京投軌道交通科技控股有限公司
BII Railway Transportation Technology Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)
Stock code: 1522

2018 ANNUAL REPORT

DRIVEN BY INTELLIGENCE

REMODELING
2021

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Cao Wei *(Vice Chairman)*
Ms. Xuan Jing *(Chief Executive Officer)*

Non-Executive Directors

Mr. Zhang Yanyou *(Chairman)*
(appointed as non-executive Director and Chairman on 14 December 2018)
Mr. Hao Weiya
(resigned as non-executive Director on 14 December 2018)
Mr. Guan Jifa
(resigned as Chairman on 14 December 2018)
Mr. Zheng Yi
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

Ms. Xuan Jing
Ms. Siy Ling Lung *(resigned on 29 May 2018)*
Ms. Cheung Yuet Fan *(appointed on 29 May 2018)*

COMPANY SECRETARY

Ms. Siy Ling Lung *(resigned on 29 May 2018)*
Ms. Cheung Yuet Fan *(appointed on 29 May 2018)*

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

Mr. Zhang Yanyou *(Chairman)*
(appointed on 14 December 2018)
Mr. Bai Jinrong
Mr. Huang Lixin

REMUNERATION COMMITTEE

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

AUDITORS

KPMG
Certified Public Accountants

LEGAL ADVISERS TO THE COMPANY

Chiu & Partners

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

REGISTERED OFFICE

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Cayman Islands

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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183 Queen's Road Central, Sheung Wan, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

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Grand Cayman, KY1-1110
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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Wanchai, Hong Kong

WEBSITE

www.biitt.cn

STOCK CODE

1522

COMPANY OVERVIEW

BII Railway Transportation Technology Holdings Company Limited (the "**Company**") and its subsidiaries (the "**Group**") strive to become the leading service provider of city railway transportation intelligent system in China. In the coming three years, the Group will adhere to the development strategy of "New journey and remodel 2021" and the Group's three major strategic themes of "one body, one platform, one centre" to accelerate the expansion and development of three scopes: "business realm, industry chain and market segment" focusing on the five major core systems of intelligent railway transportation. The Group will effectively utilise intelligent technology to improve the city railway transportation system.

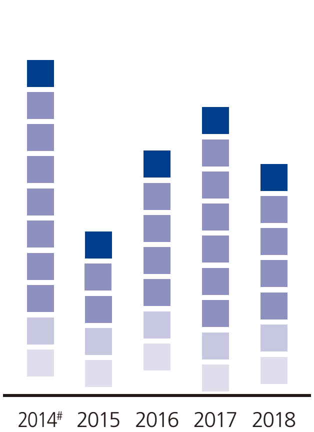
FINANCIAL HIGHLIGHTS

		For the year ended 31 December			For the eighteen months ended 31 December
	2018	2017	2016	2015	2014
Key profit items (HK$ Thousand)					
Revenue	**453,204**	564,587	479,309	320,782	657,241
Gross profit	**108,815**	113,286	103,985	121,452	233,369
Profit attributable to equity shareholders of the Company	**47,398**	38,554	25,728	22,945	65,042

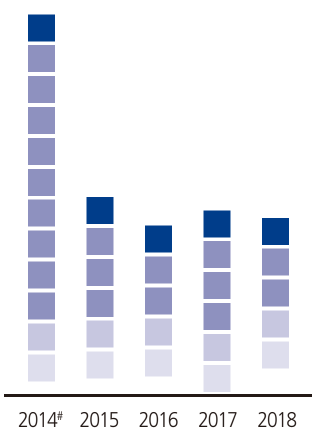
		As at 31 December			For the eighteen months ended 31 December
	2018	2017	2016	2015	2014
Key statement of financial position items (HK$ Thousand)					
Non-current assets	**703,412**	731,123	654,271	315,212	261,007
Current assets	**2,340,020**	1,981,904	1,840,626	1,231,066	1,165,578
Total liabilities	**845,780**	498,918	378,370	324,776	426,999
Equity attributable to equity shareholders of the Company	**2,168,810**	2,194,076	2,104,699	1,211,100	985,621

Financial year	**2018**	2017	2016	2015	2014
Return to shareholders					
Earnings per share					
– Basic (HK$ cent)	**2.3**	1.8	1.7	1.7	6.0
– Diluted (HK$ cent)	**2.3**	1.8	1.7	1.7	5.9

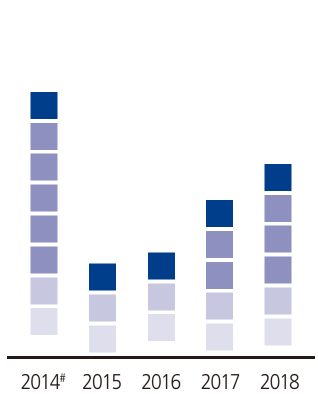
Revenue (HK$ Thousand)



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

On behalf of the board (the "Board") of directors (the "Directors") of the Company, I am pleased to present the annual results of the Group for the year ended 31 December 2018.

Mr. Zhang Yanyou
Chairman

In 2018, the Chinese economy continued to develop steadily and positively. Moreover, the year 2018 was also marked the strategic transformation and upgrade of the Group. We will support innovation to drive the Group's development to a new level. Living in the new age of rapid innovative development, I can deeply feel the overwhelming change brought forward by the application of artificial intelligence, big data, cloud computing and internet of things in the railway transportation industry. I also firmly believe that the thorough application of the power of technological innovation to transportation services is the key to achieve people-oriented aspiration and meet the needs of people to live comfortably and satisfactorily.

Dear valued shareholders and friends,

On behalf of the Board, I am pleased to present the annual results of the Group for the year ended 31 December 2018 ("**FY 2018**"). I would also like to express my heartfelt thanks to shareholders and people from all sectors of the society for their attention and support of the Company.

RESULTS

For FY 2018, the Group recorded revenue of approximately HK$453.2 million, representing a decrease of approximately HK$111.4 million or 19.7% as compared to revenue of approximately HK$564.6 million for the year ended 31 December 2017 ("**FY 2017**"). For FY 2018, profit attributable to equity shareholders of the Company amounted to approximately HK$47.4 million, representing an increase of approximately HK$8.8 million or 22.8% as compared to approximately HK$38.6 million for FY 2017.

DIVIDENDS

As at 31 December 2018, the total number of issued shares of the Company was 2,100,126,727 shares.

The Board recommended payment of a dividend of HK$21,001,267.27 for FY 2018 (FY 2017: HK$21,047,867.27) in consideration of the growth of results of the Group and as a reward for the long-term support of shareholders, subject to the approval of the shareholders of the Company at the 2019 annual general meeting ("**AGM**").

BUSINESS OVERVIEW AND DEVELOPMENT

Business development

2018 is an important year for the implementation of the "13th Five-Year Plan" as well as a strategic transformation year for the Group to clearly deploy its development strategy of "New journey and remodel 2021". As the sole overseas listed arm of the Company's ultimate holding company, Beijing Infrastructure Investment Co., Ltd. (北京市基礎設施投資有限公司) ("**BII**"), the Group was committed to fulfilling the key mission of ensuring the networking operation of Beijing railway transportation. Under the guidance of BII, the Group firmly adhered to the strategic deployment of "one body-two wings, two wheel drive" and the new strategic direction of "Three aspects of transformation" to sustain and continued to promote the new strategic development of "Giving priority to intelligent railway transportation services and civil communication transmission services and supplementing with new business development through joint ventures and partnership". Steered by its commitment to scientific and technological innovation, the Group would continue to gear up its efforts in research and development, actively widen its scope of development in areas of building a rail transit cloud platform and establish a big data framework and big data analysis to foster the transformation of city railway transportation, thereby realising the high-quality development of the Group.

- **New business development**

  The Group adheres to market expansion as its core to build up market competitiveness and focuses on providing the whole life-cycle solution for intelligent railway transportation system.

  In 2018, riding on its approach based on anchoring in Beijing, Hong Kong and covering Beijing-Tianjin-Hebei, the Group actively expanded its development throughout the nation and seized projects in Zhengzhou, Nanning, Kunming, and Fuzhou beyond Beijing with the bidding price of these new projects amounting to approximately RMB0.49 billion. In recent years, along with change in the railway transportation in Beijing from single-line operation to network operation, the Group continued to promote the synergistic development of its subsidiaries and keep abreast of the ever-changing market development and demand and in turn succeeded in creating a steady and positive development trend. To seize the strategic development opportunity rendered by Zhengzhou's new perspective of construction, operation, exploration and development for its railway transportation, the Group, leveraging on its experience in research and development in the Automatic Fare Collection System ("**AFC**")/ Automatic Fare Collection Clearing Centre ("**ACC**") System, alongside with its project implementation experience, won the bid on the procurement project of Automatic Fare Collection Network Control Centre ("**ANCC**") system of Zhengzhou's rail transit. It was the first time for the Group to submit and win an independent bid for construction of Zhengzhou Rail Transit Innovation Key Project, which was a landmark project of the Group's networking operation solution business and also the first time for the Group to introduce the new model of Beijing's intelligent rail transit to other areas in the PRC. The Group precisely grasped the development trend of the latest technology in the civil communication transmission service segment, including related technology of 4G, 5G, 5.8G, together with the development trend of mobile internet to devise a development model for application in subway transportation. Moreover, a 5G trial station will be set up in the New Airport Line. With the gradual implementation of the intelligent subway transportation action plan in Beijing and the construction of big data centre, integrated cloud platform, 10G Ethernet and the enlarged application of 5G based intelligent subway transportation system to be in place, the Company will get hold of the new development opportunities in future.

- **New technology development**

  The Group follows the principle of technological innovation to strengthen its technological competitiveness and concentrates on the research and development of core product lines such as the AFC and the Passenger Information System ("**PIS**").

  In 2018, the Group had achieved important development in the ACC/Multiple Line Centre ("**MLC**") integrated platform, face recognition fare checking and verification facilities, utility tunnel, and big data analysis model for railway transportation. The self-developed product of the Group, ERG-TPU-2000 reader, among others, was able to attain the POC3.0 Level 1 and PBOC3.0 Level 2 Test Reports conferred by the Bank Card Test Center, marking the further development of the Group's TPU products in the field of micropayments. Owning the intellectual property rights of the utility tunnel area control unit and utility tunnel integrated communication system, the Group completed their research and development and started to launch the testing for the Beijing World Expo utility tunnel to create a Beijing featured utility tunnel.

In 2018, the Group attained a total of 7 software copyrights, and were authorised with 3 types of new patents as well as completing the certification of CMMI Level 5 and re-certification of ITSS in terms of qualification. The CMMI Level 5, among others, is an important international standard for evaluating the maturity of software companies. The certification of the high maturity process improvement in CMMI Level 5 is crucial for the Group to further improve capabilities in project management quality, research and development management and productivity rate, and reinforce the Group to enhance capabilities in quantitative management and process improvement, and to continue to promote its optimisation and management capabilities in the course of project operations. The certification of ITSS represents an important recognition of the Group's ability to provide high-quality operation and maintenance service for the community. The Group will continue to provide high-quality service for users through this operation and maintenance system, thereby creating greater value for customers. Riding on its achievement in the areas of city railway transportation and information security, the Group had developed a total of 132 system softwares and successively attained related copyrights for them, all of which have been widely adopted in the construction of city railway transportation at both line-level and network-level.

In 2018, the Group applied for the specialised research project on "Intelligent Railway Transportation Technology Innovation Centre" and succeeded in attaining financial funding support from Beijing Transportation Committee Beijing Municipal Science and Technology Commission (for an aggregate amount of not more than RMB24.00 million in 3 years), and an amount of RMB8 million was paid to the Group in 2018. The application for 2018 BII project obtained RMB2.80 million as funding support; the "2017 Chaoyang New High-Tech Industry Development Guide Fund (direction of information service industry) Support Project" had been approved.

- **New industry layout**

  The Group leveraged on the strategy of investment control to build up its capital competitiveness and selectively invested in quality leading enterprises in the industry through merger and acquisition activities.

  The Group intended to invest a maximum consideration of RMB1.045 billion to acquire 95% of equity interests of Suzhou Huaqi Intelligent Technology Co., Ltd. (蘇州華啟智能科技有限公司) ("**Huaqi Intelligent**"), a leading company in the on-board PIS industry in the domestic railway transportation sector. After the acquisition, the Group will become a leading enterprise in the PIS business sector as a result of the complementary advantages formed by the Group's ground PIS system and Huaqi Intelligent's on-board PIS system. Moreover, this acquisition will significantly improve the Group's operating performance, market shares, technical strength, corporate image and influence in the capital market, thereby reinforcing the Group's target to become the first-class system service provider in the intelligent railway transportation sector.

  The Group and its collaborative partner jointly established BII Information Security Technology Development Company Limited (北京京投信安科技發展有限公司) ("**BII Xin An**"). With a shareholding of 51.0% of BII Xin An, the Group obtained a new business in information security that could help the Group to improve the reliability and safety of rail transit system. The Group can exploit this opportunity to fully tap into, integrate and optimise resources to improve competitive advantages, large data volume and active input of the railway transportation system. In addition, the Group will actively engage in construction of intelligent city and participate in respective key infrastructural facilities and the field of public security, including electricity, water supply, highway, utility tunnel, road traffic, security monitoring projects, thereby enhancing its core competitiveness in this industry segment and create sustainable growth in business revenue.

The Group grasped the strategic opportunity from the commercialisation of 5G in the nation and acquired 30% of equity interest in Beijing Nufront Line Rail Transit Technology Co., Ltd. (北京新岸線軌道交通技術有限公司) ("**Nufront Rail Transit**") to consolidate the Group's industry layout in the area of ground-to-train wireless communication for railway transportation. Developed as a next-generation communication technology, the effective ability of EUHT (Enhanced Ultra High Throughput) technology to fix the flaws of the wireless communication of city railway transportation system is widely recognised. The EUHT technology has been successfully adopted in the Beijing-Tianjin Intercity High-Speed Railway and the Guangzhou Metro. The EUHT "information superhighway" can be applied for building a big data platform for rail transit system and devise corresponding application services for different industries. From the strategic development perspective, the Group will integrate the EUHT technology with artificial intelligence and cloud computing to develop new intelligent subways transportation systems.

This new industry layout in the capital market will help the Group to complete the transformation and upgrading of the city railway transportation industry and quickly acquire experience to develop mature products to increase market share. By grasping the key technology and industry qualifications, the Group can further upgrade its core competitiveness and will strive to develop itself as the leading service provider of city railway transportation intelligent system in China.

- **New collaborative development**

  The Group is committed to establishing win-win collaborations and business alliances to provide professional services for the core national projects in Beijing.

  With the strong support of BII, the ultimate holding company of the Company and its accumulated experience and technology in the field of intelligent information systems for many years, the Group started to develop new application scenarios such as utility tunnel, highways and suburban railways, and among them, involved in the electronic and intelligent project of the underground utility tunnel of the Beijing World Horticultural Exposition Park ("**Beijing Expo Utility Tunnel**") (北京世園會管廊) and the new airport expressway non-inductive payment project. Besides, the Group also provided professional service for various core national projects which included Beijing World Expo, Winter Olympics and New Airport. The Group will strive to: 1. realise the synergistic development of the overall industry chain, provide on-board PIS system, functional supervision system, intelligent operation and maintenance service, functional communication service, jointly promote integrated innovation of intelligent software and hardware system; 2. realise in-depth service for the full cycle, undertake the system construction and maintenance service of road network system upgrade, construction of big data centre, application of data analysis, intelligent utility tunnel and intelligent expressway; and 3. realise all-rounded joint development, provide services for city railway intelligent system, subway operation and management to fully integrate resources to provide professional services.

- **New brand image**

  The Group targets to enter the international market and create a flagship brand in intelligent railway transportation in the Hong Kong stock market.

  In September 2018, the Group participated in the Berlin International Railway Transportation Exhibition in Germany. The display of a series of self-developed and patented core products of the Group at the exhibition, including face recognition empowered automated fare checking machine, subway big data platform and command system of rail transit line network had drawn great attention from visitors and this in turn built a good corporate image overseas. The debut of the line network emergency command system and big data platform of energy consumption statistics and analysis had made the Company one of the few vendors to launch platform software products based on big data analytics. The Company was successful to showcase the core technological products of the nation in the international market in front of overseas enterprises; and will also introduce comparable products to China in the future, enable it to gain insights into the forefront industry trend and vigorously absorb and integrate advanced international technology, thereby enhancing the Company's core competitiveness for its on-going expansion in domestic and international markets.

In September 2018, the Group fully demonstrated its technical capability by participating in the 15th Urban Railway Transportation AFC Technical Application Seminar and AFC Professional Products Exhibition held in Hefei. In October 2018, the Group successfully organised the 2nd Conference on "Innovation and Development of Rail Transit Driven by Big Data" and actively discussed the new trend brought forth by the development of big data in railway transportation. In October 2018, the Group participated in the 18th China International Urban Construction Expo held in Beijing and showcased its integrated communication system for comprehensive utility tunnel and intelligent operation management platform, attracting many industry experts to come to visit and exchange opinions.

Company prospects and strategy

Looking ahead, the Company is committed to its mission "energise the city railway transportation by intelligent technology" and position itself as the "leading service provider of city railway transportation intelligent system in China". Moreover, the Group will proactively adopt various development strategies to reinforce its leading market position in provision of AFC and PIS for railway transportation in the national or regional markets. At the same time, the Group will continue to strengthen its long-term competitive advantages through investing and acquiring other professional systems such as SAS and ISCS.

- **Establish a clear and focal development strategy**

  The Group will follow Xi Jinping's thoughts on new era's Chinese socialism as the guidance, thoroughly study and implement the spirit of the 19th National People's Congress and 2nd 19th Central Committee and 3rd 19th Central Committee, and will strive to realise the principles of the key speech delivered by Xi Jinping, thereby coping with the focal strategic deployment promulgated by the Beijing Municipal Government on developing the functional constructions of "Four Centres" for enhancing the standard of "Four Services" and managing the "Three Big Events". Under the guidance of BII, the ultimate holding company, the Group will firmly adhere to the strategic deployment of "one body, two wings and two wheels"and the new strategic development direction of "Three Aspects of Transformation" to provide more advanced services to cater for the development of the city railway transportation in Beijing and take the lead in rapid development of the new digital economy. In April 2018, the Group formally implemented the development of strategic planning and conduct thorough study and analysis on all its business segments and respective management systems, and finally shape up the development strategy of "New journey and remodel 2021". Based on this new strategic planning, the Group will firmly adhere to implement the overall strategic deployment of transformation upgrade, closely follow the three major strategies of "one body, one platform, one centre" to propel the expansion of "business realm, industry chain and market segment", and focus on the six major core systems of intelligent railway transportation. By closely adhering to the five major strategic objectives, the Group will continue to adopt the intelligent technology to energise the city railway transportation to accelerate its target to become a leading service provider of intelligent system for city railway transportation. In the future, the Group will anchor in the intelligent railway transportation industry and continue to devise innovative technology for railway transportation and to optimise the information system solution to cater for the changing needs of customers. Moreover, the Group will further implement its five major strategies in aspects of service protection, business concentration, collaborative innovation, cost reduction and efficiency improvement, and value enhancement to fully serve Beijing's intelligent railway transportation platform and foster the establishment of big data centre and technology centre. By focusing on its core business of intelligent city railway, the Group will continue to form business ecological alliances, regional cooperation alliances, technology research and development alliances for realising collaborative innovation with external counterparts, thereby reducing production cost, improving management efficiency, implementing operational responsibility system and realising cost reduction and efficiency improvement. Based on these strategic directions, the Group will continue to explore valuable investment and impose strategic management and control on invested enterprises to maximise its business and market values.

- **Implementation of major merger and acquisition and restructuring**

  In 2018, by acquiring Huaqi Intelligent, the Group accomplished an important objective of the "New journey and remodel 2021". The Board believes that the completion of acquisition of Huaqi Intelligent, the leading technology company in China's on-board PIS market, could enhance the competitiveness of the Group in the intelligent railway transportation business and reinforce it to provide even more sophisticated products and solutions to cater for the needs of existing and potential customers, in particular the one-stop ground-to-train products and services covering ground PIS and on-board PIS. In terms of market deployment, the acquisition could enable both parties to better expand their respective customer bases and achieve supplementary advantages and sharing of market resources. As the business scope of Huaqi Intelligent covered more than 10 domestic cities and overseas markets including Shanghai, Suzhou, Chengdu, Shenzhen and Hong Kong, it is believed that the Group could further expand its market segments and enhance business development after completing the acquisition. In addition, the Group believes that the acquisition will contribute significantly to the increase in profit in the combined financial statements and in turn further improve the Group's business performance, and at the same time, it can also provide a strong technological support for the Group's strategy to position itself as the service provider of city railway transportation intelligent system. After the acquisition was completed, both parties could increase their technological competitiveness, thereby realising the Group's strategic objective of becoming the first-class system service provider of intelligent railway transportation. In fact, the acquisition could reinforce the Group's development strategy in operation of intelligent railway transportation and align with the national strategy of "13th Five-Year Plan" and the "Belt and Road Initiative". It is expected that the acquisition will positively contribute to the Group's market shares in China's railway transportation sector and enable the Group's business expansion overseas.

- **Implementation of proactive development strategy**

  In 2019, the Group will continue to further develop the Beijing market and firmly adhere to the market strategy of "Anchoring in Beijing and Hong Kong, covering Beijing-Tianjin-Hebei, expanding throughout the country, marching to the international market" by means of increasing innovation strength and accelerating a leaping business growth. Leveraging on the development strategy of "New journey and remodel 2021", the Group will staunchly realise the overall strategic deployment of transformation upgrade, expedite the strategy of expanding the "business realm, industry chain and market segment"; initiate to develop the city railway transportation from informatisation to intelligent upgrade and transform the Group from integrated provider of information system to become a service provider of intelligent system; based on big data research to enhance technological competitiveness, thereby continuing to enhance the technological competitive advantages of its principle business and become the flagship brand in the "railway + technology" segment in the Hong Kong capital market. It is believed that the business performance of the Group will further improve in future if no major and adverse changes were to occur.

ALTERNATION OF THE BOARD

The strength of the Board and its effective supervision of the Group's business are critical to the continuous success and development of the Group.

As the Chairman of BII, the ultimate holding company of the Company, I am fully confident of the future development of the intelligent railway transportation business and pleased to join the Board of the Company as the Chairman. At the same time, the sustainable development of the Group is the outcome of the concerted efforts and diligence of all the Directors. I would like to express, hereby, my heartfelt appreciation to the significant contributions of the former Director Mr. Hao Weiya and former Chairman Mr. Guan Jifa. Among others, Mr. Guan Jifa will continue to serve as the non-executive Director after stepping down from the Chairman of the Board and continue to render important support and assistance for the further development of the Group. I firmly believe that under the accurate guidance of the Board, the Group should be able to achieve brilliant development and become the flagship brand in the "railway + technology" segment of the Hong Kong capital market.

APPRECIATION

On behalf of the Board, I would like to thank all of our staff members and the management teams for fulfilling the core values of professionalism, innovation, integrity and win-win belief in the pursuance of developing intelligent system solutions for city railway transportation to create harmonious, green, safe and convenient travelling environment for city railway transportation. I would also like to express my appreciation to our customers, business partners and every parties for their strong support over the past year. Moreover, I would like to sincerely thank the shareholders (the "**Shareholders**") of the Company for the trust and support. Last but not the least, may I once again express my heartfelt thanks to the members of the Board for their wise opinions given over the past year.

Looking ahead, we will "treat capital, technology and market as the new engine and point of profit growth of the Group", continue to develop quality products to enhance the service level of city railway transportation and provide better travelling experience for passengers, in order to build up a green and harmonious city in the new era, and to create value for shareholders as a whole.

Chairman
Dr. Zhang Yanyou
Hong Kong, 26 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

Ms. Xuan Jing
Chief Executive Officer

PROSPECTS

2018 was the third year of the "13th Five-Year Plan" for the national city railway transportation, during which the construction of national city railway transportation has reached a peak. According to the "Medium and Long-term Railway Network Plan" revised by the State Council of the PRC in 2016, by 2020, a number of major landmark projects will be completed and put into operation, where the scale of the railway network may reach 150,000 km, of which 30,000 km will be high-speed railways; by 2025, the scale of the railway network may reach approximately 175,000 km, of which about 38,000 km will be high-speed railways. It is expected that by 2030, the scale of the railway network in China may be interconnected internally and externally with thorough inter-regional road access, high-speed railway connection among provinces, rapid access to cities and towns as well as basic coverage across counties. The intercity railway, being a supplement to the high-speed railway network, will be a rapidly growing market segment in the next few years. The large-scale construction of the intercity railway network was launched in around 2017. It is expected that the first phase operation of intercity railway will commence between 2019 and 2020, and the peak of intercity railway is expected to last for a few years until 2022.

According to the data published by the China Association of Metros, as of 31 December 2018, Mainland China had a total of 5,766.6 km of city railway transport lines put into operation in 35 cities. In 2018, a new railway operating city in Urumqi was added; the length of the newly added operation line was 734.0 km, with 22 new operation lines being added and 14 newly extended sections had been opened. Since the launch of the "13th Five-Year Plan", the total length of newly added operation lines was 2,148.7 km in three years, of which the average length of newly added lines per annum was 716.2 km. Out of the total length of 5766.6 km of city railway transportation lines, the length of subway was 4,511.3 km, accounting for 78.23% of the total network line length. According to the forecast of the latest survey conducted by China Rail Transit Net regarding the construction progress of each line, it was estimated that by 2019, 50 railway transport lines would be opened and put into operation in 29 cities, including Beijing, Hangzhou, Chengdu, Ningpo, Wuhan, Suzhou, and Zhengzhou, accounting for a total mileage of 891.49 km, involving 586 railway stations, representing a total investment amount of RMB578.611 billion. In this regard, it was feasible for the "index of total operation mileage to reach 6,000 km by 2020" anticipated by the "13th Five-Year Plan Modern Comprehensive Transport Hub Development Plan" to achieve ahead of schedule. It was expected that by 2023, the length of China's city railway transport lines would reach 13,230 km. Under the guidance and support of the macro policy, the development of national city railway transport will enter into a new phase steadily and speedily, representing an auspicious atmosphere for the overall railway transportation industry in terms of investment, construction, operation and the equipment industry chain.

In 2018, the total passenger flow of the railway transportation network in Beijing was approximately 3.848 billion, up 70 million or approximately 1.85% as compared to 3.778 billion in 2017. With the official launch and operation of the southern section of Phase III and Phase IV section of Line 8, and the western extension of Line 6 of the Beijing Subway, the total operating mileage of railway transit in Beijing reached 636.8 km, involving 22 operating lines, 391 operating stations, 59 exchange stations, which created the new height in operating mileage of railway transportation in Beijing. According to "Beijing Urban Master Plan (2016-2035)" ("**Master Plan**"), the total mileage of railway transportation in Beijing will increase to approximately 1,000 km by 2020, and to not less than 2,500 km by 2035. The Master Plan has clearly identified the need to fully utilise the comprehensive benefits of railway transportation and transportation hub, and it also emphasised the need to plan for unifying the utilisation of surrounding areas of rail transit stations and comprehensive development of the space of rail transit stations to enhance the comprehensive utilisation rate of the passenger transport hub and achieve the organic integration of transportation facilities with various urban functions. In view of the proposition of the Master Plan, the Group would closely follow the business approaches of BII, actively adopt the intelligent technology to energise the city railway transportation, and continue to strive to developing itself to become the vanguard of world-class city intelligent railway transportation and consolidate its role as a leading system service provider.

OPERATION REVIEW

During FY 2018, the Group's businesses mainly focused on three business segments, namely (i) intelligent railway transportation services; (ii) civil communication transmission services; and (iii) business development investment. The respective descriptions of these three related business segments are set out as follows:

(i) Intelligent railway transportation services

Intelligent railway transportation services mainly represent, among others, design, testing, installation, debugging, integration, upgrading and replacement of railway transportation application solutions and related systems; sale of self-developed software products relating to railway transportation application solutions; sale of hardware and spare parts relating to railway transportation application solution systems; and repair and maintenance of application solution systems developed by the Group as well as other software developers. During FY 2018, the Group's revenue derived from provision of intelligent railway transportation services was approximately HK$323.81 million. The intelligent railway transportation services mainly include the following three core businesses:

First core business: AFC, including ACC, ANCC, Coordination and Command Centre ("COCC") for network-level and AFC route-level

In August 2018, BII Transportation Technology (Beijing) Co., Ltd. (北京京投億雅捷交通科技有限公司) ("**BII ERG**") won the tender on the procurement project of ANCC system of Zhengzhou's rail transit network and the bid price was approximately RMB96.00 million. The ANCC project pioneered the system incorporation of rail transit network of ACC system with the MLC system, integrating with the Huawei Infrastructure-as-a-Service (Iaas) cloud platform and the professional system software provided by the Group to ultimately deliver a Storage-as-a-Service (Saas) cloud platform service to customers, thereby transcending the traditional mode of industry software. Meanwhile, this project has incorporated the Group's development approach towards the future standardisation of AFC and the evolution of ACC, MLC, and Station Computer Management Center. Moreover, the Company had spearheaded to formulate the AFC specifications for Zhengzhou's railway transportation network, which in turn could foster the effective implementation of standardisation of Zhengzhou's rail transit in the future. This project also marked a breakthrough for the Group to expand its business scope to other provinces and cities beyond Beijing, aligning with the Group's development strategy as well as coping with the overall interests of the Company and its shareholders.

