Annual Report 2018

中国智能交通系统(控股)有限公司
China ITS (Holdings) Co., Ltd.
(incorporated in the Cayman Islands with limited liability)
Stock Code: 1900

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Liao Jie *(chairman of the Board)*
Mr. Jiang Hailin *(chief executive officer)*

Non-executive Director

Mr. Tim Tianwei Zhang

Independent Non-executive Directors

Mr. Choi Onward *(FCCA, HKICPA)*
Mr. Ye Zhou
Mr. Wang Dong *(CICPA, CIMA, AAIA, CGMA)*

COMPANY SECRETARY

Mr. Leung Ming Shu *(FCCA, FCPA)*

AUTHORIZED REPRESENTATIVES

Mr. Jiang Hailin
Suite 102, 1st Unit, 8th building
1 Balizhuang Beili, Haidian District
Beijing
China

Mr. Leung Ming Shu *(FCCA, FCPA)*
Flat 1, 3/F, Block A
Ventris Place
19–23 Ventris Road
Happy Valley
Hong Kong

AUDIT COMMITTEE

Mr. Choi Onward *(committee chairman)* *(FCCA, HKICPA)*
Mr. Wang Dong *(CICPA, CIMA, AAIA, CGMA)*
Mr. Ye Zhou

REMUNERATION COMMITTEE

Mr. Ye Zhou *(committee chairman)*
Mr. Wang Dong *(CICPA, CIMA, AAIA, CGMA)*
Mr. Choi Onward *(FCCA, HKICPA)*

NOMINATION COMMITTEE

Mr. Wang Dong *(committee chairman)* *(CICPA, CIMA, AAIA, CGMA)*
Mr. Choi Onward *(FCCA, HKICPA)*
Mr. Ye Zhou

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE IN THE PRC

Building 204, No. A10,
Jiuxianqiao North Road,
Chaoyang District
Beijing 100015, China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1004
Tung Wah Mansion
199–203 Hennessy Road
Hong Kong

COMPANY WEBSITE

www.its.cn

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

Corporate Information

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Suites 3301–04, 33/F
Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

AUDITOR

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

LEGAL ADVISOR

Luk & Partners
In Association with Morgan, Lewis & Bockius
Suites 1902–09, 19th Floor
Edinburgh Tower, The Landmark
15 Queen's Road Central
Hong Kong

LISTING EXCHANGE INFORMATION

Place of listing: Main Board of The Stock Exchange of Hong Kong Limited
Stock code: 1900
Board lot: 1000 shares

PRINCIPAL BANKERS

Bank of Beijing Co., Ltd. Beijing Branch Cuiweilu sub-branch
China Merchants Bank Co., Ltd. Beijing Branch Beisanhuan sub-branch
China Everbright Bank Co., Ltd. Beijing Branch Xicheng sub-branch
China Guangfa Bank Beijing Branch
China Guangfa Bank Macau Branch
Fubon Bank (China) Co., Ltd. Tianjin Branch
LUSO International Banking Ltd. Macau Branch
Ping An Bank Co., Ltd. Shanghai Pilot Free Trade Zone Branch
Shengjing Bank Beijing Branch Guanyuan sub-branch
Shanghai Pudong Development Bank Co.,Ltd. Waigaoqiao Free Trade Zone sub-branch
Xiamen International Bank Co., Ltd. Beijing Zhongguancun sub-branch
China Minsheng Bank Beijing Branch Sales Department
Shanghai Huarui Bank Co., Ltd.
China Construction Bank Hong Kong Branch

Corporate Information

KEY SUBSIDIARIES

"Aproud Technology"	Beijing Aproud Technology Co., Ltd. (北京亞邦偉業技術有限公司)
"Haotian Jiajie"	Beijing Haotian Jiajie Technology Co., Ltd. (北京昊天佳捷科技有限公司)
"Hongrui Dake"	Beijing Hongrui Dake Technology Co., Ltd. (北京宏瑞達科科技有限公司)
"Jiangsu Zhongzhi Transportation"	Jiangsu Zhongzhi Transportation Technology Co., Ltd. (江蘇中智交通科技有限公司)
"Jiangsu Zhongzhi Ruixin"	Jiangsu Zhongzhi Ruixin IOT Technology Co., Ltd. (江蘇中智瑞信物聯科技有限公司)
"Zhongzhi Runbang"	Beijing Zhongzhi Runbang Technology Co., Ltd. (北京中智潤邦科技有限公司)
"Zhixun Tiancheng"	Beijing Zhixun Tiancheng Technology Co., Ltd. (北京智訊天成技術有限公司)
"Zhongtian Runbang"	Zhongtian Runbang Information Technology Co., Ltd. (中天潤邦信息技術有限公司)
"Tibet Intelligent Aviation"	Tibet Intelligent Aviation Transportation Technology Co., Ltd. (西藏智航交通科技有限公司)
"Chengdu Zhongzhi Runbang"	Chengdu Zhongzhi Runbang Transportation Technology Co., Ltd. (成都中智潤邦交通技術有限公司)
"Jiangsu Zhixun Tiancheng"	Jiangsu Zhixun Tiancheng Technology Co., Ltd. (江蘇智訊天成技術有限公司)

Financial Highlights

HIGHLIGHTS OF 2018 ANNUAL RESULTS

As of December 31, 2018 (the "**Year**" or "**2018**"), results of China ITS (Holdings) Co., Ltd. (the "**Company**") and its subsidiaries (collectively the "**Group**") are as follows:

- The Group recorded RMB1,148.1 million from new contracts signed, representing an increase of 17.8% compared to the previous year.

- Revenue of RMB924 million was generated, representing a decrease of 20.7% compared to the previous year.

- As at December 31, 2018, the Group recorded RMB978.1 million from backlog, representing an increase of 8.6% compared to the previous year.

- The Group generated overall gross profit of RMB164.6 million, which declined by 36.5% compared to the previous year and gross profit margin of 17.8%, representing a decrease of 4.5 percentage points compared to the previous year.

- The loss attributable to owners of the parent of the Company amounted to RMB116.3 million as compared to the profit of RMB24.5 million for the previous year. IFRS 9 — Financial Instruments has been implemented since January 1, 2018: upon the adoption of IFRS 9, the equity investments held by the Group were measured at fair value through profit or loss and the bad debts provisions for trade receivables and contract assets were measured based on expected credit loss (ECL). Due to the depression in the stock market, there was a significant decline in the fair value of the equity investments, which led to a loss of RMB51.2 million for the year. Bad debts provision for the year increased by RMB32.6 million as a result of the new bad debts provision policy. Excluding the above factors, the profit for the year decreased by RMB57 million compared to the previous year.

Financial Summary

A summary of backlog information, financial performance, financial position and financial ratios of the Group over the last five financial years is set out below:

1. BACKLOG INFORMATION

RMB'000	2018	2017	2016	2015	2014
	Year ended December 31,				
New contracts signed	**1,148,084**	974,722	1,665,755[1]	2,642,215[2]	2,198,665[2]

RMB'000	2018	2017	2016	2015	2014
	As at December 31,				
Backlog	**978,122**	900,699	1,059,909[1]	2,193,050[2]	1,976,892[2]

2. FINANCIAL PERFORMANCE

RMB'000	2018	2017	2016	2015	2014
	Year ended December 31,				
Revenue	**923,966**	1,164,838	1,551,844[1]	2,317,541[2]	2,266,696[2]
Gross profit	**164,635**	259,338	279,108[1]	393,063[2]	349,259[2]
Profit/(loss) attributable to owners of parent	**(116,278)**	24,490	75,506[1]	(278,476)[2]	(194,657)[2]

3. FINANCIAL POSITION

RMB'000	2018	2017	2016	2015	2014
	As at December 31,				
Total assets	**4,105,634**	4,333,194	5,347,011	6,384,993	5,755,675
Net assets	**2,030,689**	2,202,490	2,164,758	2,126,140	2,443,508
Net cash position	**(269,198)**[3]	(581,175)	(415,220)	(367,494)	(154,387)

Notes:

(1) Excluding former subsidiaries which were disposed of and operations which were discontinued since December 31, 2016.

(2) Including subsidiaries before disposal and all operations prior to December 31, 2016.

(3) Net cash position as at December 31, 2018 refers to cash and cash equivalents plus pledged deposits minus interest-bearing bank borrowings.

(4) Details of the above financial information are set out in Management Discussion and Analysis section on page 11 to page 15.

Financial Summary

4. FINANCIAL RATIOS

	For the year ended/As at December 31, 2018	2017	2016	2015	2014
Sales cycle ratios:					
Trade receivables turnover days (days)(1)	**409**	371	283	245	203
Contract assets/contract liabilities turnover days (days)(2)	**114**	15	58	51	78
Combined trade receivables and contract assets/contract liabilities turnover days (days)	**523**	386	341	296	281
Other ratios:					
Trade payables turnover days (days)(3)	**251**	228	200	234	212
Current ratio (times)(4)	**1.9**	1.8	1.5	1.4	1.5
Gearing ratio (%)(5)	**–17.4%**	–14.6%	–29.2%	5.3%	2.0%
Return on assets (%)(6)	**–2.8%**	0.6%	1.4%	–4.4%	–3.4%
Return on equity (%)(7)	**–5.7%**	1.1%	3.5%	–13.1%	–8.0%

Notes:

(1) Trade receivables turnover days refers to average trade receivables divided by revenue multiples 365 days.

(2) Contract assets/contract liabilities turnover days refers to average contract assets minus contract liabilities divided by revenue multiples 365 days.

(3) Trade payables turnover days refers to average trade payables divided by cost of sales multiples 365 days.

(4) Current ratio refers to current assets divided by current liabilities.

(5) Gearing ratio refers to adjusted cash (interest-bearing bank borrowings plus due to related parties minus pledged deposits and cash and bank balances) divided by total equity.

(6) Return on assets refers to profit attributable to owners of parent divided by total assets as at balance sheet date.

(7) Return on equity refers to profit attributable to owners of parent divided by total equity as at balance sheet date.

(8) Details of the above financial information are set out in Management Discussion and Analysis section on page 11 to page 15.

Chairman's Statement

Dear Shareholders,

2018 was a tough year for our Group. On the one hand, as the first wave of the projects for periodic reconstruction of railway network had ended, despite that China's fixed asset investment in railways in 2018 maintained at more than RMB800 billion, the railway communications market was the bottom of a trough. In response to changes in the market, the Group strove to maintain a high market share for its traditional business and actively explored new business and markets. With the concerted efforts of all the employees of the Group, the new contracts signed increased by 17.8% as compared with 2017 and exceeded RMB1.1 billion. Our revenue in 2018 declined sharply compared with the same period last year due to many projects yet to be delivered. On the other hand, the Group restructured its civil aviation business with NEEQ-listed Forever Opensource (stock code: 834415). After the restructuring, the Group no longer included financial information of its civil aviation business in the consolidated financial statements for the year.

The depressed securities market in China and adoption of IFRS 9 — *Financial Instruments* resulted in a decrease of RMB83.8 million in profit for the year despite good momentum for the businesses of equity investments held by the Group. Excluding the above reasons, the profit of the Group for the year would have decreased by RMB57 million than last year.

OVERVIEW OF THE OVERALL OPERATION OF THE COMPANY DURING THE REPORTING PERIOD

In 2018, the Group recorded RMB1,148.1 million from new contracts signed, representing an increase of 17.8% compared to the previous year. The Group generated revenue of RMB924 million, representing a decrease of 20.7% compared to the previous year, and as of December 31, 2018 RMB978.1 million from backlog, representing an increase of 8.6% compared to the end of the previous year. The overall gross profit was RMB164.6 million, representing a decrease of 36.5% compared to the previous year, and gross profit margin of 17.8%, declined from 22.3% for the previous year. The loss attributable to owners of the parent of the Company amounted to RMB116.3 million for the year.

Business Review

The Group is one of the largest solution providers in the railway communication segment, maintaining a relatively high market share. The Group actively responded to the market fluctuations and made some achievements, while the revenue for the year was lower than that of last year due to the fact that most of the projects has not been delivered by the year end:

1. Although in 2018 the railway communication market stayed in bottom periodically, the Group had secured new contracts of RMB1,148.1 million through great effort, an increase of 17.8% over the previous year. Meanwhile, as of December 31, 2018, the backlog reached to RMB978.1 million, laying a solid foundation for 2019.

Chairman's Statement

2. The Group won several national railway benchmark projects, leading the new technologies and solutions for future railway communication network solutions:

   2.1 The Group has signed a contract for the Menghua Project, which is the new national strategic freight channel — North-to-South Coal Transportation, the first intelligent heavy haul railway project in China and the benchmark project in the future railway freight. Meanwhile, the Group has signed a contract for the Railway External Service-Oriented Data Communication Network (Main Network) Project. This network is the only main network of the railway information system and a benchmark project of information network development for 18 Chinese railway administrations in the future. Both contracts laid a good foundation for the Group to secure more orders in this segment in the future.

   2.2 The Beijing-Zhangjiakou High-Speed Railway Project is an important infrastructure to guarantee the transportation for 2022 Beijing Winter Olympics. It is the first intelligent high speed railway in Mainland China, which will employ the China developed Beidou Satellite Navigation System for the first time, with a speed of 350 kilometres per hour. It is also the world's first high-speed railway designed to travel at a speed of up to 350 kilometres per hour in a frigid, windy and sandy environment. After winning this project, the Group had become the first provider of intelligent high-speed railway communication solutions using the Beidou Satellite Navigation System.

3. Apart from the railway communication, the Group had made breakthroughs in other railway-related sectors and had created new growth points for the Group:

   3.1 The new orders had grown significantly for the Group's railway video surveillance business, leaving behind the milestone of RMB100 million;

   3.2 The new orders also increased remarkably for the Group's railway air conditioning business, with the sales exceeding RMB50 million.

4. The contracts for the Group's overseas railway business increased significantly.

In 2018, the Group signed a contract for the procurement of air-conditioning equipment for the urban railway system in Astana, Kazakhstan and a contract for the maintenance of wireless communication systems for the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong High-speed Railway. The contract amount exceeded RMB100 million in total, which implies that the Group has preliminarily realized its strategy of "Go Global" and laid a solid foundation for vigorous overseas market expansion in the future.

Chairman's Statement

Prospects on Business

1. The railway business has a better prospect at the macro level

1.1 In 2019, the railway infrastructure investment is expected to reach the highest level in history with a scale of RMB850 billion. China will further open up its railway industry while bringing it overseas. The "Belt and Road Initiative" will continue to present opportunities for the Group's overseas railway business.

1.2 As a result of the requirements of the State Railway Administration on the next generation of high-speed intelligent railways, the new generation of LTE-R communication technology will be piloted and promoted in the railway system. The relevant equipment and technologies of the existing GSM communication system will gradually be phased out and replaced by new technologies and solutions. The railway communication market will usher in new growth opportunities.

2. The Group will maintain its advantages of the existing railway business and actively develop its new businesses

The Group will consistently strive to maintain the competitive advantages of its existing railway businesses, including higher market share and better customer satisfaction. At the same time, the Group will continue to maintain the great performance of new solutions such as video surveillance and air conditioning, and keep increasing its investments in the overseas railway markets.

The Group will continue to seek for new business opportunities in the railway segment, including station WIFI, smart station solutions and railway public cloud solutions.

