on 26 July 2012	18,400,000	Two years from the date of grant	5 years
– on 26 July 2012	11,040,000	Three years from the date of grant	5 years
– on 31 December 2013	4,000,000	One year from the date of grant	5 years
– on 31 December 2013	10,000,000	Two years from the date of grant	5 years
– on 31 December 2013	6,000,000	Three years from the date of grant	5 years
– on 5 December 2014	3,640,000	One year from the date of grant	5 years
– on 5 December 2014	9,100,000	Two years from the date of grant	5 years
– on 5 December 2014	5,460,000	Three years from the date of grant	5 years
Total share options granted	79,200,000		

21 EQUITY-SETTLED SHARE-BASED TRANSACTION (CONTINUED)

(b) The number and weighted average exercise price of share options are as follows:

	2016		2015	
	Weighted average exercise price	Number of share options '000	Weighted average exercise price	Number of share options '000
Outstanding at the beginning of the year	**HK$1.593**	**51,800**	HK$1.548	55,136
Exercised during the year	**HK$0.748**	**(13,780)**	HK$0.731	(2,728)
Forfeited during the year	**HK$1.949**	**(4,170)**	HK$1.325	(608)
Outstanding at the end of the year	**HK$1.875**	**33,850**	HK$1.593	51,800
Exercisable at the end of the year	**HK$1.729**	**28,705**	HK$1.116	29,960

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2016 was HK$1.36 (2015: HK$2.12).

The share options outstanding at 31 December 2016 had a weighted average exercise price of HK$1.875 (2015: HK$1.593) and a weighted average remaining contractual life of 2.40 years (2015: 3.01 years).

22 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Movements of current taxation in the consolidated statement of financial position are as follows:

	2016 HK$'000	2015 HK$'000
Income tax payable at 1 January	**44,720**	44,766
Provision for income tax on the estimated taxable profits for the year (Note 7(a))	**12,852**	15,048
Income tax paid during the year	**(21,367)**	(15,094)
Income tax payable at 31 December	**36,205**	44,720

22 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax assets and liabilities recognised:

The component of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Assets				Liabilities	
Deferred tax arising from:	Amortisation and depreciation expenses in excess of the tax allowances HK$'000	Accruals HK$'000	Unused tax losses HK$'000	Total HK$'000	Fair value adjustments on intangible assets and related amortisation HK$'000	Net HK$'000
At 1 January 2015	6,691	–	2,436	9,127	(18,199)	(9,072)
Exchange adjustments	(209)	(88)	(179)	(476)	1,123	647
(Charged)/credited to the consolidated statement of profit or loss (Note 7(a))	(1,946)	1,525	657	236	3,163	3,399
Addition through acquisition of business	–	–	–	–	(11,168)	(11,168)
At 31 December 2015	4,536	1,437	2,914	8,887	(25,081)	(16,194)
Exchange adjustments	(212)	(629)	(66)	(907)	1,661	754
(Charged)/credited to the consolidated statement of profit or loss (Note 7(a))	(476)	12,829	(2,848)	9,505	1,816	11,321
Additions through acquisition of business (Note 24)	2,803	–	–	2,803	(2,653)	150
At 31 December 2016	6,651	13,637	–	20,288	(24,257)	(3,969)

(c) Deferred tax liabilities not recognised

At 31 December 2016, temporary differences relating to the retained profits of the subsidiaries of the Group established in the PRC (excluding Hong Kong) amounted to HK$362,681,000 (2015: HK$323,660,000) of which no deferred tax liabilities in respect of the tax that would be payable on the distribution of these profits was provided as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

23 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital HK$'000 (Note 23(c))	Share premium HK$'000 (Note 23(d)(i))	Capital reserve HK$'000 (Note 23(d)(ii))	Accumulated losses HK$'000	Total HK$'000
At 1 January 2015	13,060	712,202	45,382	(49,236)	721,408
Changes in equity for 2015:					
Total comprehensive income	–	–	–	(12,290)	(12,290)
Issuance of shares	1,146	236,173	–	–	237,319
Shares issued under share option scheme	27	2,444	(478)	–	1,993
Equity-settled share-based transactions (Note 21)	–	–	7,898	–	7,898
	1,173	238,617	7,420	(12,290)	234,920
At 31 December 2015	14,233	950,819	52,802	(61,526)	956,328
At 1 January 2016	14,233	950,819	52,802	(61,526)	956,328
Changes in equity for 2016:					
Total comprehensive income	–	–	–	(13,065)	(13,065)
Issuance of shares (Note 23(c)(ii))	6,691	896,032	–	–	902,723
Shares issued under share option scheme (Note 23(c)(iii))	138	12,616	(2,451)	–	10,303
Equity-settled share-based transactions (Note 21)	–	–	3,931	–	3,931
	6,829	908,648	1,480	(13,065)	903,892
At 31 December 2016	21,062	1,859,467	54,282	(74,591)	1,860,220

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: HK$nil).