In December 2018, BII ERG, being a leading party of the joint tendering partnership, won the tender of ACC/TCC (Traffic Control Centre) System Integration Project of Phases III and IV of the Beijing Metro Line 8, where the bid price borne by BII ERG amounted to approximately RMB11.39 million. Riding on this project, the Group continued to solidify its status in Beijing. At the same time, BII ERG attained the relevant contract for network fare collection machine of Beijing Metro Line S1.

In August 2018, BII ERG acquired the contract for the project of Traffic Sign System for the Sub-centre Line of Beijing Suburban Railway (北京市郊鐵頭副中心線) and Huairou Miyun Line (懷柔密雲線), responsible for providing manufacturing and technical services for relevant equipment of the AFC system. The contract amounted to approximately RMB12.19 million. Since May 2018, BII ERG and BII Transit Systems (Beijing) Co., Ltd. (億雅捷交通系統（北京）有限公司) ("**ERG (BJ)**") successively acquired the Beijing New Airport Expressway Project and respectively signed several subcontract agreements regarding the projects of payment, communication and surveillance. The accumulated contract amount was approximately RMB98.36 million. These projects represented the application of AFC for new businesses such as utility tunnel and expressway, nurturing new areas for the Group to achieve profit growth.

In FY 2018, BII Transit Systems (HK) Co., Ltd (京投交通科技(香港)有限公司) ("**ERG (HK)**") acquired many projects offered by franchised public transport companies and still continued to carry the system update and maintenance work of AFC for New World First Bus Services Limited (新世界第一巴士服務有限公司) ("**New World Bus**") and Citybus Limited (城巴有限公司) ("**Citybus**"). In April 2018, ERG (HK) signed the AFC equipment and software maintenance contract with Kowloon Motor Bus Co., (1933) Ltd. (九龍巴士(一九三三)有限公司) ("**KMB**") for provision of maintenance service for 4 years. In December 2018, ERG (HK) entered into a contract with New Lantao Bus Co., (1973) Ltd. (新大嶼山巴士(一九七三)有限公司) ("**New Lantao Bus**") for the upgrade project of AFC system and for provision of a number of value-added services, operation management and various kinds of payment solutions to enhance customer experience and reduce cost. As New Lantao Bus is the third franchised bus company in Hong Kong, the inaugural cooperation with New Lantao Bus has marked a prosperous market vision for the Group's future development.

In December 2018, the COCC project successfully passed the acceptance test. BII ERG undertook the compilation and promulgation of standards for the rail line network and this would provide a concrete basis for the continuous development and optimisation of the COCC system. In addition, the Android version and the iOS version of the official Chengdu Subway Application ("**Official Chengdu Subway App**") developed by BII ERG for the COCC project was simultaneously launched online on 6 December 2017, followed by the launch of the fully upgraded optimised version in 2018, landmarking the operation of the first open platform for releasing online information of network train seamlessly to the public in China. By incorporating the Hadoop big data architecture on top of its existing security structure, the Official Chengdu Subway APP was able to provide a stable support for a huge user rate and online user interview.

Second core business: PIS, including ground PIS and on-board PIS

BII ERG acquired the PIS subcontract agreement of equipment procurement project of Phase I of Communication System Integration and the Specific Communication System of Nanning Rail Transit Line 3. The agreement amounted to approximately RMB31.30 million.

Third core business: Environmental monitoring system

In March 2018, BII ERG acquired the electronic and intelligent project of the Beijing Expo Utility Tunnel (北京世園會管廊) for the provision of a unified management platform and respective professional equipment, and the contract amount was approximately RMB31.06 million. As from May 2018, BII ERG successively acquired the comprehensive equipment installation project and the related contract of engineering support system for the outer surrounding area of the Beijing Expo Utility Tunnel, and the accumulated contract amount was approximately RMB14.04 million. By initiating a new attempt in the utility tunnel segment, the Group would strive to erect a well-equipped intelligent operation, maintenance and management system for the utility tunnel, and fully integrate our self-developed and patented communication system into the application of the utility tunnel segment.

(ii) Civil communication transmission services

Civil communication transmission services mainly represent the provision of communication information transmission services to mobile operators. During FY 2018, the Group's revenue from the business of civil communication transmission services was mainly derived from the 2G, 3G and 4G transmission services of civil communication transmission systems set up in 180 stations of 17 subway lines of the Beijing Subway, representing approximately HK$129.40 million in revenue. The civil communication transmission services business would continue to provide steady revenue for the Group in the future.

For the year ended 31 December 2018, BII Technology Development Co., Ltd. (北京京投卓越科技發展有限公司) ("**BII Zhuoyue**"), as a wholly-owned subsidiary of the Company and the principal investment unit of the civil communication transmission system of Beijing Subway, has established and maintained good cooperation relations with communication operators through the provision of transmission services.

In 2018, BII Zhuoyue negotiated with China United Network Communications Corporation Beijing Branch (中國聯合網絡通信有限公司北京市分公司) ("**Beijing Unicom**") regarding the cooperation on civil communication 4G transmission system for a total of 127 stations along the Beijing Metro Line No. 5, covering 9 railway lines in total. The Group was able to enter into a 5-year 4G information transmission service agreement based on the existing charge standard with Beijing Unicom so that the revenue from 4G system transmission service of the Group for the next five years could be guaranteed; and entered into a new service agreement with Beijing Unicom for provision of 4G communication transmission service for Beijing Metro Line No. 7. At the same time, BII Zhuoyue successfully reached a framework agreement based on the existing charging standard with China Mobile Group Beijing Co., Ltd. (中國移動通信集團北京有限公司) ("**Beijing Mobile**") regarding provision of 4G transmission service on its self-developed subway lines. Based on the agreement to maintain the original charging standard, both parties signed a 5-year service agreement, thereby guaranteeing the Group's income from the provision of civil communication transmission services.

In August 2018, BII Zhuoyue rolled out the construction investment work for the civil communication transmission systems of Beijing Subway Airport Express Line, eastern extension of Line 7, and northern extension of Fangshan Line, which was scheduled to be opened within two years.

In terms of the development in new segment, leveraging on the high security and wide coverage of the fibre optics of subway, the Group reached a cooperation agreement on interconnection and interoperability of fibre optics of Beijing Subway with Beijing Metro Information Development Co., Ltd. (北京地鐵信息發展有限公司) in 2018. In this regard, the civil communication transmission services will continue to contribute a steady source of revenue for the Group.

(iii) Business development investment

Business development investment mainly represents equity investment, new business development through investing in joint ventures and an associate, and deployment of industry chain for investment income to create higher returns for shareholders. During FY 2018, the Group's revenue from business development investment was mainly derived from Beijing Metro Co., Ltd. (北京京城地鐵有限公司) ("**Beijing Metro**") and Beijing Metro Science and Technology Development Co., Ltd. (北京地鐵科技發展有限公司) ("**Metro Science and Technology**"). In addition, the Group has launched new investments relating to its core businesses, including the intelligent railway transportation relating to the PIS, comprehensive security and protection system and civil communication transmission system.

In November 2018, the Company entered into an acquisition agreement with NetPosa Technologies Limited (東方網力科技股份有限公司) ("**NetPosa**"), Huaqi Intelligent and Mr. Liu Guang pursuant to which the Company acquired 95% of equity interests of Huaqi Intelligent with a maximum consideration of RMB1.045 billion. Huaqi Intelligent is a leading enterprise for provision of on-board PIS which is one of the six major information systems used in railway transportation. Renowned in its excellent technological capability, Huaqi Intelligent has gained competitive advantages in the product competitiveness and acquiring leading market share in the industry. The Group can take this acquisition to achieve supplementary advantages from Huaqi Intelligent and jointly develop first-class PIS products in China. This acquisition will be a positive measure to further reinforce the Group's presence in the PIS business segment, representing an important milestone to further expand its existing product lines, effectively supplementing both parties' customer varieties and geographical distributions, facilitating joint exploration of new markets to expand respective market shares, achieving resource integration and speeding up synergistic business collaboration. Besides, the Group could exploit this acquisition to strengthen its core technological capability and high-tech ingredient, thereby enhancing its overall market competitiveness and offering a new development area for the Group to achieve further profit growth and improve the overall business performance. It is expected that the business record and business registration change will be completed in the first quarter of 2019.

On 28 February 2018, BII Zhuoyue jointly established a subsidiary, namely BII Xin An, with Zhuhai Tonghai Technology Holdings Company Limited (珠海市同海科技股份有限公司) ("**Tonghai Technology**") and Beijing Tong Jian Tai Li Te Intelligence System Engineering Technology Company Limited (北京通建泰利特智能系統工程技術有限公司) ("**Tong Jian Tai Li Te**"), of which BII Zhuoyue held an equity interest of 51.0%. In 2018, BII Xin An attained the "Competency Evaluation Certificate for the Information Security Grade Protection and Security Construction Service Institution" conferred by the Ministry of Public Security in the PRC and the "Certificate for Supporting Unit of National Information Security Service" conferred by the State Information Center in the PRC, thus making itself into one of the top 100 enterprises capable of providing information security grade construction service in the PRC.

On 31 December 2018, BII Zhuoyue and Nufront (Beijing) Technology Group Co., Ltd. (新岸線（北京）科技集團有限公司) (“**Nufront Group**”) entered into a framework agreement to acquire 30% equity interests in Nufront Rail Transit. Nufront Rail Transit had completed the change of the industrial and commercial registration. Nufront Group’s EUHT technology (The Ultra High Speed Mobile Communication Technology) has advanced in the field of mobile communications. It is a unique technology system owned by Nufront Group and has been successfully applied to Beijing-Tianjin Intercity, High-speed Railway and Guangzhou Metro. The project is beneficial to the company’s industrial layout in the field of train-ground wireless communication in rail transit.

In FY 2018, Beijing Metro completed the transition of the existing airport line. Ensuring safe operation of the existing airport line, Beijing Metro also actively developed new railway line projects, including the Beijing Shunyi Tram T2 and Dalian Subway Line 4 and so on, fostering diversification of operation and increasing the passenger flow growth.

In FY 2018, Metro Science and Technology innovated the maintenance and repair model and gradually transformed this service mode from AFC maintenance and repair to the mode of comprehensive maintenance and repair, giving a new business focus on five major business segments, including “AFC operation and repair business, exploration of specified markets, provision of system application solution, informatisation development, and expansion of overseas market”, thereby enhancing the core competitiveness and achieving sustainable development for the Group.

In FY 2018, Beijing Ruyi Technology Co., Ltd. (北京如易行科技有限公司) developed the easy pass application (“**Easy Pass APP**”) for train passenger to download QR code onto their mobile phones at the whole network level for taking train. The number of downloads exceeded 20 million, and the number of registered users exceeds 10 million and the number of active users per month reached 3 million. This new area of development would be expanded beyond Beijing. In January 2019, the “Electronic Time Ticket” function was launched to meet the diversified travelling demand of passengers.

In FY 2018, BII Zhuoyue carried out preparation work for the further acquisition of the 10% equity interest in BII ERG held by another minority shareholder, and entered into equity transfer agreement on 20 February 2019 and had successfully completed the listing transaction at the China Beijing Equity Exchange (“**CBEX**”). After the completion of the acquisition, BII ERG had become a wholly-owned subsidiary of the Company.

FINANCIAL REVIEW

Revenue

The Group's revenue recorded a decrease by approximately 19.7% from approximately HK$564.6 million for FY 2017 to approximately HK$453.2 million for FY 2018. The main cause of such decrease was due to the finalisation stage of the intelligent railway transportation service business, the Phase II Beijing Fare Renovation Project, and the delay of the progress of some projects.

Revenue derived from the intelligent railway transportation services business recorded a decrease by approximately 28.1% from approximately HK$450.1 million for FY 2017 to approximately HK$323.8 million for FY 2018. The decrease in revenue of this segment was due to (1) limited room of gaining profit from the Phase II Beijing Fare Renovation Project which entered into its finalisation stage in this financial year; and (2) the relatively major impact on decrease in revenue caused by the delay in project progress of two newly signed projects, namely the New Airport Expressway Project and the Zhengzhou ANCC Project because no revenue was recognised from these projects during FY 2018.

Revenue derived from the civil communication transmission service business recorded an increase of approximately 13.0% from approximately HK$114.5 million for FY 2017 to approximately HK$129.4 million for FY 2018. The increase in revenue of this segment was mainly due to increase in revenue from the Group's provision of 4G transmission service.

Cost of sales

The Group's cost of sales decreased by approximately 23.7% from approximately HK$451.3 million for FY 2017 to approximately HK$344.4 million for FY 2018. The decrease in cost of sales was mainly due to the decrease in revenue from the intelligent railway transportation service business.

Gross profit

The Group's gross profit decreased by approximately 4.0% from approximately HK$113.3 million for FY 2017 to approximately HK$108.8 million for FY 2018. The decrease in gross profit as compared to the corresponding period of 2017 was mainly due to the decrease in revenue from the intelligent railway transportation service.

Investment income

The Group recorded an increase in investment income of approximately HK$9.9 million from approximately HK$11.5 million for FY 2017 to approximately HK$21.4 million for FY 2018. The investment income was mainly derived from the joint ventures, namely Beijing Metro and Metro Science and Technology, and the increase in investment income as compared to the corresponding period of FY 2017 was mainly attributable to the fact that (1) Metro Science and Technology had newly attained the project of airport line system maintenance project and further explored its information security grade protection evaluation business, bringing a great increase in net profit; (2) Beijing Metro completed the acquisition of the 30-year operating income right of the Beijing Subway Airport Express Line and floors two to six of Dongzhimen Terminal in October 2017, and therefore greatly increased the net profit and revenue for FY 2018.

Selling, general and administrative expenses

The Group's selling, general and administrative expenses increased by approximately 29.9% from approximately HK$85.5 million for FY 2017 to approximately HK$111.1 million for FY 2018. Such increase was mainly due to the increase in research and development expense derived from business expansion of the Group, marketing and sales expense and increase in service fees for the acquisition projects.

Profit attributable to equity shareholders of the Company

The Company's profit attributable to equity shareholders of the Company increased by approximately 22.8% from approximately HK$38.6 million for FY 2017 to approximately HK$47.4 million for FY 2018. Such increase was mainly due to the increase in revenue from the 4G service of civil communication transmission service business, and the increase in investment income and other revenue from financial planning as compared to the corresponding period of 2017.

Liquidity, financial and capital resources

Capital structure

As at 31 December 2018, the Company's issued share capital consisted of 2,100,126,727 ordinary shares of HK$0.01 each (31 December 2017: 2,104,786,727 ordinary shares of HK$0.01 each).

Cash position

As at 31 December 2018, the Group's cash and cash equivalents were approximately HK$1,069.6 million (31 December 2017: approximately HK$1,128.8 million).

Bank borrowings and charges on the Group's assets

As at 31 December 2018, the Group's borrowing was approximately HK$342.4 million which was derived from the borrowing from the ultimate holding company, BII (31 December 2017: Nil). The Group has no charges on its assets during FY 2018 (31 December 2017: Nil).

Working capital and gearing ratio

As at 31 December 2018, the Group had current assets of approximately HK$2,340.0 million (31 December 2017: approximately HK$1,981.9 million), while its current liabilities were approximately HK$827.8 million (31 December 2017: approximately HK$474.8 million), resulting in net current assets of approximately HK$1,512.2 million (31 December 2017: approximately HK$1,507.1 million). As at 31 December 2018, the gearing ratio, calculated based on current assets divided by current liabilities, was approximately 2.8 (31 December 2017: approximately 4.2).

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 2018, the Group's gearing ratio was 27.8% (31 December 2017: 18.4%).

FOREIGN EXCHANGE EXPOSURE

The Group has four main operating subsidiaries, one located in Hong Kong and the other three in Mainland China. All of the subsidiaries earn revenue and incur cost in their local currencies. The Directors consider that the impact of foreign exchange exposure on the Group is minimal.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any material contingent liabilities (31 December 2017: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group employed a total of 316 employees, (including the executive Directors) (31 December 2017: 290). The total staff costs, including Directors' remuneration, were approximately HK$119 million (FY 2017: HK$101 million).

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

SIGNIFICANT INVESTMENTS HELD AND FUTURE PLANS

On 29 November 2018, the Company entered into an acquisition agreement with NetPosa, Huaqi Intelligent and Mr. Liu Guang, pursuant to which the Company acquired 95% equity interests of Huaqi Intelligent from NetPosa at a maximum consideration of RMB1.045 billion. The equity acquisition of Huaqi Intelligent represented an important step in implementing the Group's development strategy as well as a strategic move in strengthening the Group's business sectors, thereby enhancing the Group's core technological strength and market competitiveness. The acquisition was fully approved by the extraordinary general meeting on 25 February 2019. It was expected that the investment would contribute significant revenue for the Group in future.

On 28 February 2018, BII Zhuoyue jointly established a joint ventue, namely BII Xin An, with Tonghai Technology and Tong Jian Tai Li Te, of which BII Zhuoyue held an equity interest of 51.0%.

On 31 December 2018, BII Zhuoyue and Nufront Group entered into a framework agreement to acquire 30% equity interests in Nufront Rail Transit. Nufront Rail Transit had completed the change of the industrial and commercial registration.

In 2018, BII Zhuoyue carried out preparation work for the further acquisition of the 10% equity interest in BII ERG held by another minority shareholder, and entered into equity transfer agreement on 20 February 2019 and had successfully completed the listing transactions at the CBEX.

BII ERG opened a branch in Chengdu on 15 January 2018 and in Zhengzhou on 5 November 2018.

Save as disclosed, 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 FY 2018.

FINAL DIVIDEND

In view of the business growth of the Group and in response to the long term support of the shareholders of the Company, the Board recommended the declaration of a final dividend of HK$0.01 per share for 2018 financial year (FY 2017: HK$0.01 per share). The proposed final dividend will be payable to shareholders of the Company whose names appear on the register of members of the Company on Thursday, 4 July 2019, subject to the approval of the shareholders of the Company at the AGM. It is expected that the final dividend will be paid on or before Wednesday, 25 September 2019.

MATTERS SUBSEQUENT TO THE REPORTING PERIOD

Save as disclosed in the paragraphs headed "SIGNIFICANT INVESTMENTS HELD AND FUTURE PLANS" and "FINAL DIVIDEND", there were no other significant events arising subsequent to the reporting period.

BUSINESS PROSPECTS

1. Enlarge and professionalise the principal business based on the city railway intelligent system.

The Group will focus on developing its principal business in city railway intelligent system and increase its efforts in product research and development to produce of standardised and replicable products in a large scale, aiming to cater for the need of network operation of railway transportation in Beijing.

The Group will take six core systems of railway transportation as its deployment perspective and seize the favourable opportunities rendered by the digitalisation, intelligentisation, informatisation, and networking of the national railway transportation sector, and to actively explore their application on railway transit. These include new gate machines complying with the requirements of the Beijing rail transit design guidelines, face recognition hardware platforms and recognition algorithms, and rail transit fare payment system equipped with face recognition technology. Riding on these new areas of development, the Group can further explore new markets throughout the country and enhance its competitiveness in the railway transportation industry. It will further reinforce its business in Beijing and Hong Kong, while expanding to Beijing-Tianjin-Hebei area, with an aim to expand its business throughout the nation.

At the same time, in order to develop high-quality railway transportation, build a safe and efficient rail transit network, and improve passenger travelling experience, BII, the ultimate holding company of the Company, has put forward the working directions on building a city railway transportation network in Beijing with "Intelligent Subway" that is welcomed by citizens, satisfied by the government as well as contributed to corporate development. Riding on its years of industry experience, the Group has taken the problem-oriented approach and made in-depth and thorough thinking and research, becoming "passenger demand oriented" and "integrated control and management for line and network", and transforming its product concept from "focusing on vehicles" to "focusing on people". Moreover, the Group has adopted the development direction of focusing on "Intelligent Subway" product series. The Group will utilise new-generation information technologies including artificial intelligence, big data, cloud computing and internet of things, together with other new tools and methods such as social media networks and mobile payments to develop a transparent and sensible new product system that cover the basic elements of passenger demand, vehicle operation, equipment status, station facilities; and based on which to create a new product portfolio to be incorporated with comprehensive intelligent city railway transportation service for passenger travelling as well as to provide intelligent services for passengers, operation organisation and equipment control. Further, the Group will establish a brand new product system based on big data, cloud computing, artificial intelligence so that the related products covering AFC, PIS, TCC can be fully upgraded.

The global 5G standard had been formed in 2018. As 2019 is the crucial year for the comprehensive commercialisation of 5G, the deployment of 5G network has been rolled out across the globe. Driven by the wave of digital transformation, 5G will open a new phase for mobile internet. The popularisation and full cloudisation of 5G technology will motivate the upgrade of business in different industry segments, especially in the vertical industry segment like the railway transportation sector. Subsequent to the rapid development of different kinds of technologies and the change in travelling demand of passengers, it is believed that there is an imminent need for the construction of intelligent subway. Looking ahead, the intelligent subway of Beijing and application of 5G based intelligent subway will bring new development opportunities for the Group. It is expected that the 5G of the new airport line of the Beijing Subway will be completed and put into operation in 2019.

2. Create an investment and control platform to foster industry upgrade and strategic deployment.

One of the core driving forces for the Group to improve its strategic positioning is to establish a strategic investment control platform to reinforce the development of its principal business and accelerate in leading its industrial layout to diversify investment on the listing platform and achieve integration of resources and collaborative development. As a high-tech enterprise listed on the Stock Exchange, the Group aims to upgrade its business from a "market-driven" model to a "market, capital and technology-driven" model, completing the transformation from the old model to a new phase of development, thereby upgrading its core competitiveness as a whole.

Looking ahead, the Group will focus on its merger and acquisition strategy based on three aspects of development, including "Business Capability Reinforcement Model", "Business Scope Expansion Model", and "Business Scale Enhancement Model", focusing on exploring businesses with large market capacity and high profit margins. Leveraging on the strategic investment control platform, the Group will widen its business scope, expand its existing industry chain and upgrade the overall business level by upgrading its existing business with high-tech component, thereby creating a positive cycle of production and financing. At the same time, the Group will seek ways to counteract the weakest section of the industry chain, improve product portfolio, and set up a mechanism for collaborative innovation and resource sharing between existing businesses and newly invested businesses so as to achieve rapid increase in operational revenue and profit as well as propel the Group to become the flagship brand on intelligent railway transportation concept in the Hong Kong stock market so as to maximise shareholders' interests.

3. Expedite the establishment of a big data centre equipped with core technological competitiveness.

The Group will focus on big data research by collaborating with large internet companies, railway owners, high-tech unicorn companies and research institutes to conduct continuous research and development so as to potently enhance its technical strength and participate in the construction of intelligent railway transportation platform in Beijing. Moreover, the Group will engage in the construction of a big data centre and support the setup of technology centre to conduct all-round application analysis and operational maintenance services, and master core technologies, thereby obtaining a leading technological advantage in railway network. In the future, the Group will set up a research institute for the Group's technical planning, informatisation setup and management, scientific research management, symposium application, and research on industry technology trend. Riding on Beijing railway transportation big data analysis and application of research sub-centre, the Group will focus on exploring the value of big data analysis and intelligent city railway to produce modularised products, thereby providing the technology to upgrade intelligent city railway.

4. Strong support of major shareholder to create positive conditions for the development of the Group.

The ultimate holding company of the Company, BII, is a state-owned company solely invested and established in 2003 by the State-owned Assets Supervision and Administration Commission of Beijing Municipality. It engages in infrastructural facilities, investment, financing, and management of railway transportation, as well as relevant resource operation and service like production of equipment for rail transit and related information technology services as well as land and property development and operation. In the future, it is believed that BII will focus its efforts to develop itself as the comprehensive service provider of the innovative railway transportation equipment industry, position itself as the provider of city railway transportation application solutions, develop itself as a Transit-oriented Development ("**TOD**") based city centre service provider, and to build the intelligent railway transportation platform based on the technology of internet and industrial internet of things as well as organising the establishment of big data information centre and technology certification centre. Through collaborative development projects with external partners, the Company will further strengthen the presence of Beijing Subway throughout the nation. Through exploring the integrated service model of "Project + Equipment", the Company will steadily launch the Public-private Partnership ("**PPP**") "to go public", thereby establish an overall industrial chain for BII. As the sole overseas listing platform of BII, the Group will closely adhere to the new development direction of "three transformation models" of BII and properly coordinate and realise the overall strategic transformation and upgrade of BII. Moreover, the Group will further drive the implementation of the three major strategies of "one body, one platform, one centre" and adopt the intelligent technology to improve the city railway transportation, striving to become the leader of Chinese intelligent railway transportation, thereby composing a development chapter of the Group.

5. Strengthen science research and innovation to establish first-class corporate identity in the technology segment.

In 2018, the national support for technological innovative companies was enlarged. In this regard, BII encouraged and supported all of its fellow enterprises to strengthen their innovative development. In 2018, the Group initiated to apply for the specialised science and research symposium project on "Intelligent Railway Transportation Technology Innovation Centre" and obtained funding support from Beijing Municipal Science and Technology Commission; and it obtained funding support for "2017 Chaoyang New High-Tech Industry Development Guide Fund (direction of information service industry) Support Project"; and the Group's application for 2018 BII symposium project also obtained funding support. Looking ahead, the Group will strengthen its engagement in science research and innovation to establish the Group as a first-class technology enterprise in the technology segment.

Chief Executive Officer
Ms. Xuan Jing
Hong Kong, 26 March 2019

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

CAO Wei (曹瑋), Mr. Cao, aged 55, joined our Group in April 2009. He was appointed as a Director on 7 January 2011 and redesignated as an executive Director on 7 December 2011. He was redesignated from Chief Executive Officer to Vice Chairman on 28 February 2017. He is also a member of the Remuneration Committee. 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 (now known as Beijing Enterprises Environment Group Limited) ("**Beijing Development**"), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (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 now serves as the director of Great Legend Development Limited ("**Great Legend**"), Beijing City Railway Holdings Company Limited ("**Beijing City Railway**"), Innovation Holding Co., Ltd., China City Railway Transportation Technology Investment Company Limited ("**CCRTT Investment**"), ERG (HK) and BII Zhuoyue (each a subsidiary of the Group) and has served as the director of Beijing Metro and Metro Science and Technology (each a joint venture of the Group) since February 2016. Mr. Cao is the sole director of More Legend Limited ("**More Legend**"), a substantial shareholder of the Company, and indirectly holds the shares of the Company through his 100% equity interest in More Legend. More Legend holds as to 11.65% of the issued share capital of the Company.

XUAN Jing (宣晶), Ms. Xuan, aged 45, was appointed as an executive Director on 27 June 2014 and appointed 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 economist approved by Beijing Intermediate Specialised Technique Qualification Assessment Committee (北京市中級專業技術職務評審委員會). From July 1995 to September 1998, Ms. Xuan was 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 was the deputy general manager of the finance department of Digital China (China) Ltd. 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, the ultimate holding company of the Company. In July 2015, Ms. Xuan was appointed as the director of Beijing Infrastructure Investment (Hong Kong) Limited (京投(香港)有限公司), the controlling shareholder of the Company, and ceased to be the director thereof with effect from May 2017. Ms. Xuan now serves as the director of Great Legend, Beijing City Railway, CCRTT Investment, ERG (HK), BII Technology Development Co., Ltd. (北京京投卓越科技發展有限公司), and serves as the chairman of BII Transit Systems (Beijing) Co., Ltd. (億雅捷交通系統(北京)有限公司) and BII Transportation Technology (Beijing) Co., Ltd. (北京京投億雅捷交通科技有限公司) (each a subsidiary of the Group), and has served as the director of Metro Science and Technology since December 2016 and Beijing Metro, the joint venture of the Group, since February 2017. Ms. Xuan was appointed as the chairman of BII Xin An with effect from 15 January 2018.