3. The Group will improve its internal operating system, promote its operating efficiency and steadily push forward its capital-funded expansion strategy

The Group will improve the governance mechanism of the Company and its subsidiaries, optimize their internal management processes rationally, and strengthen their synergy and risk control capability. At the same time, the Group will increase its post-investment management on investees to control the investment risks.

The Group will steadily push forward its capital-funded expansion strategy, paying attention not only into the industrial chain of its existing businesses in depth, but also into the infrastructures and sectors from basic industry with continuous high investment both in China and overseas (especially in countries along the "the Belt and Road Initiative" route). By means of capitalization, the Group will improve and optimize its industrial landscape.

LIAO JIE
Chairman

Beijing, March 28, 2019

Management Discussion and Analysis

REVENUE

For the year, the Group generated revenue and gross profit as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Revenue by business model		
SS	**849,102**	1,082,667
VAOS	**81,697**	100,274
Elimination	**(6,833)**	(18,103)
Total	**923,966**	1,164,838

(i) SS

For the year, revenue of RMB849.1 million was recognised from the SS business, representing a decrease of RMB233.6 million compared to the previous year. The business recorded RMB1,017.7 million from new contracts signed, representing an increase of RMB143.6 million compared to the previous year and as of the end of the year RMB894.9 million from backlog, representing an increase of RMB64.9 million compared to the end of the previous year.

The decrease in the revenue was because:

1. As the first wave of the railway network reconstruction project has basically ended, revenue of the Group's railway business in 2018 decreased by RMB189.4 million compared to the same period last year due to many projects yet to be delivered despite a large growth in new contracts signed in respect of the business compared to 2017.

2. The civil aviation business was no longer included in the consolidated financial statements of the Group for the year, which generated revenue of RMB44.2 million for the previous year.

(ii) VAOS

Revenue recognised from the VAOS business for the year was RMB81.7 million, representing a decrease of RMB18.6 million compared to the previous year. The business recorded RMB130.4 million from new contracts signed, representing an increase of RMB29.8 million compared to the previous year and as of the end of the year RMB83.2 million from backlog, representing an increase of RMB12.5 million compared to the end of the previous year.

The decrease in the revenue is mainly because the civil aviation business was no longer included in the consolidated financial statements of the Group for the year, which generated revenue of RMB13.9 million for the previous year. Excluding this factor, revenue recognised from the VAOS business decreased by RMB4.7 million compared to the previous year.

GROSS PROFIT

The Group generated gross profit of RMB164.6 million in 2018, representing a decrease of RMB94.7 million compared to the previous year. Gross profit margin decreased from 22.3% for the previous year to 17.8% for the year.

	Year ended December 31,	
	2018 **RMB'000**	2017 RMB'000
Gross profit by business model		
SS	**136,464**	195,493
Margin %	**16.1%**	18.1%
VAOS	**28,171**	63,845
Margin %	**34.5%**	63.7%
Elimination	**–**	–
Total	**164,635**	259,338
Margin	**17.8%**	22.3%

(ii) SS

For the year, gross profit of RMB136.5 million was recognised from the SS business, representing a decrease of RMB59 million compared to the previous year. In addition to exclusion of the civil aviation business (for which SS business generated gross profit of RMB11.7 million in 2017) from the consolidated financial statements, the decrease in gross profit was because many projects of the railway communication SS business were yet to be delivered and revenue from the business decreased.

The gross profit margin was 16.1%, declined by 2% compared to the previous year. The decrease in the gross profit margin was: because of the demand of the market, some important projects strategically acquired at lower prices this year affected the gross profit margin of the Group.

(ii) VAOS

Gross profit recognised from the VAOS business for the year was RMB28.2 million, representing a decrease of RMB35.6 million compared to the previous year. Other than exclusion of the civil aviation business (for which VAOS business generated gross profit of RMB9.3 million in 2017) from the consolidated financial statements, the decrease of the overall margin rate of the ongoing projects was also an important reason.

For the year, the gross profit margin of VAOS was 34.5%, declined by 29.2% compared to the previous year. This reduction was because:

1. The Group increased its investment in the VAOS business to improve customer satisfaction and increase the market share of the business, resulting in higher service costs. Although the Group obtained service contracts which increased by RMB29.8 million from the previous year, revenue recognised for the year decreased due to contracts were mostly signed at the second half of the year, which led to a lower gross profit margin. The gross profit margin of the VAOS business is expected to improve next year.

2. The civil aviation business was no longer included in the consolidated financial statements of the Group for the year, which generated gross profit of RMB9.3 million and gross profit margin of 67.1% for the previous year.

OTHER INCOME AND GAINS

Other income and gains mainly comprised of rental income and gains from changes in fair value of the investment properties. The rental income and gains from changes in fair value of the investment properties were related to the real estate price in Beijing and was in line with the market growth trend.

SELLING, DISTRIBUTION AND ADMINISTRATION EXPENSE (IMPAIRMENT LOSSES INCLUDED)

For the year, selling, distribution and administration expense was approximately RMB244.8 million, representing an increase of RMB44.4 million as compared to the previous year.

(i) Selling, distribution and administration expense which was related to daily operational activities

For the year, selling, distribution and administration expense which was related to daily operational activities was RMB164.5 million, as a percentage of sales was 17.8%. For the previous year, selling, distribution and administration expense which was related to daily operational activities was approximately RMB171.1 million, as a percentage of sales was 14.7%.

For the year, the expenses decreased by RMB6.6 million as compared to the previous year. After excluding the factor that the expenses for the previous year included RMB18.4 million from the civil aviation business, the expenses grew by RMB11.8 million, a 7.7% increase compared to the previous year. The expenses were higher than those for the previous year mainly because of increased investments in the market.

(ii) Impairment losses

For the year, impairment losses were RMB80.3 million, representing an increase of RMB51 million compared to the previous year. The increase of impairment was mainly because: 1. due to the adoption of IFRS 9 *Financial Instruments* since the year, more bad debts provision amounting to RMB32.6 million was recorded based on expected credit loss than that under the incurred loss approach; and 2. due to policy reasons of China Railway Corporation, there is great uncertainty in expected income for some R&D investment projects recorded into other intangible assets in previous years. As such, a provision for impairment of RMB10.3 million was made for the year.

FINANCE REVENUE AND FINANCE COST

Finance revenue comprised of mainly interest income and finance cost comprised of mainly interest expenses for interest-bearing bank loan. The net financial expenses represented the total finance cost minus finance revenue. For the year, this net financial expense was RMB6.5 million for year, which represented a decrease of RMB19.1 million as compared to the previous year. The decrease was because the Group sold some of its subsidiaries in 2016 whose considerations were paid by instalments and their buyers needed to pay interest of approximately RMB25 million to the Group. Therefore, the interest income in 2018 increased, leading to a decrease in the net financial expense for the year.

SHARE OF PROFIT OF JOINT VENTURE/ASSOCIATES

For the year, share of profit of investment entities for the year was approximately RMB3.9 million, as compared to the profit of RMB0.6 million for the previous year.

PROFIT OR LOSS THROUGH FAIR VALUE CHANGES

For the year, the Group's equity investments in Forever Opensource (stock code: 834415), CNBM Technology (stock code: 834082), Shenzhen Hopeland and eSOON China led to a loss of RMB51.2 million through fair value changes, which was due to the depression in the stock market and the changes of measurement upon the adoption of IFRS 9 Financial Instruments.

INCOME TAX EXPENSES

The total income tax expenses for the year were RMB2.2 million, which were RMB24.6 million for the previous year.

LOSS FOR THE YEAR

For the year, the loss attributable to owners of the parent of the Company amounted to RMB116.3 million as compared to the profit of RMB24.5 million for the previous year.

There was great loss for the year. Besides a decrease in revenue, the adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* since January 1, 2018 was also a major reason which caused a loss amounted to RMB84.9 million for the year. The impacts of the two Standards are as follows:

(1) Because of the adoption of IFRS 9 *Financial Instruments*, there were some changes in the measurement of equity investments held by the Group. As a result of the depression in the stock market, there was a decline in the fair value of the equity investments that were held by the Group and measured at fair value through profit or loss for the year, which led to a loss of RMB51.2 million;

(2) Due to the adoption of IFRS 9 *Financial Instruments*, the adoption of a forward-looking expected credit loss (ECL) approach for the year resulted in more bad debt provision amounting to RMB32.6 million than that under the incurred loss approach; and

(3) The adoption of IFRS 15 *Revenue from Contracts with Customers* led to revenue recognised at zero gross profit for projects which goods had been delivered to customers but not been integrated, resulting in a decrease of RMB1.1 million for revenue recognised in the year.

TRADE RECEIVABLES TURNOVER DAYS

For the year, the trade receivables turnover days was 409 days (last year: 371 days).

CONTRACT ASSETS/CONTRACT LIABILITIES TURNOVER DAYS

For the year, the contract assets/contract liabilities turnover days was 114 days (last year: 15 days).

TRADE PAYABLES TURNOVER DAYS

For the year, the receivables turnover days was 251 days (last year: 228 days).

LIQUIDITY AND FINANCIAL RESOURCES

The Group's principal sources of working capital included cash flow from operating activities, bank and other borrowings, the proceeds from the Global Offering. As of December 31, 2018, the Group's current ratio (current assets divided by current liabilities) was 1.9, representing an increase compared to the previous year (as at December 31, 2017: 1.8) The Group's financial position remains healthy.

As of December 31, 2018, the Group was in a net negative cash position of RMB269.2 million (as at the previous year end: negative RMB298 million[(1)]), representing an increase of RMB28.8 million from the previous year, and the net cash flow slightly improved. As at the Year End, the Group's gearing ratio was -17.4%, declined by 2.8% from -14.6% as at the end of the previous year.

CONTINGENT LIABILITIES

As at December 31, 2018, the Group had no material contingent liability.

CHARGES ON GROUP ASSETS

As at December 31, 2018, except for the pledged deposits of approximately RMB368.7 million (as at December 31, 2017: RMB283.1 million), the Group pledged a building with a net carrying amount of approximately RMB212.9 million and equity in a subsidiary (as at the end of the previous year, the Group pledged trade receivables with a carrying amount of RMB94.2 million to banks to secure banking facilities granted to the Group) to banks to secure banking facilities granted to the Group. Save as disclosed above, as at the Year End, the Group had no other assets charged to financial institution.

Notes:

(1) As at December 31, 2017, except for the pledged deposits, the Group was in a net negative cash position of RMB581.1 million which included cash and cash equivalents of RMB179.7 million and interest-bearing bank borrowings of RMB760.8 million.

Director and Senior Management

BOARD OF DIRECTORS

As at the date of this report, the Board consisted of six Directors, two of whom are executive Directors, one of whom is a non-executive Director and the remaining three are independent non-executive Directors. Mr. Zhou Chunsheng was an independent non-executive Director of the Company who had not offered himself for re-election at the Annual General Meeting dated June 21, 2018. Mr. Wang Dong was elected as an independent non-executive Director at the Annual General Meeting in place of Mr. Zhou Chunsheng.

The table below sets forth certain information regarding the Directors who held office as at the date of this annual report:

Name	Age	Title
Mr. Liao Jie	53	Chairman and executive Director
Mr. Jiang Hailin	50	Executive Director
Mr. Tim Tianwei Zhang	56	Non-executive Director
Mr. Choi Onward	48	Independent non-executive Director
Mr. Ye Zhou	51	Independent non-executive Director
Mr. Wang Dong	43	Independent non-executive Director

Executive Director

Mr. LIAO Jie (廖杰), 53, is the chairman of the Board (the "**Chairman**") and an executive Director, responsible for formulating strategy of the Company. He was appointed as the executive Director and the chief executive officer of the Company (the "**Chief Executive Officer**") on August 24, 2011 and was responsible for the overall business operations and mergers and acquisitions of the Company. On July 9, 2012, Mr. Liao has been elected as the Chairman and retired from his position as the Chief Executive Officer. Mr. Liao is also one of the controlling shareholders of the Company (the "**Controlling Shareholder**"), and serves as a director of China ITS Co., Ltd. ("**Holdco**", one of the Controlling Shareholders), Best Partners Development Limited ("**Best Partners**", one of the Controlling Shareholders), and Joyful Business Holdings Limited ("**Joyful Business**", one of the Controlling Shareholders). Mr. Liao has been appointed as a director of Visual China Group Co., Ltd. (formerly known as Far East Industrial Stock Co., Ltd., a company listed on the Shenzhen Stock Exchange, stock code: 000681, "**Visual China**") from May 9, 2014 and the chairman of Visual China from May 29, 2014. Mr. Liao became a director of Beijing RHY Technology Development Co., Ltd. in May 2002, responsible for strategic planning and operational management in the expressway segment and retired from the directorship when he started serving as a senior advisor of the Board of the Company on business strategy and operational direction of the Group in January 2008.

Director and Senior Management

Prior to joining the Company, Mr. Liao served as a senior engineer of Nortel Canada in 1995. From 1996, he spent a total of four years in North America running an international IT supply chain business before returning to the PRC in 1999. In 1999, Mr. Liao and his family founded Beijing Bailian Youli Information Technology Co., Ltd. (the investment holding company prior to the establishment of Bailian Youli (Beijing) Investment Co., Ltd.), which invested and co-founded Visual China, CSDN Group Limited and the Group.

Mr. Liao holds a master's degree in applied science from the University of Toronto, and a bachelor degree in industrial automation from the Huazhong University of Science and Technology. Mr. Liao has a long established understanding of the businesses of the Group and deep industry expertise, as a result of which he can help the Group to reshape its business model, achieve operational excellence and diversify our business mix across different transport industry segments.

Mr. JIANG Hailin (姜海林), 50, is an executive Director and the Chief Executive Officer, responsible for overall business operation of the Company. Mr. Jiang was appointed as the Director on February 20, 2008, and was then elected as the Chairman. On July 9, 2012, Mr. Jiang has been re-appointed as the Chief Executive Officer and therefore resigned from his position as the Chairman. He is also one of the Controlling Shareholders, a director of Holdco and Sea Best Investments Limited ("**Sea Best**", one of the Controlling Shareholders). Since he joined our Group in May 2002, Mr. Jiang has held various positions within our Group including serving as a director and chairman of the board of directors of Haotian Jiajie since March 2007, a director and chairman of the board of directors of Aproud Technology from August 2002 to February 2010 and again since May 2010, an executive director of Jiangsu Zhongzhi Transportation since December 2011, an executive director of Zhixun Tiancheng since November 2014, and an executive director of Hongrui Dake since November 2015.

Prior to joining our Group, Mr. Jiang was employed by China Ocean Shipping Co., Ltd., a PRC incorporated company listed on the Shanghai Stock Exchange (stock code: 600428) where he was responsible for the development of ground transportation logistics network, in particular, the development of the cargo movement monitoring systems for ground transportation in the China ITS industry. He has established his business relationship and network in the transport industry since 2000.

Mr. Jiang received a bachelor's degree in computing from Nankai University in July 1990 and an EMBA degree from Tsinghua University in July 2006. Mr. Jiang possesses a total of approximately 25 years of experience in general management and over 17 years of experience in the China ITS industry.

Non-executive Director

Mr. Tim Tianwei Zhang (張天偉), 56, first joined the Group when he was appointed as a non-executive Director on May 20, 2014. Mr. Zhang is an independent non-executive director of HC Group Inc. (stock code: 2280), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited, (the "**Stock Exchange**") since November 2011.