(ii) Dividends to equity shareholders of the Company attributable to the previous financial period, approved during the current year

The Directors did not recommend a final dividend for the year ended 31 December 2015 (eighteen months ended 31 December 2014: HK$nil).

23 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital

(i) Authorised and issued share capital

	2016		2015	
	Number of shares	**HK$'000**	Number of shares	HK$'000
Authorised:				
Ordinary shares of HK$0.01 each	**5,000,000,000**	**50,000**	5,000,000,000	50,000
Issued and fully paid:				
At 1 January	**1,423,321,203**	**14,233**	1,305,975,669	13,060
Issuance of shares (Note 23(c)(ii))	**669,053,524**	**6,691**	114,617,534	1,146
Shares issued under share option scheme (Note 23(c)(iii))	**13,780,000**	**138**	2,728,000	27
At 31 December	**2,106,154,727**	**21,062**	1,423,321,203	14,233

Pursuant to resolution passed by the Company's annual general meeting on 12 May 2015, the Company's authorised share capital was increased to HK$50,000,000 divided into 5,000,000,000 shares of HK$0.01 each.

(ii) Issuance of shares

On 3 November 2016, the Company issued 669,053,524 new ordinary shares to the immediate holding company of the Company, Beijing Infrastructure Investment (Hong Kong) Limited ("BII HK"), at a price of HK$1.35 each. The proceeds of HK$6,691,000 received by the Company, representing the par value, were credited to the Company's share capital. The remaining proceeds received by the Company, net of transaction costs, of HK$896,032,000 were credited to the Company's share premium account.

(iii) Shares issued under share option scheme

During the year ended 31 December 2016, share options were exercised to subscribe for 13,780,000 ordinary shares in the Company at a consideration of HK$10,303,000, of which HK$138,000 was credited to share capital and the remaining balance of HK$10,165,000 was credited to the share premium account. HK$2,451,000 has been transferred from the capital reserve to the share premium account in accordance with the accounting policy set out in Note 2(q)(ii).

23 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital (continued)

(iv) Terms of unexpired and unexercised share options at the end of the reporting period

Exercise period	Exercise price	At 31 December 2016 Number '000
26 July 2013 to 25 July 2017	HK$0.656	174
26 July 2014 to 25 July 2017	HK$0.656	438
26 July 2015 to 25 July 2017	HK$0.656	1,068
31 December 2014 to 30 December 2018	HK$1.080	2,668
31 December 2015 to 30 December 2018	HK$1.080	7,270
31 December 2016 to 30 December 2018	HK$1.080	5,082
5 December 2015 to 4 December 2019	HK$2.690	3,430
5 December 2016 to 4 December 2019	HK$2.690	8,575
5 December 2017 to 4 December 2019	HK$2.690	5,145
		33,850

Each share option entitles the holder to subscribe for one ordinary share in the Company. Further details of these share options are set out in Note 21 to the financial statements.

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by Section 34 of the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

(ii) Capital reserve

The capital reserve represents (i) the difference between the carrying values of the controlling equity interests in subsidiaries acquired and the considerations paid under the reorganisation took place in 2011; and (ii) the portion of the grant date fair value of unexercised share options granted to directors and equity shareholder of the Company and employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 2(q)(ii).

(iii) Statutory reserves

In accordance with the articles of association of the subsidiaries of the Group established in the PRC (excluding Hong Kong), these subsidiaries were required to set up certain statutory reserves, which were non-distributable. The transfers to these reserves are governed by the articles of association of the respective subsidiaries. The statutory reserves can only be utilised for predetermined means upon approval by the relevant authority.

(iv) Exchange reserve

The exchange reserve comprises foreign exchange differences arising from the translation of the financial statements of companies outside Hong Kong into the presentation currency. The reserve is dealt with in accordance with the accounting policy set out in Note 2(u).