NON-EXECUTIVE DIRECTORS

ZHANG Yanyou (張燕友), Mr. Zhang, aged 55, was appointed as a non-executive Director on 14 December 2018. Mr. Zhang is also the Chairman and the chairman of the Nomination Committee. Mr. Zhang obtained a bachelor's degree in metallic material and heat treatment from Beijing Union University (北京聯合大學) in July 1985. He also obtained a postgraduate degree in finance from Capital University of Economics and Business (首都經濟貿易大學) and a doctor's degree in management science and engineering from Beijing University of Technology (北京工業大學) in May 2001 and January 2008, respectively. Mr. Zhang obtained the qualifications of professional engineer and senior economist issued by Beijing Municipal Planning Commission Intermediate Specialised Technique Qualification Assessment Committee (北京市計劃委員會中級專業技術職務評審委員會) and Beijing Senior Specialised Technique Qualification Assessment Committee (北京市高級專業技術職務評審委員會), respectively, in August 1992 and October 1998, respectively. Mr. Zhang has been working as the chairman of the board of directors in BII, the ultimate holding company of the Company, since April 2018. Prior to joining BII, Mr. Zhang worked at Beijing Municipal Commission of Development and Reform (北京市發展和改革委員會) from November 2003 to July 2011 and successively served as a director of industry department and the deputy director. From July 2011 to April 2018, he worked at Beijing Changping District People's Government (北京市昌平區人民政府) and successively served as the deputy district chief, the acting district chief and the district chief.

GUAN Jifa (關繼發), Mr. Guan, aged 53, was appointed as a non-executive Director on 28 October 2015 and redesignated as Chairman from 28 February 2017 to 14 December 2018. He ceased to be the chairman of the Nomination Committee on 14 December 2018. 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. 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. 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 ultimate holding company 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 & Development Group Co., Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1599), since January 2016. Mr. Guan served as the director of Beijing Metro from February 2016 to February 2017.

ZHENG Yi (鄭毅), Mr. Zheng, aged 44, was appointed as a non-executive Director on 25 August 2017. Mr. Zheng obtained a Master's degree in engineering, specialised in Road and Railway Engineering, at the School of Civil Engineering of Northern Jiaotong University (now known as Beijing Jiaotong University) in May 2000. He was qualified as a senior engineer by Beijing Senior Specialised Technique Qualification Evaluation Committee (北京市高級專業技術資格評審委員會) in July 2006 and was subsequently qualified as a professor-grade senior engineer in 2017. Since November 2005, he once took up various positions in BII, the ultimate holding company of the Company, as the senior planner and deputy manager, Head of office of railway routing consolidation department of BII, general manager of preliminary planning department, and assistant general manager of BII and general manager of railway transportation business department.

REN Yuhang (任宇航), Mr. Ren, aged 43, was appointed as a non-executive Director on 28 February 2017. 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 and general manager of the financial planning department of BII since September 2007. Mr. Ren is currently the board secretary and the general manager of investment development headquarters of BII, the ultimate holding company of the Company. Mr. Ren was appointed as the director of Beijing Infrastructure Investment (Hong Kong) Limited, a controlling shareholder of the Company, in July 2015, and 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), in August 2018.

INDEPENDENT NON-EXECUTIVE DIRECTORS

BAI Jinrong (白金榮), Mr. Bai, aged 68, was appointed as an independent non-executive Director on 7 December 2011. Mr. Bai is also the chairman of the Remuneration Committee and member of the Audit Committee and the Nomination Committee. 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 Shi Shi Services Limited (formerly known as Kong Shum Union Property Management (Holding) Limited and Heng Sheng Holdings Limited), a company listed on GEM of the Stock Exchange (stock code: 8181).

LUO Zhenbang *(CPA)* (羅振邦), Mr. Luo, aged 53, was appointed as an independent non-executive Director on 13 November 2012. He is also the chairman of the Audit Committee. Mr. Luo graduated from the School of Business of Lanzhou in 1991 majoring in enterprise management. From September 2005 to July 2007, Mr. Luo took a master's degree course in management (technology and innovation) in Tsinghua University jointly organised by The Australian National University and Tsinghua University and obtained a master's degree in management from The Australian National University in July 2007. 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. ("**Xinjiang Goldwind**") (stock code: 2208) since June 2013 and has also served as the independent director of Xinjiang Goldwind (stock code: 2202) listed on the Shenzhen Stock Exchange, and the independent non-executive director of Guorui Properties Limited (stock code: 2329) since July 2014, 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 September 2011 and was also a member of the internal audit committee of Northeast Securities Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 686) from October 2002 to May 2018. 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 47, was appointed as an independent non-executive Director on 9 July 2014. He is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee. 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.

SENIOR MANAGEMENT OF THE COMPANY

WANG Xinjiang (王新江), Mr. Wang, aged 52, joined the Group and was appointed as vice president of our Group 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 Veolia Transport-RATP China (威立雅交通巴黎地鐵中國有限公司), and successively served as financial director of Shengkang Group and KCS Green Energy International (Group) Investments Co. Ltd (中馬綠能(國際)集團有限公司). Currently, Mr. Wang is a specialist expert of BII. Mr. Wang has served as the director of BII ERG since May 2016 and has held the positions of deputy general manager and financial officer of BII Zhuoyue since July 2017 as well as the director of BII Zhuoyue since October 2017. He has assumed the positions of director of ERG (BJ) since March 2016 and director of Great Legend, Beijing City Railway and CCRTT Investment since December 2017. He has assumed the position of director of BII Xin An since January 2018.

LIU Yu (劉瑜), Mr. Liu, aged 45, joined the Group in May 2013 and was appointed as vice president of our Group on 1 July 2014. Mr. Liu is primarily responsible for smart railway transportation 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. 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. Since Mr. Liu's secondment to our Group, Mr. Liu had served as the deputy general manager of BII ERG and deputy general manager of the Group. Since October 2014, Mr. Liu concurrently served as the general manager of BII ERG and general manager of ERG (BJ) since August 2016. Mr. Liu has taken up the position of director of BII ERG and director of ERG (BJ) since February 2017.

LIU Zhongliang (劉忠良), Mr. Liu, aged 45, joined the Group in March 2009 and was appointed as vice president of our Group on 1 September 2012. Mr. Liu is primarily responsible for the technological research and development and civil communication 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 served as deputy general manager of BII Zhuoyue in January 2018. 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 Group (now known as Vix-ERG) respectively.

ZHAO Jingyuan (趙婧媛), Ms. Zhao, aged 39, joined our Group in April 2016 and was appointed as the vice president of the Group on 1 April 2016. Ms. Zhao is mainly responsible for human resources, administration affairs, legal affairs and internal control 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 ten 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.

WANG Yuzhe (王玉哲), Mr. Wang, aged 37, was appointed as vice president of the Group in December 2018. Mr. Wang is mainly responsible for the affairs of Board and duties related to enterprise management and also responsible for organising the construction of research institution. Mr. Wang obtained the bachelor degree of professional finance from Guanghua School of Management, Peking University, and the master degree of professional accounting from the same university. Mr. Wang owns over ten years of experiences in investment finance management and enterprise management experience. Prior to joining the Group, Mr. Wang had worked in Dangdai Investment Group Company Limited (當代投資集團有限公司) as the assistant manager of the finance department, and served as the project manager of HNA Property Holdings (Group) Company Limited (海航置業控股(集團)有限公司). Mr. Wang joined the Group in November 2009 and successively served as the office supervisor, senior office supervisor, assistant to officer of the Board of Directors' office, and deputy officer of the Board of Directors' office.

COMPANY SECRETARY

Cheung Yuet Fan (張月芬), Ms. Cheung, was appointed as the company secretary of the Company on 29 May 2018. Ms. Cheung is currently a director of the Corporate Services Division of Tricor Services Limited, a global professional services provider specialising in integrated business, corporate and investor services. Ms. Cheung is a Chartered Secretary and a Fellow of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. Cheung has over 25 years of experience in the corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multi-national, private and offshore companies.

DIRECTORS' REPORT

The Directors are pleased to present their report for FY 2018:

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, during FY 2018, 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 FY 2018 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 102 to 184. The Company is not aware of any arrangement under which a shareholder has waived or agreed to waive any dividends.

FINAL DIVIDEND

In view of the business growth of the Group and in response to the long term support of the shareholders of the Company, the Board recommended the declaration of a final dividend of HK$0.01 per share for 2018 financial year (FY 2017: HK$0.01 per share). The proposed final dividend will be payable to shareholders of the Company whose names appear on the register of members of the Company on Thursday, 4 July 2019, subject to the approval of the shareholders of the Company at the AGM. It is expected that the final dividend will be paid on or before Wednesday, 25 September 2019.

ANNUAL GENERAL MEETING

The AGM will be held on Tuesday, 25 June 2019. Shareholders of the Company 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.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the 2019 AGM to be held on Tuesday, 25 June 2019, the register of members of the Company will be closed from Thursday, 20 June 2019 to Tuesday, 25 June 2019, both dates inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, unregistered holders of shares of the Company shall ensure that all transfer documents 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, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 19 June 2019 (Hong Kong time).

For determining the entitlement to the proposed final dividend (subject to the approval by the shareholders of the Company at the 2019 AGM), the register of members of the Company will be closed from Tuesday, 2 July 2019 to Thursday, 4 July 2019, both dates inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend, unregistered holders of shares of the Company shall ensure that all transfer documents 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, Hong Kong for registration not later than 4:30 p.m. on Friday, 28 June 2019 (Hong Kong time).

BUSINESS REVIEW

The business review of the Company for FY 2018 is set out in the sections headed "Chairman's Statement", "Management Discussion and Analysis" and "2018 ESG Reporting" of this annual report which form part of the directors' report. As the current technology replacement cycle is getting shorter, the Internet is in the ascendant, mobile payment is booming, and open source software is becoming a trend, China's technological development is faster than ever before. As a technology-based company in the field of railway transportation, the Group will also be affected and face the risks of profound reform in technological trends and directions, internetisation of behavior patterns and usage patterns of users and fierce competition for core talents and innovative talents. It also encounters risks such as barriers in foreign markets, intensified competition in the industry, and risks on legal proceedings, credit, liquidity, interest rates and foreign exchange during the business process, details of which are set out in Note 27 to the financial statements.

SHARE CAPITAL

Details of the movements in the Company's share capital are set out in Note 25(a) to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Company and the Group for FY 2018 are set out in Note 25(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 2018, the Company's reserves available for distribution amounted to approximately HK$1,834.2 million (31 December 2017: HK$1,857.6 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 FY 2018 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 4 in this annual report. This summary does not form part of the audited financial statements in this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For FY 2018, 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	24.8%
– the five largest suppliers combined	43.0%

	Percentage of total sales
(2) Sales	
– the largest customers	17.0%
– the five largest suppliers combined	55.1%

Save as disclosed under the section headed "Continuing 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 issued shares) had any beneficial interest in the Group's five largest customers and suppliers for FY 2018.

DIRECTORS

The Directors for FY 2018 and up to the date of this report were:

Executive Directors

Mr. Cao Wei *(Vice Chairman)*
Ms. Xuan Jing *(Chief Executive Officer)*

Non-executive Directors

Mr. Zhang Yanyou *(Chairman)*	appointed as Chairman on 14 December 2018
Mr, Guan Jifa	resigned as Chairman on 14 December 2018
Mr. Zheng Yi	
Mr. Ren Yuhang	

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. Guan Jifa and Mr. Huang Lixin will retire as Directors by rotation at the AGM, and Mr. Zhang Yanyou, who was appointed by the Board on 14 December 2018, 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 confirmation from each of the independent non-executive Directors in respect of their independence during the FY 2018 in accordance with the requirements set out in 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 considered to be independent.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on pages 27 to 32 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 FY 2018 are set out in Notes 8 and 9 to the consolidated financial statements.

MANAGEMENT CONTRACTS

As at 31 December 2018, 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

Employees are the Group's most valuable assets. The Group believes in communicating with staff and giving them training and career development opportunities are 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 FY 2018 is within the range of HK$1,500,001 to HK$2,000,000.

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 three 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 or 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 should 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 the shares 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 FY 2018, no options were granted.

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 to be issued upon exercise of all options granted and to be 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 2018, there were 15,250,000 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 2018	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Balance as at 31 December 2018	Market value per share on exercise of options
Beijing Infrastructure Investment (Hong Kong) Limited ("**BII HK**")	Substantial Shareholder	5 December 2014	2.69	5 December 2014 to 4 December 2015 (Note 2)	5 December 2015 to 4 December 2019 (Note 2)	1,300,000	–	–	–	–	1,300,000	–
Mr. Cao Wei	Executive Director	5 December 2014	2.69	5 December 2014 to 4 December 2015 (Note 2)	5 December 2015 to 4 December 2019 (Note 2)	500,000	–	–	–	–	500,000	–
Others	Employees	31 December 2013	1.08	31 December 2013 to 30 December 2014 (Note 1)	31 December 2014 to 30 December 2018 (Note 1)	13,000,000	–	–	–	13,000,000	–	–
Others	Employees	5 December 2014	2.69	5 December 2014 to 4 December 2015 (Note 2)	5 December 2015 to 4 December 2019 (Note 2)	14,100,000	–	–	–	650,000	13,450,000	–
Total						28,900,000	–	–	–	13,650,000	15,250,000	

Notes:

1. 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.

2. 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.

DIRECTORS' INTEREST IN CONTRACTS

Saved as disclosed under the section "Continuing connected transactions" below and disclosed in Note 28 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 2018 or at any time during FY 2018; (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 2018, 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 (the "**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 for Securities Transactions by Directors of Listed Issuers (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)	244,657,815	–	11.65%
	The Company	Beneficial owner	800,000	500,000 (Note 2)	0.06%
					11.71%
Ms. Xuan Jing	The Company	Beneficial owner	2,068,000	–	0.10%

Notes:

1. These shares are held by More Legend Limited ("**More Legend**"), and More Legend is wholly owned by Mr. Cao. By virtue of the SFO, Mr. Cao is deemed to be interested in the 244,657,815 shares of the Company which More Legend owns. Mr. Cao is the sole director of More Legend.

2. 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 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.

Save as disclosed above, as at 31 December 2018, 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 required to be kept by the Company; 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 2018, 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 pursuant to 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)	244,657,815	–	11.65%
Ms. Wang Jiangping ("**Ms. Wang**")	Interest of spouse (Note 2)	245,457,815	500,000	11.71%
BII HK	Beneficial owner (Note 3)	1,157,634,900	1,300,000	55.18%
BII	Interest of controlled corporation (Note 3)	1,157,634,900	1,300,000	55.18%
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	–	7.08%
China Reinsurance (Group) Corporation (中國再保險(集團)股份有限公司)	Interest of controlled corporation (Note 4)	191,193,534	–	9.10%
Central Huijin Investment Ltd.	Interest of controlled corporation (Note 4)	191,193,534	–	9.10%

Notes:

1. More Legend is the legal and beneficial owner of 244,657,815 shares of the Company and is wholly-owned by Mr. Cao. Mr. Cao is also 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 245,457,815 shares and the 500,000 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.

4. China Property and Casualty Reinsurance Company Ltd. and China Life Reinsurance Company Ltd. which hold 148,585,534 shares and 42,608,000 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 42,608,000 shares of the Company owned by China Life Reinsurance Company Ltd.

Save as disclosed above, as at 31 December 2018, 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 with 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 Model Code throughout the year ended 31 December 2018. 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

The Company repurchased a total of 4,660,000 shares of the Company on the Stock Exchange during the year ended 31 December 2018 as set out below:

Month	Number of Shares repurchased	Repurchase price per share Highest HK$	Repurchase price per share Lowest HK$	Aggregate price paid HK$'000
August	800,000	0.510	0.495	405
September	3,860,000	0.510	0.485	1,916
Total	4,660,000			2,321

The Directors considered that the share repurchases were in the interest of the Company and the Shareholders as a whole. All repurchased shares were cancelled on 2 November 2018.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold nor redeemed any listed securities of the Company during the year ended 31 December 2018.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the paragraph headed "Directors' and Chief Executive's interests and short positions in shares, underlying shares and debentures of the Company or its associated corporations" and in the paragraph headed "Share Option Scheme", at no time during the FY 2018 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.

CONTINUING CONNECTED TRANSACTIONS

Particulars of the non-exempt continuing connected transactions are set out below:

1. 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) ("Beijing Metro Network")

Reference is made to the announcement of the Company dated 11 May 2016 and the circular of the Company dated 1 June 2016, the Company entered into the Beijing Metro Network Framework Agreement for a period commencing from 1 July 2016 and ending on 30 June 2019 (both days inclusive).

As of 11 May 2016, Beijing Metro Network was wholly owned by BII which also wholly owned BII HK. BII HK, as a Shareholder, held approximately 34.12% of the issued share capital of the Company. Under 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. Accordingly, under Chapter 14A of the Listing Rules, the Beijing Metro Network Framework Agreement constituted continuing connected transaction 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 (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 to the Group and further business cooperation will be beneficial to and provide a steady income stream to the Group.

For the year ended 31 December 2018, the total transaction amount carried out under the Beijing Metro Network Framework Agreement amounted to HK$77.14 million.

2. Framework agreement entered into between the Company and Beijing MTR Construction Administration Corporation Limited (北京市軌道交通建設管理有限公司) ("Beijing MTR Construction")

Reference is made to the announcement of the Company dated 11 May 2016 and the circular of the Company dated 1 June 2016, the Company entered into the Beijing MTR Construction Framework Agreement ("**Beijing MTR Construction Framework Agreement**") for a period commencing from 1 July 2016 and ending on 30 June 2019 (both days inclusive).

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

Beijing MTR Construction was one of the customers of BII ERG. BII ERG provided transportation system design, installation and maintenance services to Beijing MTR Construction for the line-level systems of the Beijing Subway. Beijing MTR Construction (being an associate of Beijing Metro Consultation) becomes a connected person of the Company under Rule 14A.07 of the Listing Rules. The transactions contemplated under the Framework Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Pursuant to the Beijing MTR Construction Framework Agreement, the Company agrees to provide, and procure members of the Group to provide (i) consultation and technical support services; (ii) maintenance services; and (iii) information technology support services and other ancillary services that parties thereto agree in writing from time to time (collectively, the "**Beijing MTR Construction Services**") to Beijing MTR Construction during the term of the Beijing MTR 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 MTR Construction Services.

Pursuant to the Beijing MTR Construction Framework Agreement, parties thereto will enter into individual agreements for the provision of the Beijing MTR Construction Services. Pursuant to the Beijing MTR 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 MTR 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 MTR Construction. The Directors consider Beijing MTR Construction is a reliable business partner to the Group and further business cooperation will be beneficial to and provide a steady income stream to the Group.

For the year ended 31 December 2018, the total transaction amount carried out under the Beijing MTR Construction Framework Agreement amounted to HK$27.52 million.

3. Tenancy agreements in relation to leasing of properties for the year ended 31 December 2018

On 28 December 2017, Beijing Metro Network entered into a tenancy agreement (collectively, "**2018 Tenancy Agreements**") with BII ERG, BII Zhuoyue and ERG (BJ) (collectively, the "**Tenants**"), whereby the Tenants leased properties from Beijing Metro Network for a term of one year from 1 January 2018 to 31 December 2018.

The consideration in respect of the transactions contemplated under the 2018 Tenancy Agreements for the year ending 31 December 2018 was RMB4,666,397.25 (equivalent to approximately HK$5,506,348.76, which was calculated with reference to the aggregate annual rental payable by the Tenants to Beijing Metro Network pursuant to the tenancy agreements dated 27 March 2017 and entered into between Beijing Metro Network and the Tenants.

The terms of the 2018 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 2018 Tenancy Agreements. Details of the transactions contemplated under the 2018 Tenancy Agreements were set out in the announcement of the Company dated 28 December 2017.

As at the date of such announcement, BII HK held 1,157,634,900 Shares in the Company, representing approximately 55% of the then issued share capital of the Company. BII HK was a substantial 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 Rule 14A.07 of the Listing Rules. Accordingly, the transactions contemplated under the 2018 Tenancy Agreements constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

For FY 2018, the total transaction amount carried out under the 2018 Tenancy Agreements amounted to RMB4.29 million.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagement 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740, *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules*, issued by Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with Main Board Listing Rules 14A.56. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The independent non-executive Directors have confirmed that the continuing connected transactions are 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 on terms no less favourable than those available to or from independent third parties, 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.

Details of material related party transactions entered into by the Group are set out in Note 28 to the consolidated financial statements. Except for those described under the paragraph headed "Continuing connected transactions" above, in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with, none of those related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

Save for the events described under the paragraph headed "Significant investments held and future plans" and "Final dividend" in this annual report, and under Note 30 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

During FY 2018, the donation of the Group was approximately HK$1,087,000 (FY 2017: Nil).

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme as disclosed on pages 37 to 38 of this annual report, no equity-linked agreements were entered into by the Company, or existed during FY 2018.

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

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. The Group develops the Beijing Municipal Domestic Waste Disposal Facilities Integrated Circuit Card Measurement System. Details of the project are set out in the section of "2018 ESG Reporting" on page 62 to 92 of this annual report.

AUDITORS

The consolidated financial statements for FY 2018 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 reappoint 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
BII Railway Transportation Technology Holdings Company Limited
Xuan Jing
Executive Director
Chief Executive Officer

Hong Kong, 26 March 2019

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the Corporate Governance Report for FY 2018.

CORPORATE GOVERNANCE PRACTICES

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

The Company has in place a corporate governance framework and has established a set of policies and procedures based on the Corporate Governance Code contained in Appendix 14 of the Listing Rules (the "**CG Code**"). Such policies and procedures provide the infrastructure for enhancing the Board's ability to implement governance and exercise proper oversight on business conduct and affairs of the Company.

The Company has applied the principles as set out in the CG Code and has devised its own code of corporate governance based on the major principles and practices as set out in the CG Code. For the year ended 31 December 2018, the Company was in compliance with all the CG Code.

BOARD OF DIRECTORS

The Company is headed by an effective Board which oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his/her responsibilities to the Company, and whether the Director is spending sufficient time performing them.

Board Composition

The Board currently has nine Directors, comprising two executive Directors, four non-executive Directors and three independent non-executive Directors. During the year ended 31 December 2018, Mr. Hao Weiya resigned as non-executive Director on 14 December 2018. Details of the Board composition are set out below:

Executive Directors

Mr. Cao Wei	(Vice Chairman and member of the Remuneration Committee)
Ms. Xuan Jing	(Chief Executive Officer)

Non-executive Directors

Mr. Zhang Yanyou	(appointed as non-executive Director, Chairman and chairman of the Nomination Committee on 14 December 2018)
Mr. Guan Jifa	(resigned as Chairman and chairman of the Nomination Committee on 14 December 2018)
Mr. Zheng Yi	
Mr. Ren Yuhang	

Independent Non-executive Directors

Mr. Bai Jinrong	(chairman of the Remuneration Committee and members of the Audit Committee and the Nomination Committee)
Mr. Luo Zhenbang *(CPA)*	(chairman of the Audit Committee)
Mr. Huang Lixin	(members 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 information of the Directors are set out in the section headed "Biographical details of Directors and senior management" on pages 27 to 32 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 and held by Mr. Zhang Yanyou who was appointed as the Chairman in place of Mr. Guan Jifa on 14 December 2018, and Ms. Xuan Jing, respectively, to ensure their respective independence, accountability and responsibility. 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 is responsible for carrying out the policies of the Board, 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 representing one-third of the Board 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 2018.

The Company has received written annual confirmation from each independent non-executive Director in respect of his 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 one month's 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 increase or reduce the number of Directors in general meeting by ordinary resolution 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 RESPONSIBILITIES OF THE DIRECTORS

The Board has overall responsibility for the leadership and control of the Group, including the responsibilities for the formulation of long-term strategies, and appointing and supervising senior management to ensure that the operation of the Company is conducted in accordance with the objective of the Group; and is collectively responsible for directing and supervising the Group's affairs.

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 Group. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Group 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/her 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 calendar 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 six extraordinary Board meetings were held during FY 2018. The attendance record of each Director at the Board meetings is set out below:

	Meetings attended/Number of meetings	
Name of Directors	Regular Board meeting	Extraordinary Board meeting
Executive Directors		
Mr. Cao Wei *(Vice Chairman)*	4/4	6/6
Ms. Xuan Jing *(Chief Executive Officer)*	4/4	6/6
Non-Executive Directors		
Mr. Zhang Yanyou *(Chairman)* (Note 1)	–/–	1/1
Mr. Guan Jifa	4/4	6/6
Mr. Zheng Yi	4/4	6/6
Mr. Ren Yuhang	4/4	6/6
Mr. Hao Weiya (Note 2)	4/4	5/5
Independent Non-Executive Directors		
Mr. Bai Jinrong	4/4	6/6
Mr. Luo Zhenbang *(CPA)*	4/4	6/6
Mr. Huang Lixin	4/4	6/6

Notes:
(1) Mr. Zhang Yanyou was appointed as non-executive Director and Chairman on 14 December 2018.
(2) Mr. Hao Weiya resigned as non-executive Director on 14 December 2018.

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 specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the aforesaid committees 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.

The list of the chairman and members of each Board committee is set out under "Board Composition" in this Corporate Governance Report.

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. On 25 December 2018, the Board adopted the further revised written terms of reference which became effective on the same date. The written terms of reference of the Audit Committee were 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 (i) to make recommendations to the Board on the scope of audit and appointment, re-appointment and removal of external auditor; (ii) review the financial statements and material advice in respect of financial reporting; (iii) oversee internal control and risk management systems of the Company; and (iv) 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.

The Audit Committee held two meetings during FY 2018 to, among others, review the interim and annual financial results and reports of the Group and significant issues on financial reporting, operational and compliance 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)*	2/2
Mr. Bai Jinrong	2/2
Mr. Huang Lixin	2/2

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. On 25 December 2018, the Board adopted the revised written terms of reference which became effective on the same date. 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 review and 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 and to ensure that none of the Directors or any of his/her associates will participate in deciding his/her own remuneration.

The Remuneration Committee held two meetings during FY 2018 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 senior management are set out in Note 9 to the consolidated financial statements in this annual report.

The Remuneration Committee also made recommendations to the Board on the terms of letters of appointment of the new non-executive Directors appointed during the year.

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. On 25 December 2018, the Board adopted the revised written terms of reference which became effective on the same date. 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 and 25 December 2018.

The primary duties of the Nomination Committee are to review the structure, size, diversity and composition of the Board on a 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, time commitment 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 achieved the measurable objectives in implementing the Board diversity policy.

During the year, the Board has also adopted a director nomination policy, which sets out the procedure and criteria in the nomination and appointment of Directors.

The Nomination Committee held three meetings during FY 2018 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 meetings is set out below:

	Meetings attended/ Number of meetings
Mr. Zhang Yanyou *(chairman of the Nomination Committee)**	1/1
Mr. Bai Jinrong	3/3
Mr. Huang Lixin	3/3
Mr. Guan Jifa*	2/2

* Mr. Zhang Yanyou was appointed as the chairman of the Nomination Committee in place of Mr. Guan Jifa on 14 December 2018.

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; and (iv) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has devised 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 FY 2018. The Securities Dealing Code also applies to employees to whom the Securities Dealing Code was given. The Company was not aware of any non-compliance of the Model Code for FY 2018.

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.

Induction materials and relevant guideline materials regarding the duties and responsibilities of being a director, the relevant laws and regulations applicable to directors, duty of disclosure of interests and business in the Group will 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 FY 2018, the Company organised two training sessions for all the Directors on the CG Code and related Listing Rules amendments which became effective from 1 January 2019, disclosure of inside information of listed company as well as the procedure on dealing in the company's listed securities and other matters to ensure compliance and awareness of the regulatory requirements, and all Directors attended the training.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the 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.

The Company's risk management and internal control systems have been developed with the following principles, features and processes:

In compliance with the requirement of CG Code, the Company has established relevant risk management and internal control systems, covering corporate governance and system, business and financial processes. The systems served as a reasonable guarantee of the legal compliance of the operation and management of the Company, its asset security and truthfulness and completeness of its financial reports and relevant information and increased the operational efficiency and performance of the Company, which provided strong guarantee for the implementation of the Company's development strategies.