Mr. Zhang was the cofounder and managing director of Taconic Capital Ltd. from September 2003 to September 2005, the vice chairman and general manager of Unicredit China Capital Ltd. from September 2005 to June 2007. He was the managing director at J.P. Morgan Securities (Asia Pacific) Ltd. from July 2007 to October 2011, as well as the chairman of J.P. Morgan (China) Venture Capital Investment Co., Ltd. from 2010 to 2011. Mr. Zhang was the Chief Operating Officer of China Merchants Capital Investment Limited from April 2012 to December 2014. Mr. Zhang was the managing director of Mount Flag Capital Limited (formerly known as Taconic Capital Group Ltd.) from January 2015 to September 2018 and chief executive officer of Mount Flag, LLC from August 2015 to September 2018. Mr. Zhang serves as Chief Investment Officer of China Resources Capital Management Ltd. since October 2018. Mr. Zhang has over 24 years of experience in financial services and general management.

Mr. Zhang graduated from Tsinghua University with a Bachelor of Science in mechanical engineering in July 1986, and received his master's degree in economics from the Chinese Academy of Social Sciences and his Master of Business Administration degree from the University of Chicago.

Independent Non-Executive Director

Mr. CHOI Onward (蔡安活), 48, is an independent non-executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee and Nomination Committee during the year ended December 31, 2018 up to the date of this report. Mr. Choi was appointed as Director on September 4, 2008. Mr. Choi was the acting chief financial officer of NetEase, Inc., a Nasdaq-listed company, from July 2007 to June 2017. Mr. Choi currently serves as an independent non-executive director and the chairman of the Audit Committee of Beijing Jingkelong Company Limited and Wise Talent Information Technology Company Limited, both companies are listed on the Hong Kong Stock Exchange. Mr. Choi also serves as the independent director and chairman of the Audit Committee of Tuniu Corporation, a Nasdaq-listed company.

Mr. Choi is a fellow member of the Association of Chartered Certified Accountants, CPA Australia and the Hong Kong Institute of Certified Public Accountants. Mr. Choi holds a Bachelor of Arts degree in accountancy with honors from the Hong Kong Polytechnic University.

Mr. YE Zhou (葉舟), 51, is an independent non-executive Director, the chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee. Mr. Ye was appointed as Director on July 15, 2016. Mr. Ye is and has been the chief executive officer of ULSee Inc. since 2014. Prior to his current position at ULSee Inc., from 1994 to 1996, he was a senior product engineer of General Motors Company. From 1996 to 1997, Mr. Ye was the director of wireless communication department of UTStarcom Holdings Corp. From 1997 to 2006, Mr. Ye was the vice president of Asia Pacific region of UTStarcom Holdings Corp. From 2007 to 2016, Mr. Ye was the chief executive officer of CyWee Group Ltd..

Mr. Ye graduated from Pennsylvania State University with a master's degree in electrical engineering in 1994.

Mr. WANG Dong (王冬), 43, is an independent non-executive Director, the chairman of the Nomination Committee and a member of the Audit Committee and Remuneration Committee. Mr. Wang was appointed as Director on June 21, 2018. Since October 2009, Mr. Wang has been acting as the chief financial officer of ORG Packaging Co., Ltd. (Shenzhen Stock Exchange stock code: 002701), of which he has also been serving as a director and deputy general manager since February 2014. Prior to joining ORG Packaging Co., Ltd., Mr. Wang was the financial controller of our Company from January 2007 to September 2009, and worked at PricewaterhouseCoopers from July 1998 to December 2006 who was a senior manager of audit department when he left PricewaterhouseCoopers. Mr. Wang was also an independent director of Visual China Group Co., Ltd. (Shenzhen Stock Exchange stock code: 000681) from June 2014 to October 2018. Visual China Group Co., Ltd. is an associate of Mr. Liao Jie, Mr. Jiang Hailin and the controlling shareholders of the Company.

In addition, Mr. Wang has been appointed as (i) a director of Huangshan Novel Co., Ltd. (Shenzhen Stock Exchange stock code: 002014) since January 2016; (ii) a supervisor of Jiangsu Richland Group Co., Ltd. (NEEQ stock code: 832139) since June 2016; and (iii) an independent director of Shaanxi Baoguang Vacuum Electric Device Co., Ltd. (Shanghai Stock Exchange stock code: 600379) since May 2017.

Director and Senior Management

Mr. Wang is a member of the Chinese Institute of Certified Public Accountants, a member of Chartered Institute of Management Accountants, an associate member of Association of International Accountants and Chartered Global Management Accountant. Mr. Wang graduated with a bachelor's degree in Marketing from Shandong University of Finance and Economics and a Finance MBA degree from the Chinese University of Hong Kong. Mr. Wang has more than 20 years of experience in accounting and finance and 12 years of experience in business management.

SENIOR MANAGEMENT

The table below sets forth information regarding the senior management of the Company (including Directors who also hold executive positions):

Name	Age	Position
Mr. Jiang Hailin	50	Chief Executive Officer
Mr. Luo Haibin	42	President
Mr. Mou Yi	52	Chief Financial Officer, general manager of Financial Management Department

For information on Mr. Jiang Hailin, please see "Directors and Senior Management — Board of Directors" above.

Mr. LUO Haibin (羅海濱), 42, President. He is responsible for the business operation and daily management of the Company. Mr. Luo joined the Group in November 2007 and served as the general manager of the Central South area of Zhixun Tiancheng, responsible for the marketing in the Central South area. He then served as the general manager of the Department of Sales Management, general manager of the Marketing Department, vice general manager and general manager of Zhixun Tiancheng. He has been the legal representative of Zhixun Tiancheng, responsible for the operational management of the Company and the rapid transit group since November 2007. Mr. Luo has also served as the legal representative and general manager of Zhongzhi Runbang since December 2014, responsible for the overall project management and service delivery. Mr. Luo served as the vice president of the Company from February 2015 to March 2018, and has served as the president of the Company since March 2018.

Prior to joining our Group, Mr. Luo served as the marketing director of the Department of Military Network of Beijing Jiaxun Feihong Co., Ltd., responsible for the industrial marketing management of the military.

Mr. Luo graduated from Beijing Information Science and Technology University of computer software specialty and received a master's degree in Project Management Engineering from the Southwest Jiaotong University in 2003. He is currently studying Master of Business Administration programme in Tsinghua University. Mr. Luo possesses approximately 18 years of experience in marketing and management.

Director and Senior Management

Mr. MOU Yi (牟軼), 52, is the Chief Financial Officer and general manager of Financial Management Department. He is responsible for overall financial management and investment of the Company. Mr. Mou was appointed as chief financial officer of the Company in March 2018, and has severed as general manager of Financial Management Department since October 2009, being responsible for internal financial management. Mr. Mou has served as legal representative, executive director and manager of Intelligent Transportation Co., Ltd since July 2012, and has served as the supervisor of Beijing Hongrui Dake Technology Co., Ltd since November 2015. He has also served as the Director of an equity investment enterprise of the Company Shenzhen Honglu Technology Co., Ltd. since February 2019.

Mr. Mou joined our Group in October 2004 and has served as many roles of the Group. He started as vice president of Beijing RHY Technology Development Co., Ltd. and was then promoted to Group vice president of our Turnkey Solution responsible for the internal and daily operations such as financial control, human resources and other administrative functions of the Turnkey Solution business unit. In addition, Mr. Mou has served as a Director of the Company from October 2008 to June 2009, and served as the vice president of the Company from November 2011 to June 2014. He has also served as the Director of Zhixun Tiancheng from June 2011 to November 2014.

Prior to joining our Group, Mr. Mou served as vice president of Lang Chao Mobile Communication Products Co., Ltd. which is the subsidiary of Inspur International Limited, a company listed on The Stock Exchange of Hong Kong Limited (stock code: 0596), where he was responsible for the overall operational management of the company. Mr. Mou also served as vice president of Shanghai Zarva Software Application and Service Co., Ltd. where he was responsible for domestic sales and the management of branch offices in the PRC. Mr. Mou served as a manager of Legend Computer Group Co. (Qingdao branch) which is the predecessor of Lenovo Group Limited, a company listed on The Stock Exchange of Hong Kong Limited (stock code: 0992), where he was responsible for the sales and software development. Prior to that, he served as a manager of Jinan Tuopu Software Research Centre where he was also responsible for the sales and development of software.

Mr. Mou received a bachelor's degree in science and a bachelor's degree in economics from the Tianjin Nankai University in July 1990. Mr. Mou was qualified as an accountant in December 1992, and senior economist in November 2008. Mr. Mou possesses extensive experience in operational management and internal financial management.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company places high value on its corporate governance and the Board firmly believes that a good corporate governance practice can improve accountability and transparency for the benefit of its shareholders.

The Company had adopted the code provisions contained in the code of corporate governance practices (the "**CG Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The Company has complied with the code provisions contained in the CG Code for the year ended December 31, 2018.

Set out below is a detailed discussion of the corporate governance practices adopted and observed by the Company for the year ended December 31, 2018.

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the standards for the Directors' dealings in the securities of the Company on June 18, 2010. Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the required standard set out in the Model Code during the reporting period.

THE BOARD

Board Responsibilities

The Board is collectively responsible for the overall management and implementing business plans of the Company, including establishing and monitoring the Company's strategic directions and development, financial goals, and assumes the responsibilities of corporate governance of the Company. The senior management is responsible for supervising and executing the plans of the Group and the Directors review those arrangements on a periodic basis.

The Board may from time to time delegate all or any of its powers that it may think fit to a Director or member of senior management of the Company. To maximise the effectiveness of the Board and to encourage active participation and contribution from the Directors, the Board is supported by three committees, which are the Audit Committee, the Remuneration Committee, and the Nomination Committee. The terms of reference of each of the committees are reviewed and amended (if necessary) from time to time, including the committees' structure, duties and memberships.

Board Members

The Board, as at the date of this report, consists of six Directors, including two executive Directors, one non-executive Director and three independent non-executive Directors. The composition of the Board is set out in the section headed "Report of the Directors — Directors" of this annual report.

Details of the Directors' biographical information are contained in the section headed "Director and Senior Management" of this annual report.

There is no financial, business, family or other material/relevant relationships among the Directors.

Independent Non-executive Directors

Three members of the Board are independent non-executive Directors, which meets the minimum requirement under the Listing Rules. Mr. Choi Onward, an independent non-executive Director during the year ended December 31, 2018 up to the date of this report, has appropriate financial management expertise in compliance with Rule 3.10 of the Listing Rules.

Prior to their respective appointment, each of the independent non-executive Directors has submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence. The Company has received an annual confirmation from each of the independent non-executive Directors on their respective independence pursuant to Rule 3.13 of the Listing Rules and considers that each of them to be independent.

Terms

Save as disclosed in this annual report, all of the executive Directors were appointed for a term of three years, which may be terminated according to the articles of association of the Company (the "**Articles**") and any applicable laws. In accordance with the Articles, at each annual general meeting one-third of the Directors for the time being is required to retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

Board Meetings

During the year ended December 31, 2018, there were nine Board meetings held, at which the Directors approved, among other things, the audited consolidated results of the Group for the year ended December 31, 2017 and the unaudited consolidated results of the Group for the six months ended June 30, 2018.

Notices for regular Board meetings are given to each member of the Board at least 14 days prior to the meeting, whereby the Directors are given opportunities to include matters to be discussed in the agenda of the Board/committee meetings. The agenda and the relevant board papers are then circulated to the Directors 3 days before a scheduled Board meeting and apart from ensuring that the directors have received adequate, complete and reliable information in a timely manner to enable them to make informed decisions during the Board meeting, the chairman will also properly brief the directors present at the Board meeting on issues arising during the Board meeting.

Where the agenda of the Board meetings is in relation to a material matter in which a substantial Shareholder or a Director is deemed to have a conflict of interest, independent non-executive Directors who, and whose associates have no material interest in the transaction, would be invited to attend such Board meetings. Where Board meetings relate to financial and other information, the senior management would provide such explanation and information to the Board to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

After the meetings have been held, drafts of the Board minutes and Board committee meeting minutes are circulated to the Directors and the relevant Board committee members respectively for their review before finalization, and the final version of these minutes are kept by the company secretary of the Company (the "**Company Secretary**") and are available for inspection by the Board and auditor of the Company.

Every Director is entitled to have access to Board papers and relevant materials and have unrestricted access to advice and services of the Company Secretary, and is able to seek independent professional advice as and when required at the Company's expense.

Corporate Governance Report

Attendance Record

Code Provision A1.1 of the Corporate Governance Code stipulates that the Board should meet regularly and meetings should be held at least four times a year at approximately quarterly intervals. During the year ended December 31, 2018, the Board convened a total of nine Board meetings and there were two meetings for the Audit Committee, one meeting for the Remuneration Committee and two meetings for the Nomination Committee based on the need of the operation and business development of the Company. Details of attendance are as follows:

	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings	General meetings
Executive Directors					
Mr. Liao Jie *(Chairman)*	9/9	N/A	N/A	N/A	2/2
Mr. Jiang Hailin *(Chief Executive Officer)*	9/9	N/A	N/A	N/A	2/2
Non-executive Director					
Mr. Tim Tianwei Zhang	9/9	N/A	N/A	N/A	2/2
Independent Non-executive Directors					
Mr. Choi Onward *(FCCA, HKICPA)*	9/9	2/2	1/1	2/2	2/2
Mr. Ye Zhou	9/9	2/2	1/1	2/2	2/2
Mr. Zhou Chunsheng (Resigned on June 21, 2018)	3/9	1/2	1/1	2/2	1/2
Mr. Wang Dong *(CICPA, CIMA, AAIA, CGMA)* (Appointed on June 21, 2018)	6/9	1/2	0/1	0/2	1/2

The Chairman and the Chief Executive Officer

The Code Provision A2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Throughout the year ended December 31, 2018, Mr. Liao Jie has been the Chairman and Mr. Jiang Hailin has been the Chief Executive Officer. Accordingly, the Company complied with Code Provision A2.1 at all times during the year ended December 31, 2018.

BOARD COMMITTEES

Audit Committee

As at December 31, 2018 and the date of this report, the Audit Committee comprised three independent non-executive Directors, being Mr. Choi Onward, Mr. Wang Dong and Mr. Ye Zhou, with Mr. Choi Onward being the chairman of the Audit Committee. The members of the Audit Committee confirm that they are not a former partner or affiliated to the Company's existing auditing firm nor do they have any financial interest in the Company's existing auditing firm.

The primary functions of the Audit Committee are to:

(a) be primarily responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;

(b) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards and regulations. The audit committee should discuss with the auditor, the nature and scope of the audit and reporting obligations before the audit commences;

(c) develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

(d) monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the committee should focus particularly, on any changes in accounting policies and practices, major judgmental areas, significant adjustments resulting from audit, the ongoing concern assumptions and any qualifications, compliance with accounting standards and compliance with the Listing Rules and other legal requirements to financial reporting;

(e) to consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

(f) to review the Company's financial controls, internal control and risk management systems;

(g) to discuss the risk management and internal control systems with the management and to ensure that management has discharged its duty to have an effective systems;

(h) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;

(i) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;

(j) to review the Company's financial and accounting policies and practices;

(k) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;

(l) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(m) to report to the Board on the matters set out in the Code Provisions;

(n) to consider other topics, as defined by the Board;

(o) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters, and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and

(p) to act as the key representative body for overseeing the issuer's relations with the external auditor.