23 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(e) 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 finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholder 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 an adjusted debt-to-capital ratio. For this purpose, the Group defines adjusted debt as total debt (which includes trade and other payables) plus unaccrued proposed dividends. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

During the year ended 31 December 2016, the Group's strategy was to maintain the adjusted debt-to-capital ratio at a level similar to 31 December 2015. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to equity shareholders, issue new shares, return capital to equity shareholders, raise new debt financing or sell assets to reduce debt.

The adjusted debt-to-capital ratio at 31 December 2016 and 2015 is as follows:

	2016 **HK$'000**	2015 HK$'000
Trade and other payables	**317,908**	254,975
Total equity	**2,116,527**	1,221,502
Adjusted debt-to-capital ratio	**15.0%**	20.9%

24 ACQUISITION OF BUSINESS

On 1 November 2016, the Group acquired the civil communication transmission systems and the respective income rights of 41 underground stations in aggregate of four subway lines and the civil communication wireless coverage system of one subway line of the Beijing Subway from the ultimate holding company of the Company, Beijing Infrastructure Investment Co., Ltd.* (北京市基礎設施投資有限公司) ("BII"), at a consideration of RMB57,800,000 (equivalent to approximately HK$66,178,000).

The Directors consider the acquisition represents the continuous expansion of the Group's business operation in the provision of civil communication services to the Beijing Subway. The acquisition is expected to enable the Group to further expand its business scope with an objective to broaden its income source and enhance its financial performance.

The identifiable assets acquired and liabilities assumed in the above acquisition were as follows:

	Pre-acquisition carrying amounts HK$'000	Fair value adjustments HK$'000	Recognised values on the acquisition HK$'000
Property, plant and equipment (Note 11)	54,965	–	54,965
Intangible assets (Note 12)	–	10,979	10,979
Other receivables	84	–	84
Deferred tax assets (Note 22(b))	2,803	–	2,803
Deferred tax liabilities (Note 22(b))	–	(2,653)	(2,653)
Net fair value of the identifiable assets acquired and liabilities assumed in the acquisition	57,852	8,326	66,178
Consideration settled in cash			66,178

Pre-acquisition carrying amounts of the acquirees' assets and liabilities were determined based on applicable IFRSs immediately before the acquisition. The values of assets and liabilities recognised on acquisition are their estimated fair values. In determining the fair values of property, plant and equipment and intangible assets, the Directors have referenced the fair value adjustment to valuation report issued by an independent valuer. The valuation methods adopted for property, plant and equipment and intangible assets were the depreciated replacement cost method and the multi-period excess earnings method, respectively.

From the date of the acquisition to 31 December 2016, the above acquisition contributes turnover of HK$2,840,000 and net profit of HK$608,000 to the Group for the year ended 31 December 2016. If the acquisition had occurred on 1 January 2016, management estimates that consolidated turnover and consolidated net profit for the year ended 31 December 2016 would have been HK$490,303,000 and HK$29,867,000, respectively.

25 COMMITMENTS

(a) Capital commitments

At 31 December 2016, the outstanding capital commitments of the Group not provided for in the consolidated financial statements were as follows:

	2016 HK$'000	2015 HK$'000
Authorised and contracted for:		
– Commitment in respect of capital injection into a joint venture	–	292,433
– Commitment in respect of investments in equity securities (Note 29)	56,121	–
	56,121	292,433

(b) Operating lease commitments

(i) At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016 HK$'000	2015 HK$'000
Within 1 year	7,574	8,902
After 1 year but within 5 years	5	2,301
	7,579	11,203

The Group leases certain office premises under operating leases. The leases typically run for an initial period of 1 to 3 years, with an option to renew the leases when all terms are renegotiated. None of the leases includes contingent lease rentals.

(ii) At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2016 HK$'000	2015 HK$'000
Within 1 year	101,160	67,320
After 1 year but within 5 years	56,603	78,764
	157,763	146,084

The Group leases out its civil communication transmission systems to telecommunication companies under operating leases. The leases typically run for an initial period of 1 to 4 years, with an option to renew the leases when all terms are renegotiated. None of the leases includes contingent lease rentals.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and available-for-sale debt investments. Management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. For project contracts, the Group generally requires customers to settle billings in accordance with contracted terms, whereas for sales of goods and provision of services, the Group generally requires customers to settle immediately after the completion of the related transactions. Credit terms of 30 days may be granted to certain customers for progress billings. Credit terms of one to three years may be granted to customers for retention receivables. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At 31 December 2016, 24% (2015: 20%) of the trade receivables were due from the Group's largest debtor, and 61% (2015: 68%) of the trade receivables were due from the Group's five largest debtors.