In order to further regulate the internal control management of the Company and effectively prevent internal risks, the "Internal Control Handbook of BII Railway Transportation Technology Holdings Company Limited" was prepared according to the "Guidelines for Corporate Internal Control", which was jointly issued by five ministries and commissions including the Ministry of Finance as well as the relevant regulatory requirements of the Hong Kong Stock Exchange and the actual management situation of the Company. The internal control system of the Company regulates the internal management procedure of the Company by ten controlling aspects, namely organisational structure, fund management, financial reporting, procuring business, outsourcing business, sales business, research and development management, project management, contract management and information system. It identifies the risks in the internal management of the Company and provides relevant control measures to prevent the risks. The Company performs annual reviews on these systems in order to monitor its operational situation in a timely manner, and revises or abolishes some regulations in accordance with relevant national laws and regulations and actual conditions of the Company.

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 ensure that control policies are properly complied with by each department.

The Company has set up departments dedicated to daily examination and supervision of internal control, and designated internal control examination and supervision personnel according to the relevant requirements and conditions of the Company to inspect and monitor the regular test on internal control procedures of all functional departments of the Company and all subsidiaries. The Company mainly reviews the compliance of internal control procedures that have higher risk, such as setting up of project, tendering, project budget review and procurement to ensure the compliance of business activities. The Company makes improvement recommendations in respect of audit's findings and requests the relevant management of the Company to confirm the rectification plan, methods and the timing. The Company regularly follows up the status of the implementation of the audit recommendations to ensure the execution of such improvement plans. At the same time, the Company reviews and assesses the truthfulness, accuracy, compliance and effectiveness of the project financial activities of the Company and information of financial expenses as well as the Company's funds, management and usage of assets, and strictly monitors the annual budget and expenditure.

The management of the Company provides enough resources for the accounting, internal review and financial reporting functions, hires financial personnel with sufficient qualifications and provides various financial control and project risk control training to the staff. The management, in coordination with all department heads, assesses the likelihood of risk occurrence and provides response plans, and monitors the risk management procedures, and reports to the Audit Committee and the Board on all findings and the effectiveness of the system. Internal legal and audit department is responsible for reviewing the adequacy and effectiveness of risk management and internal control system independently, investigates key matters related to accounting practice and all significant control issues, and reports its finding and suggestions 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 FY 2018.

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 2018, 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 unauthorised 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 FY 2018 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 auditors 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 93 to 101 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 FY 2018 were as follows:

	Amount HK$'000
Type of services	
Statutory audit services	3,308
Non-statutory audit services	768
	4,076

COMPANY SECRETARY

The Company has engaged Tricor Services Limited as external service provider, and Ms. Cheung Yuet Fan has been appointed as the Company's company secretary in place of Ms. Siy Ling Lung following Ms. Siy's resignation as company secretary on 29 May 2018. Ms. Cheung's current primary contact person at the Company is Mr. Wang Yuzhe, vice president of the Group.

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.biitt.cn) 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 FY 2018, an annual general meeting ("**2018 AGM**") was held.

The attendance record of each Director at the 2018 AGM is set out below:

Name of Directors	Meetings attended/ Number of 2018 AGM
Executive Directors	
Mr. Cao Wei *(Vice Chairman)*	0/1
Ms. Xuan Jing *(Chief Executive Officer)*	1/1
Non-Executive Directors	
Mr. Zhang Yanyou *(Chairman)* (Note 1)	–/–
Mr. Guan Jifa	1/1
Mr. Zheng Yi	0/1
Mr. Ren Yuhang	0/1
Mr. Hao Weiya (Note 2)	0/1
Independent Non-Executive Directors	
Mr. Bai Jinrong	*1/1
Mr. Luo Zhenbang	*1/1
Mr. Huang Lixin	1/1

Notes:

(1) Mr. Zhang Yanyou was appointed as non-executive Director and Chairman on 14 December 2018;

(2) Mr. Hao Weiya resigned as non-executive Director on 14 December 2018.

* Mr. Bai Jinrong and Mr. Luo Zhenbang have appointed Mr. Huang Lixin as delegate to attend the 2018 AGM.

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 websites of the Company and the HKEX.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, separate resolution should be proposed for each substantial 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.

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 a person 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:	IR@biitt.cn
Tel:	(852) 2545 1555
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) 2545 1555 for any assistance.

Policies relating to Shareholders

The Company has in place a shareholders' communication policy to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

The Company has adopted a policy on payment of dividends pursuant to code provision E.1.5 of the CG Code that became effective from 1 January 2019, which sets out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of dividends to the Shareholders.

2018 ESG REPORTING

This report is the third 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.

1. OVERVIEW OF THE REPORT

1.1 About this Report

This is the third ESG Report published by the Company in response to the expectations of the stakeholders while demonstrating the philosophy, actions and results of the Company in connection with environment, society and governance as well as sustainable development.

1.2 Main scope of the Report

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

1.3 Time scope

From 1 January 2018 to 31 December 2018.

1.4 Preparation basis of the Report

This report is prepared in accordance with the requirements of "Environmental, Social and Governance Reporting Guide" of HKEx.

1.5 Description of the Report

This Report is published in the traditional Chinese and English in the annual report. In case of any discrepancies in the content of the Report, the traditional Chinese version shall prevail. The electronic version of the Report can be read and downloaded through the official website of the Group and the website of the HKEX.

The data in this Report is collected from the Company's internal systems or compiled manually.

1.6 ESG management vision and strategy

Environment, social, and (corporate) governance are the three important factors currently used in measuring the sustainability of enterprises and ethical impact. The Board is fully responsible for overseeing and reporting the environmental, social and governance strategies of the Company and is responsible for assessing and determining the environmental, social and governance risks to ensure that the Company has established appropriate and effective environmental, social and governance risk management and internal monitoring system.

The Company aims to effectively disclose information through the ESG Report to reflect its long-term development prospects. With the mission of "Enhancing the City Railway Transportation with Intelligent Technology", the Company is committed to the mission of developing itself into a "world-class leader in city intelligent railway transportation". Moreover, the Company adheres to the spirit of "professionalism, innovation, integrity and win-win" and works together with business partners and employees to strive to develop the Company into a leading service provider of city railway transportation command system in China and contribute it efforts to serve and protect the environments of the communities located within its range of operation.

2. THE COMPANY AND THE ENVIRONMENT

The Company focuses its businesses on the city railway transportation segment. As an industry group that encompasses investment and financing, technology research and development, intelligent railway transportation construction, operation and maintenance, civil communication related information transmission services, the Company rarely produces pollutants (such as air and greenhouse gas emissions, discharge into water and land, and generation of hazardous and non-hazardous waste) during its business process.

By incorporating the green and environmental concept into its daily operation, the Company fully utilises its technological advantages in the city railway transportation segment to provide full lifecycle service. The Company will continue to strive to establish harmonious, safe and green travelling environment for city railway transportation. While ensuring the sustainable and steady development of its production operation, the Company is committed to shaping up itself as a environmentally friendly enterprise.

In 2018, the Company has no incidents related to material environmental pollutions or excessive emissions.

2.1 Focus on energy conservation and emission reduction, and adhere to sustainable development

2.1.1 The Company vigorously develops the virtualisation technology for realising green environmental protection

The Company vigorously develops the virtualisation technology as a positive response to the "Overall Implementation Plan of Building Beijing into a Demonstration City of Comprehensive Energy saving and Emission Reduction Fiscal Policy" issued by Beijing Municipal Development and Reform Commission, which included adopting virtualisation technology to centralise the management of the Company's servers, integrating the hardware information including servers and network devices of the enterprise, thus improving the utilisation of resources and reducing the waste of resources. With the continuous implementation of the informationised construction and increasing demand for virtualisation, cloud computing and big data from big businesses, the environmental protection requirements for informationised construction has become demanding. Since the application of the virtualisation technology, the number of physical servers has been reduced and the energy consumption of servers and cooling machines greatly decreased, thus fostering the propaganda for a more green environment and coping with the call for energy conservation and emission reduction in China. Through virtualisation technology, a single physical server can serve multiple virtual mainframes, allowing the sharing of computing resources of a single server in multiple environments; through adjusting the loading of server, the computing resources can be fully utilised. One key advantage of applying virtualisation technology is the possibility to create a network infrastructure with high utilisation rate and a stronger and more flexible back-up and disaster recovery platform. The use of the technology can also reduce management and operation costs and cut the emission of carbon dioxide. The use of server virtualisation technology can reduce costs significantly. On average, in a one-month cycle when compared with the non-virtualised station points which use a multiple number of servers, the virtualisation technology allows enterprises to be more environment-oriented as the operation of a multiple number of servers will generate large volume of heat, which in turn require additional energy consumption for cooling down. On the contrary, the application of virtualisation technology can significantly reduce energy consumption. By virtualisation technology, for instance, three servers can perform the same workload of 30 servers, which can decrease the emission of carbon dioxide by 15 tons to 30 tons and this is equivalent to removing seven cars on the highways.

2.1.2 Installation of subway screen door system and safety door system to reduce energy consumption in operation and achieve safety protection

The subway screen door system is a typical mechatronic product, which is installed along the edges of the station platform to separate the platform from the vehicle tunnel and reduce the energy consumption of the air conditioning ventilation system of the station. At the same time, it can reduce the noise of train operation and the impact of the piston wind on the station that can prevent the accident of staff falling onto the railway tracks, provide passengers with a comfortable and safe environment while waiting for trains, and improve the service level of the subway.

The close ended screen door is a completely close ended safety door system, which can create a separate space between the platform and railway areas, thereby maximising the shielding to prevent the mixture of cold air and warm air along the railway and platform while allowing minimal inflow of polluted air such as the air in the subway areas and the dust along the railways. Therefore, it facilitates the reduction of energy consumption for operation of station platform and enhancement of the utilisation rate of air-conditioning and ventilation of the open area in station platform as well as significantly improving the environment of the waiting areas of train passengers. It has the inherent advantages of energy conversation and emission reduction, and meets the requirements for sustainable development, and can be considered as a measure for promoting people's welfare through improvement of resource environment. The full-height safety door is a semi-close ended safety door system. As there is an unenclosed space at the top of the door from the top of the station, it does not completely separate the platform and the railway areas, and this in turn can improve energy conversation and emission reduction. Semi-height safety door is principally designed for safety and protection purposes for assuring safe journeys for passengers.

The safety door system of station platform creates a physical separation between the railways and the trains, which indirectly reduces the transmission of noise upon the passing of trains through the platform while indirectly enhancing the sound effect of the broadcast system within the station area, thus providing passengers with a comfortable area for waiting trains. The implementation process of safety door project of the Group strictly complies with the relevant laws and regulations for safe and civilised construction. Meanwhile, the requirements of Beijing local standards, in particular the "Regulation on Controlling Noise and Vibration of Subway" (DB/T838 2011), are strictly complied with, in order to ensure that the noise made from the opening and closing of safety doors can be kept under 70dB.

The Group has implemented the safety door projects in the followings:

(1) Phase II of Line No. 10 of Beijing Subway, full-height safety door;

(2) Line No. 14 of Beijing Subway, full-height safety door;

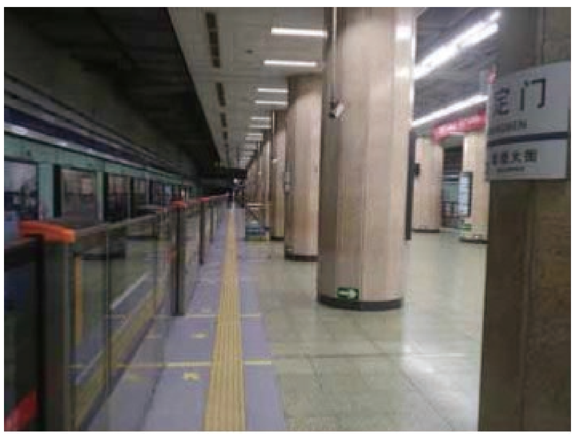
(3) Line No.13 of Beijing Subway, semi-height safety door;

(4) Line No.2 of Beijing Subway, semi-height safety door;

(5) Beijing S1 Line S1, semi-height safety door;

Figure 1-1 Close ended safety door

Figure 1-2 Semi-close ended safety door



Semi-height safety door

2.1.3 New Airport Expressway Project

The implementation process of the new airport expressway project of the Company complies with national and local laws and regulations governing environmental pollution and standards and regulations issued by relevant departments such as:

- implementation of ambient air quality standard "Ambient air quality standards" (GB3095-2012) Level 2 Standard;

- implementation of surface water standard "Environmental quality standards for surface water" (GB3838-2002) Type II Standard;

- implementation of construction site boiler in compliance with the Beijing local standard "Comprehensive emission standard of pollutants for boilers" (DB11/139-2007) Zone B Standard;

- implementation of the discharge of sewage into the surface water body and its catchment area in accordance with relevant provisions of "Beijing Integrated Discharge Standard of Water Pollutants" (DB11307-2005); the implementation of the relevant provisions in the aforesaid standards for discharge of sewage into the urban sewage treatment plant;

- strict implementation of relevant standards regarding the printing and distribution of notices by the Beijing Municipal Roadway Administration Bureau of Beijing Municipal Committee of Communications on "Emergency Plan for Industry Heavy Air Pollution by Beijing Municipal Roadway Administration (Revised in 2017) (Jingjiao Road Office [2017] No. 37)", "Notice of the Beijing Municipal People's Government on Printing and Distributing the Emergency Plan for Heavy Air Pollution in Beijing (Revised in 2016) (Jing Zheng Fa [2016] No. 49)", "Beijing Municipal Committee of Communications on Printing and Distributing the Notice of Beijing Municipal Traffic Industry Air Heavy Pollution Emergency sub-division (Revised in 2016) (Jingjiao Safety Issue [2016] No. 125)", "Notice of Standards on Dust Pollutant Emission Charges from Construction Projects of Construction Sites" (Jingfachang [2015] No. 265)", and "Notice of Implementation of Collection of Dust Pollutant Emission Charges from Construction Site (Jinghuanfa [2015] No. 5)";

- operators must strictly abide by the mandatory standards for civilised and safe construction, such as the "Administrative Measures for Construction Sites of Beijing Construction Projects" [2013] (Beijing Municipal Government Order No. 247), "The Facilities Standards for Safety & Protection, Environmental Sanitation & Safeguards & Fire Fighting for Construction Engineering" (DB11/945-2012), "Technical Code for Fire Safety of Construction Site" (GB50720-2011), and "Standard of Environment and Sanitation of Construction Site" (JGJ 146-2013);

- according to the "Beijing Environmental Functional Zone for Noise", the acoustic environment respectively implements the "Urban Environmental Quality Standard for Noise" (GB3096-2008) Class 1 to 4 standards: among others, Class 1 standard is implemented around the sensitive points such as residential areas, schools, hospitals, etc.; Class 2 standard is implemented in mixed commercial and residential areas; Class 3 standard is implemented in industrial areas, and Class 4 standards are implemented on both sides of the traffic line. When the noise exceeds the regulations at construction sites next to residential areas or other noise-sensitive buildings (such as schools, hospitals), it should take timely measures to minimise the interference of construction activities on residents along the lines. At the same time, the construction workers should take effective protective measures when working on a noisy site;

- all construction sites are prohibited from heating by using open flame devices. In the process of using mechanical equipment, the pollution of noise and exhaust gas should be minimised. The noise of construction sites should meet the requirements of "Emission standard of environmental noise for boundary of construction site" (GB12523-2011) and night construction works should comply with the night construction regulations stipulated by the local authorities.

2.1.4 Continue to develop the"Beijing Subway Energy Consumption Statistics and Monitoring Platform" project

Beijing Subway energy consumption statistics and monitoring platform is the first energy management system based on a big data platform for intelligent city railway transportation at network-level. It provides effective data support for the construction of energy-saving monitoring service platform. Monitoring the energy consumption of enterprises is an important part of the implementation of the consumption monitoring system for the nation as well as the cities and the industry. It is important for enterprises to adopt the energy consumption monitoring system to improve the timeliness and accuracy of energy management and it can also provide an important guarantee for the implementation of the refined informationisation of energy management and control.

Electricity is the most important energy source consumed by subway. It is mainly divided into two parts: the energy consumption for the traction of subway and the power consumed by the electric lighting. The Company actively responds to the "Overall Implementation Plan of Building Beijing into a Demonstration City of Comprehensive Energy-saving and Emission Reduction Fiscal Policy "issued by Beijing Municipal Development and Reform Commission by vigorously developing the "Beijing Subway Energy Consumption Statistics and Monitoring Platform" Project to establish a comprehensive, 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 with a view to establishing a regular feedback and communication mechanism. The goal is to realise the refined management of energy consumption of the rail transit and to improve the analytical function that backs up mechanism of decision making while identifying factors that influence rail transit energy consumption and controlling various changes. The project comprehensively grasped the current situation of energy consumption to provide data supports for setting the energy-saving emission reduction targets for the Beijing Subway.

The analysis on energy consumption of Beijing Subway has a significant meaning for the management and monitoring of energy consumption of rail transit. To carry out sustainable development of the project, the Company has strictly complied with the followings:

- "GB 22240-2008-T Information security technology – Classification guide for classified protection of information system";

- "GB 25058-2010-T Information security technology – Implementation guide for classified protection of information system";

- "GB-T 22239-2008 Information security technology – Basic requirements for classified protection of information system";

- "GB/T 2589 The general principles for calculation of total production energy consumption";

- "Environmental Protection Law of the People's Republic of China" – Law and regulations to be followed for energy conservation and emission reduction, low carbon environmental protection, protection of public health, promotion of ecological civilisation and sustainable development in the course of project implementation; and

- "Law of the People's Republic of China on Prevention and Control of Pollution From Environmental Noise"– Policies and regulations to be followed for prevention and control of pollution from environmental noise, ensuring human health and promoting living environment in the course of project implementation.

2.2 Adhere to low-carbon operation work model

The Company continues to fully implement the "Decision of the State Council on Implementing the Scientific View of Development, and Strengthening Environmental Protection", conscientiously abide by the national and local environmental protection rules and regulations, and strictly implement national and local pollutant discharge standards. In addition, the Company actively establishes the concept of green wealth, promotes ecological civilisation to foster the development of its green business and green consumption. Furthermore, the Company actively encourages employees to carry out resource conservation, such as water, electricity to promote resource recycling and its effective use, thereby improving resource utilisation efficiency and reducing resource consumption.

The Company actively explores the construction solutions for new types of low-carbon companies, focusing on building low-carbon, green and environmentally friendly modes of work, promoting low – carbon behavior and the establishment of an integrated information system. The Company introduced the Office Automation ("**OA**") system to achieve an automated and paperless office to improve office efficiency so that employees can quickly get hold of the latest information of the Company, thereby realising the concept of mobile office at any time and anywhere.

The Company promotes low-carbon development in the workplace and encourages employees to practice low-carbon ideas in the areas of clothing, dining, living, consumption and transportation. People are encouraged to adopt low-carbon transportation methods such as walking, cycling, public transport, carpooling, taking a lift, and to use conference call, video conferencing and internet conferencing and so on.

3. PRODUCT INNOVATION AND CUSTOMER RELATIONSHIPS

3.1 Product innovation

In the 2018 National Science and Technology Award Conference in Beijing, Premier Li Keqiang clearly called for the need for strengthening the role of enterprises in innovation, establishing a new innovative mechanism for the integration of industry and scientific research, vigorously creating a fair and inclusive environment for innovation and entrepreneurship, reducing the institutional costs of innovation and entrepreneurship, insisting that all levels of cadres in Beijing to visit respective service enterprises and study the "service package" system to figure out practical measures to support the enterprises to explore innovative development. All kinds of policies have become a ground for the Company to promote scientific and technological innovation to fully cater for the basic needs of rail transit passengers, vehicle operation, equipment status, station facilities. Such new policy direction was the driving force for the Company to focus on building an intelligent subway with safe and efficient operation, stable and reliable equipment, convenient and comfortable environment for passengers, thereby strongly reinforcing the provision of innovative service in integration of software and hardware applications "vehicles + other intelligent systems" for rail transit.

In 2018, the launch of the ACC system successfully realised the Company's development strategy to strengthen technological innovation, catch up with the changing market trends and explore the business model: "internet + railway transportation". The application of internet-driven ticketing model for the Beijing Subway would shift the daily operation of the subway to the back end and lessen the workload of frontline staff, thus streamlining the frontline operation. Different from the traditional fare collection mode of AFC that charged actual fare in the front end, the innovative ACC system will charge passenger fare in the back end based on detecting the exit station of passengers, greatly speeding up the in and out time of passengers. The application of internet-driven mode of fare checking and calculation technology in the ACC system is mainly developed for scrutinising data transaction arising from contactless payment by smart phone, face recognition, and virtual travel ticket, thereby ensuring the consumption benefits of customers and the operation revenue of the operating companies. Moreover, the ACC system is especially designed for handling the high passenger flow rate of the Beijing Subway, capable of processing 200,000 passenger entry and corresponding exit records in 30 minutes. To ensure the fairness and accuracy of the regular fare clearing business for fixed-term ticket, the ACC project team once again innovatively promoted a precise clearing technical solution based on ticket consumption transactions, including the account management of fixed-term tickets, accurate matching of ticket clearing and auditing to process systematic clearing and allocating ticket amount, thereby guaranteeing vital interests of all service operators involved in the consumption of fixed-term ticket. In the meantime, it is still at the peak of the application of the internet-driven ticketing model for city subway in China, among which, the internet ticket system of ACC is relatively comprehensive. In this regard, the Company will focus on promoting the ACC internet ticket checking system to the rest of the nation and further expand the market penetration of subway plus internet into the 1st tier, 2nd tier and even the 3rd tier cities in a bid to achieve more development opportunities and increase the business returns for the Company's self-developed ACC internet ticketing checking system. The internet ticketing auditing system and the fixed term ticket solution based on the precise clearing function of consumer transactions is closely adhered to the sophisticated, high-quality and user-centric product development strategy of the research and development centre, aligning with the innovative, realistic, simplified and quality service concept to foster the digitalisation and upgrade of urban transportation.

Based on the demand from the owner of the Beijing Expo Utility Tunnel for the construction of a "more safe, economical and effective" utility tunnel architecture, the Company can firmly get hold of it and swifty take action to launch the "integrated communication system", which is an integrated communication system capable of adjusting different kinds of user owners' communication terminals from different data communication networks; audio scheduling for wired/wireless voice machine via wired IP network; fixed-point surveillance camera/videophone/individual equipment for video scheduling; remote audio scheduling for external telephone via the PSTN/GSM/CDMA network; scheduling of the intercom terminal through the cluster intercom network; remote audio and video scheduling with remote frontline personnel via the 3G/4G network; audio and video scheduling for multimedia mobile handsets through a wireless broadband network. The system can also be connected with traditional communication system to achieve seamless system connection to cater for the customers' need for use in different environments and this in turn reduce the cost of system transformation.

In 2018, the Company inaugurated the project of self-developed non-inductive highway payment system. This project studied the key technology based on recognition of features of vehicles to develop a non-inductive payment system on highways, creating a breakthrough in related core technology in rapid verification, release and fare deduction, and realising the integrated application of mobile charging technology for non-stop payment on highways. The application of non-inductive payment system can enable non-cash payment and is effective in charging vehicles seamless on highways, thereby overcoming the cumbersome installation of ETC equipment and generate brand new experience for users.

In October 2018, the integrated communication system was showcased in the 18th China International Urban Construction Expo and City Utility Tunnel Technology and Product Exhibition and drew good attention, attracting various gallery operators to undergo practical business communications. In the future, the "integrated communication system" will be installed and operated in the Winter Olympics and New Airport Line, and subsequently, this integrated system can be developed as a multi-levelled scheduling command system for the urban management committee, line management unit, gallery company and regional command centre.

3.2 Protection of intellectual property rights

3.2.1 Software copyright and patent

Up till now, the Company has self-developed 132 system software packages in city railway transportation and informational safety sector and obtained relevant software copyright. Such achievements had been widely applied on the construction of line-level and network-level city railway transportation. Considering the target of long-term sustainable development and maximisation of its interests, the Company takes the strengthening of research and development investment as its core business development strategy.

With the globalisation of the world economy and new situation in the development of international intellectual property rights, enterprises encountered tremendous pressure and challenge to manage their intellectual property rights, and this in turn accelerated most companies to practically strengthen their protection of intellectual property rights through effectively planning and implementing the control mechanism of intellectual property rights. The Group is engaging in driving its enterprises to develop comparative advantages in professional intellectual resources in a bid to maximise the competitveness of the Group to gain market profits and foster its continuous expansion.

The Company attaches great importance to the protection of intellectual property rights and intellectual property rights and patent application is one of the key assessment criteria 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 an "Annual patent and intellectual property rights application plan". Besides, in conjunction with the development progress of projects, the dedicated staff 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 Administration.

In 2018, the Group submitted 5 software copyright application plans and 8 patents. In 2018, the Group actually obtained software copyright for a total of 7 items, 3 appearance design patents and utility model patents.

3.2.2 System Certification-CMMI5 Level

The Company passed the CMMI5 Level on-site evaluation test in November 2018 and obtained the certification. BII ERG obtained CMMI3 certification as early as in 2015. The process improvement of CMMI5 commenced in 2016 and with the concerted efforts of the Company and staff members, a full set of process management system, project development process system, project support process system and process management and improvement system was successfully developed to provide streamlined and effective process management for the Company. The internal project management level and development specifications have been significantly improved through project management and system certification, and at the same time nurtured a cluster of professional personnel for project management, quality control and process improvement, thereby forming an experienced and professional team familiar with the CMMI model and process improvement workflow.

During the evaluation process, a statistical control method is adopted to collect a large amount of organisation and project data needed by the workflow of "collecting sample data – measurement – establishing PPB, PCB baseline – PPM modelling – verification – analysis summary – analysis summary – organisation payback". With a high and mature improvement in the CMMI5, it can significantly improve the quality of the Company's project management items, enhance research and development and productivity rate, strengthen quantitative management and the capability of process improvement, optimise the operation procedure of project management continuously and enhance management, and at the same time, strongly improve the quality of products delivery and satisfactory of customers.

With the pass of the CMMI5 Level, it indicates that BII ERG is able to manage the project through information methodology and digitalised tools, and can fully adopt metric date in managing project and model assessment to prevent problems that may arise during the process of project implementation, thereby actively improving project processes. By applying new technologies and optimise processes, the capabilities of software technology development, project management, organisational ability and program delivery has reached a new height.

3.2.3 ITSS re-certification

In April 2018, BII ERG and ERG BJ successfully passed the on-site evaluation of information technology service operational maintenance standard and the expertise standard, meeting the requirements of Information Technology Service Operation and Maintenance Maturity Level 2 and Information Technology Service Operation and Maintenance Maturity Level 3. The Level II Certificate and Level III Certificate were granted after passing the re-certification evaluation of Level II and Level III.

The recognition of ITSS is the official recognition of the Company's ability to provide quality operation and maintenance service to the community. The Company will continue to provide quality service for users and create greater value for customers.

3.2.4 Strengthen the management of trademark

In 2018, the Company further enhanced the management and protection for intellectual property rights. Based on the need to strictly comply with the "Trademark Law of the People's Republic of China", "The People's Republic of China Trademark Law Implementation Regulations" and the "Trade Marks Ordinance" of the Intellectual Property Department of the Hong Kong Special Administrative Region, the Company strengthened legal training and promotion of in trademarks and intellectual property rights, enhanced the Company's consciousness in the prevention of legal risk for intellectual property rights, and assigned special personnel to co-ordinate the related work of trademark registration.

As of 31 December 2018, the progress of the trademark registration applications of the Company was as follows:

- Progress of domestic registration:

  – Trademark of the Group: submitted re-assessment registration of No. 35, 36, 39, 42 classifications in accordance with the requirements of the Trademark Office; at present, the registration for the English trademark of BIITT has been submitted and is pending for examination. The combined trademark registration was at initial examination stage.

  – Trademarks of "BII ERG" wordings, "ERG" wordings: granted trademark certificates.

  – "TDBJ""TSBJ""TSBJ ERG": made trademark announcement.

  – Wording trademark of BII, combined trademark, "TTBJ": at present, it is pending for examination.

- Progress of overseas registration:

  On 6 July 2018, ERG (HK) published its registration of "BII Technology Hong Kong", "BII Technology" with its logo in the "Hong Kong Intellectual Property Announcement", and obtained the trademark certificates in November 2017.

3.3 Enhance customer satisfaction by maintaining the quality of products and services

3.3.1 Product quality control

The Company always believes that the quality of products and services is the foundation of the Group, and to ensure that the products can provide better services to customers; 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. Since its 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, ISO/IEC 27001:2013 (GB/T 22080-2016) Informational Safety and Management System, ISO/IEC 20000–1:2011 Informational Technological Service and Management System Certification Audit and obtained the certificates.