To ensure that the Audit Committee is given the opportunity to discharge its functions effectively, the Audit Committee will be provided with sufficient resources including access to professional advice if considered necessary and members of the Audit Committee must liaise with the Board and senior management and the Audit committee must meet, at least once a year, with the Company's auditors.

During the year, the Audit Committee convened two meetings and drafts and final versions of the minutes of the Audit Committee have been sent to all members of the audit committee for their comment and records, respectively. All resolutions passed at the meetings were duly recorded and retained by a duly appointed secretary of the meeting or the Company Secretary.

A summary of the work performed by the Audit Committee during the year ended December 31, 2018 is set out as follows:

- reviewed the Company's interim report and annual report;
- reviewed accounting policies adopted by the Group and issues related to accounting practice;
- supervised internal auditing of the Group;
- assisted the Board to evaluate on the effectiveness of financial reporting procedure and internal control system;
- advised on material events and draw the attention of management on related risks;
- reviewed the external auditor's independence and approved the engagement of external auditor;
- recommended the Board on the re-appointment of external auditor; and
- noted the amendments to the standards and the development of corporate governance.

Remuneration Committee

As at December 31, 2018 and the date of this annual report, the Remuneration Committee comprised three independent non-executive Directors, namely Mr. Ye Zhou, Mr. Wang Dong and Mr. Choi Onward, with Mr. Ye Zhou being the chairman of the Remuneration Committee.

The primary functions of the Remuneration Committee are to:

(a) evaluate and make recommendations to the Board on the policy and structure for remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing such policies;

(b) make recommendations to the Board on the remuneration packages of individual executive Directors and senior management;

(c) conduct reviews and approve performance-based remuneration by reference to corporate goals and objectives resolved by directors from time to time;

(d) review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

(e) review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and

(f) ensure that no director or any of his or her associates is involved in deciding his own remuneration and advise shareholders on how to vote with respect to service contracts of directors that require shareholders' approval under rule 13.68 of the Listing Rules.

To ensure that the Remuneration Committee is given the opportunity to discharge its functions effectively, the Remuneration Committee will be given opportunities to consult the Chairman and/or Chief Executive Officer about its proposals relating to the remuneration of other executive Directors and be provided with sufficient resources including access to professional advice if considered necessary.

During the year, the Remuneration Committee convened one meeting and the draft and final version of the minutes of the Remuneration Committee have been sent to all members of the Remuneration Committee for their comment and records, respectively. All resolutions passed at the meetings were duly recorded and retained by a duly appointed secretary of the meeting or the Company Secretary.

A summary of the work performed by the Remuneration Committee during the year ended December 31, 2018 is set out as follows:

- reviewed the Directors' fees; and
- reviewed and made recommendations to the Board on the remuneration structure/package of executive Directors and senior management.

Nomination Committee

As at December 31, 2018 and the date of this annual report, the Nomination Committee comprised three independent non-executive Directors, namely Mr. Wang Dong, Mr. Ye Zhou and Mr. Choi Onward, with Mr. Wang Dong being the chairman of the Nomination Committee.

The primary functions of the Nomination Committee are to:

(a) review the structure, size and composition of the Board regularly and make recommendations to the Board regarding any proposed changes; and

(b) identify, select or make recommendations to the Board on the selection of individuals nominated for directorships to fill vacancies in the Board.

During the year, the Nomination Committee convened two meetings and draft and final version of the minutes of the Nomination Committee have been sent to all members of the Nomination Committee for their comment and records, respectively. All resolutions passed at the meetings were duly recorded and retained by a duly appointed secretary of the meeting or the Company Secretary.

A summary of the work performed by the Nomination Committee during the year ended December 31, 2018 is set out as follows:

- reviewed and recommended the re-appointment of the retiring Directors for Shareholders' approval;
- discussed and reviewed the Board composition of the Company as well as other related matters; and
- recommended on the selection of individuals nominated for directorships.

Corporate Governance Report

CORPORATE GOVERNANCE FUNCTIONS

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

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

CONTINUOUS PROFESSIONAL DEVELOPMENT

According to the CG Code A.6.5, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. The Company should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of the directors.

All Directors have participated in appropriate continuous professional development and refreshed their knowledge and skills during the year. According to the records maintained by the Company, the current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the new requirement of the CG Code on continuous professional development for the year ended December 31, 2018:

Name of Director	Attend training sessions organized by professional firms	Attend training sessions required by the relevant professional bodies of which they are members	Read articles and journals on the economy, general business and regulatory matters
Executive Directors			
Mr. Liao Jie	✔	✔	✔
Mr. Jiang Hailin	✔	✔	✔
Non-executive Director			
Mr. Tim Tianwei Zhang	✔	✔	✔
Independent Non-executive Directors			
Mr. Choi Onward	✔	✔	✔
Mr. Ye Zhou	✔	✔	✔
Mr. Zhou Chunsheng (Resigned on June 21, 2018)	✔	✔	✔
Mr. Wang Dong (Appointed on June 21, 2018)	✔	✔	✔

ACCOUNTABILITY AND AUDIT

Auditor's Remuneration

The remuneration paid to the Company's auditors, during the year ended December 31, 2018 is set out in note 6 on page 139.

Directors' Responsibilities for Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company and for ensuring that the financial statements are balanced and clear and prepared in accordance with applicable statutory requirements and accounting standards.

Auditor's Statement

The statement of the Company's auditor, Ernst & Young, on its reporting responsibilities in respect of the consolidated financial statements of the Group for the year ended December 31, 2018 is set out on pages 77 to 82.

Internal Control and Risk Management

The Board acknowledges that it is responsible for maintaining a sound system of internal controls to safeguard the Shareholders' interest and reviewing the effectiveness of the system of internal control of the Group.

In reviewing the effectiveness of the system of internal control of the Group, the Board will also consider the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and the training programmes and budget allocated.

The Group's internal control system has been designed to provide reasonable assurance that assets are safeguarded, operational controls are in place, business risks are suitably reduced, proper accounting records and financial information are maintained, and, where appropriate, relevant legislation, regulation and best practices are complied with.

The Board has delegated to the Audit Committee responsibility for reviewing the effectiveness of the Group's internal control system and the Audit Committee will report its findings to the Board for discussion. The Audit Committee works with the Group's internal audit department (the "**Internal Audit Department**") to carry out internal audit works based on an internal audit plan which is reviewed and approved by the Audit Committee. The Internal Audit Department, reports its findings and recommendations for any corrective action required to the Audit Committee. The Audit Committee reviews the reports submitted by the Internal Audit Department and the issues on the internal control system of the Group are then discussed and evaluated by the Board every year.

The Internal Audit Department conducted an examination on various material control aspects during the year including financial, operational and compliance controls with the aim of mitigating the overall business and operational risk of the Group. Internal control reports were submitted to the Audit Committee for review and the findings and recommendations were discussed at the committee meetings. The significant findings have been remediated by the management of the Company.

COMPANY SECRETARY

Mr. Leung Ming Shu, the Company Secretary, is an employee of the Group. During the year ended December 31, 2018, Mr. Leung has complied with Rule 3.29 of the Listing Rules in relation to taking of relevant professional training.

BOARD DIVERSITY POLICY

Pursuant to the CG Code, the Board adopted a board diversity policy (the "**Board Diversity Policy**") on August 27, 2013. The Company recognizes and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

SHAREHOLDER RIGHTS

Constitutional Documents

There has been no significant change in the Company's constitutional documents during the year ended December 31, 2018.

Procedures for Shareholders to Convene an Extraordinary General Meeting

Pursuant to the Article 58 of the Articles of Associations of the Company, any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for proposing a person for Election as a Director

Pursuant to the Article 85 of the Articles of Associations of the Company, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice (as defined therein) signed by a Member (as defined therein) (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that (if the Notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such Notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

Communications with Shareholders and Investors

The Board values the importance of communications with the Shareholders. The general meetings of the Company provide a forum for communication between the Board and the Shareholders and at such general meetings, the chairman will ensure that an explanation is provided of the detailed procedures for conducting a poll and ensure that resolutions are proposed separately. The Chairman as well as chairman of the Remuneration Committee, the Nomination Committee and the Audit Committee and, in their absence, other members of the respective committees will also be available to answer questions at Shareholders' meetings.

The notice of the 2018 annual general meeting of the Company (the "**AGM**") will be sent to Shareholders at least 20 clear business days before the AGM.

To promote effective communication, the Company maintains a website at www.its.cn, where extensive information and updates on the Company's financial information, corporate governance practices and other information are posted and available for public access.

March 28, 2019

Environmental, Social and Governance Report

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Environmental, Social and Governance Report

I ABOUT THIS REPORT

This is the third Environmental, Social and Governance Report issued by China ITS (Holdings) Co., Ltd. (the "Company" or "CIC" or "We"). This report mainly introduces the Company's policies regarding environmental, social and governance ("ESG") issues and detailed measures adopted during the reporting period, which is meant to strengthen communication and engagement with internal and external stakeholders. The Board of Directors of the Company assumes full responsibility for the Company's ESG strategy and ESG reporting and is responsible for assessing and determining the Company's ESG risks and ensuring that the Company has an appropriate and effective ESG risk management and internal control system in place. The Board of Directors and its individual members affirm that this report contains no false or misleading statements or material omissions and that they are jointly and severally responsible for the truthfulness, accuracy, and integrity of its content.

1.1 Basic Information

Scope of Coverage

This report covers CIC and its domestic and overseas branches and wholly-owned subsidiaries.

Time Range

The Company's ESG report is an annual report and this report is for the period from January 1, 2018 to December 31, 2018.

Basis of Preparation

This report is prepared in accordance with the requirements of the Hong Kong Exchanges and Clearing Limited ("HKEX") *Environmental, Social and Governance Reporting Guide* (the "ESG Reporting Guide").

1.2 Vision of ESG Management

China ITS (Holdings) Co., Ltd. (the "company" or "CIC" or "We") is a provider of solutions and services of traffic infrastructure technologies. Focusing on the businesses of Specialised Solutions (SS) and Value-Added Operation and Services (VAOS), it provides customers with services that give the maximum overall value and meet their multifaceted requirements in terms of safety, reliability, efficiency, environmental friendliness, and ROI.

Since its establishment, CIC has been committed to common development of economy, society and the environment, promoting sustainable business practices. Besides, CIC performs its corporate social responsibilities in order to better capture the opportunities from the development of the industry.

Corporate Vision

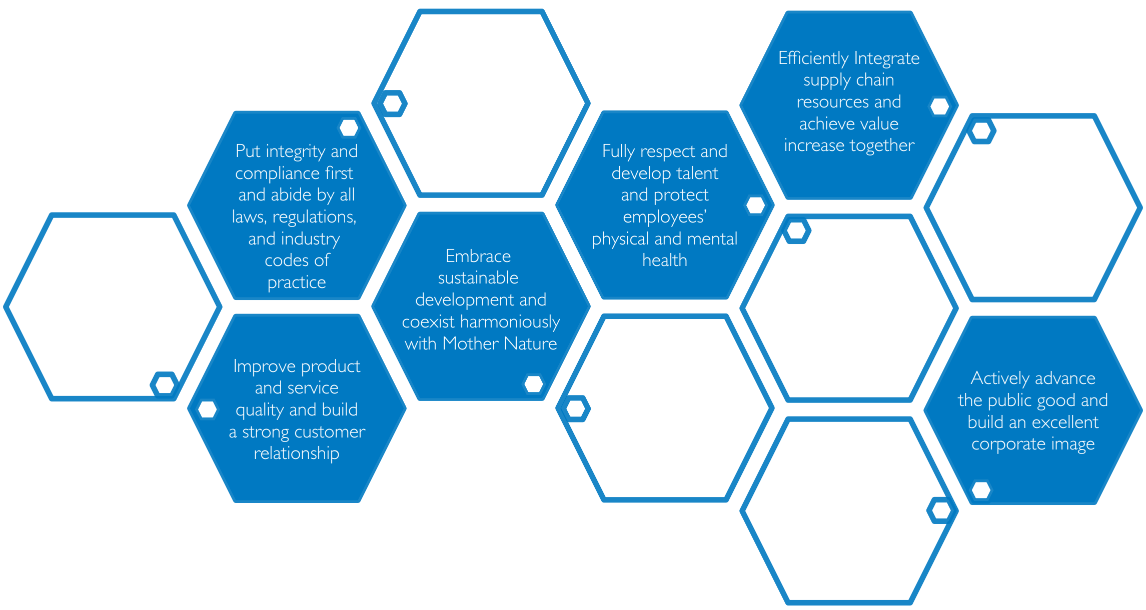
Delivering solutions which enhance safety, efficiency, convenience and sustainability for the transportation industry.

Business Goal

To become a leading enterprise in transportation industry and focuses on intelligent transportation.

Corporate Value

Integrity, Professionalism, Innovation, and People.



1.3 Assessment of the Importance of Issues

Based on the requirements of the HKEX ESG Reporting Guide and by reference to procedures for the substantive analysis of the Global Reporting Initiative ("GRI"), the Company gathered issues concerned by major stakeholders by questionnaires and interviews, analysed and prioritised these issues so as to determine important corporate issues regarding environment, society, and governance and disclose them in the report.

1.3.1 Process of Importance Assessment

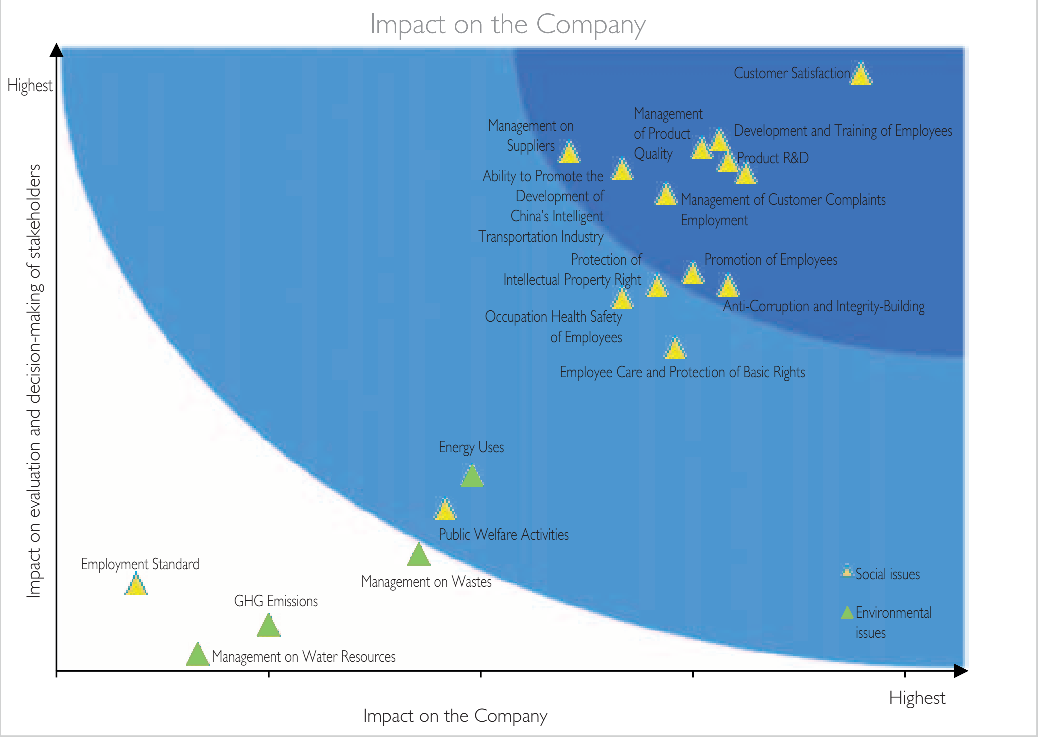
1) Identify ESG issues related to the Company by analysing the HKEX ESG Reporting Guide and the issues disclosed by peers;

2) Invite important stakeholders to assess the importance of the identified issues, among which the internal stakeholders assess such issues mainly from the perspectives of the Company's long-term development strategy, management upgrading, investment priority, and competitive advantages, while external stakeholders assess them from the perspectives of impact on the Company's evaluation and decision-making, as well as on the interests of themselves to produce the first draft of the importance matrix by integrating the assessment of both internal and external stakeholders;

3) Prioritize issues to be reviewed by the management;

4) Solicit feedbacks on the report for the period from internal and external stakeholders after the reporting period to prepare for the next report.