Available-for-sale debt investments represent wealth management products issued by financial institutions with sound credit rating. Given its high credit standing, management does not expect these financial institutions to fail to meet their obligations.

The Group does not provide any other guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables and available-for-sale debt investments are set out in Notes 18 and 16, respectively.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Liquidity risk

The Company is responsible for the Group's overall cash management and the raising of borrowings to cover expected cash demands. The Group's policy is to regularly monitor its current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirement in the short and longer term.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities which are based on contractual undiscounted cash flows and the earliest dates the Group can be required to pay:

	2016		2015	
	Contractual undiscounted cash outflow within 1 year or on demand HK$'000	**Carrying amount HK$'000**	Contractual undiscounted cash outflow within 1 year or on demand HK$'000	Carrying amount HK$'000
Trade and other payables measured at amortised cost	**271,690**	**271,690**	214,128	214,128

(c) Interest rate risk

The Group is not exposed to significant interest rate risk, as the Group does not have any interest bearing borrowings at 31 December 2016 and 2015.

(d) Foreign currency exchange risk

The Group is exposed to currency risk primarily through other receivables that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk is primarily RMB.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Foreign currency exchange risk (continued)

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in HK$, translated using the spot rates at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

	Exposure to foreign currencies	
	2016	2015
	RMB	RMB
	HK$'000	HK$'000
Other receivables	**44,613**	47,632

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax and retained profits that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2016		2015	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) in profit after tax and retained profits HK$'000**	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained profits HK$'000
RMB	**10%**	**4,461**	10%	4,763
	(10%)	**(4,461)**	(10%)	(4,763)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and retained profits measured in the respective functional currencies, translated into HK$ at the exchange rates ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company receivables within the Group which are denominated in a currency other than the functional currencies of the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2015.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(e) Financial instruments measured at fair value

(i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Fair value measurements categorised into Level 2	
Recurring fair value measurements	**2016** **HK$'000**	2015 HK$'000
Unlisted debt investments (Note 16)	**128,564**	17,904

(ii) Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of unlisted debt investments are the estimated amount that the Group would receive at the end of the reporting period, taking into account current market interest rates of debt instruments with similar risk profile.

(f) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at 31 December 2016 and 2015.

27 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the balances disclosed elsewhere in these financial statements, the material related party transactions entered into by the Group during the year are set out below.

(a) Transactions with equity shareholders of the Company and their affiliates

	2016 HK$'000	2015 HK$'000
Provision of design, implementation and sale of application solution services	**29,673**	9,179
Provision of maintenance of application solution services	**43,362**	47,396
Operating lease expenses	**5,514**	5,909
Net (increase)/decrease in advances received	**(502)**	514

(b) Transactions with the ultimate holding company of the Company

	2016 HK$'000	2015 HK$'000
Provision of maintenance of application solution services	**–**	604

Please refer to Note 24 for further details on the Group's acquisition of the civil communication transmission systems from BII.

(c) Transactions with an equity holder of the non-controlling equity holder of a subsidiary of the Group

	2016 HK$'000	2015 HK$'000
Provision of design, implementation and sale of application solution services	**3,819**	35,434
Technical service costs	**2,377**	–
Net increase in receipts in advance received	**8,942**	–

(d) Transactions with a non-controlling equity holder of a subsidiary of the Group

	2016 HK$'000	2015 HK$'000
Increase in advance received	**5,400**	–

27 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company as disclosed in Note 8 and certain of the highest paid employees of the Group as disclosed in Note 9, is as follows:

	2016 HK$'000	2015 HK$'000
Short-term employee benefits	11,025	11,945
Retirement scheme contributions	530	584
Equity compensation benefits	527	1,589
	12,082	14,118

Total remuneration is included in "staff costs" (see Note 6(a)).