In 2018, the Company organised all departments to carry out optimisation and improvement on business management process to strictly implement process management and quality control; the Company optimise the "Quality Assurance Management and Control Process" and set up organisation process and quality assurance for product so that practical guidances are created for quality assurance staff to perform quality assurance duties; optimise "QA Checklist" to form the "Item QA Examination Report"; If quality security issue occurs, the project management department will conduct investigation and analysis, issue analysis reports, draw up improvement and measures, and follow up with the improvement result.

As of the end of 2018, the Company did not experience any product recall incident due to significant quality issue or operational violation.

3.3.2 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-sale stage. The operations management department is responsible for discussing and resolving complaints with the customers, and setting up temporary complaint handling working group, which is responsible for the analysis and handling of complaints. The group is also responsible for investigating, recording, taking remedial actions and providing feedback according to customer complaints.

The Company conducts satisfaction survey with customers of projects in progress on a half yearly basis, 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 2018, the Company conducted two customer satisfaction surveys, and conducted a satisfactory survey on 26 projects in progress and in relation to five aspects, which are progress management, delivery quality, site management, product quality and service quality. The results showed that the two customer satisfaction surveys scored an average of 95.52 points which satisfies the Company's quality control objectives (greater than or equal to 90 points).

As of the end of 2018, the Company did not receive any customer complaint.

4. THE COMPANY AND THE EMPLOYEES

4.1 Protecting employees's interests

Employees are the cornerstones for the development of the Company, therefore, the Company adheres to the recruitment concept of "morality-led, talent-based selection, competence-prioritised, co-development", and constantly strives to improve the human resources system and corporate culture, protect basic rights of employees, concern the demands of employees, build a sound salary system, provide job and salary promotion mechanism, and fully explore the potential of talent with a view to build a platform for 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, creates a healthy, safe, open and equal working environment and unleashes the abilities and potential of employees so that the Company and the employees will keep growing together.

In 2018, the Company implemented of the findings of "Management Method for Operational Responsibility System (Trial Program)", "Organisational Structure Adjustment and Personnel Allocation Arrangement Methodology", and "2018 Internal Incentive Methodology for the Company". Starting in April 2018, the Company implemented the "Independent Auditing, Self-sustained" operational responsibility system. According to the operational responsibility system, the Company will focus the resource allocation, salary incentive, and promotion to first-line business departments. In terms of organisational structure, the business-oriented management model was cancelled and replaced by horizontal management.

The reform of operational responsibility system is an important measure for the Company to combine market orientation and carry out innovation management. It will further activate the organisational vitality and form a new model of innovation management with business operation as its core. It will maintain sustainable profit growth, increase labour productivity, expand customer base, play an important role in expanding the scope of business. Riding on such these new approaches, the Company will continue to intensify innovation and reform, strengthen scientific and standardised management, form institutional synergy and work synergy, thereby further enhancing business operation capabilities and fully exploiting market resources, optimising evaluation and supervision mechanisms. In this regard, the development of the Company will continue to achieve high-speed, high-quality and comprehensive development in the near future.

4.1.1 Staff employment

The Company always adheres to fair, just and open employment policies and strictly abides by "Labour" Law of the People's Republic of China", "Labour Contract Law of the People's Republic of China" and "Regulation on the Implementation of the Employment Contract Law of the People's Republic of China". It formulates and implements recruitment management methods to provide equal employment opportunities for employees of different nationalities, races, genders and cultural backgrounds. It also clarifies the recruitment management process and eliminates discrimination in terms of gender, race, religion, age, etc. during recruitment and employment. The use of child labour and forced labor is strictly prohibited to create an equal and diverse employment environment. In the recruitment process, the Company's business department is responsible for the assessment of the professional knowledge of the candidates. In the recruitment process, the Company's human resource and administration department is responsible for assessing the qualifications of the candidates in terms of their overall quality, including whether the candidate is of a legal age, whether the academic qualifications are met or not, whether the candidate is applying in his/her own will and his/her career development planning.

While compiling the cost of controlling personnel according to the verification criteria, the Company has also adopted various ways such as recruitment channels, procedures and screening standards to deeply implement the optimisation and upgrading strategy to enhance per capita profit-making and achieve quality conversion and cost reduction. New forms such as headhunting and internal recommendation will be used to further expand the recruitment channels, and extensively accumulate talents in the rail transit and big data industries; acquire the industry elites and introduce high-end talents needed by the Company timely, and help enhance team leadership; expand campus recruitment resources, thereby introducing and reserving new and fresh energy to the Company. Moreover, the Company adopted the Beisen talent assessment system to innovate the talent selection model, optimise recruitment interview procedures while strictly selecting candidates; benchmark domestic leading human resources consulting companies and initiate background investigation procedures. In addition, the Company adopted the 360-degree assessment method for mid-to-high-end employees from the pre-employment period to go through the entire recruitment process in a bid to reduce the risk of employment. While making timely addition of talents to various departments, the Company will continue to strive for achieving rapid, healthy and efficient development.

4.1.2 Staff remuneration benefits

Based on the "Regulation of Beijing Municipality on Payment of Wages", the Company has formulated and implemented the "Remuneration and Benefits Management Approach" to provide employees with market-competitive compensation and benefits that match the performance and take into account internal fairness. 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 contributing the statutory insurances and 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 statutory holidays, paid annual leave, paid sick leave, marriage leave, maternity leave and funeral leave. The Company's subsidiaries in Mainland China have independent unions, which organise various recreational and sports activities and provide staff with holidays, birthdays and other benefits. In terms of salary incentives, the Company adopts a more market-oriented incentive mechanism to link individual performance with team performance. Business indexes are implemented at all levels to form a scientific and reasonable performance reward model to motivate employees to develop more proactive innovation for the Company in return, thereby increasing the competitiveness of the remuneration benefits of the Company compared with its external counterparts and effectively attracting and retaining core talents.

In 2018, the Company combined the concurrent economic benefits with the industry's salary change level and the consumer price index to provide salary adjustments for employees, and actively carried out various welfare measures such as working residence permits, accounting system for returning overseas students, and allocation of settlement points. All these measures further had enhanced the cohesiveness of employees and improved employee satisfaction.

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. Efforts are also made to collect reasonable suggestions from employees, and constantly improve relevant management systems and measures.

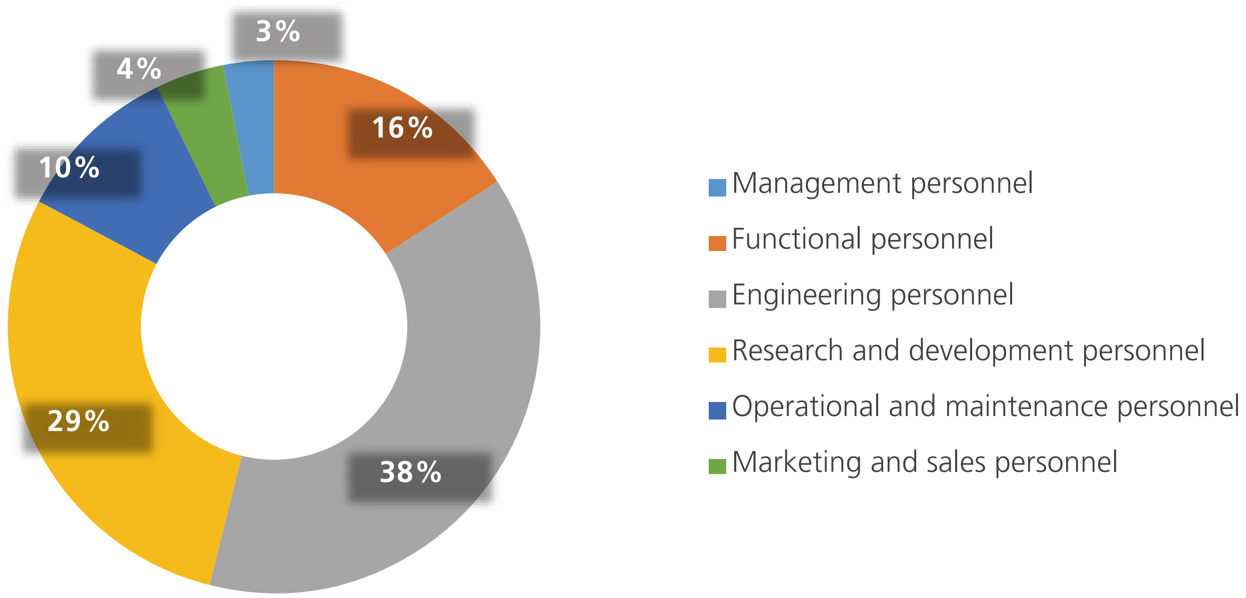
4.1.3 Labour standards

As a subsidiary of BII, which is directly under Beijing Municipal State-owned Assets Supervision and Administration Commission, the Company has been operating legally and in compliance with national laws and regulations such as "Labour Law of the People's Republic of China" and "Labour Contract Law of the People's Republic of China" in terms of human resources management. It has also formulated "Staff recruitment management methods" and "Labour personnel management methods". In 2018, the Company had no case concerning the employment of minors. All employee labour contracts are prepared with reference to the relevant legal system, and staff overtime is reasonably regulated to protect the legitimate rights of employees. In 2018, the Company did not have any labour dispute.

4.1.4 Data analysis

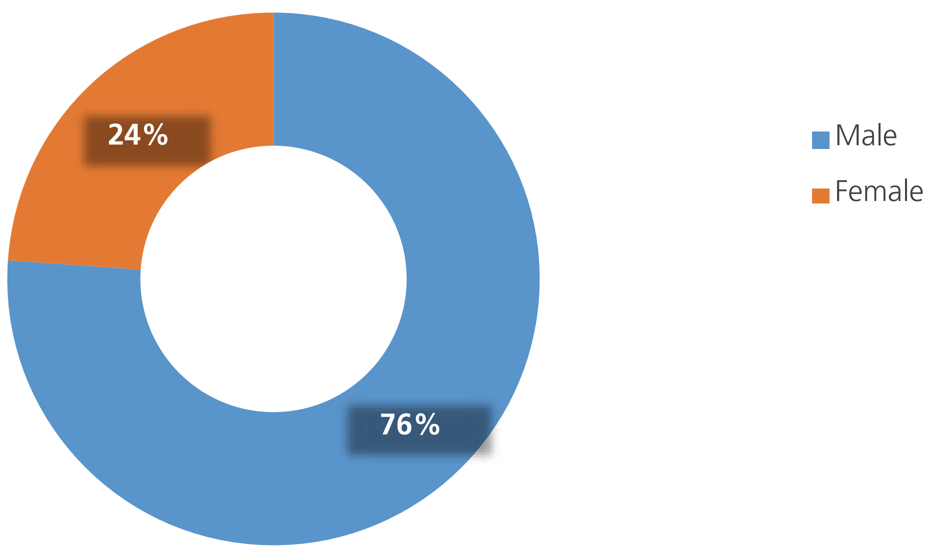
- As of 31 December 2018, the total number of staff in the Company is 316, of which 10 are management personnel; 49 are functional personnel; 121 are engineering personnel; 92 are research and development personnel; 33 are operational and maintenance personnel; 11 are marketing and sales personnel, accounting for 3.2%, 15.5%, 38.3%, 29.1%, 10.4% and 3.5% of the total staff, respectively.

Professional distribution



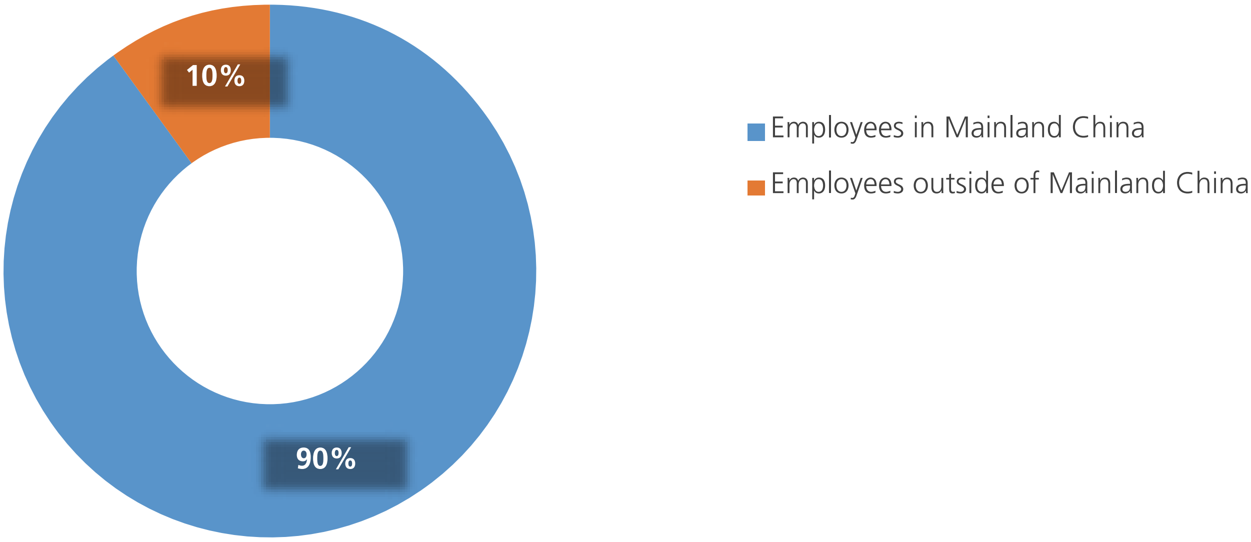
- By gender, 242 male employees and 74 female employees, accounting for 76% and 24% of total employees, respectively.

Gender distribution



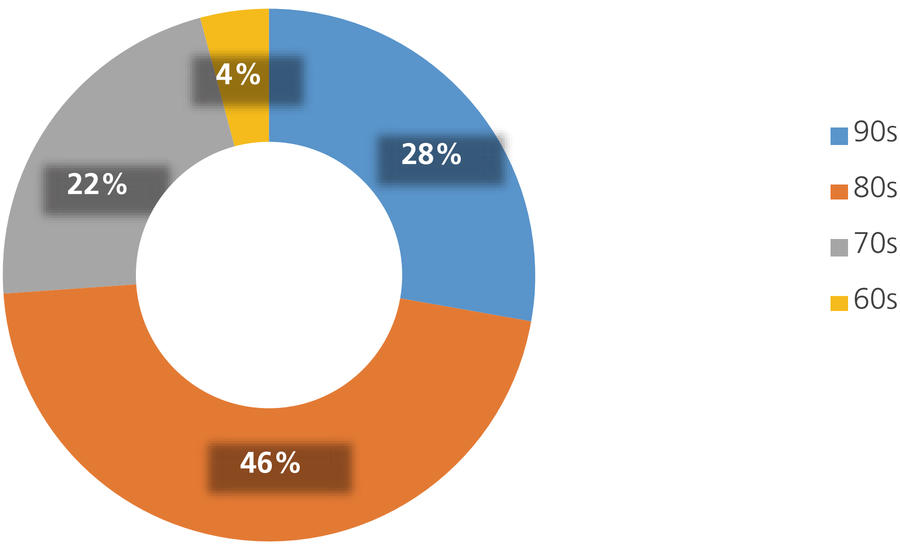
- By locations, 31 employees were stationed abroad and 285 employees were stationed in China, accounting for 9.8% and 90.2% of total employees.

Geographical distribution



- By age groups, 89 employees were born in the 90s, accounting for 28%; 144 were in the 80s, accounting for 46%; 70 were in the 70s, accounting for 22%; and 13 were in the 60s, accounting for 4%.

Age distribution



4.2 Care for the safety and health of the staff

4.2.1 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 sound office environment.

The Company incorporates the practical safety management of office areas and emphasises safety management work to increase the safety concept of employees and improve the safety prevention work; strengthens the work of emergency duty during important holidays, strictly carries out the Company's leadership during the holiday season, arranges staff on duty and properly arranges the Company's security work, strengthens safety education, and enhances the safety concept.

In 2018, the Company did not violated relevant labour and safely regulation currently applicable in the PRC and there was no material safely issue concerning employees.

4.2.2 Care for the health of the staff

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

The Company will continue to improve the daily maintenance of the employees's home and create a diversifying office environment for employes, which allows them to feel the care from the Group and the leaders in their daily lives and enhances the sense of belonging, as well as confidence and determination in career pursuit of the employees.

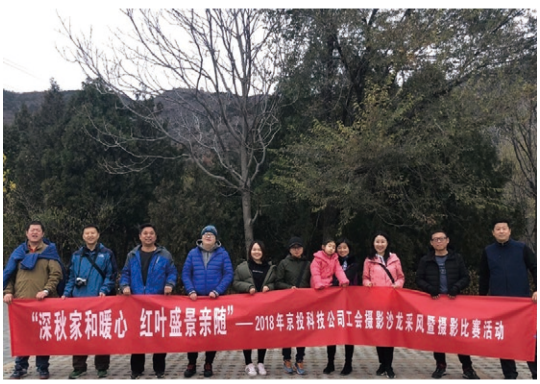
In order to protect the physical and mental health of employees, the Company not only provides health check to new staff, but also provides regular health check for all employees annually, and is gradually increasing the health check items, such as the fabulous healthy heart program, and actively organise various kinds of cultural activities for employees to ensure the joyful work and daily life of employees. In 2018, the Group launched the "Flower Life" theme of artist flower planting campaign, spring and autumn walking activities, mother's day photography competition, office yoga classes, interest group photographing programs and other special activities, and actively organised employees to participate in BII football match, badminton class, table tennis competition and fast walking match organised by the Beijing-Tianjin-Hebei transportation industry sports associations with outstanding results; continued to organise badminton and basketball training in weekends and off-duty hours for employees provided with training venues and professional coaches, thereby continuously improving the quality of trade union activities.

"Flower Life" flower planting campaign

Badminton competition

Collaborative Fast Walking Competition – Beijing Champion

Spring Healthy Walking Competition



Stylist Photographing Competition

Visit New Culture Sports Hall

4.3 Caring for the career development of the employees

The cultivation and growth of talents has its own rules. The Company provided a broad development platform to the employees with its capacities of recognising, cherishing and the attracting talents and a sound training system. We established and implemented relevant management methods, developed a normalised, scientific and standardised position classification and intensified in developing talent teams. In line with the system for training, appointing and managing talents based on the needs of the position, the Company further expanded the promotion channel for employees to build a team of talents with advanced skills.

4.3.1 To establish a career development system with Y-type dual channels

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. Taking into consideration the management model adopted for business partners in operation accountability and the market-oriented management guidance, the Company established a Y-type career development system while improving the existing position classification system. The system has a total of 10 levels which comprised three aspects, namely basic channel, profession channel and management channel. Motivated by the system, staff can develop step by step in the basic channel through constant self-learning and achieve further promotion in the management channel or the profession channel in accordance with their own value and the development plan of the Company.

4.3.2 Actively carry out employee training

In respect of training work, the Company objectively analysed the new forms, new tasks and new requirements faced by enterprises and employees based on the integrated data in the past year for training, accurately grasped the industry characteristics and market trends, and fully consider the future development of the training work by insisting on the principle of "serving the employees and the Company wholeheartedly" and focusing on all areas. Besides, the Company continuously updated its training methods, improved its self-management and enhanced its quality development, to enhance the integrated ability and quality of staff, increase core competitiveness, and promote the implementation of the Company's philosophy by providing specific training programmes. According to the need for business development, the Company conducted the investigation of demand of training, formulation of training plan, implementation of training organisation, feedback on training, assessment on training, establishment of knowledge base for training and enhancement of overall training. After investigations of demand of training, the Company also determined the 2018 training plan through negotiation with the Company leaders and departments, which is subject to prompt adjustments in accordance with actual situation, making it more in line with the Company's management and development needs.

In respect of organisation and implementation, the Group pushed on the implementation of various training tasks in accordance with the training plan of the year by adhering to the principle of teaching on demand and seeking practical results. In 2018, the Company organised and arranged relevant departments to implement or participate in various types of training for more than 30 times. Among them, the trainings for constitutional and supervisory theory, trainings for corporate legal affairs and trainings for individual income tax reform caused strong reaction among the employees and achieved good results. During the theme activities carried out on the disaster prevention and reduction day, the Company actively organised an earthquake drill for the second crew staff within the office parks, and arranged staff from the Group's department for well preparation of relevant materials and explanation of relevant tips on how to escape the earthquake before the drill, eventually achieving the goal of popularising knowledge as well as training the workforce.

In respect of quality certification training, the Company timely publicised and implemented the latest certification requirements to ensure the smooth review of qualification certification. With the premise of achieving a win-win situation with the increase of both the quality-construction of the Company and the job value of the employees, the Company formulated an adjustment plan for the quality management allowance of the personnel within the labour cost budget, broaden the scope of the quality allowance and improved the overall administration of personnel qualification. In addition, building intelligence, the initial registration, renewal, declaration, alternation of certificates and continuing education of key qualified personnel including project manager and other related works have been accomplished by the Company, and corresponding subsidies have been provided in accordance with the Company's system.

In addition to actively promoting company-level and department-level offline training, the Company also introduced digital internet technology in 2018 and established the E-learning platform, namely BII School, with an online learning system divided into three categories: Videocast, Mini-mba and General Courses. Videocast, consisting of 300 short video lessons centered on cutting-edge thinking and case studies and covering three parts of individual, team and business knowledge, was set up to develop learners' all-rounded thinking. Mini-mba comprised 10 chapters with a total of 61 leadership management courses including corporate strategic thinking, organisational culture and building of a high-efficiency team. General Courses comprising a total of more than 600 general courses including professionalism, marketing and sales, human capital, information technology and internet and covering multiple skill sections for the basic staff, are designed for the improvement of the general abilities. Relying on the internet and information technology, online training can break the boundaries of learning and make training break through the constraints of time and place, making knowledge dissemination more convenient. In the meantime, based on the file management of employee training and accurate assessment of the platform data analysis on accomplishing the effectiveness of employee training, the Company provided essential assistance for the subsequent implementation of training planning and design as well as the integrity of training system for human resources.

4.4 Anti-corruption and incorruptibility

In 2018, taking strengthening party discipline comprehensively as an important political task, the party general branch of the Company achieved integrity throughout its operation and management by focusing on key links and key tasks to stress on efficiency improvement, and putting great efforts to the management, discipline, work style and incorruption. With continuous enhanced ideological and organisational construction and discipline and style of work, as well as more emphasis on the role of party organisations and members, the Company has seen an excellent situation in the establishment of a clean and honest party.

Firstly, the Group enhanced the anti-corruption awareness through strict fulfillment of responsibilities. At the beginning of the year, the Group organised the 2018 conference regarding anti-corruption and deployed the emphases throughout the year. Besides, the secretary of party general branch signed the integrity responsibility statements with members of the leading team and secretaries of party branch at all levels respectively to extend the scope of signers to include all employees of the Hong Kong company, and the Company also signed a responsibility statement with newly recruited employees on a timely basis to strictly fulfill the responsibilities of upholding integrity in the party.

Secondly, the Group refined relevant systems to ensure an honest party. The party general branch supported the continuous setting up and improvement of a system for establishment of a clean and honest party, and built a long-term mechanism for combating corruption and upholding integrity. On one hand, the Company formulated and issued a series of integrity management systems and implementation plans, including Administrative Measures for Whistleblowing and Interim Measures for Talks on Integrity with Leading Cadres, and revised and refined systems related to business trips and reimbursement to constantly improve the system for establishment of a clean and honest party. On the other hand, the Company ensured the implementation of the system through carrying out administrative regulations on official receptions, official travel abroad, personal matters reporting, vehicles for official use, and strictly controlled the "three public expenses" to make the system a top prohibition as a "high-tension wire", so that the regulatory and risk awareness of cadres were efficiently increased.

Thirdly, the Group reinforced learning to ensure education in respect of anti-corruption. By means of holding learning meetings, party members' meetings, democratic life meetings, organisational life meetings, thematic meetings, etc., the Company effectively communicated and learned the important documents issued by the central government, party committee and the discipline inspection commission at higher-level in relation to the construction of a honest party, and conveyed the spirits of the warning education conference. By organising party members and cadres to learn from the warning records, watch warning education movie, visit education base in Shijingshan District and carrying out educational activities with serious violation of discipline cases as examples, the Group further increased the concept and awareness of party members and cadres on law abiding and corruption resistance.

Fourthly, the Group strengthened the risk prevention and control to ensure safety. In combination with the adjustment of organisational structure by the Company, the Group organised the establishment of a risk prevention and control system against corruption within the Company in the first half of this year. All departments and positions seriously looked into their own risk points and hidden dangers of power supervision in accordance with their respective responsibilities, to clarify the powers of different departments and positions, fixed the operational procedure and strengthened the risk prevention and control against corruption. Moreover, the Group normalised the investigation of integrity risks timely based on the entry of personnel, redeployment and change of posts, and conducted reminders and regular supervision for the first-level risk points. With a total of 278 posts investigated and nearly 1,000 risk points identified, the Company has further strengthened its standardised management of integrity risk prevention and control and achieved active prevention and forward movement through the long-term prevention mechanism and raising awareness of integrity and safety.

Fifthly, the Group strengthened the supervision in accordance with the actual situation. By strictly upholding the principle of democratic centralism and the concept of "Three Importance and One Greatness", the decision-making on major issues of the Company, appointment and dismissal of cadres, major projects, and the use of large amounts of funds were decided through collective discussion at the meeting, ensuring the democratic and scientific decision-making. For stringent regulation of tendering and bidding, the Company persistently revised and refined regulations related to tendering and bidding of the Company and standardise the work processes in light of a large number of system integration projects and bidding projects taken by the Company involving a large amount of money. The purchase cost has been effectively controlled through 20 business tenders throughout the year with contract amount of RMB84,449,753.45, saving RMB7,872,246.55 as compared to the block bid price (RMB92,322,000). The Group actively invited the supervisors of a clean and honest party to participate in the internal comparison and competitive negotiation of the Company for 9 times, including the competitive negotiation for purchasing some modules by the laboratory of testing center for Phase II Fare Renovation, in order to supervise the contents and procedures comprehensively. To prevent the rebound of "formalism, bureaucratism, hedonism and extravagance", the Company continuously carried out special inspections on integrity reminders, "irresponsible officials" and "misbehave officials" problems and corruption around the masses.

Sixthly, the Group adopted strict standards in personnel selection and employment. By firmly establishing a correct direction for the personnel selection and employment, adhering to the concept of being just and honest, the Company created an upright and clean entrepreneurial environment by means of constantly improving its procedures for selecting and employing persons, further strengthening the inspection and daily supervision and management of cadres, and strictly implementing the system of replying to the opinions in relations to integrity before appointment and the mechanism of talking on integrity with new cadres. In 2018, a total of 7 middle-level cadres of the Company were selected for appointment, 4 became regular cadres on schedule, and 2 were externally recruited to enrich the cadre team and talents of the Company.

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

There was no litigation of corruption against the Company and the employees during the reporting period.

2018 Anti-corruption Conference

Paid a visit to the Anti-corruption Education Base of Shijingshan District

5. THE COMPANY AND THE SUPPLIERS

The Company is an enterprise with advanced and new technologies which provides all-rounded application solution service and operation and maintenance service for urban rail transit network and lines construction. The Company is an excellent intelligent railway transportation supplier with its core business involving the investment, financing, construction, operation and maintenance of urban rail transit construction, which realise the industrial mode of providing the whole life-cycle service for the construction of urban rail transit. The systems, such as Automatic Fare Collection System (AFC), Auto Fare Collection Clearing Center (ACC), Passenger Information System (PIS), operation and maintenance service and integrated pipeline corridor, as well as city railway transportation informational sector operated by the Company have been widely applied in domestic and overseas city railway transportation sector. The Group closely cooperated with suppliers and insisted in high standard of quality, efficiency, responsibility and sustainable development so as to bring first class product and service to customers.

At the same time, the Company strictly complied with the laws and regulations related to supplier management, including but not limited to, "Labour Law of the People's Republic of China", "Labour Contract Law of the People's Republic of China" and "Implementation Regulations of the Tendering and Bidding Law of the People's Republic of China".

To date, the Group has over 400 suppliers and other business partners, of which 71% is from Beijing, and the other 29% is from Hong Kong, Hebei, Shenzhen, Shanghai, Guangzhou and other places, strongly supporting the local enterprises. At the same time, the Group is intensifying the development in other cities. Accordingly, the Group adopted the same clear requirement towards suppliers from each of the regions, like the performance in sustainable development among suppliers. For long-term business cooperation, the Group has priority over suppliers who have potential in innovating and optimising the production cost and logistic procedures.