1.3.2 Priority Matrix of Issues



2 INTEGRITY

2.1 Eliminating Corruption in Accordance with Law

In 2018, CIC made earnest efforts in anti-corruption and integrity-building, strictly abiding by the *Criminal Law of the People's Republic of China*, the *Anti-Unfair Competition Law of the People's Republic of China* and other applicable laws and regulations. In order to prevent bribery, extortion, fraud, money laundering and other illegalities, the Company has constantly improved its internal anti-corruption supervision mechanism, and strengthened the promotion of and education on integrity among employees. As a result, a good atmosphere has been established in the Company, featuring respect for law and order, integrity, self-discipline, honest and trustworthiness.

As for the internal anti-corruption supervision mechanism, the Company has strictly implemented regulatory requirements for anti-corruption and gives full scope to the role of the internal joint meeting mechanism for anti-corruption by integrating internal supervision resources relating to auditing, legal compliance, accounting and risk management. Besides, it has constantly improved the internal anti-corruption supervision mechanism that covers a full spectrum of roles from senior management to key positions, stipulating and ensuring the performance of anti-corruption responsibilities at all levels. In addition, the Company has introduced thoroughly thought-out investigation plans to eliminate potential corruption risk exposures and supervision loopholes in internal controls, and formulated anti- corruption measures based on those investigation results, leveraging on the Company's information network platforms.

As for strengthening the integrity education among employees, the Company has committed to increasing employees' awareness of professional ethics and anti- corruption and further increased efforts to education on integrity and to create an atmosphere of integrity. The Company requires its employees to carefully study anti-corruption provisions in the Employee Handbook. Among others, employees are not allowed to use their positions to engage in malpractices and bribery and those with serious dereliction of duty will be punished in a stringent way. At the same time, the Company launched relevant trainings to increase employees' awareness of corruption risk prevention.

In view of possible corruption in its economic business processes, the Company has adopted supervision and control procedures at critical points, with continuous improvement of the approval process regarding the reimbursement of marketing expenses. Besides, it has properly concentrated or decentralised power to form an effective system of checks and balances, so as to avoid any corrupt practice.

Besides, the Company requests the incorporation of anti-corruption clauses in contracts with its core suppliers and customers. Among others, the supplier should warrant that it will reject any request for bribes by employees of the purchaser and will file a signed complaint to competent departments of the purchaser. The supplier shall be deemed to offer bribes to the purchaser if it entertains any request for bribes by employees of the purchaser instead of rejecting or reporting the same. In addition, the supplier should warrant that it will not engage in any economic relation with employees or relatives of the purchaser and declare any affiliation with them. In the event of any de facto affiliation, the supplier should warrant that it will no longer engage in any business with the purchaser. The supplier should also guarantee the adherence to the principle of good faith during the contractual performance, ensuring the truthfulness and accuracy of the documents, information and data it provided for the purchaser. Last but not least, the supplier should warrant that it will not collude with employees of the purchaser to falsify business results, that it will honour its commitments to the purchaser as well as the contracts, agreements and memoranda between the two parties, and that it will not conceal any information that may affect the interests of the purchaser. If any purchasing employees violate relevant provisions, they should return any improper benefits obtained through corruption and bribery. Besides, the Company has the right to terminate their labour contracts unilaterally without any liability for breach, and reserves the right to take legal actions against the offenders.

In 2018, the Company did not find any significant risks relating to corruption and was not subject to any confirmed corruption cases involving the Company or any corruption litigations against the Company or any of its employees. In future, the Company will continue to place priority on anti-corruption and integrity, strengthen supervision of anti-corruption department, expand the scope of external supervision, establish a sound internal audit system, and provide a green guarantee for the healthy development of the Company.

2.2 Conducting Compliant Procurement to Ensure Quality

CIC has the firm conviction that cooperation is an indispensable driver of the Company's development and has been committed to building platforms of cooperation and communication with suppliers for closer cooperation with them to provide customers with high-quality products and services.

Management on Suppliers:

CIC has formulated the Measures on the Management of Suppliers based on applicable laws and regulations and the Company's relevant rules, in line with the principles of complementarity, equality and voluntariness, so as to facilitate the Company's development, to regulate the practices of the Company and its business partners, as well as to encourage business partners to enhance their service awareness.

The Company has managed a qualified supplier database for supplier admittance, assessing suppliers mainly in terms of their qualifications (including the registered capital, relevant certifications required by the industry, product testing reports, etc.), business scale, financial status, and reputation in the industry. The Company has also accessed the suppliers' environmental and social compliance and legally required qualifications, such as "Environmental Management System Certificate" and "Occupational Health and Safety Management System Certificate". For procurement of large equipment, the Company's Purchasing Department and Product Department have conducted on-site environmental, safety and quality assessment at the plants of suppliers. Only suppliers assessed to be qualified are included in the database.

The Company has also conducted annual supplier assessment covering a wide range of aspects, including product quality compliance, prices, delivery cycles, after-sales support, etc., so as to determine the continued status as qualified suppliers of the Company and the procurement volumes in the following year.

Currently, there are approximately 40 frequently used suppliers in the Company's supplier database. The Company will continue to enhance compliance and timeliness in future supplier management.

3 PROFESSIONALISM

3.1 Active Protecting Intellectual Property Rights

The Company has attached great importance to the protection on intellectual property rights, strictly complying with the *Patent Law of the People's Republic of China*, the *Copyright Law of the People's Republic of China*, the *Trademark Law of the People's Republic of China*, as well as other applicable laws and regulations. The Company has continuously enhanced its autonomous innovation and improve its intellectual property management, so as to prevent any and all acts that infringe on or endanger the lawful rights and interests of the Company on intellectual property. The Company has regarded intellectual property management as an important part of its medium and long-term strategy. The Administration Department has set up posts of intellectual property management, which is incorporated into various aspects of the Company's daily operation, such as R&D, marketing, production, personnel & administration, branding, etc. In addition, the Company has developed annual work plans on intellectual property management and incorporating the related performance into daily work assessment.

The Company has established a complete IT management environment, using professional encryption software to ensure the security of its intranet. It has realised effective control and full protection on R&D materials, products, and data, preventing the leakage of corporate confidential information and data at source.

The Company has passed on the significance of protection on intellectual property to each employee through promotion and trainings from time to time, in an attempt to encourage and promote the successful protection on intellectual property.

To date, the Company has 8 patents and 35 copyrights, including 2 patents and 7 copyrights added during the year.

3.2 Strictly Guaranteeing Product Quality

Product quality management:

Fully complying with the Product Quality Law of the People's Republic of China and in adherence to its corporate mission of "making railway communication safer, more efficient, and more convenient with quality service and professional solutions", the Company has an institutionalized, systematic, and IT-based quality control and management system and implements project-cycle safety management to build high-quality, efficient, and safe intelligent transportation solutions, and it has provided technical support for system upgrade and maintenance during system operation and management to ensure safe transportation for society, partners, and customers.

The Company has constantly improved its system of software quality management in institutional, personnel and informatization aspects, so as to ensure the compliance of its products with customer needs and the continuous enhancement of customer satisfaction. The Company has formulated a series of quality standards, including the *Codes for Software Quality Management on the Products of Data Networks*, the *Codes for Software Quality Management on the Products of Optical Networks*, the *Codes for Software Quality Management on the Products of Access Networks* and the *Codes for Software Quality Management on the Products of the GSM-R Networks*, stipulating the requirements on product quality management across major processes from R&D to delivery. Besides, the Company has established a full-time quality management team to ensure the quality control throughout the product life cycle. The Company has also developed an information system in line with its actual needs for the management of quality assurance process. It timely identifies quality risks and summarises the results of and the problems in quality assurance, thus establishing a closed-loop quality management system that can be continuously improved.

In the review process at all stages of product development, the Company complies with not only ISO quality management system standards, but also reviews standards on the overall product R&D, technical matters, market, input/output, risk factors, controllability, etc. As for the specific quality control, a quality review team has been set up at the Company level, so as to ensure the participation of technical and business experts, together with follow-up, feedback and improvements based on the review results.

In future, the Company will improve the pre-production marketability review and optimise the information system for quality process management. It will also make efforts for a more diverse assessment team and a better job in output archiving in the quality assurance process.

As for the service quality management in construction projects, the Company strictly abides by relevant standards in the industry, such as the GB/T19001–2016/ISO9001: 2015 *Quality Management Systems — Requirements*, GB/T24001–2016/ISO14001: 2015 *Environmental Management Systems — Requirements with Guidance*, GB/T28001–2011/OHSAS18001: 2007 *Occupational Health & Safety Management Systems — Requirements*, and TB10205–99 *Codes for Construction of Railway Communication*. Besides, the Company has developed the *General Specifications on Hardware Quality Management* for its service products. On that basis, the Company has identified the goal of project delivery quality with a passing score of 90 out of 100. It has also set up the Technical and Quality Department to carry out inspections and spot checks on various regional projects.

Besides, the Company has developed quality management initiatives as follows:

1. Before the completion of a project, the person in charge of the project quality (project supervisor) submits the project quality self-inspection report and related documents, including the hardware & software quality inspection reports, site photos of hardware quality, project memo, data script, etc., to the Company's Technical Department;

2. The Technical Department conducts random inspections of works in various sections based on the actual conditions of the project;

3. The passing score for quality inspection is 90 out of 100;

4. Any problems affecting safe operation of equipment during the hardware inspection must be rectified.

During the year, the Company gradually perfected the specific measures of quality management, such as establishing a project quality team, formulating the processes of technical delivery and quality control, and developing measures of technical management pre-control. Besides, it established a system and related measures for construction quality control, identifying various quality inspection methods and strictly complying with technical assurance measures. In future, the Company will continue to improve its service quality in strict accordance with the established standards and systems on project quality, so as to ensure the passing rate of 100% for all its projects.

During the year, the Company had no incident of non-compliance that significantly affected the Group, nor did it have any sold or delivered products recalled for safety and health reasons. The Company's business did not involve advertisements, labels, or privacy.

3.3 Customer Relationship Building

With a steadfast commitment to "focus on customer concern", CIC has a market-and- customer-oriented management system and continuously improves relevant mechanisms and business processes in the light of its business development and changes in internal and external environments, always striving to provide customers with top-quality products and services, work to their satisfaction, and build a good customer relationship.

Management of customer satisfaction:

The Company serves customers exclusively in the railway industry, and has set up the goal of 95% customer satisfaction. In order to achieve this goal, the Company has established a customer satisfaction evaluation system coupled with diversified surveys in that regard:

1. Written survey: A written survey on customer is conducted every semi-annually to solicit customers' opinions and suggestions, by means of the *Customer Satisfaction Survey Form*, which is distributed to and then re-collected from customers by the Engineering Department based on its list of customers to be surveyed. The Engineering Department collates and classifies opinions and suggestions received from customers, before forwarding related matters to various departments for feedback;

2. Telephone interview: It is conducted once a month and the *Customer Satisfaction Survey Form* is completed, covering customers' suggestions for and complaints about our service quality, among others.

3. E-mail survey: It is conducted every quarter. Customers complete the *Customer Satisfaction Survey Form* and the Engineering Department collects and classifies such forms.

During the year, the Company conducted a total of 28 customer satisfaction surveys on 20 major projects. The related responses were all "satisfied", "no problems" or "no comments for the time being", indicating 100% customer satisfaction.

Management of customer complaints:

The Company also set up a variety of customer complaint management mechanisms, such as on-site complaint and 400-hotline. For on-site complaints, customers are guided to escalate their complaints, such as along the reporting line of "Project Manager — Regional Supervisor — — Complaints Commissioner of the Company". Such a practice can streamline the Company's communication with its customers and enable its prompt response to customer complaints.

The Company has started a 400 hotline as the channel of technical support and complaints, so as to promptly understand customers' aspirations. We manage customer complaints in the following steps:

1. Listening to customers' opinions: The first step in handling customer complaints is to listen, allowing customers to fully express their opinions and dissatisfaction;

2. Analysing causes of complaints: The key points of complaints are recorded, so as to verify the validity of the complaints, which are analysed after identifying the causes;

3. Offering a feasible solution: If it is verified that customer complaints are caused by our products, we will offer a feasible solution based on specific complaints;

4. Tracking Service: After resolving complaints, we will provide tracking service to know whether customers are satisfied with the solution. Continuous improvement is required if customers still have dissatisfaction.

No complaint is filed directly through 400-hotline this year. Instead, we received commendations for several projects.

Management of customer privacy:

The Company duly maintains customers' information and protects their privacy. Unless with customers' approval, the Company will never provide their network information or data to other parties, or else copy information from or operate their existing networks. Communications with customers mainly focus on projects without revealing customers' names.

The Company has dedicated persons in charge of customer privacy protection and related random checks, together with a singular output of related information, so as to protect the rights and interests of customers.

4 INNOVATION

4.1 Continuously Strengthening Product R&D

In terms of product R&D, CIC has been driven by users' demand and oriented by market to encourage innovation. Thanks to the whole-process development and management, CIC meets the requirements of rapid product development, accurate positioning and low costs, thus enabling the commercial applications of its products.

The Company's product management is conducted over four stages, namely, concept design, planning, development and commercial application. In concept design, we conduct a quick assessment of the product opportunity appeal and the overall strategy, before determining the overall product range and options. At the planning stage, we define products and identify project plans. As for the development stage, we develop, design and consolidate a product which meets the related specifications. And for commercial application, we conduct product management from the start of steady production to end of product life.

In order to ensure the Company's R&D edge in the industry, we regularly organise exchange sessions and study tours for our R&D staff with their counterparts in the industry or in other industries, together with periodic market research and surveys. We also invite industry and technical experts to provide training and guidance at the Company, in addition to in-house R&D training and learning share. Besides, we make sure that new recruits have great competencies in product technologies, thus ensuring that our R&D performance is continuously improved and remains at the top level in the industry.

In the year 2018, the Company planned and created the "Xiaozhi" corporate development platform, which supports secondary development and business function deployment. All product lines are developed on the platform, so as to ensure the consistency, efficiency and technical accumulation of R&D technologies.