(f) Transactions with other state-controlled entities in the PRC

The ultimate holding company of the Company, BII, is a state-controlled enterprise controlled by the PRC government. Apart from transactions with BII and its affiliates which were disclosed in Notes 27(a) and 27(b) above, the Group also has transactions with other state-controlled entities, included but not limited to the following:

- provision of design, implementation and sale of application solution services;
- maintenance of application solution services;
- lease of civil communication transmission systems;
- bank deposits; and
- purchase of available-for-sale debt investments.

(g) Applicability of the Listing Rules relating to connected transactions

For the year ended 31 December 2016, the above related party transactions in respect of the provision of design, implementation and sale of application solution services, the provision of maintenance of application solution services and operating leases, with affiliates of equity shareholders of the Company and an equity holder of the non-controlling equity holder of a subsidiary of the Group, where applicable, constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section "Continuing connected transactions" of the Directors' Report.

28 THE COMPANY'S STATEMENT OF FINANCIAL POSITION

	Note	2016 HK$'000	2015 HK$'000
Non-current assets			
Investments in subsidiaries	14	**526,132**	522,966
Interest in a joint venture		**294,735**	–
		820,867	522,966
Current assets			
Other receivables		**62,652**	67,639
Cash and cash equivalents		**981,337**	368,127
		1,043,989	435,766
Current liabilities			
Accrued expenses and other payables		**4,636**	2,404
Net current assets		**1,039,353**	433,362
NET ASSETS		**1,860,220**	956,328
CAPITAL AND RESERVES	23		
Share capital		**21,062**	14,233
Reserves		**1,839,158**	942,095
TOTAL EQUITY		**1,860,220**	956,328

Approved and authorised for issue by the board of directors on 24 March 2017.

Cao Wei
Director

Xuan Jing
Director

29 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

In January and February 2017, the Group contributed RMB50.2 million into two entities.

30 COMPARATIVE FIGURES

In view of the continuous integration of the design and implementation of application solutions with their related software, hardware and spare parts in the contracts with customers, the management of the Group considered it has been increasingly difficult to present these activities separately. As a result, certain information reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment has been changed for the year ended 31 December 2016. Accordingly, certain comparative figures have been adjusted to conform to current year's presentation. Further details are set out in Note 4(b).

31 IMMEDIATE AND ULTIMATE HOLDING COMPANY

At 31 December 2016, the directors of the Company consider the immediate and ultimate controlling party of the Company to be BII HK, a company incorporated in Hong Kong, and BII, a company established in the PRC, respectively. Neither of these companies produces financial statements available for public use.

(Expressed in HK$ unless otherwise indicated)

32 POSSIBLE IMPACT OF NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to IAS 7, *Statement of cash flows: Disclosure initiative*	1 January 2017
Amendments to IAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
Amendments to IFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
IFRS 9, *Financial instruments*	1 January 2018
IFRS 15, *Revenue from contracts with customers*	1 January 2018
IFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

32 POSSIBLE IMPACT OF NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

IFRS 9, *Financial instruments*

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, *Financial instruments: Recognition and measurement*. IFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes to the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Expected impacts of the new requirements on the Group's financial statements are as follows:

Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade and other receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

IFRS 15, *Revenue from contracts with customers*

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts. The Group is currently assessing the impacts of adopting IFRS 15 on its financial statements. Based on the preliminary assessment, the Group has identified the following areas which are likely to be affected:

32 POSSIBLE IMPACT OF NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

IFRS 15, *Revenue from contracts with customers* (continued)

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in Note 2(t). Currently, revenue arising from construction contracts and the provision of services is recognised over time, whereas revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. IFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

As a result of this change from the risk-and-reward approach to the contract-by-contract transfer-of-control approach, it is possible that once the Group adopts IFRS 15 some of the Group's contract activities that are currently recognised at a point in time may meet the IFRS 15 criteria for revenue recognition over time. This will depend on the terms of the sales contract and the enforceability of any specific performance clauses in that contract. It is also possible that for the remainder of the Group's contracts the point in time when revenue is recognised may be earlier or later than under the current accounting policy. However, further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

(b) Significant financing component

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the Group would only apply such a policy when payments are significantly deferred. The Group is in the process of making an assessment of the impact of the financing benefit obtained from customers.

中國城市軌道交通科技控股
CHINA CITY RAILWAY TRANSPORTATION TECHNOLOGY

中國城市軌道交通科技控股有限公司
China City Railway Transportation Technology Holdings Company Limited