The Company has established a comprehensive supplier classification and management evaluation system. According to the "Supplier management and control process" of the Company, in June 2018, the commerce department organised each business departments, research and development departments and financial departments to conduct a re-evaluation on cooperating suppliers in 2017. The Group conducted re-evaluation on a total of 99 suppliers in this occasion based on aspects including quality-price ratio of product or service, on-time delivery of goods/services, after-sale service, aids on selecting models and capacity in solution; ability to perform contract and payment means; and financial condition in last year. The Group completed the evaluation of suppliers in 2018 and the list of qualified suppliers and list of disqualified suppliers for 2018 was published so as to guide the selection of supplier in 2018. The Group maintain supplier lists and documents at any time and monitor the contract execution process of the supplier at the same time. Based on the result of the re-evaluation, suppliers will be divided into A, B, C, D grades. The full mark of evaluation is 100 with seven subsections evaluating separately. Full mark of each subsection is 10 or 20 and each subsection is divided into four grades, Grade A, Grade B, Grade C and Grade D. Among which, Grade A is excellent (full mark in all aspects), Grade B is good (85% of full mark in all aspects), Grade C is fair (70% of full mark in all aspects) and Grade D is unsatisfactory (40% of full mark in all aspects).

Among the suppliers who have passed in this occasion, 11 suppliers were ranked Grade A Excellent, 32 suppliers were ranked Grade B Good, 54 suppliers were ranked Grade C Fair, 2 suppliers were ranked Grade D and 81 suppliers were listed as candidates. Comparing to a total of 131 suppliers being evaluated in 2017 last year, the evaluation in 2018 reduced 32 suppliers as the commerce department enlarged its investigative effort on suppliers, focusing on investigation and evaluation of core suppliers while listing suppliers with less and small-scale cooperation as candidates and evaluated them according to subsequent cooperation. As compared to 2017, there were fewer Grade A (Excellent) and Grade B (Good) suppliers and more Grade C (Fair) suppliers in 2018. The cooperating suppliers in 2018 performed well in quality of supplied goods, technical services and after-sale services. The commerce department will pay more efforts on suppliers' quality management in the future.

For the new suppliers involved in 2018, the department of commerce had conducted initial evaluation individually which consisted of two sessions, which were the qualification examinations and the on-site investigation of the suppliers. For those suppliers who did not comply with the Group's requirement or posed risks, through checking on the website of the administration for industry and commerce, checking the capital condition of the company and whether it is involved in litigations, the department of commerce had efficiently controlled the risk of compliance by ways such as changing the supplier, revising payment method and adding restricting provisions in the contract. A total of 140 suppliers had passed the initial evaluation in 2018, among which 54 suppliers were service agencies; a total of 21 additional suppliers were for pipeline corridor projects involving environmental control equipment and cloud platforms; and 65 suppliers were within the categories of purchasing other software and hardware equipment, integrating/subcontracting system and software development/services. An annual re-evaluation will be commenced before June in 2019.

6. THE COMPANY AND THE SOCIETY

6.1 ACC/TCC mainframe/network and the building network equipment operation and maintenance service project ensured ongoing normal operation of Beijing Railway Transportation Command Centre's server network system

TCC (Traffic Control Centre) Railway Transportation Command Centre is the interchange centre of the information system of various subway lines in Beijing and is mainly responsible for interconnecting various subway lines and the railway transportation command centre. The ACC/TCC mainframe/network and building network equipment operation and maintenance services project provides operation and maintenance services to Beijing Railway Transportation Command Centre's sever and network equipment, which are the media and foundation of various businesses of Beijing Railway Transportation Command Centre. The ongoing normal operation of Beijing Railway Transportation Command Centre's server and network equipment is the precondition of orderly, safe and effective operation of Beijing's subway, providing strong foundation for normal civil transportation. The ACC/TCC mainframe/network and building network equipment operation and maintenance services project achieved normal operation of the ACC, TCC mainframe network and building network throughout 2018. It has completed the assurance works during major events, like "2018 NPC and CPPCC", "SCO Summit 2018" and "FOCAC Beijing Summit 2018", as well as major festival holidays in 2018, such as "New Year's Day", "Spring Festival", "Qingming Festival", "Dragon Boat Festival", "Mid-Autumn Festival", "Labour Day" and "National Day", contributing to normal civil transportation by ensuring the ongoing normal operation of sever and network system, which are the media and foundation of various businesses of Beijing Railway Transportation Command Centre.

6.2 "Unified Management Platform for Integrated Pipeline Corridor" and "Unified Communication System" will support the International Horticultural Exhibition 2019 Beijing China, providing "green, effective and intelligent" logistic support

The Company participated in the construction of International Horticultural Exhibition 2019 Beijing China, which is the highest level International Horticultural Exhibition held by Chinese Government in Beijing with the approval of the International Association of Horticultural Producers and the recognition of the Bureau International des Expositions. Apart from the exhibition in Kunming, Yunnan province, it is the second A1 level International Horticultural Exhibition that held in accordance with the approval of the International Association of Horticultural Producers as well as the certification and authorisation of the Bureau International des Expositions. In order to promote the Beijing Expo to the public, the theme of "Building a Beautiful Home Featuring Green Living" is being spread while the whole society is being encouraged to concern on ecological civilisation construction. The exhibition will gather more than 100 official exhibitors who are countries and international organisations, as well as not less than 100 unofficial exhibitors who are local institutions and enterprises from different provinces, autonomous regions and direct-controlled municipalities and international institutions and enterprises. No fewer than 16 million visitors will be attracted by the exhibition.

The Company's self-developed "Unified Management Platform for Integrated Pipeline Corridor" and "Unified Communication System" will be applied to provide "green, effective and intelligent" logistic support.

6.3 Assist in "smart expressway" to develop people-oriented, integrated and efficient transportation service and enhance operational efficiency of expressway

The Group's key project in Beijing, the Beijing Daxing International Airport expressway, is an important component of the integrated trunk road network around the Daxing International Airport, consisting of "five vertical and two horizontal" expressways. The expressway starts at about 450 meters east of the Tuanhe Bridge on South Fifth Ring Road, and ends at the north boundary of the Beijing Daxing International Airport. With a total length of about 27 kilometers, the expressway is a two-way eight-lane road, with a design speed of 100-120 kilometers per hour. BII is responsible for the investment, construction and operation of the expressway.

"Smart expressway" upgraded the traditional monitoring system, toll collection system and communication system while adding control system, service system and cooperative vehicle infrastructure, which included but not limited to six indicators, namely sensation of vehicle's trajectory on expressway and collection of traffic features, mobile payment function for toll income of expressway like QR code, snow and ice condition monitoring on joint sections of expressway as well as snow and ice removal function.

The new airport expressway project focused on the future development trend of the capital under Beijing-Tianjin-Hebei coordinated development strategy, breaking the traditional "three electromechanical systems" model of expressway by developing "6+1" systematic framework, building operational control centre based on big data analysis and creating the application demonstration on construction work of "smart expressway" in capital's new airport. The project utilised new thinking and new technology to facilitate intelligent, efficient, safe and green road development, achieving people-oriented, integrated and efficient transportation service, enhancing operational efficiency of expressway and developing an efficient, convenient and green civil transportation environment.

6.4 Undertaking greater efforts in developing civil communication projects and enhancing the quality of communication service in civil transportations

The Company acquired and invested in civil communication projects. Through building transmission systems, the Company enhanced the infrastructure of public transportation and the traffic, increased the standard of communication network services and the public services of the traffic, provided convenient and speedy services in public transportation, enabling citizens to enjoy the quality and highspeed communication services provided by the top 3 basic telecommunication operators and establishing a suitable environment in improving the level of digitalised construction. With the premise of assuring the communication, the Company provided communication services and full-process guarantee for major events of the party, such as the 19th National People's Congress. The Company completed the mission of assurance successfully and ensured the stable operation of the network.

The project enhanced the quality of communication service in civil transportations and ensured the communication in substantial events.

6.5 Assurance works during various major events by Information Centre operation and maintenance in 2018

The information centre system of Beijing Railway Transportation Command Centre ("**Information Centre**") focuses on providing digital, precise, scientific decision making for network operation management of the capital's railway transportation, aiming to ensure safe, efficient and balance development of railway transportation network. With the help of TCC system and ACC system, the "Big Data" platform is formed through integrating information like vehicle movement in all network, equipment, passenger flow, sudden incidents, liquidation and basic data of the network and applying advance informational technologies like data warehouse, massively working in parallel and virtualisation. The formation of "one centre and four platforms" realised the business undertaking of long-term storage of railway transportation data and information resource, flexible queries, in-depth exploitation and passenger flow prediction, passenger flow simulation and vehicle linkage assessment.

Information Centre operation and maintenance project achieved safe and stable operation of Information Centre system throughout 2018. It has successfully accomplished the assurance works during major events and festival holidays, such as New Year's Day of 2018, 2018 Spring Festival, 2018 National People's Congress and Chinese People's Political Consultative Conference, 2018 Qingming Festival, 2018 Labour Day, Forum on China-Africa Cooperation, 2018 Dragon Boat Festival and 2018 National Day and has completed the addition of new lines through cooperation with ACC, TCC. The project ensured normal and stable operation of Information Centre system during major events and festival holidays, providing strong foundation for normal operation of Beijing railway transportation during major events in 2018.

6.6 Supporting charitable activities

The Group has fully assumed its social responsibilities of providing supports to education, helping people in distress and trouble as well as promoting charity endeavors in 2018 by supporting and caring Zhenningbao Township Central Primary School (鎮寧堡鄉中心小學) in Chicheng County, Zhangjiakou City, Hebei Province through multiple means within the Group's capabilities.

Built in 1953, the Zhenningbao Township Central Primary School had stagnating educational infrastructure, lots of wasteland and vacant land as well as poor sanitation condition. The school currently has six classes and 87 students, among which 25 students stay on campus and more than 40 students are from poor families. It also owns a central kindergarten with one class and 21 students. There is a total of 30 teachers in the school and 27 of them aged 50 or above, showing a serious ageing problem in teachers' age structure.

After knowing the situation of that school, the General Party Branch, Labour Union and General League Branch of the Company visited and studied Zhenningbao Primary School in May 2018. A team led by the General Party Branch of the Company arrived Zhenningbao Primary School before 1 June 2018 and launched the "Caring 1 June" educational support activities by donating educational equipment and numerous goods to the school, communicating with teachers and interacting with children.

In mid-August 2018, the leaders and cadres of the Party, Labour Union and Youth League of the Group took the lead to launch the "concerning children by building dream together" caring activity in order to further realised the precise poverty alleviation on Zhenningbao Township Central Primary School in Chicheng County, Zhangjiakou City, Hebei Province. In late August 2018, the Company suggested all cadres and staffs to donate spare but usable learning tools, sports products, books and clothes. After the collection, registration and aggregation of goods, cleaning and sterilisation were conducted on respective goods. All 17 departments of the Company have participated in this one-month caring activity and a total of 530 goods of various kinds were raised, among which Yang Chao (楊超) from the marketing department purchased 90 new sport shoes for children. On 29 September, the staff representative of the Company and staffs in Community Union Working Department revisited Zhenningbao Township Central Primary School on behalf of the Company to donate the goods to the school and handed the "Cheer up Zhenningbao Township Central Primary School's teachers and students" message written by the Company's staff to the children, wishing them to grow healthily and happily while becoming the pillars of the country as soon as possible to pay back the society with a grateful heart.

Ms. Xuan Jing, the chief executive director of the Company, stated that education is the foundation of people's livelihood while children and adolescents are the future of the country and the hope of the nation. As the sole foreign listed company controlled by BII, the Company will promote the Chinese traditional virtue of helping people in distress and trouble, innovate in work formats of the Party, Labour Union and Youth League of the Company, enlarge the influence of corporate social responsibility and deepen its supports to education so as to help poor students to set a large goal and support the adorable children with a sincere heart.

Independent Auditor's Report

KPMG

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

OPINION

We have audited the consolidated financial statements of BII Railway Transportation Technology Holdings Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 102 to 184, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018 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(u)(i).

The Key Audit Matter

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

KEY AUDIT MATTERS (CONTINUED)

Recognition of contract revenue (continued)

Refer to Note 4 to the consolidated financial statements and the accounting policies in Note 2(u)(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.	– 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; – 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)

Loss allowances for trade receivables and contract assets

Refer to Notes 18 and 19 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 contract assets. As at 31 December 2018, trade receivables and contract assets amounted to HK$268,212,000 and HK$326,726,000, respectively, which represented 8.8% and 10.7% of the total assets of the Group as at that date, respectively.

The Group has initially applied IFRS 9 on 1 January 2018 and recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018.

The Group measures loss allowances on trade receivables and contract assets at amounts equal to lifetime expected credit losses (the "ECL") using a provision matrix which involved significant management judgement in estimating loss rate and adjusting factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

We identified assessing loss allowances for contract assets and trade receivables as a key audit matter because of the significance of the balances of trade receivables and contract assets to the consolidated financial statements and because of the significant management judgement required in estimating the loss allowances at the reporting date, which can be inherently uncertain.

How the matter was addressed in our audit

Our audit procedures to assess the loss allowances for trade receivables and contract assets 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 estimating loss allowances for trade receivables and contract assets;

- comparing, on a sample basis, the categorisation of trade receivables and contract assets in the ageing report with invoices issued, contract terms, contract progress reports and other relevant underlying documentation;

- obtaining an understanding on the key data and assumptions of the expected credit loss model adopted by the management, including the basis of the segmentation of the accounts receivable based on credit risk characteristics, the historical default data, and the assumptions involved in management's estimated loss rate;

- assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information; and

- inspecting cash receipts, on a sample basis, from customers subsequent to the financial year end relating to trade receivables and contract assets balances as at 31 December 2018.

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
As at 31 December 2018, goodwill amounted to HK$62,389,000 in total and was allocated to operations in the provision of application solutions related services and operations related to the civil communication transmission services business for the purpose of assessing potential impairment. As at 31 December 2018, intangible assets, which comprised software relating to certain types of application solutions and income rights relating to the civil communication transmission services, amounted to HK$101,438,000. 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.	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; • 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; • 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 (continued)

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
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. 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 Yeung Ka Chun.

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

26 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018 (Expressed in Hong Kong dollars ("HK$"))

	Note	2018 HK$'000	2017 (Note) HK$'000
Revenue	4	**453,204**	564,587
Cost of sales		**(344,389)**	(451,301)
Gross profit	4(b)	**108,815**	113,286
Other income	5	**42,336**	12,308
Selling, general and administrative expenses		**(111,140)**	(85,500)
Profit from operations		**40,011**	40,094
Finance costs	6(a)	**(2,747)**	–
Share of profits of joint ventures and an associate	15	**21,375**	11,482
Profit before taxation	6	**58,639**	51,576
Income tax	7	**(5,311)**	(6,336)
Profit for the year		**53,328**	45,240
Attributable to:			
Equity shareholders of the Company		**47,398**	38,554
Non-controlling interests		**5,930**	6,686
Profit for the year		**53,328**	45,240
Earnings per share			
– Basic (HK$)	10(a)	**0.023**	0.018
– Diluted (HK$)	10(b)	**0.023**	0.018

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 109 to 184 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018 (Expressed in HK$)

	2018 HK$'000	2017 (Note) HK$'000
Profit for the year	**53,328**	45,240
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	**(37,139)**	54,388
Total comprehensive income for the year	**16,189**	99,628
Attributable to:		
Equity shareholders of the Company	**11,441**	91,423
Non-controlling interests	**4,748**	8,205
Total comprehensive income for the year	**16,189**	99,628

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 109 to 184 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2018 (Expressed in HK$)

	Note	2018 HK$'000	2017 (Note) HK$'000
Non-current assets			
Property, plant and equipment	11	**107,415**	120,112
Intangible assets	12	**101,438**	125,375
Goodwill	13	**62,389**	65,397
Interests in joint ventures and an associate	15	**413,466**	394,828
Deferred tax assets	24(b)	**18,704**	25,411
		703,412	731,123
Current assets			
Available-for-sale debt investments	16	**–**	116,760
Other financial assets	16	**74,983**	–
Inventories and other contract costs	17	**79,027**	78,581
Contract assets	18(a)	**326,726**	–
Trade and other receivables	19	**789,723**	657,783
Cash and cash equivalents	20	**1,069,561**	1,128,780
		2,340,020	1,981,904
Current liabilities			
Trade and other payables	21	**394,444**	437,580
Contract liabilities	18(b)	**66,045**	–
Loans from a related party	22	**342,388**	–
Current taxation	24(a)	**24,887**	37,230
		827,764	474,810
Net current assets		**1,512,256**	1,507,094
Total assets less current liabilities		**2,215,668**	2,238,217
Non-current liabilities			
Deferred tax liabilities	24(b)	**18,016**	24,108
NET ASSETS		**2,197,652**	2,214,109
CAPITAL AND RESERVES	25		
Share capital		**21,001**	21,048
Reserves		**2,147,809**	2,173,028
Total equity attributable to equity shareholders of the Company		**2,168,810**	2,194,076
Non-controlling interests		**28,842**	20,033
TOTAL EQUITY		**2,197,652**	2,214,109

Approved and authorised for issue by the board of directors on 26 March 2019.

Cao Wei
Director

Xuan Jing
Director

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 109 to 184 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017 (Expressed in HK$)

	Attributable to equity shareholders of the Company								Non-controlling interests	Total equity
	Share capital HK$'000 (Note 25(c))	Share premium HK$'000 (Note 25(d)(i))	Capital reserve HK$'000 (Note 25(d)(ii))	Statutory reserves HK$'000 (Note 25(d)(iii))	Exchange reserve HK$'000 (Note 25(d)(iv))	Treasury share reserve HK$'000	Retained profits HK$'000	Total HK$'000	HK$'000	HK$'000
Balance at 1 January 2017	21,062	1,859,467	30,891	19,462	(81,237)	–	255,054	2,104,699	11,828	2,116,527
Changes in equity for 2017:										
Profit for the year	–	–	–	–	–	–	38,554	38,554	6,686	45,240
Other comprehensive income	–	–	–	–	52,869	–	–	52,869	1,519	54,388
Total comprehensive income	–	–	–	–	52,869	–	38,554	91,423	8,205	99,628
Shares issued under share option scheme	36	3,897	(694)	–	–	–	–	3,239	–	3,239
Equity-settled share-based transactions (Note 23)	–	–	563	–	–	–	–	563	–	563
Appropriation to reserves	–	–	–	5,716	–	–	(5,716)	–	–	–
Purchase of own shares	–	–	–	–	–	(5,848)	–	(5,848)	–	(5,848)
Cancellation of shares	(50)	(5,798)	–	–	–	5,848	–	–	–	–
	(14)	(1,901)	(131)	5,716	–	–	(5,716)	(2,046)	–	(2,046)
Balance at 31 December 2017	21,048	1,857,566	30,760	25,178	(28,368)	–	287,892	2,194,076	20,033	2,214,109

The notes on pages 109 to 184 form part of these financial statements.

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2018 (Expressed in HK$)

	Attributable to equity shareholders of the Company									
	Share capital HK$'000 (Note 25(c))	Share premium HK$'000 (Note 25(d)(i))	Capital reserve HK$'000 (Note 25(d)(ii))	Statutory reserves HK$'000 (Note 25(d)(iii))	Exchange reserve HK$'000 (Note 25(d)(iv))	Treasury share reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2018	21,048	1,857,566	30,760	25,178	(28,368)	-	287,892	2,194,076	20,033	2,214,109
Impact on initial application of IFRS 9 (Note 2(c))	-	-	-	-	-	-	(13,338)	(13,338)	(1,619)	(14,957)
Adjusted balance at 1 January 2018	21,048	1,857,566	30,760	25,178	(28,368)	-	274,554	2,180,738	18,414	2,199,152
Changes in equity for 2018:										
Profit for the year	-	-	-	-	-	-	47,398	47,398	5,930	53,328
Other comprehensive income	-	-	-	-	(35,957)	-	-	(35,957)	(1,182)	(37,139)
Total comprehensive income	-	-	-	-	(35,957)	-	47,398	11,441	4,748	16,189
Capital injection by non-controlling shareholders of subsidiaries of the Group	-	-	-	-	-	-	-	-	5,680	5,680
Purchase of own shares (Note 25(c)(iii))	-	-	-	-	-	(2,321)	-	(2,321)	-	(2,321)
Cancellation of shares (Note 25(c)(iii))	(47)	(2,274)	-	-	-	2,321	-	-	-	-
Dividends approved in respect of the previous year (Note 25(b))	-	(21,048)	-	-	-	-	-	(21,048)	-	(21,048)
Appropriation to reserves	-	-	-	4,375	-	-	(4,375)	-	-	-
	(47)	(23,322)	-	4,375	-	-	(4,375)	(23,369)	5,680	(17,689)
Balance at 31 December 2018	21,001	1,834,244	30,760	29,553	(64,325)	-	317,577	2,168,810	28,842	2,197,652

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 109 to 184 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2018 (Expressed in HK$)

	Note	2018 HK$'000	2017 (Note) HK$'000
Operating activities			
Profit before taxation		**58,639**	51,576
Adjustments for:			
Depreciation and amortisation	6(c)	**43,917**	42,263
Impairment loss on trade receivables and contract assets	5	**226**	–
Interest income	5	**(30,025)**	(3,055)
Finance cost	6(a)	**2,747**	–
Investment income	5	**(6,615)**	(4,116)
Share of profits of joint ventures and an associate	15	**(21,375)**	(11,482)
Equity-settled share-based payment expenses	6(b)	**–**	563
Net (gain)/loss on disposal of property, plant and equipment	5	**(487)**	8
Changes in working capital:			
Increase in inventories		**(446)**	(9,560)
Decrease/(increase) in trade and other receivables		**354,923**	(131,799)
Increase in contract assets		**(335,441)**	–
(Decrease)/increase in trade and other payables		**(47,906)**	136,527
Increase in contract liabilities		**66,045**	–
Increase in restricted bank deposits		**(16,292)**	–
Cash generated from operations		**67,910**	70,925
Interest received		**26,461**	3,055
Income tax paid	24(a)	**(12,264)**	(10,910)
Net cash generated from operating activities		**82,107**	63,070
Investing activities			
Payments for the purchase of property, plant and equipment and intangible assets		**(16,876)**	(9,096)
Proceeds from disposal of property, plant and equipment		**671**	–
Dividend received from a joint venture		**1,374**	–
Capital contributions into joint ventures		**–**	(72,256)
Net proceeds from debt investments		**44,246**	24,231
Deposit for acquisition earnest payment paid		**(495,228)**	–
Net cash used in investing activities		**(465,813)**	(57,121)

The notes on pages 109 to 184 form part of these financial statements.

Consolidated Cash Flow Statement (continued)

For the year ended 31 December 2018 (Expressed in HK$)

	Note	2018 HK$'000	2017 (Note) HK$'000
Financing activities			
Proceeds from loans from a related party	22	**338,295**	–
Dividends paid to equity shareholders of the Company		**(21,048)**	–
Capital injection from non-controlling shareholders		**5,680**	–
Interest paid		**(1,791)**	–
Repayment of loans from non-controlling shareholders		**(5,400)**	–
Proceeds from shares issued under share option scheme		**–**	3,239
Payment for purchase of own shares	25(c)(iii)	**(2,321)**	(5,848)
Net cash generated/(used in) financing activities		**313,415**	(2,609)
Net (decrease)/increase in cash and cash equivalents		**(70,291)**	3,340
Cash and cash equivalents at 1 January	20	**1,128,780**	1,118,431
Effect of foreign exchange rate changes		**(5,220)**	7,009
Cash and cash equivalents at 31 December	20	**1,053,269**	1,128,780

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 109 to 184 form part of these financial statements.

1 CORPORATE INFORMATION

BII Railway Transportation Technology Holdings Company Limited (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 2018 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, the provision of civil communication transmission services for use in public transportation systems to telecommunication companies, and the investment in the railway transportation areas through investing in equity.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These 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 these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Group and the Group's interests in joint ventures and an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 9, *Financial instruments*
- IFRS 15, *Revenue from contracts with customers*
- IFRIC 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as IFRS 9.

(I) IFRS 9, *FINANCIAL INSTRUMENTS*, INCLUDING THE AMENDMENTS TO IFRS 9, *PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION*

IFRS 9 replaces IAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39.

The following table summarises the impact of transition to IFRS 9 on retained earnings and reserves and related tax impact at 1 January 2018.

	HK$'000
Retained earnings	
Recognition of additional expected credit losses on	
– Trade and other receivables	**(9,321)**
– Contract assets	**(8,994)**
Related tax	**4,977**
Net decrease in retained earnings at 1 January 2018	**(13,338)**
Non-controlling interests	
Recognition of additional expected credit losses on trade and other receivables and contract assets and decrease in non-controlling interests at 1 January 2018	**(1,619)**

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

(I) IFRS 9, *FINANCIAL INSTRUMENTS*, INCLUDING THE AMENDMENTS TO IFRS 9, *PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION* (CONTINUED)

Further details of the nature and effect of the changes on previous accounting policies and the transition approach are set out below:

a. *Classification of financial assets and financial liabilities*

IFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The following table shows the original measurement categories for each class of the Group's financial assets under IAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with IAS 39 to those determined in accordance with IFRS 9.

	IAS 39 carrying amount at 31 December 2017 HK$'000	Reclassification HK$'000	Remeasurement HK$'000	IFRS 9 carrying amount at 1 January 2018 HK$'000
Financial assets carried at amortised cost				
Trade and other receivables (Note (i))	657,783	(374,082)	(10,201)	273,500
Financial assets carried at FVPL				
Other financial assets (Note (ii))	–	116,760	–	116,760
Financial assets classified as available-for-sale under IAS 39				
Available-for-sale debt investments (Note (ii))	116,760	(116,760)	–	–

Notes:

(i) Trade and other receivables of HK$374,082,000 were reclassified to contract assets at 1 January 2018 as a result of the initial application of IFRS 15 (see Note 2(c)(ii)).

(ii) Under IAS 39, unlisted debt investments were classified as available-for-sale financial assets. They are classified as at FVPL under IFRS 9.

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under IFRS 9, see respective accounting policy notes in Notes 2(i), 2(k)(i), 2(n) and 2(p).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

(I) IFRS 9, *FINANCIAL INSTRUMENTS*, INCLUDING THE AMENDMENTS TO IFRS 9, *PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION* (CONTINUED)

a. Classification of financial assets and financial liabilities (continued)

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of IFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

b. Credit losses

IFRS 9 replaces the "incurred loss" model in IAS 39 with the "expected credit losses" (ECLs) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to the following items:

– financial assets measured at amortised cost (including trade and other receivables and cash and cash equivalents);

– contract assets as defined in IFRS15 (see Note 2(m)).

For further details on the Group's accounting policy for accounting for credit losses, see Note 2(k)(i).

The following table reconciles the closing loss allowance determined in accordance with IAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with IFRS 9 as at 1 January 2018.

	HK$'000
Loss allowance at 31 December 2017 under IAS 39	–
Additional credit losses recognised at 1 January 2018	
– Trade and other receivables	10,201
– Contract assets	9,733
Loss allowance at 1 January 2018 under IFRS 9	19,934

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

(I) IFRS 9, *FINANCIAL INSTRUMENTS*, INCLUDING THE AMENDMENTS TO IFRS 9, *PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION* (CONTINUED)

c. *Transition*

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under IAS 39 and thus may not be comparable with the current period.

– The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of IFRS 9 by the Group).

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(II) IFRS 15, *REVENUE FROM CONTRACTS WITH CUSTOMERS*

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and IAS 11, *Service contracts*, which specified the accounting for service contracts.

IFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

The transition to IFRS 15 does not have any material impact on retained earnings and reserves and related tax impact at 1 January 2018.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

(II) IFRS 15, *REVENUE FROM CONTRACTS WITH CUSTOMERS* (CONTINUED)

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. *Timing of revenue recognition*

Previously, revenue arising from service contracts and provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. IFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. 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;

C. 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 is considered in determining when the transfer of control occurs.

The adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue from service contracts.

b. *Presentation of contract assets and liabilities*

Under IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (see Note 2(u)) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis (see Note 2(m)).