The Company's innovative products in the field of intelligent transportation include:

Integrated video surveillance system (IVSS)

The IVSS is powered by the all-digital network video technology, with the related networking based on the MSTP transmission system and the IP data communication system. The IVSS consists of video region nodes, video access nodes, video collection points and equipment transmission channels. Access nodes of the IVSS are installed at stations alone railway lines, video surveillance over the communication, signal equipment rooms, GSM-R base stations, interval relay stations, block posts, traction substation nodes (indoor and outdoor), station throat areas, highway-above-railway overpasses, box switch stations, snow-depth indicators, etc. at the stations. The modes of both automatic and manual surveillance are supported. Consistent video surveillance services are provided for different duties along railway lines, including watch-keeping, public security, communication, power supply and track divisions. With unified management and deployment of system resources, video resources are shared among those duties. The application of the IVSS for railway bureaus has greatly enhanced the safety of railway lines and related nodes, effectively guaranteeing operation safety.

Railway communication intelligent inspection system (RCIIS)

With the rapid development of China's railway network, the data volume and complexity of the railway communication system have increased exponentially, bringing unprecedented challenges to daily operation and maintenance management. At the same time, in response to the proposal of China Railway Corporation on strengthening railway construction and implementing the "Internet +" initiative, it is increasingly imperative to have an information system which is more advanced, scientific and convenient to assist in on-site intelligent operation.

The RCIIS is installed on handheld mobile terminals, which are carried around by on-site operators. The system enables equipment inquiry, operation metre management, personnel positioning, video communication and other functions. Inspectors can maintain communication workshops and lines as well as equipment within their jurisdiction. Staff in charge of operation and maintenance management can review the real-time progress of related tasks (by means of maintenance data, inspection tracks, on-site photos, audio/video information, etc.), so as to realise an integrated process of operation management covering planning, execution, process control, data archiving and other aspects. The application of the RCIIS has greatly enhanced the efficiency of inspectors and enables the professional, lean and refined management of railway communication, thus guaranteeing operation safety.

4.2 Leading Industry, Promoting Development

CIC has always aspired to become a leader in railway communication. It keeps up with the rapid growth of market through strategic deployment, and promotes the corporate value of "integrity, professionalism, innovation, and people". Relying on its track record and established reputation in the intelligent transportation industry, the Company promotes the development of China's intelligent transportation industry and has gradually established itself as a leader in the industry.

In 2018, the Company participated in a total of 1,077 cases (packages) and more than 400 bidding projects, claiming a market share of 73.1% for the transmission products line, 65.7% for wireless products line and 76.4% for data network products line.

In future, the Company will strive to maintain its existing market shares in its conventional transmission, wireless and data network products, as well as to increase the profit margins of those product lines. It will seek to make each project a high-quality and refined one, making steady and sustainable contributions to the railway market. In terms of informatization, the Company will thoroughly explore opportunities in the railway business. It will also tap into the innovative technologies such as cloud computing, big data, Internet of Things and artificial intelligence, in order to provide a variety of feasible solutions for the continuous development of railway informatization.

5 SUSTAINABILITY

As a responsible corporate citizen, CIC always believes that it is duty-bound to promote sustainable development and actively assumes environmental responsibilities. The Company practises the strategy of green and low-carbon development. It strictly abides by laws and regulations related to environmental protection, including the *Environmental Protection Law of the People's Republic of China*, the *Energy Conservation Law of the People's Republic of China*. And it acknowledges the goal of synergistic development of corporate interests, energy conservation and environmental protection. While developing its business, it also urges back-office departments to provide proper logistical support and constantly strengthen green development. Last but not least, it takes various measures to achieve safe, efficient, smart and green development.

5.1 Creating Green Office and Eliminating Waste

As a non-production high-technology company, CIC adheres to the goal of synergistic development of corporate interests, energy conservation and environmental protection. It actively implements the philosophy of energy saving and consumption reduction, in order to create a green and environment-friendly business model.

Energy consumed by the Company during the year mainly involved the use of gasoline for business vehicles and the use of electricity in office areas.

Table of use of gasoline, electricity and integrated energy in 2018:

Energy type	Energy use	Intensity
Gasoline	20.16 tonnes	–
Electricity	959,902.19 KWh	203.74 KWh/m^2 [1]
Integrated energy	147.64 tonnes of standard coal	0.42 tonnes of standard coal/person

1 The figure for 2017 should be 220.77 KWh/m^2

Energy-saving measures during the year:

- In order to save gasoline use, the Company topped up gasoline cards with fixed amounts based on the capacities and use frequencies of vehicles;

- Signs of "Save Electricity" were posted next to switches. Lights and air-conditioners in offices and conference rooms were switched off when the last person left;

- To save electricity for lighting, day light was used in office areas as much as possible and the use of illumination lights was minimised;

- Lamps were installed in a smaller number in public areas with lower illumination needs, such as corridors and passages, and were prevented from being switched on eternally;

- To save electricity use, air-conditioners in offices, conference rooms and other office areas were set at not lower than 26° C in summer and not lower than 25°C in winter. Patrolling security guards made sure that all windows were closed when air-conditioners were switched on;

- After work and during weekends and holidays, security guards patrolled the building every hour, switching off lights and air-conditioners in unoccupied office areas;

- After work, on weekends and during holidays, only one lift was open for use, while the service of the other one was maintained or suspended as the case might be.

- When purchasing computers, printers, refrigerators, etc., priority was given to low-power models.

On the other hand, water resources consumed by the Company mainly involved the drinking and cleaning purposes. During the year, water consumption by the Company totalled to 795.20 m3, with an overall intensity of 0.45 m3/m2. Each of us is duty-bound to cherish every drop of water, which is also one of the goals of the Company in becoming an ecologically responsible enterprise.

In 2018, the Company adopted the following measures to save water and improve the efficiency of water use:

- Direct water dispensers were installed, in order to save water and to reduce the waste of water resources;

- Maintenance staff of the property company conducted two patrols each day, one in the morning and the other in the afternoon, covering office areas, equipment rooms, toilets, water metre rooms, etc., in order to avoid leakage. In case of any leakage, they would be promptly contacted for restoration;

- Efforts were made to advocate water-saving and to enhance the related awareness among employees. The Property Management Department issued warning and imposed penalties against any waste of water resources by the Company or by individuals, based on the seriousness of the situation;

- Steps were taken to enhance the recycling and utilisation of water resources. For example, water could be used firstly for cleaning and then for toilet flushing.

In the coming year, the Company will continue with the management goals from the previous year and reduce energy use, by strengthening employees' awareness of environmental protection and encouraging them to travel green. In terms of water resources management, the use of clean water will be further reduced in the future, and the reuse of water resources and related publicity and training will be increased. During the year, the Company did not have any problem in sourcing water that is fit for purpose.

The Company's operations do not generate packaging materials, as our products are directly distributed to customers by Huawei, the supplier.

5.2 Controlling Emissions, Reducing Pollution

During the year of 2018, solid wastes of the Company mainly came from the office process, including ink cartridges, toner cartridges, fluorescent tubes, batteries Ink cartridge paper. We handed over hazardous solid wastes (mainly ink cartridges, toner cartridges, batteries, etc.) to qualified third party to disposal of and other non-hazardous solid wastes (mainly paper, etc.) to recycling stations. In 2018, the Company generated hazardous wastes of 465 kg in total, with an intensity of 1.34 kg per person, as well as non-hazardous wastes of 4,390.89 kg in total, with an intensity of 12.62 kg per person.

Monthly average discharge of solid wastes in 2018:

Wastes	Annual use (kg)	Per capita intensity (kg/person)
Ink cartridge	192	0.55
Toner cartridge	168	0.48
Fluorescent tube	26	0.07
Battery	79	0.23
Paper	4,390.89	12.62

In 2018, the Company established specific measures as follows to reduce wastes:

1. Signs were posted in printing rooms to remind users of saving paper and energy for environmental protection.

2. Departments were encouraged to use double-sided printing in order to save paper.

3. Management of renovation wastes: Renovation wastes include muck, wood chips, gypsum boards, glass, scrap metals, etc., generated during renovation. At the meeting on renovation works in the building, it was unanimously stipulated that "generators should be responsible for disposal". To be specific, renovation wastes should be collected in bags and disposed of at fixed locations for centralised clearance, as in the case of domestic garbage. Temporary dump sites were set up in such a way that they should facilitate disposal, clearance and cleaning, without compromising the landscape of the industrial park.

In 2018, the Company discharged domestic sewage of 431.7 m3 in total.

Exhaust emissions by the Company mainly come from its business vehicles, which emitted 0.41 tonnes of sulphur dioxide during the year.

The Company's greenhouse gas (GHG) emissions mainly come from business vehicle exhaust and office power consumption. During the year, GHG emissions by the Company stood at 1,104.75 tons Carbon Dioxide Equivalent in total, including 519.12 tonnes Carbon Dioxide Equivalent directly from business vehicles, and 585.64 tonnes Carbon Dioxide Equivalent indirectly from power consumption, with the related emission intensity being 11.96 kg Carbon Dioxide Equivalent per 10,000 yuan in business income. In order to reduce GHG emissions, the Company advocated low-carbon travel for employees and arranged regular and scheduled shuttle buses between the industrial park and nearby metro stations. The Company continued to adopt the low-energy and low-emission criteria when purchasing office equipment. In addition, it strengthened green plant deployment and created a healthy office environment.

In the coming year, the Company will continue with the management goals from the previous year. To be specific, it will strengthen the management of business vehicles and strictly control energy consumption and costs. Besides, it will vigorously encourage employees to travel green in order to reduce emissions. Also, it will provide more relevant training to improve employees' awareness of environmental protection. In sum, CIC will strive to become an honourable company with better performance in both business operation and environmental protection.

In 2018, there was no confirmed case relating to any violation of environmental laws or regulations with a significant impact on the Company.

6 PEOPLE

People are the key element and core competitiveness for the Company's sustainable development. "Always putting people in the first place", the Company is committed to providing employees with competitive salaries and benefits, sufficient training and fair and reasonable channels of career development. It encourages work-life balance and cares for employees' physical and mental health, providing them with a happy, harmonious and carefree workplace. By so doing, the Company seeks to attract outstanding talents in different fields and to build long-term employer-employee relationships.

6.1 Employment and Rights

The Company has compiled and improved the *Employee Handbook* to guarantee employees' rights and obligations in strict accordance with applicable laws and regulations, including the *Labour Law of the People's Republic of China* and the *Labour Contract Law of the People's Republic of China*. The Employee Handbook contains the Company's main human resources policies, including the employees' code of conduct, hiring and dismissal, compensations and benefits, training and performance management, and employee communication and grievance.

Employment standards: The Company upholds the concept of long-term employment and abides by relevant labour and human rights regulations, signing labour contracts timely with employees. It insists on equal pay for equal work and equality between men and women, and prohibits the use of child labour and forced labour. And it ensures equal employment opportunities and labour security for employees of different nationalities, races, genders, religious beliefs and cultural backgrounds.

As of December 31, 2018, the Company had a total of 348 employees, with a decrease of three employees over 2017. Employee-related indicators of the Company for 2018 are shown as follows:

Indicator	As at the end of 2018 (persons)	Percentage of the year-end total
Male employees	255	73.28%
Female employees	93	26.72%
Number of employees who have signed labour contract	347	99.71%
Number of employees who have signed labour service agreement	1	0.29%
Beijing-based employees	256	73.56%
Non-local employees	92	26.44%
Employees at or under 25 years of age	12	3.45%
Employees at 25-30 years of age	72	20.69%
Employees at 30-35 years of age	128	36.78%
Employees at 35-40 years of age	86	24.71%
Employees at or over 40 years of age	50	14.37%
Employees with postgraduate diplomas	26	7.47%
Employees with undergraduate diplomas	217	62.36%
Employees with junior college degrees or below	105	30.17%
Grassroots employees	275	79.02%
Mid-level managers	59	16.96%
Senior managers	14	4.02%

Remuneration system: The Company has developed a remuneration management system in strict accordance with applicable laws and regulations, including the *Labour Contract Law* and the *Labour Law*. Meanwhile, the Company adjusts employee salaries dynamically according to their performance and skills and in the light of the general compensation level in the industry. And it has established a compensation system which is both competitive in the market and fair internally. The Company pays all statutory social security contributions for employees in full and on time, and provides the paid annual leave, so as to guarantee employees' leave rights. Moreover, the Company actively provides employees with a series of benefits, including holiday gifts, birthday gifts, food and transportation allowances, marriage and maternity gifts. By so doing, the Company strives to provide more attractive compensation packages for employees and to enhance their sense of belonging and happiness.

Channels of communication: The Company has specially created public platforms such as the OA system and the WeChat public for timely communication with employees in order to understand their aspirations. All the Company's rules and regulations are formulated in accordance with democratic procedures stipulated by the law, and are announced on the aforementioned platforms before their implementation. Besides, employees can lodge their grievances and receive feedback on the said platforms. The public platforms serve as effective channels of communication between employees and the Company.

In 2018, the Company had no labour disputes caused by violations of laws and regulations, child labour or forced labour, or else social insurance violations or defaults.

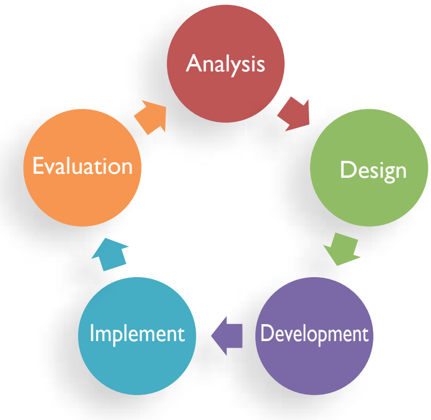
6.2 Training and Development

Putting people first, the Company has made greater efforts in employee training. Under the guidance of the training culture of "open, unified, innovation, and sharing", it strives to make learning an important part of the Company's core competitiveness and corporate culture. The Company continued to integrate internal and external training resources. Guided by employees' professional development needs, it gradually built a three-dimensional and multi-level training system covering all employees that comprehensively improved their professional capabilities so as to ensure the continued healthy development of the Company.

In 2018, the Company continued to improve and optimise the curricula for different business lines at all levels, together with the implementation and optimisation of internal training projects, such as Falcon Plan, Tiancheng College and Biweekly Learning. It also improved the team of in-house trainers. At present, the Company has 40 in-house trainers delivering more than 60 sessions, so as to ensure the optimum inheritance of the Company's knowledge and the in-depth training of employees.

6.2.1 Internal Training

In the internal training, the Company paid attention to improving the management skills of managerial staff and the business skills of employees, establishing a standardized training model and system. All its training programmes complied with the ADDIE model, namely, "Analysis — Design — Development — Implement — Evaluation".



The Company's internal training programmes:

Falcon Plan: In this advance sales training camp, employees can learn methods to secure orders in the market and strategies to run projects. They can improve their sales skills and get empowered to gain shares in the telecommunication market. And their needs for knowledge and skills are guaranteed.

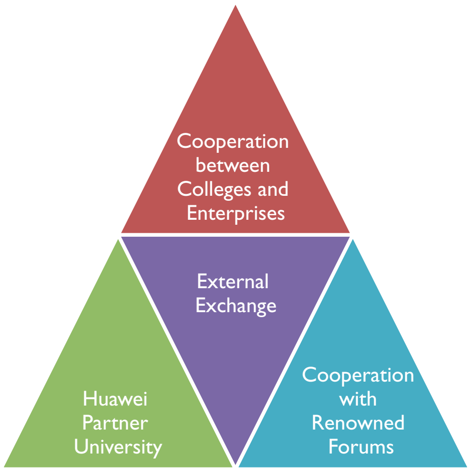
Service Camp: This training camp has promoted post-platform abilities and is based on general management courses. The participants are mostly post-platform service support personnel. It is aimed to improve the service level and occupational quality.