Previously, contract balances relating to service contracts in progress were presented in the statement of financial position under "trade and other receivables" and "trade and other payables", respectively.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

(II) IFRS 15, *REVENUE FROM CONTRACTS WITH CUSTOMERS* (CONTINUED)

b. *Presentation of contract assets and liabilities (continued)*

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of IFRS 15:

– "Gross amounts due from customers for contract work" and "trade receivables" amounting to HK$254,663,000 and HK$119,419,000 respectively, which were previously included in trade and other receivables (Note 19) are now included under contract assets (Note 18(a)).

– "Receipts in advance" amounting to HK$33,312,000 which were previously included in trade and other payables (Note 21) are now included under contract liabilities (Note 18(b)).

c. *Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of IFRS 15 on 1 January 2018.*

The following tables summarise the estimated impact of adoption of IFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under IFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under IAS 18 and IAS 11 if those superseded standards had continued to apply to 2018 instead of IFRS 15. These tables show only those line items impacted by the adoption of IFRS 15:

	Amounts reported in accordance with IFRS 15 HK$'000	Hypothetical amounts under IASs 18 and 11 HK$'000	Estimated impact of adoption of IFRS 15 on 2018 HK$'000
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of IFRS 15:			
Contract assets	326,726	–	326,726
Trade and other receivables	789,723	1,116,449	(326,726)
Total current assets	2,340,020	2,340,020	–
Trade and other payables	(394,444)	(460,489)	66,045
Contract liabilities	(66,045)	–	(66,045)
Total current liabilities	(827,764)	(827,764)	–
Net assets	2,197,652	2,197,652	–

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

(II) IFRS 15, *REVENUE FROM CONTRACTS WITH CUSTOMERS* (CONTINUED)

c. *Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of IFRS 15 on 1 January 2018. (continued)*

	Amounts reported in accordance with IFRS 15 HK$'000	Hypothetical amounts under IASs 18 and 11 HK$'000	Estimated impact of adoption of IFRS 15 on 2018 HK$'000
Line items in the reconciliation of profit before taxation to cash generated from operations for year ended 31 December 2018 impacted by the adoption of IFRS 15:			
Profit before taxation	58,639	58,639	–
Decrease in trade and other receivables	354,923	19,482	335,441
Increase in contract assets	(335,441)	–	(335,441)
Decrease in trade and other payables	(47,906)	18,139	(66,045)
Increase in contract liabilities	66,045	–	66,045

There is no significant impact on the amounts reported in the consolidated statement of profit or loss or the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 as a result of the adoption of IFRS 15 on 1 January 2018.

The significant differences arise as a result of the changes in accounting policies described above.

(III) IFRIC 22, *FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION*

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC 22 does not have any material impact on the financial position and the financial result of the Group.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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 (see Note 2(e)).

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Associates and joint ventures

An associate is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

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 an associate or 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). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. 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(f) and Note 2(k)(ii)). 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.

When the Group's share of losses exceeds its interest in the associate or 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 any other long-term interests that in substance form part of the Group's net investment in the associate or joint ventures.

Unrealised profits and losses resulting from transactions between the Group and its associates and 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.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to significant influence over an associate or 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 associates and joint venture are stated at cost less impairment losses (see Note 2(k)(ii)), unless classified as held for sale.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(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 term of the lease
Office equipment, motor vehicles and others	4–8 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) Other investments in debt securities

Investments in debt securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value, directly attributable transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 27(e).

(I) POLICY APPLICABLE FROM 1 JANUARY 2018

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 2(u)(iv)).Changes in the fair value of the investment (including interest) are recognised in profit or loss.

– FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Other investments in debt securities (continued)

(I) POLICY APPLICABLE FROM 1 JANUARY 2018 (CONTINUED)

– FVPL if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

(II) POLICY APPLICABLE PRIOR TO 1 JANUARY 2018

Investments in debt securities were classified as available-for-sale financial assets. Cost includes attributable transaction costs. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). Interest income from available-for-sale debt investments calculated using the effective interest method were recognised in profit or loss in accordance with the policies set out in Note 2(u)(iv). When the investments are derecognised or impaired (see Note 2(k)(i) – policy applicable prior to 1 January 2018), the cumulative gain or loss recognised in equity is reclassified to profit or loss.

(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) Credit losses and impairment of assets

(I) CREDIT LOSSES FROM FINANCIAL INSTRUMENTS AND CONTRACT ASSETS

a. *Policy applicable from 1 January 2018*

The Group recognises a loss allowance for ECL on the following items:

– financial assets measured at amortised cost (including trade and other receivables and cash and cash equivalents);

– contract assets as defined in IFRS 15 (see Note 2(m)).

Debt investments measured at FVPL are not subject to the ECL assessment.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets (continued)

(I) CREDIT LOSSES FROM FINANCIAL INSTRUMENTS AND CONTRACT ASSETS (CONTINUED)

a. *Policy applicable from 1 January 2018 (continued)*

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate;

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade and other receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets (continued)

(I) CREDIT LOSSES FROM FINANCIAL INSTRUMENTS AND CONTRACT ASSETS (CONTINUED)

a. *Policy applicable from 1 January 2018 (continued)*

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets (continued)

(I) CREDIT LOSSES FROM FINANCIAL INSTRUMENTS AND CONTRACT ASSETS (CONTINUED)

a. *Policy applicable from 1 January 2018 (continued)*

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(u)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

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

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

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

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the customer does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets (continued)

(I) CREDIT LOSSES FROM FINANCIAL INSTRUMENTS AND CONTRACT ASSETS (CONTINUED)

b. *Policy applicable prior to 1 January 2018*

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables and available-for-sale debt investments). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

– 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.

If any such evidence existed, an impairment loss was determined and recognised as follows:

– For trade and other receivables and other financial assets carried at amortised cost, the impairment loss was 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, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were 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 decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

  When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets (continued)

(I) CREDIT LOSSES FROM FINANCIAL INSTRUMENTS AND CONTRACT ASSETS (CONTINUED)

b. Policy applicable prior to 1 January 2018 (continued)

– For available-for-sale debt investments, the cumulative loss that had been recognised in the fair value reserve (recycling) was reclassified to profit or loss. The amount of the cumulative loss that was recognised in profit or loss was 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 recognised in profit or loss in respect of available-for-sale debt investments were reversed if the subsequent increase in fair value could be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances were recognised in profit or loss.

(II) IMPAIRMENT OF OTHER NON-CURRENT 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;

– investments in joint ventures and an associate; and

– investments in subsidiaries 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).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets (continued)

(II) IMPAIRMENT OF OTHER NON-CURRENT ASSETS (CONTINUED)

– 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).

– 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 and other contract costs

(I) INVENTORIES

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Inventories and other contract costs (continued)

(i) INVENTORIES (CONTINUED)

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.

(ii) OTHER CONTRACT COSTS

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory (see Note 2(l)(i)), property, plant and equipment (see Note 2(g)) or intangible assets (see Note 2(h)).

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract (for example, payments to sub-contractors). Other costs of fulfilling a contract, which are not capitalised as inventory, property, plant and equipment or intangible assets, are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in Note 2(u).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2(u)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in Note 2(k)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(n)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note 2(u)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(n)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 2(u)).

Policy prior to 1 January 2018

In the comparative period, contract balances were recorded for project contracts in progress at cost plus profit recognised to date less progress billings and recognised losses. These net balances were presented as the "gross amounts due from customers for contract work" (as an asset) or the "gross amounts due to customers for contract work" (as a liability), as applicable, under "trade and other receivables" or "trade and other payables" respectively on a contract-by-contract basis. Progress billings not yet paid by the customer were included under "trade and other receivables". Amounts received before the related work was performed were presented as "receipts in advance" under "trade and other payables". These balances have been reclassified on 1 January 2018 as shown in Note 18 (see Note 2(c)(ii)).

(n) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 2(m)).

Receivables are stated at amortised cost using the effective interest method, less allowance for credit losses (see Note 2(k)(i)). In such cases, the receivables are stated at cost less allowance for credit losses.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in Note 2(k)(i).

(q) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2(w)).

(r) 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)

(s) 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Income tax (continued)

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.

(t) Provisions and contingent liabilities

Provisions are recognised when the Group 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.

(u) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Revenue and other income (continued)

Further details of the Group's revenue and other income recognition policies are as follows:

(I) SERVICE CONTRACT

When the outcome of a service contract can be reasonably measured, revenue from the contract is recognised progressively over time using the cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to date to the estimated total costs.

The likelihood of the Group earning contractual bonuses for early completion or suffering contractual penalties for late completion are taken into account in making these estimates, such that revenue is only recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

When the outcome of the contract cannot be reasonably measured, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

Revenue from service contract was recognised on a similar basis in the comparative period under IAS 11.

(II) SALE OF GOODS

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

In the comparative period, revenue was 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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Revenue and other income (continued)

(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.

(v) 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 transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities.

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.

(w) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) 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.

(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.

(y) 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 27 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 Note 2(u)(i), revenue from service contracts are recognised over time. Such revenue and profit recognition on uncompleted projects is dependent on estimating the total outcome of the contract, as well as the work done to date. Based on the Group's recent experience and the nature of the manufacturing and construction activities undertaken by the Group, the Group has made estimates of the point at which it considered the work was sufficiently advanced such that the outcome of the contract can be reasonably measured. 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.

In the comparative period, revenue from service projects was subject to the same estimation as above. In addition, the contract assets arising from service contracts were included in trade and other receivables as amounts due from customers for contract work and were disclosed in Note 19, rather than Note 18.

(b) Impairment of trade receivables and contract assets

The impairment provisions for trade receivables are and contract assets based on assumptions about the expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note 27(a). Changes in these assumptions and estimated could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the profit or loss.

(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) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units ("CGUs") to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the recoverable amount calculation are disclosed in Note 13.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(e) 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, the provision of civil communication transmission services for use in public transportation systems to telecommunication companies, and the investment in the railway transportation areas through investing in equity. Further details regarding the Group's principal activities are disclosed in Note 4(b).

(I) DISAGGREGATION OF REVENUE

Disaggregation of revenue from contracts with customers by major service lines and geographical location of customers is as follows:

	2018 **HK$'000**	2017 HK$'000
Revenue from contracts with customers within the scope of IFRS 15		
Revenue from intelligent railway transportation services	**323,812**	450,071
Revenue from civil communication transmission services	**129,392**	114,516
	453,204	564,587

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographical markets is disclosed in Note 4(b)(i) and Note 4(b)(iii).

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(a) Revenue (continued)

(I) DISAGGREGATION OF REVENUE (CONTINUED)

For the year ended 31 December 2018, revenues from transactions with three customers (2017: one customer) has exceeded 10% of the Group's revenue. Revenue from these customers is as follows:

	2018 HK$'000	2017 HK$'000
Customer A	**77,140**	111,142
Customer B	**58,983**	less than 10% of the Group's revenue
Customer C	**47,411**	less than 10% of the Group's revenue

(II) REVENUE EXPECTED TO BE RECOGNISED IN THE FUTURE ARISING FROM CONTRACTS WITH CUSTOMERS IN EXISTENCE AT THE REPORTING DATE

As at 31 December 2018, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is HK$965,619,000. This amount represents revenue expected to be recognised in the future from intelligent railway transportation contracts and civil communication transmission contracts entered into by the customers with the Group. The Group will recognise the expected revenue in future when or as the work is completed, which is expected to occur over the period of 1 to 60 months.

The above amount does not include any amounts of completion bonuses that the Group may earn in the future by meeting the conditions set out in the Group's service contracts with customers, unless at the reporting date it is highly probable that the Group will satisfy the conditions for earning those bonuses.

(III) TOTAL FUTURE MINIMUM PAYMENTS RECEIVABLE BY THE GROUP RELATED TO CIVIL COMMUNICATION TRANSMISSION SERVICES

	2018 HK$'000	2017 HK$'000
Within 1 year	**100,007**	117,712
After 1 year but within 5 years	**311,782**	102,418
	411,789	220,130

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting

The Group manages its businesses by business lines. In a manner consistent with the way in which the information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments:

- Intelligent railway transportation: this segment provides design, implementation and sale, and maintenance of application solution services, which includes related software, hardware and spare parts.

- Civil communication transmission: this segment provides civil communication transmission services.

- Business development investment: this segment manages the equity investments in railway transportation areas.

(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 2018 and 2017. The Group's other income and expense items, such as other income, selling, general and administrative expenses, 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)

Disaggregation of revenue from contracts with customers by timing of revenue recognition, as well as 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 2018 and 2017 is set out below.

	2018			
	Intelligent railway transportation HK$'000	Civil communication transmission HK$'000	Business development investment HK$'000	Total HK$'000
Disaggregated by timing of revenue recognition				
Point in time	**166,628**	**–**	**–**	**166,628**
Over time	**157,184**	**129,392**	**–**	**286,576**
Revenue from external customers and reportable segment revenue	**323,812**	**129,392**	**–**	**453,204**
Reportable segment gross profit	**61,583**	**47,232**	**–**	**108,815**
Share of profits of joint ventures and an associate	**–**	**–**	**21,375**	**21,375**

	2017			
	Intelligent railway transportation HK$'000	Civil communication transmission HK$'000	Business development investment HK$'000	Total HK$'000
Disaggregated by timing of revenue recognition				
Point in time	393,547	–	–	393,547
Over time	56,524	114,516	–	171,040
Revenue from external customers and reportable segment revenue	450,071	114,516	–	564,587
Reportable segment gross profit	83,882	29,404	–	113,286
Share of profits of joint ventures and an associate	–	–	11,482	11,482

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(II) RECONCILIATION OF REPORTABLE SEGMENT PROFIT OR LOSS

	2018 HK$'000	2017 HK$'000
Reportable segment gross profit	**108,815**	113,286
Share of profits of joint ventures and an associate	**21,375**	11,482
Other income	**42,336**	12,308
Finance costs	**(2,747)**	–
Selling, general and administrative expenses	**(111,140)**	(85,500)
Profit before taxation	**58,639**	51,576

(III) GEOGRAPHIC INFORMATION

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

	2018 HK$'000	2017 HK$'000
Mainland China	**411,719**	529,744
Hong Kong	**41,485**	34,843
The People's Republic of China (the "PRC") (place of domicile)	**453,204**	564,587

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

5 OTHER INCOME

	2018 HK$'000	2017 HK$'000
Interest income	**30,025**	3,055
Investment income	**6,615**	4,116
Net foreign exchange gain	**1,130**	2,786
Government grants	**4,305**	2,359
Impairment of trade receivables and contract assets	**(226)**	–
Net gain/(loss) on disposal of property, plant and equipment	**487**	(8)
	42,336	12,308

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2018 HK$'000	2017 HK$'000
Interests on loans from a related party	**2,747**	–

(b) Staff cost

	2018 HK$'000	2017 HK$'000
Salaries, wages and other benefits	**107,782**	91,016
Contributions to defined retirement plans	**11,043**	9,394
Equity-settled share-based payment expenses (Note 23)	**–**	563
	118,825	100,973

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.

(c) Other items

	2018 HK$'000	2017 HK$'000
Cost of inventories (Note 17(a))	**128,053**	230,540
Auditor's remuneration:		
– statutory audit services	**3,308**	3,237
– other services	**768**	622
Depreciation and amortisation (Notes 11 and 12)	**43,917**	42,263
Operating lease charges in respect of office premises	**9,363**	8,426

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

7 INCOME TAX

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

	2018 HK$'000	2017 HK$'000
Current taxation (Note 24(a)):		
– Hong Kong Profits Tax	**1,882**	1,504
– PRC Corporate Income Tax	**(1,961)**	10,431
	(79)	11,935
Deferred taxation (Note 24(b)):		
– Origination and reversal of temporary differences	**3,313**	(5,599)
– Change in tax rate	**2,077**	–
	5,311	6,336

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

	2018 HK$'000	2017 HK$'000
Profit before taxation	**58,639**	51,576
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned (Notes (i), (ii) and (iii))	**10,017**	13,872
Tax effect of non-deductible expenses	**2,921**	1,913
Tax effect of non-taxable income of share of profits of joint ventures and an associate	**(2,950)**	(1,633)
Tax effect of non-taxable income of interest income	**(4,492)**	–
Tax effect of change in tax rate	**2,077**	–
Tax effect of unused tax losses not recognised	**2,298**	–
Tax concessions (Note (iv))	**(4,560)**	(7,816)
Income tax	**5,311**	6,336

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 2018 (2017: 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 2018 (2017: 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 year ended 31 December 2018. In addition to the preferential PRC Corporate Income Tax rate, these subsidiaries are also entitled to an additional deductible tax allowance calculated at 75% of the qualified research and development costs incurred by these subsidiaries.

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:

	2018						
	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 23)	Total HK$'000
Executive directors							
Mr. Cao Wei	1,200	162	–	83	1,445	–	1,445
Ms. Xuan Jing	1,215	98	709	83	2,105	–	2,105
Non-executive directors							
Mr. Zhang Yanyou (appointed on 14 December 2018)	–	–	–	–	–	–	–
Mr. Guan Jifa	–	–	–	–	–	–	–
Mr. Zheng Yi	–	–	–	–	–	–	–
Mr. Ren Yuhang	–	–	–	–	–	–	–
Mr. Hao Weiya (resigned on 14 December 2018)	–	–	–	–	–	–	–
Independent non-executive directors							
Mr. Bai Jinrong	240	–	–	–	240	–	240
Mr. Luo Zhenbang	240	–	–	–	240	–	240
Mr. Huang Lixin	240	–	–	–	240	–	240
	3,135	260	709	166	4,270	–	4,270

8 DIRECTORS' EMOLUMENTS (CONTINUED)

	2017						
	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 23)	Total HK$'000
Executive directors							
Mr. Cao Wei	1,200	146	–	76	1,422	32	1,454
Ms. Xuan Jing	1,100	74	550	70	1,794	–	1,794
Mr. Shao Kai (resigned on 25 January 2017)	–	99	–	5	104	–	104
Non-executive directors							
Mr. Guan Jifa	–	–	–	–	–	–	–
Mr. Hao Weiya	–	–	–	–	–	–	–
Mr. Ren Yuhang (appointed on 28 February 2017)	–	–	–	–	–	–	–
Mr. Zheng Yi (appointed on 25 August 2017)	–	–	–	–	–	–	–
Mr. Tian Zhenqing (resigned on 28 February 2017)	–	–	–	–	–	–	–
Independent non-executive directors							
Mr. Bai Jinrong	240	–	–	–	240	–	240
Mr. Luo Zhenbang	240	–	–	–	240	–	240
Mr. Huang Lixin	240	–	–	–	240	–	240
	3,020	319	550	151	4,040	32	4,072

There were no amounts paid during the year ended 31 December 2018 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 Mr. Zhang Yanyou, Mr. Guan Jifa, Mr. Zheng Yi, Mr. Ren Yuhang and Mr. Hao Weiya (2017: Mr. Guan Jifa, Mr. Hao Weiya, Mr. Ren Yuhang, Mr. Zheng Yi and Mr. Tian Zhenqing), no other directors waived or agreed to waive any emoluments during the year ended 31 December 2018. Mr. Zhang Yanyou, Mr. Guan Jifa, Mr. Zheng Yi, Mr. Ren Yuhang and Mr. Hao Weiya waived their respective directors' fees of HK$240,000 during the year ended 31 December 2018 (2017: HK$240,000), respectively.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2017: two) are directors whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other three (2017: three) individuals are as follows:

	2018 **HK$'000**	2017 HK$'000
Salaries, allowances and benefits in kind	**2,843**	2,711
Discretionary bonuses	**1,796**	1,245
Retirement scheme contributions	**204**	175
Share-based payments (Note 23)	**–**	66
	4,843	4,197

The emoluments of the three (2017: three) individuals who are not directors and who are amongst the five highest paid individuals of the Group are within the following band:

	2018	2017
HK$1,000,001 – HK$1,500,000	**–**	3
HK$1,500,001 – HK$2,000,000	**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 2018 is based on the profit attributable to ordinary equity shareholders of the Company of HK$47,398,000 (2017: HK$38,554,000) and the weighted average of 2,103,294,000 ordinary shares (2017: 2,106,540,000 ordinary shares) in issue during the year, calculated as follows:

	2018 '000	2017 '000
Issued ordinary shares at 1 January	**2,104,787**	2,106,155
Effect of shares issued under share option scheme (Note 25(c)(ii))	**–**	2,904
Effect of shares repurchased (Note 25(c)(iii))	**(1,493)**	(2,519)
Weighted average number of ordinary shares at 31 December	**2,103,294**	2,106,540

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2018 is based on the profit attributable to ordinary equity shareholders of the Company of HK$47,398,000 (2017: HK$38,554,000) and the weighted average number of ordinary shares (diluted) of 2,103,294,000 (2017: 2,107,444,000 ordinary shares (diluted)), calculated as follows:

	2018 '000	2017 '000
Weighted average number of ordinary shares at 31 December	**2,103,294**	2,106,540
Effect of deemed issue of shares under the Company's share option scheme (Note 23)	**–**	904
Weighted average number of ordinary shares (diluted) at 31 December	**2,103,294**	2,107,444

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	Construction in progress HK$'000	Total HK$'000
Cost:						
At 1 January 2017	738	4,326	5,618	221,711	–	232,393
Exchange adjustments	–	287	369	15,543	52	16,251
Additions	24	421	797	–	1,469	2,711
Disposals	(545)	(1,189)	(3,000)	–	–	(4,734)
At 31 December 2017	217	3,845	3,784	237,254	1,521	246,621
Accumulated depreciation:						
At 1 January 2017	715	2,644	3,960	90,545	–	97,864
Exchange adjustments	–	190	276	7,181	–	7,647
Charge for the year	8	853	960	23,903	–	25,724
Written back on disposals	(545)	(1,186)	(2,995)	–	–	(4,726)
At 31 December 2017	178	2,501	2,201	121,629	–	126,509
Carrying amount:						
At 31 December 2017	39	1,344	1,583	115,625	1,521	120,112
Cost:						
At 1 January 2018	217	3,845	3,784	237,254	1,521	246,621
Exchange adjustments	–	(287)	(317)	(11,016)	(459)	(12,079)
Additions	–	350	1,041	104	14,964	16,459
Disposals	–	(1,338)	(179)	–	–	(1,517)
Transfer from construction in progress	–	–	564	2,948	(3,512)	–
At 31 December 2018	**217**	**2,570**	**4,893**	**229,290**	**12,514**	**249,484**
Accumulated depreciation:						
At 1 January 2018	178	2,501	2,201	121,629	–	126,509
Exchange adjustments	–	(128)	(232)	(6,350)	–	(6,710)
Charge for the year	15	333	963	22,292	–	23,603
Written back on disposals	–	(1,162)	(171)	–	–	(1,333)
At 31 December 2018	**193**	**1,544**	**2,761**	**137,571**	**–**	**142,069**
Carrying amount:						
At 31 December 2018	**24**	**1,026**	**2,132**	**91,719**	**12,514**	**107,415**

12 INTANGIBLE ASSETS

	Software HK$'000	Income rights HK$'000	Total HK$'000
Cost:			
At 1 January 2017	77,695	105,420	183,115
Exchange adjustments	6,793	7,390	14,183
Additions	6,385	–	6,385
At 31 December 2017	90,873	112,810	203,683
Accumulated amortisation and impairment losses:			
At 1 January 2017	41,212	16,132	57,344
Exchange adjustments	2,971	1,454	4,425
Charge for the year	7,249	9,290	16,539
At 31 December 2017	51,432	26,876	78,308
Carrying amount:			
At 31 December 2017	39,441	85,934	125,375
Cost:			
At 1 January 2018	90,873	112,810	203,683
Exchange adjustments	(3,005)	(5,188)	(8,193)
Additions	417	–	417
At 31 December 2018	**88,285**	**107,622**	**195,907**
Accumulated amortisation and impairment losses:			
At 1 January 2018	51,432	26,876	78,308
Exchange adjustments	(2,593)	(1,560)	(4,153)
Charge for the year	10,820	9,494	20,314
At 31 December 2018	**59,659**	**34,810**	**94,469**
Carrying amount:			
At 31 December 2018	**28,626**	**72,812**	**101,438**

The amortisation charges for the year of software and income rights are included in "cost of sales" and "selling, general and administrative expense" in the consolidated statement of profit or loss.

13 GOODWILL

	HK$'000
Cost:	
At 1 January 2017	61,113
Exchange adjustments	4,284
At 31 December 2017 and 1 January 2018	65,397
Exchange adjustments	(3,008)
At 31 December 2018	62,389
Accumulated impairment losses:	
At 1 January 2017, 31 December 2017 and 31 December 2018	–
Carrying amount:	
At 31 December 2018	**62,389**
At 31 December 2017	65,397

IMPAIRMENTS TESTS FOR CASH-GENERATING UNITS CONTAINING GOODWILL

Goodwill is allocated to the Group's CGUs identified according to the operations of the Group as follows:

	Note	**2018 HK$'000**	2017 HK$'000
Operations in the provision of application solutions related services	(i)	**52,156**	54,670
Operations related to the civil communication transmission systems business	(ii)	**10,233**	10,727
		62,389	65,397

Notes:

(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% (2017: 3%). The cash flows are discounted using a discount rate of 16% (2017: 16%). The discount rate used is pre-tax and reflect specific risks relating to the relevant CGU.

(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% (2017: 3%). The cash flows are discounted using a discount rate of 16.5% (2017: 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
BII Transit Systems (Beijing) Co., Ltd. 億雅捷交通系统(北京)有限公司**	The PRC	Registered capital of Renminbi ("RMB") 50,000,000 and paid-up capital of RMB12,550,000	100%	–	100%	Design, implementation and sale, and maintenance, of application solutions for the networking and controlling systems of public transport and other companies
BII Transit Systems (HK) Co., Ltd	Hong Kong	1,000 shares	100%	–	100%	Design, implementation and maintenance of application solutions for the networking and controlling systems of public transport companies
BII Transportation Technology (Beijing) 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
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
China City Railway Transportation Technology Investment Company Limited ("CCRTT Investment")	Hong Kong	HK$18,000,010	70%	–	70%	Investment holding

*   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 CCRTT Investment, the major 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 Investment	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
NCI percentage	**10%**	10%	**30%**	30%
Revenue	**247,828**	366,683	**–**	–
Profit for the year	**7,824**	47,741	**17,419**	6,372
Profit attributable to NCI	**782**	4,774	**5,226**	1,912
Non-current assets	**45,557**	19,981	**41,424**	23,719
Current assets	**633,464**	678,591	**13,860**	1,474
Current liabilities	**518,994**	517,433	**12,533**	17,861
Non-current liabilities	**1,891**	2,811	**–**	–
Net assets	**158,136**	178,328	**42,751**	7,332
Net assets attributable to NCI	**15,814**	17,833	**12,825**	2,200

15 INTERESTS IN JOINT VENTURES AND AN ASSOCIATE

	2018 HK$'000	2017 HK$'000
Unlisted equity investments at cost	**381,377**	384,698
Share of profits	**31,611**	11,610
Dividend	**–**	(1,374)
Exchange adjustments	**478**	(106)
	413,466	394,828

(Expressed in HK$ unless otherwise indicated)

15 INTERESTS IN JOINT VENTURES AND AN ASSOCIATE (CONTINUED)

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

Name of joint venture/ associate	Note	Place of establishment and operations	Particulars of registered 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 a subsidiary	Principal activities
Joint ventures							
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
Beijing Cornerstone Chuangying Investment Management Centre (Limited Liability Partnership) ("Chuangying Centre") 北京基石創盈投資管理中心 (有限合夥)	(iii)	The PRC	RMB2,000,000	20%	–	20%	Management of assets and investment
Beijing Cornerstone Chuangying Investment Centre (Limited Liability Partnership) ("Cornerstone Chuangying") 北京基石創盈投資中心 (有限合夥)	(iii)	The PRC	RMB201,000,000	24.88%	–	24.88%	Investment holding
Associate							
Baoding Cornerstone Lianying Venture Capital Investment Fund Centre (Limited Liability Partnership) ("Cornerstone Lianying") 保定基石連盈創業投資基金中心 (有限合夥)	(iv)	The PRC	RMB313,000,000	7.99%	–	7.99%	Investment holding

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

15 INTERESTS IN JOINT VENTURES AND AN ASSOCIATE (CONTINUED)

Notes:

(i) Metro Science and Technology was established on 18 February 2016 by the Group, through a 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 in Mainland China. Metro Science and Technology is a private company whose quoted market price is not available.

(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 a private company whose quoted market price is not available.

(iii) The Group is a limited partner of Chuangying Centre and Cornerstone Chuangying, which are partnership entities and have two and five other partners, respectively. The Group provided 20% and 24.88% capital contribution into these two partnership entities. Pursuant to the partnership agreement, the Group has joint control over the governing body of respective partnership. Chuangying Centre is the general partner of Cornerstone Chuangying.

(iv) The Group is a limited partner of Cornerstone Lianying which is a partnership entity and has 14 other partners. The Group provided 7.99% capital contribution into the partnership entity. Pursuant to the partnership agreement, the Group has the right to cast one vote at the investment committee's meeting, the governing body which directs the relevant activities that significantly affect the returns of Cornerstone Lianying.

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		Beijing Metro	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Gross amounts of the joint ventures				
Current assets	**314,913**	236,994	**284,505**	454,912
Non-current assets	**3,504**	2,834	**1,565,528**	1,695,269
Current liabilities	**233,878**	191,422	**1,211,877**	1,533,782
Net assets	**84,539**	48,406	**638,156**	616,399
Included in the above assets and liabilities:				
Cash and cash equivalents	**42,564**	46,901	**199,271**	336,788
Current financial liabilities (excluding trade and other payables and provisions)	**2,853**	971	**9,871**	6,551
Revenue	**403,071**	338,074	**395,616**	121,580
Profit for the year ended 31 December	**35,703**	13,087	**21,757**	16,627
Included in the above profit:				
Depreciation	**623**	494	**56,457**	32,014
Interest income	**433**	252	**2,115**	5,721
Reconciled to the Group's interests in the joint ventures				
Gross amounts of the joint ventures' net assets	**84,539**	48,406	**638,156**	616,399
Carrying amounts in the consolidated financial statements	**41,424**	23,719	**312,696**	302,036

15 INTERESTS IN JOINT VENTURES AND AN ASSOCIATE (CONTINUED)

	Chuangying Centre		Cornerstone Chuangying	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Gross amounts of the joint ventures				
Current assets	**2,280**	2,503	**43,098**	130,445
Non-current assets	**2,453**	1,196	**149,400**	97,437
Current liabilities	**2,493**	1,365	**–**	180
Net assets	**2,240**	2,334	**192,498**	227,702
Included in the above assets and liabilities:				
Cash and cash equivalents	**331**	427	**122**	13,119
Revenue	**4,611**	3,384	**1,007**	–
Profit/(loss) for the year/period from the date of establishment to 31 December	**8**	(56)	**(25,590)**	(12,327)
Included in the above profit/(loss):				
Depreciation	**1**	–	**–**	100
Interest income	**2**	7	**2**	79
Reconciled to the Group's interests in the joint ventures				
Gross amounts of the joint ventures' net assets	**2,240**	2,334	**192,498**	227,702
Carrying amounts in the consolidated financial statements	**448**	467	**47,894**	56,643

As at 31 December 2018, Cornerstone Lianying has not carried out any operation, therefore the Group's interests in the associate represents the capital paid up by the Group amounted to RMB10,000,000 (equivalent to HK$11,004,000)(2017:HK$11,413,000).

16 AVAILABLE-FOR-SALE DEBT INVESTMENTS AND OTHER FINANCIAL ASSETS

	31 December 2018 HK$'000	**1 January 2018 HK$'000**	31 December 2017 HK$'000
Available-for-sale financial assets – unlisted debt investments	**–**	**–**	116,760
Financial assets measured at FVPL – unlisted debt investments	**74,983**	**116,760**	–

The Group's unlisted debt investments on wealth management products issued by financial institutions with guaranteed principal amounts plus variable returns was accounted for as available-for-sale debt investments under IAS 39. As a result of adoption of IFRS 9, gross amounts of unlisted debt investments are included in other financial assets measured at FVPL (see Note 2(c)(i)).

17 INVENTORIES AND OTHER CONTRACT COSTS

	2018 HK$'000	2017 HK$'000
Application solution related software, hardware and spare parts	**61,129**	67,558
Materials to be assigned to services contracts	**17,898**	11,023
	79,027	78,581

(a) 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:

	2018 HK$'000	2017 HK$'000
Carrying amount of inventories sold	**128,053**	230,540

18 CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	31 December 2018 HK$'000	1 January 2018 HK$'000 (Note (i))	31 December 2017 HK$'000 (Note (i))
Contract assets			
Arising from performance under service contracts (Notes (iii) and (iv))	**335,441**	374,082	–
Less: loss allowance (Note (ii))	**(8,715)**	(9,733)	–
	326,726	364,349	–
Receivables from contracts with customers within the scope of IFRS 15, which are included in "Trade and other receivables" (Note 19)	**268,212**	240,727	

Notes:

(i) The Group has initially adopted IFRS 9 and IFRS 15 using the cumulative effect method and adjusted the opening balances as at 1 January 2018.

(ii) Upon the adoption of IFRS 9, opening adjustments were made as at 1 January 2018 to recognise additional ECLs on contract assets (see Note 2(c)(i)).

(iii) Upon the adoption of IFRS 15, some of the trade receivables, for which the Group's entitlement to the consideration was conditional on achieving certain milestones or satisfactory completion of retention period, were reclassified from "Trade and other receivables" to contract assets (see Note 2(c)(ii)).

(iv) Upon the adoption of IFRS 15, amounts previously included as "Gross amounts due from customers for contract work" under "Trade and other receivables" (Note 19) were reclassified to contract assets (see Note 2(c)(ii)).

18 CONTRACT ASSETS AND CONTRACT LIABILITIES (CONTINUED)

(a) Contract assets (continued)

Typical payment terms which impact on the amount of contract assets recognised are as follows:

The Group's service contracts include payment schedules which require stage payments over the service period once milestones are reached. These payment schedules prevent the build-up of significant contract assets.

The amount of contract assets that is expected to be recovered after more than one year is HK$38,617,000 (2017: HK$15,049,000), all of which relates to retentions.

(b) Contract liabilities

	31 December 2018 HK$'000	1 January 2018 HK$'000 (Note (i))	31 December 2017 HK$'000 (Note (i))
Contract liabilities			
Service contracts			
– Billings in advance of performance (Note (ii))	**66,045**	33,312	–

Notes:

(i) The Group has initially adopted IFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018.

(ii) Upon the adoption of IFRS 15, amounts previously presented as "Receipts in advance" (Note 21) under "Trade and other payables" were reclassified to contract liabilities (see Note 2(c)(ii)).

Typical payment terms which impact on the amount of contract liabilities recognised arising from service contracts are as follows:

When the Group receives a deposit before the production activity commences this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the project exceeds the amount of the deposit.

18 CONTRACT ASSETS AND CONTRACT LIABILITIES (CONTINUED)

(b) Contract liabilities (continued)

MOVEMENTS IN CONTRACT LIABILITIES

	2018 HK$'000
Balance at 1 January	33,312
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the period	(32,899)
Increase in contract liabilities as a result of billing in advance of service	68,370
Exchange adjustments	(2,738)
Balance at 31 December	66,045

The amount of billings in advance of performance and forward sales deposits received expected to be recognised as income within one year is HK$66,045,000 (2017:HK$33,312,000, which were included under "trade and other payables")

19 TRADE AND OTHER RECEIVABLES

	Note	**31 December 2018 HK$'000**	1 January 2018 HK$'000 Note (i)	31 December 2017 HK$'000 Note (i)
Trade receivables due from:	(ii)(iii)			
– third parties		**228,208**	177,093	252,660
– the ultimate holding company of the Company		**–**	29	170
– an affiliate of an equity shareholder of \the Company		**28,376**	57,698	89,383
– an equity holder of the non-controlling equity holder of a subsidiary of the Group		**22,182**	9,867	21,893
Bills receivable		**–**	6,241	6,241
		278,766	250,928	370,347
Gross amounts due from customers for contract work:	(iv)			
– third parties		**–**	–	186,056
– an affiliate of an equity shareholder of the Company		**–**	–	57,439
– an affiliate of an equity holder of the non-controlling equity holder of a subsidiary of the Group		**–**	–	11,168
		–	–	254,663
Amounts due from related parties:	19(b)			
– equity shareholders of the Company and their affiliates		**215**	220	220
– a joint venture		**1,141**	1,374	1,374
– an affiliate of an equity holder of the non-controlling equity holder of a subsidiary of the Group		**1,826**	957	957
		3,182	2,551	2,551
Less: loss allowance	(ii)	**(10,554)**	(10,201)	–
Prepayments, deposits and other receivables		**41,269**	30,222	30,222
Deposit for acquisition	19(c)	**477,060**	–	–
		789,723	273,500	657,783

Notes:

(i) The Group has initially applied IFRS 9 and IFRS 15 using the cumulative effect method and adjusted the opening balances as at 1 January 2018.

(ii) Upon the adoption of IFRS 9, an opening adjustment as at 1 January 2018 was made to recognise additional ECLs on trade debtors and bills receivables (see Note 2(c)(i)).

(iii) Upon the adoption of IFRS 15, some of the trade receivables, for which the Group's entitlement to the consideration was conditional on achieving certain milestones, were reclassified to "contract assets" and disclosed in Note 18 (see Note 2(c)(ii)).

(iv) Upon the adoption of IFRS 15, gross amounts due from customers for contract work is included in contract assets and disclosed in Note 18 (see Note 2(c)(ii)).

19 TRADE AND OTHER RECEIVABLES (CONTINUED)

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

(a) Ageing analysis

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

	2018 HK$'000	2017 HK$'000
Within 1 year	**191,232**	210,726
More than 1 year	**87,534**	159,621
	278,766	370,347

Further details on the Group's credit policy and credit risk arising from trade debtors and bills receivable are set out in Note 27(a).

(b) Amounts due from related parties

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

(c) Deposit for acquisition

Deposit for acquisition is the earnest payment paid to 東方網力科技股份有限公司 ("NetPosa Technologies Limited") ("NetPosa") for the acquisition of 蘇州華啟智能科技有限公司 ("Suzhou Huaqi Intelligent Technology Co., Ltd.") ("Huaqi Intelligent"), which is interest-bearing and fully secured by 100% equity interests of Huaqi Intelligent held by NetPosa.

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2018 HK$'000	2017 HK$'000
Cash on hand and at bank	**1,053,269**	1,128,780
Restricted bank deposits	**16,292**	–
Cash and cash equivalents in the consolidated statement of financial position	**1,069,561**	1,128,780
Less: Restricted bank deposits	**(16,292)**	–
Cash and cash equivalents in the consolidated cash flow statement	**1,053,269**	1,128,780

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 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the group's consolidated cash flow statement as cash flows from financing activities.

	Loans from a related party HK$'000 (Note 22)	**Interest payable** HK$'000	**Total** HK$'000
At 1 January 2017, 31 December 2017 and 1 January 2018	–	–	–
Changes from financing cash flows for 2018:			
Proceeds from loans from a related party	338,295	–	338,295
Interest paid	–	(1,791)	(1,791)
Total changes from financing cash flows	338,295	(1,791)	336,504
Other changes:			
Interest expense	–	2,747	2,747
Exchange adjustments	4,093	(70)	4,023
At 31 December 2018	342,388	886	343,274

21 TRADE AND OTHER PAYABLES

	31 December 2018 HK$'000	1 January 2018 HK$'000	31 December 2017 HK$'000
Trade payables due to:			
– third parties	**301,797**	317,782	317,782
– an equity holder of the non-controlling equity holder of a subsidiary of the Group	**236**	–	–
– a joint venture	**2,377**	–	–
Bills payables	**20,071**	23,816	23,816
	324,481	341,598	341,598
Amounts due to related parties:			
– an affiliate of an equity shareholder of the Company	**240**	723	723
– a non-controlling equity holder of a subsidiary of the Group	**–**	5,400	5,400
	240	6,123	6,123
Accrued expenses and other payables	**46,161**	29,631	29,631
Financial liabilities measured at amortised cost	**370,882**	377,352	377,352
Other taxes payables	**23,562**	26,916	26,916
Receipts in advance from (Note):			
– third parties	**–**	–	23,743
– an equity holder of the non-controlling equity holder of a subsidiary of the Group	**–**	–	9,569
	394,444	404,268	437,580

Note: As a result of the adoption of IFRS 15, receipts in advance are included in contract liabilities (see Note 2(c)(ii)). All of the trade and other payables are expected to be settled or recognised as revenue within one year or are repayable on demand.

21 TRADE AND OTHER PAYABLES (CONTINUED)

Ageing analysis

As of the end of the reporting period, the ageing analysis of trade and bills payables (which are included in trade and other payables), based on the maturity date, is as follows:

	2018 **HK$'000**	2017 HK$'000
Due within 1 month or on demand	**304,916**	318,754
Due after 1 month but within 6 months	**19,565**	22,844
	324,481	341,598

22 LOANS FROM A RELATED PARTY

On 30 November 2018, the ultimate holding company of the Company granted a loan of RMB300,000,000 (equivalent to approximately HK$338,295,000) to a subsidiary of the Company. The loan bears an interest rate of 9% per annum. The loan is unsecured and repayable within 6 months.

23 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 on 26 July 2012 and 31 December 2013 have lapsed on 25 July 2017 and 30 December 2018, respectively, and the share options granted on 5 December 2014 will lapse 4 December 2019. Each share option gives the holder the right to subscribe for one ordinary share in the Company.

(Expressed in HK$ unless otherwise indicated)

23 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		

23 EQUITY-SETTLED SHARE-BASED TRANSACTION (CONTINUED)

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

	2018		2017	
	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$1.966**	**28,900**	HK$1.875	33,850
Exercised during the year	**NA**	**Nil**	HK$0.892	(3,632)
Forfeited during the year	**HK$1.157**	**(13,650)**	HK$2.585	(1,318)
Outstanding at the end of the year	**HK$2.690**	**15,250**	HK$1.966	28,900
Exercisable at the end of the year	**HK$2.690**	**15,250**	HK$1.966	28,900

The share options outstanding at 31 December 2018 had a weighted average exercise price of HK$2.690 (2017: HK$1.966) and a weighted average remaining contractual life of 0.93 years (2017: 1.51 years).

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2018 HK$'000	2017 HK$'000
Income tax payable at 1 January	**37,230**	36,205
Provision for income tax on the estimated taxable profits for the year (Note 7(a))	**(79)**	11,935
Income tax paid during the year	**(12,264)**	(10,910)
Income tax payable at 31 December	**24,887**	37,230

24 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	Credit losses allowance (Note) HK$'000	Total HK$'000	Fair value adjustments on intangible assets and related amortisation HK$'000	Net HK$'000
Balance at 1 January 2017	6,651	13,637	–	20,288	(24,257)	(3,969)
Exchange adjustments	327	1,102	–	1,429	(1,756)	(327)
(Charged)/credited to the consolidated statement of profit or loss (Note 7(a))	(509)	4,203	–	3,694	1,905	5,599
Balance at 31 December 2017	6,469	18,942	–	25,411	(24,108)	1,303
Impact on initial application of IFRS 9 (Note)	–	–	4,977	4,977	–	4,977
Adjusted balance at 1 January 2018	6,469	18,942	4,977	30,388	(24,108)	6,280
Effect on deferred tax balances at 1 January resulting from a change in tax rate (Note 7(b))	932	(5,960)	–	(5,028)	2,951	(2,077)
Exchange adjustments	(234)	(521)	(179)	(934)	732	(202)
(Charged)/credited to the consolidated statement of profit or loss (Note 7(a))	(69)	(4,344)	(1,309)	(5,722)	2,409	(3,313)
Balance at 31 December 2018	**7,098**	**8,117**	**3,489**	**18,704**	**(18,016)**	**688**

Note: Upon the initial application of IFRS 9, the Group has recognised deferred tax assets on the additional credit losses recognised under the ECL model at 1 January 2018 (see Note 2(c)(ii)).

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

(c) Deferred tax liabilities not recognised

At 31 December 2018, temporary differences relating to the retained profits of the subsidiaries of the Group established in the PRC (excluding Hong Kong) amounted to HK$393,070,000 (2017: HK$409,632,000) 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.

25 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$'000 (Note 25(c))	Share premium HK$'000 (Note 25(d)(i))	Capital reserve HK$'000 (Note 25(d)(ii))	Treasury share reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at 1 January 2017	21,062	1,859,467	54,282	–	(74,591)	1,860,220
Changes in equity for 2017:						
Total comprehensive income	–	–	–	–	(5,412)	(5,412)
Shares issued under share option scheme	36	3,897	(694)	–	–	3,239
Equity-settled share-based transactions (Note 23)	–	–	563	–	–	563
Purchase of own shares	–	–	–	(5,848)	–	(5,848)
Cancellation of shares	(50)	(5,798)	–	5,848	–	–
Balance at 31 December 2017	21,048	1,857,566	54,151	–	(80,003)	1,852,762
Changes in equity for 2018:						
Total comprehensive income	–	–	–	–	14,059	14,059
Purchase of own shares (Note 25(c)(iii))	–	–	–	(2,321)	–	(2,321)
Cancellation of shares (Note 25(c)(iii))	(47)	(2,274)	–	2,321	–	–
Dividends declared in respect of the previous year (Note 25(b)(ii))	–	(21,048)	–	–	–	(21,048)
	(47)	(23,322)	–	–	14,059	(9,310)
Balance at 31 December 2018	**21,001**	**1,834,244**	**54,151**	**–**	**(65,944)**	**1,843,452**

25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Dividends

(I) DIVIDENDS PAYABLE TO EQUITY SHAREHOLDERS OF THE COMPANY ATTRIBUTABLE TO THE YEAR

	2018 HK$'000	2017 HK$'000
Final dividend proposed after the end of the reporting period of HK$1 cent per ordinary share (2017: HK$1 cent)	**21,001**	21,048

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(II) DIVIDENDS TO EQUITY SHAREHOLDERS OF THE COMPANY ATTRIBUTABLE TO THE PREVIOUS FINANCIAL PERIOD, APPROVED DURING THE CURRENT YEAR

	2018 HK$'000	2017 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$1 cent per ordinary share (2017: HK$ Nil)	**21,048**	–

(c) Share capital

(I) AUTHORISED AND ISSUED SHARE CAPITAL

	2018		2017	
	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	**2,104,786,727**	**21,048**	2,106,154,727	21,062
Shares issued under share option scheme (Note 25(c)(ii))	**–**	**–**	3,632,000	36
Cancellation of shares (Note 25(c)(iii))	**(4,660,000)**	**(47)**	(5,000,000)	(50)
At 31 December	**2,100,126,727**	**21,001**	2,104,786,727	21,048

(II) SHARES ISSUED UNDER SHARE OPTION SCHEME

During the year ended 31 December 2018, no share option was exercised.

25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital (continued)

(III) DURING THE YEAR ENDED 31 DECEMBER 2018, THE COMPANY REPURCHASED ITS OWN SHARES ON THE STOCK EXCHANGE AS FOLLOWS:

Month/year	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate price paid HK$'000
August 2018	**800,000**	**0.51**	**0.495**	**405**
September 2018	**3,860,000**	**0.51**	**0.485**	**1,916**
				2,321

The above repurchased shares of the Company were cancelled on 2 November 2018.

(IV) TERMS OF UNEXPIRED AND UNEXERCISED SHARE OPTIONS AT THE END OF THE REPORTING PERIOD

Exercise period	Exercise price	At 31 December 2018 Number '000
5 December 2015 to 4 December 2019	HK$2.690	**3,050**
5 December 2016 to 4 December 2019	HK$2.690	**7,625**
5 December 2017 to 4 December 2019	HK$2.690	**4,575**
		15,250

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 23 to the financial statements.

25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(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(r)(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(v).

(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.

25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(e) Capital management (continued)

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 loan from ultimate holding company) plus unaccrued proposed dividends. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

During the year ended 31 December 2018, the Group's strategy was to maintain the adjusted debt-to-capital ratio at a level similar to 31 December 2017. 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 2018 and 2017 is as follows:

	2018 HK$'000	2017 HK$'000
Current liabilities:		
Loans from a related party	**342,388**	–
Total debt	**342,388**	–
Add: proposed dividends	**21,001**	21,048
Adjusted net debt	**363,389**	21,048
Total equity	**2,197,652**	2,214,109
Less: proposed dividends	**21,001**	21,048
Adjusted capital	**2,176,651**	2,193,061
Adjusted debt-to-capital ratio	**16.7%**	1.0%

26 COMMITMENTS

(a) Capital commitments

At 31 December 2018, the outstanding capital commitments of the Group not provided for in the consolidated financial statements are as follows:

	2018 HK$'000	2017 HK$'000
Authorised and contracted for commitment in respect of investments in equity securities	**322,453**	24,046

(b) Operating lease commitments

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 HK$'000	2017 HK$'000
Within 1 year	**8,680**	8,961
After 1 year but within 3 years	**1,838**	5,143
	10,518	14,104

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.

27 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

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables and contract assets. The Group's exposure to credit risk arising from cash and cash equivalents, bills receivable and debt investments is limited because the counterparties are banks and financial institutions with sound credit standing, for which the Group considers to have low credit risk.

TRADE RECEIVABLES AND CONTRACT ASSETS

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 2018, 13% (2017: 25%) of the trade receivables and contract assets were due from the Group's largest debtor, and 47% (2017: 61%) of the trade receivables and contract assets were due from the Group's five largest debtors.

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. Normally, the Group does not obtain collateral from customers.

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

The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(a) Credit risk (continued)

TRADE RECEIVABLES AND CONTRACT ASSETS (CONTINUED)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables and contract assets as at 31 December 2018:

	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000
Within 1 year	**0.67%**	**327,327**	**(2,168)**
1–2 years	**2.48%**	**130,214**	**(3,225)**
2–3 years	**6.00%**	**16,465**	**(988)**
More than 3 years	**9.20%**	**140,201**	**(12,888)**
		614,207	**(19,269)**

Expected loss rates are based on actual loss experience over the past five years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

COMPARATIVE INFORMATION UNDER IAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see Note 2(k)(i) – policy applicable prior to 1 January 2018). At 31 December 2017, no trade receivables were determined to be impaired. The aging analysis of trade debtors that were not considered to be impaired was as follows:

	2017 HK$'000
Within 1 year	210,726
1–2 years	89,510
2–3 years	47,775
More than 3 years	22,336
	370,347

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.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(a) Credit risk (continued)

COMPARATIVE INFORMATION UNDER IAS 39 (CONTINUED)

Movement in the loss allowance account in respect of trade receivables and contract assets during the year is as follows:

	2018 HK$'000	2017 HK$'000
Balance at 31 December 2017 under IAS 39	**–**	–
Impact on initial application of IFRS 9 (Note 2(c)(i))	**19,934**	–
Balance at 1 January	**19,934**	–
Exchange adjustments	**(891)**	–
Impairment losses recognised during the year	**226**	–
Balance at 31 December	**19,269**	–

(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:

	2018		2017	
	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
Loans from a related party	**355,228**	**342,388**	–	–
Trade and other payables measured at amortised cost	**370,882**	**370,882**	377,352	377,352
	726,110	**713,270**	377,352	377,352

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to fair value interest rate risk in relation to loans from a related party with a fixed-rate (see Note 22). Cash flow interest rate risk in relation to bank balances and pledged bank deposits is considered insignificant. Interest rate risk is managed by the management of the Group on an ongoing basis with the primary objective of limiting the extent to which interest expense could be affected by adverse movement in interest rates.

SENSITIVITY ANALYSIS

Since the Group has no variable-rate borrowings at the end of the reporting period, no sensitivity analysis about interest rates risk is prepared.

(d) Currency 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.

(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	
	2018 HK$'000	2017 HK$'000
Other receivables	**45,545**	47,741

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Currency risk (continued)

(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.

	2018		2017	
	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%	4,555	10%	4,774
	(10%)	(4,555)	(10%)	(4,774)

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 2017.

27 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	
	2018	2017
	HK$'000	HK$'000
Recurring fair value measurements		
Unlisted debt investments (Note 16)	**74,983**	116,760

(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 2018 and 2017.

28 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

	2018 HK$'000	2017 HK$'000
Loans from a related party	**338,295**	–
Interest expenses of loans from a related party	**2,747**	–
Provision of design, implementation and sale of application solution services	**54,923**	72,206
Provision of maintenance of application solution services	**45,877**	43,910
Provision of civil communication transmission services	**–**	292
Operating lease expenses	**5,584**	4,859
Net increase in advances received	**22,343**	–

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

	2018 HK$'000	2017 HK$'000
Provision of design, implementation and sale of application solution services	**27,524**	5,808
Net (decrease)/increase in receipts in advance received	**(9,569)**	1,584

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

	2018 HK$'000	2017 HK$'000
Repayment of advances	**5,400**	–
Capital contribution	**5,400**	–

(d) Transactions with joint ventures and an associate

	2018 HK$'000	2017 HK$'000
Purchases of goods from a joint venture	**4,111**	–
Advances to a joint venture	**1,141**	–
Capital contributions	**–**	72,256
Dividend income from a joint venture	**–**	1,374

28 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:

	2018 HK$'000	2017 HK$'000
Short-term employee benefits	**10,238**	9,890
Retirement scheme contributions	**441**	416
Equity compensation benefits	**–**	165
	10,679	10,471

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

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

The ultimate holding company of the Company, 北京市基礎設施投資有限公司 ("Beijing Infrastructure Investment Co., Ltd.") ("BII"), is a state-controlled enterprise controlled by the PRC government. Apart from transactions with BII and its affiliates which were disclosed in Note 28(a) 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;
- civil communication transmission services;
- bank deposits; and
- purchase of debt investments.

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

For the year ended 31 December 2018, 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.

29 THE COMPANY'S STATEMENT OF FINANCIAL POSITION

	Note	2018 HK$'000	2017 HK$'000
Non-current assets			
Investments in subsidiaries	14	**526,909**	526,909
Interest in a joint venture		**294,735**	294,735
		821,644	821,644
Current assets			
Other receivables		**46,768**	57,637
Cash and cash equivalents		**985,253**	976,945
		1,032,021	1,034,582
Current liabilities			
Accrued expenses and other payables		**10,213**	3,464
Net current assets		**1,021,808**	1,031,118
NET ASSETS		**1,843,452**	1,852,762
CAPITAL AND RESERVES	25		
Share capital		**21,001**	21,048
Reserves		**1,822,451**	1,831,714
TOTAL EQUITY		**1,843,452**	1,852,762

Approved and authorised for issue by the board of directors on 26 March 2019.

Cao Wei
Director

Xuan Jing
Director

30 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Dividends

After the end of the reporting period the directors of the Company proposed a final dividend. Further details are disclosed in Note 25(b).

(b) On 29 November 2018, the Group, NetPosa, Huaqi Intelligent and Mr. 劉光 ("Liu Guang") entered into the Acquisition Agreements pursuant to which the Group has conditionally agreed to acquire and NetPosa has conditionally agreed to sell 95% of equity interests in Huaqi Intelligent, with a maximum consideration of RMB1,045,000,000. The acquisition was fully passed at the extraordinary general meeting on 25 February 2019.

(c) On 20 February 2019, one wholly-owned subsidiary of the Group and a non-controlling equity holder of a subsidiary of the Group entered into an equity transfer agreement, pursuant to which the wholly-owned subsidiary of the Group has agreed to acquire, and the non-controlling equity holder of a subsidiary of the Group has agreed to sell, 10% equity interests in a subsidiary of the Group, at the consideration of RMB17,688,000.

(d) On 31 December 2018, BII Zhuoyue, one wholly-owned subsidiary of the Group and 新岸線(北京)科技集團有限公司 (Nufront (Beijing) Technology Group Co., Ltd.) entered into an framework agreement to acquire 30% equity interests in 北京新岸線軌道交通技術有限公司 (Beijing Nufront Line Rail Transit Technology Co., Ltd.) at a consideration of RMB15,000,000. The transaction was completed on 31 January 2019.

31 COMPARATIVE FIGURES

The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2(c).

32 IMMEDIATE AND ULTIMATE HOLDING COMPANY

At 31 December 2018, the directors of the Company consider the immediate and ultimate controlling party of the Company to be Beijing Infrastructure Investment (Hong Kong) Limited, 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)

33 POSSIBLE IMPACT OF NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of these financial statements, the IASB has issued a number of amendments and new standards and interpretations which are not yet effective for the year ended 31 December 2018 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
IFRS 16, *Leases*	1 January 2019
IFRIC 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019
Amendments to IAS 28, *Long-term interest in associates and joint ventures*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the IFRS 16 which may have an impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

33 POSSIBLE IMPACT OF NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

IFRS 16, *Leases*

Currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The group enters into some leases as the lessor and others as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by IFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information.

The Group is currently assessing the impacts of adopting IFRS 16 on its financial statements. 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.

京投軌道交通科技控股有限公司
BII Railway Transportation Technology Holdings Company Limited

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