Tiancheng College: It is a brick-and-mortar organization for the cadre management of Tiancheng Group. Advocating the learning culture of "reading after practicing", the College adopts the motto of "greatness in simplicity, realisation at Tiancheng; knowledge as action, live and learn". It strengthens strategic recognition and cultural identity, training, selecting and generating cadres. It teaches the methodologies required for the Company's management personnel to work with, so as to realise the strategic goal of developing talents in the Group. The president and other leaders of the Company attach great importance to and participate in such trainings in succession in order to be better equipped for future work.

Department-specific training: External resources are identified to satisfy the special business training needs of individual departments. The participants are mostly from the same department and are expected to sharpen their department-specific business skills. For example, the Solutions Department carried out two team-building sessions during the year, one in the first half and the other in the second half, together with around a dozen technical exchanges with different railway design institutes. Also during the year, the Department completed the oral defence of qualifications for all its members, which sharpened their problem-solving skills and reinforced the team.

6.2.2 External Exchange

External exchange programmes:



Cooperation between Colleges and Enterprises: The Company works with top-notch Chinese colleges and universities in training high-end management personnel. For example, the Company has signed the "Framework Agreement on Strategic Cooperation" with Renmin University of China (RUC), under which the Company may send 8 mid-level and senior managers to attend courses such as CHO, CFO, and MBA. In addition, the Company maintains close cooperation relationship with Tsinghua University, Beijing Jiaotong University and other tertiary institutions.

Huawei Partner University: CIC carries out close cooperation with Huawei, jointly offering training programmes such as *Problem Analysis and Solution* and *Course for Key Staff on Maintenance and Improvement Customer Relations*, based on existing training needs.

Cooperation with renowned forums: The Company carries out cooperation with renowned forums such as China Stone and Renmin Business School, sending mid-level and senior managers to annual summits or seminars of those forums.

In 2018, the Company provided training for a total of 304 employees, with a training coverage rate of 87% and a per capital training time of 37.02 hours. In the coming year, CIC will establish a training system based on online learning platforms, so as to offer training to more employees on top of satisfying the training needs of key and managerial posts. Apart from vigorously tapping into the potential of existing employees, the Company will also offer better care to mid-level staff and focus on the skill training of new recruits. Besides, it will strive to enhance employees' recognition of the Company's culture and their sense of belonging.

The proportion of training time by gender and level is shown in the figure below:

Indicator	End of 2018 (Persons)	Percentage of the year-end total	Average training hours
Male employees under training	226	88.63%	43.24
Female employees under training	78	83.87%	19.97
Grassroots employees under training	245	95.70%	31.29
Mid-level managers under training	50	54.35%	66.00
Senior managers under training	9	75.00%	27.00

6.2.3 Promotion of Employees

The Company attaches importance to the nurturing and assignment of employees. It provides employees with multi-channel development space and stimulates their individual advantages, guiding them to maximize their value in areas of excellence.

The Company has established an inventory system for qualifications. Each year, the Human Resources Department conducts an inventory of existing personnel according to the qualification model of the Company's position, and finally assesses whether employees meet the requirements of the position through assessment, examination and defence. In addition, the Company comprehensively assesses the employee's ability according to the results of the annual performance appraisal, capability evaluation and employee debriefing, and provides employees with promotion opportunities based on the assessment results and job requirements. In 2018, the Company continued to organise and optimise the promotion access, helping employees to identify their career paths. Among others, it promulgated the *Proposal for Improving the Abilities of Customer Managers of the Marketing Department*, formulating the relevant training programme and providing related courses for the growth and ability enhancement of customer managers. In actual work, it required the head of the Department to invest resources in the training for and to facilitate the growth of employees.

6.3 Health and Safety

The Company pays close attention to the safety and health of each employee. On the basis of strictly abiding by relevant laws and regulations, including the *Law of the People's Republic of China on Safe Production* and the *Law of the People's Republic of China* on Prevention of Occupational Diseases, it carries out a variety of activities and training related to employee health and safety, guaranteeing a healthy work environment for employees.

The Company organises physical examinations for its employees every year and designs targeted physical examination items by gender and age. After the annual physical examination, the Company communicates with the employees for their experience and suggestions on physical examination, and adjusts items in time according to their needs.

CIC arranges annual health checks for all employees and voluntarily takes out and maintains personal accident insurance, critical illness insurance and supplementary medical insurance for all employees as supplements to their statutory social security. For the employees who suffer accident, the Company gives active support and rescue. In 2018, the Company arranged Chinese medicine therapies for its employees. It invited experts from the China Academy of Chinese Medical Sciences to provide on-site consultation and therapies on specific discomforts, together with lectures on health care and diet therapy. Besides, the Company organised various sports activities to promote employees' physical and mental health.

In order to better protect the health of its employees, the Company has installed air purification device that can prevent haze in the building's fresh air system, eliminates suspended particles such as dust, smoke, pollen and large filter pathogens in indoor air and kills germs and microorganisms attached to suspended pollutants through specialized equipment, to effectively and completely purify the air. It is shown by the third-party PM2.5 detector that the indoor PM2.5 index of the air-purified headquarter building is better than the "excellent" standard value (daily average concentration is not higher than 35μg/m^3) of the *Ambient Air Quality Standard* released by the State in 2012, to ensure that employees can work in a fresher indoor environment.

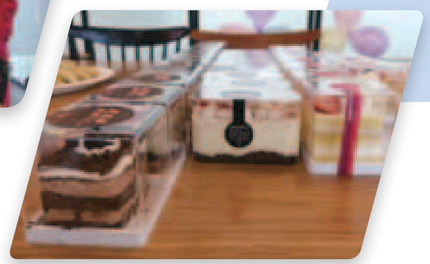
Moreover, the Company prohibits smoking in offices and public areas to eliminate all safety hazards, and arranges dedicated personnel to patrol the office areas during holidays to avoid any safety issues. The Company also organises fire safety training and invited experts from the municipal fire brigade to give related lectures, so as to enhance employees' safety awareness. In 2018, the Company had no employees died due to work-related accidents, and the lost working days due to work-related injuries are 0.

6.4 Care and Cohesion

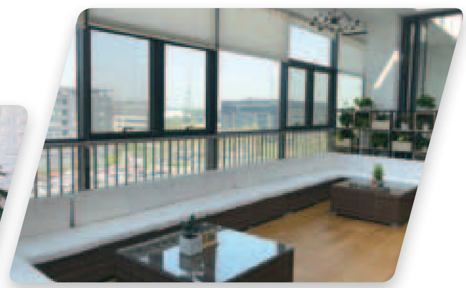
6.4.1 Employee Care

CIC attaches great importance to employees' well-being and strives to make employees feel at home. In order to enhance employees' sense of belonging, the Company also organises a variety of cultural and sports activities, providing employees with a platform to show their talents and to communicate with each other. Such initiatives not only satisfy employees' psychological needs but also enhance their happiness.

- Employee birthday party: The Company organises birthday parties for its employees on a regularly basis. The practice mobilises employees' active participation and strengthens their consolidation and mutual care.



- Sweet pantry: The Company has considerately established a pantry where employees can take a break from work. It also has staff quarters where employees working overtime can take a good rest.



In the coming year, the Company will tailor-make an annual plan to offer help and care to the families of front-line employees and those who travel frequently. And it will carry out related work in accordance with the plan. Besides, the Company will strengthen team-building activities before holidays (such as the New Year's Day, Lunar New Year, Lantern Festival, Dragon Boat Festival, etc.) and encourages greater employee participation, so as to consolidate the corporate culture and enhance employees' sense of belonging.

6.4.2 Cultural and Sports Activities

On July 13, 2018, the "Interim Working Meeting of the Marketing Department of Zhixun Tiancheng for 2018" was held in Yuyang Hotel in Beijing. All the employees of the Marketing Department joined mid-level and senior managers of the Solutions Department, the Technical Services Department and post-platforms to review the work in the first half of 2018 and to make plans and predictions for the work priorities in the second half. After the meeting, the Company organised a team-building activity in Saihanba, which has transformed from a desert to the largest man-made plantation in the world. The "Green Legend" is a miracle coming true thanks to the toil, sweat and even blood of generations of planters and rangers over more than half a century. In the team-building activity, employees came to appreciate the dedication and perseverance of the Saihanba people, which is highly consistent with the Company's core culture. Besides, employees improved their collective collaboration and team cohesion.

7 BENEVOLENCE

CIC actively participates in community public welfare undertakings, assumes the corporate social responsibilities and obligations, feeds back the society with responsibilities and public welfare, and establishes a good corporate image. The Company is committed to integrating the concept of social charity into corporate culture, enabling volunteer services to reach the grassroots and the people, and sublimating corporate culture in public welfare activities, to improve employees' sense of honour.

On May 28, 2018, the Company's Administration Department organised an activity for employees to visit mountainous areas with their children for a special Children's Day.

"See the world and do charity work with your children". Representatives of the Company sang songs, danced and played games with children in Liujiazhuang Village in Tanghu Town, Yixian County of Hebei Province. They also presented toys, books as well as CIC's care to the children. Besides, the Company donated sports equipment, books, computers, desks and chairs, bringing blessings and love to the children and volunteer teachers in the mountainous areas.

During the trip, the Company also identified impoverished students with the school and arranged care visits to their families.

In the coming year, the Company will further strengthen its work of public welfare in the community in the following aspects:

- Setting up student grants and scholarships in cooperation with tertiary institutions: The Company will better communicate with industry-related institutions, such as Lanzhou Jiaotong University, Shijiazhuang Railway University and Beijing Jiaotong University. Apart from working with colleges and universities to nurture talents, CIC will also pay attention to outstanding students from poor families, providing them and other top-notch students with more internship and employment opportunities.

- Targeted financial assistance to poor students and schools: The Company will continue to pay attention and to offer financial assistance to students in Liujiazhuang Village in Tanghu Town, Yixian County of Hebei Province.

- More donation drives: The Company will organise activities for its employees to donate books, clothes and other necessities to schools in mountainous areas in underdeveloped provinces.

APPENDIX — INDEX OF THE HKEX ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORTING GUIDE

ESG Reporting Guide		Page	Content
Subject Area A. Environment			
Aspect A1: Emissions			
A1	General disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous wastes.	43 45	5 Sustainability 5.2 Controlling Emissions, Reducing Pollution
A1.1	The types of emissions and respective emissions data.	45	5.2 Controlling Emissions, Reducing Pollution
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	45	5.2 Controlling Emissions, Reducing Pollution
A1.3	Total hazardous wastes produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	45	5.2 Controlling Emissions, Reducing Pollution
A1.4	Total non-hazardous wastes produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	45	5.2 Controlling Emissions, Reducing Pollution
A1.5	Description of measures to mitigate emissions and results achieved.	45	5.2 Controlling Emissions, Reducing Pollution
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	45	5.2 Controlling Emissions, Reducing Pollution

ESG Reporting Guide		Page	Content
Aspect A2: Use of Resources			
A2	General Disclosure Policies on the efficient use of resources (including energy, water, and other raw materials).	43	5.1 Creating Green Office and Eliminating Waste
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	43	5.1 Creating Green Office and Eliminating Waste
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	43	5.1 Creating Green Office and Eliminating Waste
A2.3	Description of energy use efficiency initiatives and results achieved.	43	5.1 Creating Green Office and Eliminating Waste
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	43	5.1 Creating Green Office and Eliminating Waste The Company mainly uses water for cleaning office building and has not found any problem in obtaining suitable water sources.
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.		N/A
Aspect A3: The Environment and Natural Resources			
A3	General Disclosure Policies on minimising the issuer's significant impact on environment and natural resources.	43	5 Sustainability
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	43	5 Sustainability

ESG Reporting Guide		Page	Content
Subject Area B. Society			
Employment and Labour Practices			
Aspect B1: Employment			
B1	General disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	46 52	6.1 Employment and Rights 6.4 Care and Cohesion
B1.1	Total workforce by gender, employment type, age group, and geographical region.	46	6.1 Employment and Rights
Aspect B2: Health and Safety			
B2	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	52	6.3 Health and Safety
B2.1	Number and rate of work-related fatalities.	52	6.3 Health and Safety
B2.2	Lost days due to work injury	52	6.3 Health and Safety
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	52 52	6.3 Health and Safety 6.4 Care and Cohesion

ESG Reporting Guide		Page	Content
Aspect B3: Development and Training			
B3	General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	48	6.2 Training and Development
B3.1	The percentage of employees trained by gender & employee category (e.g. senior management, middle management).	48	6.2 Training and Development
B3.2	The average training hours completed per employee by gender and employee category.	48	6.2 Training and Development
Aspect B4: Labour Standards			
B4	General disclosure		
	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	46	6.1 Employment and Rights
B4.1	Description of measures to review employment practices to avoid child and forced labour.	46	6.1 Employment and Rights
B4.2	Description of steps taken to eliminate such practices when discovered.	46	6.1 Employment and Rights There were no incidents of child labour or forced labour within the reporting period
Operating Practices			
Aspect B5: Supply Chain Management			
B5	General Disclosure Policies on managing environmental and social risks of the supply chain.	37	2.2 Conducting Compliant Procurement to Ensure Quality
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	37	2.2 Conducting Compliant Procurement to Ensure Quality

ESG Reporting Guide		Page	Content
Aspect B6: Product Responsibility			
B6	General disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	38	3.2 Strictly Guaranteeing Product Quality
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	38	3.2 Strictly Guaranteeing Product Quality
B6.2	Number of products and services relating to complaints received and how they are dealt with.	39	3.3 Customer Relationship Building
B6.3	Description of practices relating to observing and protecting intellectual property rights.	37	3.1 Active Protecting Intellectual Property Rights
B6.4	Description of quality assurance process and recall procedures.	38	3.2 Strictly Guaranteeing Product Quality
Aspect B7: Anti-Corruption			
B7	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	36	2.1 Eliminating Corruption in Accordance with Law
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	36	2.1 Eliminating Corruption in Accordance with Law
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	36	2.1 Eliminating Corruption in Accordance with Law

ESG Reporting Guide		Page	Content	
Community				
Aspect B8: Community Investment				
B8	General disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	55	7	Benevolence
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	55	7	Benevolence

Report of the Directors

The Board presents its report together with the audited consolidated results of the Group for the year ended December 31, 2018.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the principal subsidiaries of the Company are to provide intelligent transportation systems and transportation infrastructure technology solutions and services to railway segment in China. Details of the activities of the subsidiaries of the Company are set out in note 1 to the consolidated financial statements on pages 91 to 92.

RESULTS AND DIVIDEND

The consolidated results of the Group for the year ended December 31, 2018 are set out on pages 83 to 90 of this annual report.

The Board recommended that no dividend will be declared for the year ended December 31, 2018.

BUSINESS REVIEW

The business review of the Group as at December 31, 2018 is set out under the section headed "Management Discussion and Analysis" of this annual report on pages 11 to 15.

PRINCIPAL RISKS AND UNCERTAINTIES

A number of factors may affect the results and business operations of the Group, some of which are inherent to the fashion business and some are from external sources. The Group's major risks are summarized below:

Uncertainty in relation to public spending on transportation infrastructure

The Group's business strategy depends on the PRC government's public spending on transportation infrastructure. Our major customers include PRC public institutions, which are public services institutions set up by the government or other organizations using state-owned assets, and state-owned enterprises. The Group is therefore exposed to changes in public works budgets.

Risk of project delays

The Group faces risks associated with cost overrun for projects. A significant amount of the Group's contracts require it to complete a project for a fixed price within a fixed period of time which exposes the Group to the risk of cost overrun.

Financial risks

The results of the Group are subject to various kinds of financial risks. Please refer to note 43 to the financial statements of the Company for the year ended and as at December 31, 2018 on pages 190 to 193 for the discussion of such risks.

Report of the Directors

KEY RELATIONSHIPS

Employees

Please refer to the section headed "environmental, social and governance report — 6 PEOPLE" on page 46 of this annual report for the discussion on the Group's relationships with its employee.

Customers

Due to the nature of the Group's business, one which requires a high level of collaboration with its customers for successful implementation of projects, it is essential for the Group to maintain a close relationship with each of its customers. The Group's customers are primarily owners and/or operators of public transportation. During the year ended December 31, 2018, the Group has maintained good relationship and did not have any material dispute with its customers.

Suppliers

Our suppliers are mainly suppliers of equipment and electronic devices and components. We maintain stable and close relationships with our suppliers, which allows us to obtain the equipment, parts and materials we need for implementation of our clients' projects in a timely and reliable manner. During the year ended December 31, 2018, the Group has maintained good relationship and did not have any material dispute with its suppliers.

ENVIRONMENTAL POLICIES

Please refer to the section headed "environmental, social and governance report — 5 SUSTAINABILITY" on page 43 of this annual report for the environmental policies of the Group.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in the mainland China. Our establishment and operations accordingly shall comply with relevant laws and regulations in the mainland China. During the year ended December 31, 2018 and up to the date of this report, we have complied with all the relevant laws and regulations in the mainland China.

PROPERTY AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in note 13 to the consolidated financial statements on pages 147 to 148.

SHARE CAPITAL

Details of the movement in the Company's share capital during the year ended December 31, 2018 are set out in note 31 to the consolidated financial statements on page 172.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, which would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

RESERVES

Details of movements in the reserves of the Company and the Group for the year ended December 31, 2018 are set out in note 32 to the consolidated financial statements on page 172. As at December 31, 2018, the Group's distributable reserve is RMB1,346,041,000.

Report of the Directors

CHARITABLE DONATIONS

The Company made no charitable donations during the year ended December 31, 2018.

DIRECTORS

The Directors who held office as at December 31, 2018 and the date of this annual report are:

	Last Re-election Date
Executive Directors	
Mr. Liao Jie *(Chairman)*	June 21, 2018
Mr. Jiang Hailin *(Chief Executive Officer)*	June 21, 2018
Non-executive Director	
Mr. Tim Tianwei Zhang	May 23, 2017
Independent Non-executive Directors	
Mr. Choi Onward *(FCCA, HKICPA)*	May 23, 2017
Mr. Ye Zhou	May 23, 2017
Mr. Wang Dong *(CICPA, CIMA, AAIA, CGMA)*	June 21, 2018

In accordance with Article 84 of the Articles of Association of the Company and the Listing Rules, Mr. Tim Tianwei Zhang and Mr. Ye Zhou shall retire by rotation, and being eligible, have offered themselves for re-election as Directors at the forthcoming annual general meeting.

Biographies of Directors and senior management of the Company are set out on pages 16 to 20 of this annual report.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Save for the information disclosed in the section headed "Directors and Senior Management — Board of Directors" of this annual report, there is no other information related to Directors of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules, and considers that all of the independent non-executive Directors are independent.

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the Model Code as set out in Appendix 10 of the Listing Rules as the standards for the Directors' dealings in the securities of the Company on June 18, 2010. Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the required standard set out in the Model Code during the reporting period.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Save as disclosed below, as at December 31, 2018, none of the Directors and Chief Executive Officer had any interests or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required 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 are taken or deemed to have under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange:

Name of Director	Nature of interest	Securities[(4)]	Approximate percentage of shareholdings as at December 31, 2018[(4)]
Mr. Liao Jie[(1)]	Beneficial owner/Interest of a controlled corporation	146,494,077(L)	8.86%(L)
Mr. Jiang Hailin[(2)]	Beneficial owner/Beneficiary of the Fino Trust	647,768,625(L)	39.16%(L)
Mr. Choi Onward[(3)]	Beneficial owner	98,824(L)	0.01%(L)

Notes:

(1) 40,735,874 of these Shares are underlying Shares subject to the exercise of share options granted to Mr. Liao Jie on January 18, 2012 under the Share Option Scheme. Mr. Liao Jie is also deemed to be interested in the 105,758,203 Shares held by Joyful Business, which is wholly-owned by Mr. Liao Jie.

(2) 1,855,848 of these Shares are underlying Shares subject to the exercise of share options granted to Mr. Jiang Hailin on January 18, 2012 under the Share Option Scheme. Mr. Jiang Hailin was also interested in all the Shares in which Fino Trust was interested as a beneficiary of Fino Trust. As the beneficial owner of Fino Investments Limited, Fino Trust is deemed to be interested in all the Shares in which Fino Investments Limited is interested. Mr. Jiang Hailin beneficially and directly owns 18,853,876 Shares, which are part of the 645,912,777 Shares in which Fino Trust is deemed to be interested.

(3) These Shares are underlying Shares subject to the exercise of share options granted to Mr. Choi Onward on January 18, 2012 under the Share Option Scheme.

(4) (L) denotes long positions.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as otherwise disclosed in this annual report, at no time during the year ended December 31, 2018, was the Company or any of its subsidiaries or its holding company or any of the subsidiaries of the Company's holding company a party to any arrangement to enable the Directors or the Chief Executive Officer or their respective associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors and Chief Executive Officer, or their spouse and children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during such period.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the business of the Group, to which the Company, its holding companies, its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended December 31, 2018.

PERMITTED INDEMNITY PROVISIONS

The Articles of the Company provide that the Directors of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty. Such provisions were in force during the financial year ended December 31, 2018 and remained in force as of the date of this Annual Report. The Company has also arranged appropriate director and officer liability insurance in respect of legal action against Directors.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended December 31, 2018.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors and their respective associates (as defined in the Listing Rules) has an interest in any business which competes or may compete with the business in which the Group is engaged.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

REMUNERATION OF THE DIRECTORS AND SENIOR MANAGEMENT

The determination of the remuneration of the Directors and senior management of the Company is based on the individual performance, the nature and responsibilities of the individual concerned and the performance of our Group and market conditions. Proposals for increase in remuneration, payment of discretionary bonus or adjustment to any benefits scheme will be approved by the Remuneration Committee.

The Company will also periodically review and assess its human resource requirements and the prevailing market trend and make appropriate adjustments. Details of the remuneration of the Directors are set out in note 8 to the consolidated financial statements on pages 140 to 142.

EMPLOYMENT AND EMOLUMENT POLICIES

As at December 31, 2018, the Group had 348 full-time employees. The emolument policy of the employees of the Group is set up by the Board on the basis of individual performance, the nature and responsibilities of the individual concerned and the performance of our Group and market conditions.

In addition, the Company has adopted the Pre-IPO Share Incentive Scheme and the Share Option Scheme as an incentive for Directors and eligible employees.

RETIREMENT BENEFIT SCHEME

The Group does not have any employee who is required to participate in the Mandatory Provident Fund in Hong Kong. The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC municipal government. The employees of the PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to this retirement benefits scheme is to make the required contributions under the scheme.

PRE-IPO SHARE INCENTIVE SCHEME AND SHARE OPTION SCHEME

The terms of the Pre-IPO Share Incentive Scheme and the Share Option Scheme were disclosed in the section headed "Other information — Pre-IPO Share Incentive Scheme" and "Other information — Share Option Scheme" respectively, in Appendix VI to the prospectus of the Company dated June 30, 2010 (the "**Prospectus**") and in the section headed "Report of the Directors" in the 2011 Annual Report of the Company dated March 28, 2012.

1. Pre-IPO Share Incentive Scheme

Holdco adopted the Pre-IPO Share Incentive Scheme on December 28, 2008. The purpose of the Pre-IPO Share Incentive Scheme is to recognize and reward the contribution of certain eligible participants to the growth and development of the business(es) of the Group.

Options to subscribe for an aggregate of 116,653,105 Shares have been conditionally granted by Holdco under the Pre-IPO Share Incentive Scheme.

As of December 31, 2018, no Share which were held by Holdco may be transferred to the relevant grantees upon exercise of all options which had been granted under the Pre-IPO Share Incentive Scheme. Upon exercise of such options, Holdco transfers the relevant number of Shares to the grantee of the options. There is therefore no dilutive effect on the Shareholders resulting from the exercise of the options under the Pre-IPO Share Incentive Scheme.

Movement of the options granted under the Pre-IPO Share Incentive Scheme during the year ended December 31, 2018 is as follows:

Grantee	Grant date	Vesting start date	Expiry date	Outstanding as at January 1, 2018	Exercised during the year ended December 31, 2018	Lapsed or cancelled during the year ended December 31, 2018	Outstanding as at December 31, 2018	Exercise price per share (RMB)
All	31/12/2008	30/06/2013	30/06/2018	7,927,257	–	7,927,257	0	4
TOTAL:				**7,927,257**	**–**	**7,927,257**	**0**	

2. Share Option Scheme

The Company conditionally adopted the Share Option Scheme on June 18, 2010 and the Share Option Scheme became effective as at the date of listing of the Company on July 15, 2010 (the "**Listing Date**"). The purpose of the Share Option Scheme is to enable the Company to grant options to eligible participants as incentives or rewards for their contribution or potential contribution to the Group.

The Board may, at its absolute discretion, offer an option to eligible participant to subscribe for the Shares at an exercise price and subject to the other terms of the Share Option Scheme.

The total number of Shares issued and to be issued upon the exercise of the options granted to or to be granted to each eligible participant under the Share Option Scheme and any other schemes of the Company or any of its subsidiaries (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue.

The Share Option Scheme will remain in force for a period of 10 years from the Listing Date and ending on the ten anniversary of the Listing Date. Under the Share Option Scheme, each option has an exercise period not exceeding 10 years from the date of grant.

As at the Listing Date, the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company ("**Share Option Scheme Limit**") shall not in aggregate exceed 155,029,633 Shares being 10% of the total number of Shares in issue immediately prior to the date on which dealings in the Shares commenced on the Stock Exchange.

On January 18, 2012, the Board resolved to grant share options under the Share Option Scheme to 191 grantees, which includes certain Directors, chief executive, substantial Shareholders and employees of the Company to subscribe for an aggregate of 155,000,000 Shares. For further details of the abovementioned grant of share options, please refer to the announcement of the Company on January 18, 2012.

Following the grant of share options on January 18, 2012, the remaining mandate not utilized under the above Share Option Scheme Limit is 29,633 Shares. On February 29, 2012, Shareholders approved the refreshment of the Share Option Scheme Limit for the purpose of future grants of share options to the eligible participants under the Share Option Scheme. Under the refreshed Share Option Scheme Limit, the total number of Shares which may be issued upon exercise of options which may be granted under the Share Option Scheme and any other share option scheme(s) of the Company shall not exceed 10% of the total number of Shares in issue at the date of passing the relevant resolutions on refreshment of the Share Option Scheme Limit, i.e. 161,281,776 Shares. Options previously granted under the Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme or exercised options and those options granted on January 18, 2012) will not be counted for the purpose of calculating the 10% refreshed Share Option Scheme Limit.

Movement of the options granted under the Share Option Scheme during the year ended December 31, 2018 is as follows:

Grantee	Grant date[1]	Vesting start date	Expiry date	Outstanding as at January 1, 2018	Exercised during the year ended December 31, 2018	Lapsed or cancelled during the year ended December 31, 2018	Outstanding as at December 31, 2018	Exercise price per share (HK$)
Mr. Jiang Hailin	18/01/2012	April 19, 2012	Note (2)	77,203	–	–	77,203	1.05
(Executive Director,	18/01/2012	July 19, 2012	Note (2)	77,203	–	–	77,203	1.05
Chief Executive Officer)	18/01/2012	October 19, 2012	Note (2)	77,203	–	–	77,203	1.05
	18/01/2012	January 19, 2013	Note (2)	77,203	–	–	77,203	1.05
	18/01/2012	April 19, 2013	Note (2)	154,592	–	–	154,592	1.05
	18/01/2012	July 19, 2013	Note (2)	154,592	–	–	154,592	1.05
	18/01/2012	October 19, 2013	Note (2)	154,592	–	–	154,592	1.05
	18/01/2012	January 19, 2014	Note (2)	154,592	–	–	154,592	1.05
	18/01/2012	April 19, 2014	Note (2)	231,981	–	–	231,981	1.05
	18/01/2012	July 19 2014	Note (2)	231,981	–	–	231,981	1.05
	18/01/2012	October 19, 2014	Note (2)	231,981	–	–	231,981	1.05
	18/01/2012	January 19, 2015	Note (2)	232,725	–	–	232,725	1.05
Sub-total				1,855,848	–	–	1,855,848	
Mr. Liao Jie[3]	18/01/2012	April 19, 2012	Note (2)	1,694,612	–	–	1,694,612	1.05
(Executive Director,	18/01/2012	July 19, 2012	Note (2)	1,694,612	–	–	1,694,612	1.05
Chairman)	18/01/2012	October 19, 2012	Note (2)	1,694,612	–	–	1,694,612	1.05
	18/01/2012	January 19, 2013	Note (2)	1,694,612	–	–	1,694,612	1.05
	18/01/2012	April 19, 2013	Note (2)	3,393,298	–	–	3,393,298	1.05
	18/01/2012	July 19, 2013	Note (2)	3,393,298	–	–	3,393,298	1.05
	18/01/2012	October 19, 2013	Note (2)	3,393,298	–	–	3,393,298	1.05
	18/01/2012	January 19, 2014	Note (2)	3,393,298	–	–	3,393,298	1.05
	18/01/2012	April 19, 2014	Note (2)	5,091,984	–	–	5,091,984	1.05
	18/01/2012	July 19, 2014	Note (2)	5,091,984	–	–	5,091,984	1.05
	18/01/2012	October 19, 2014	Note (2)	5,091,984	–	–	5,091,984	1.05
	18/01/2012	January 19, 2015	Note (2)	5,108,282	–	–	5,108,282	1.05
Sub-total				40,735,874	–	–	40,735,874	
Mr. Choi Onward	18/01/2012	April 19, 2012	Note (2)	8,232	–	–	8,232	1.05
(Independent	18/01/2012	July 19, 2012	Note (2)	8,232	–	–	8,232	1.05
Non-Executive	18/01/2012	October 19, 2012	Note (2)	8,232	–	–	8,232	1.05
Director)	18/01/2012	January 19, 2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	April 19, 2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	July 19, 2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	October 19, 2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	January 19, 2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	April 19, 2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	July 19, 2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	October 19, 2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	January 19, 2015	Note (2)	8,272	–	–	8,272	1.05
Sub-total				98,824	–	–	98,824	

Grantee	Grant date[1]	Vesting start date	Expiry date	Outstanding as at January 1, 2018	Exercised during the year ended December 31, 2018	Lapsed or cancelled during the year ended December 31, 2018	Outstanding as at December 31, 2018	Exercise price per share (HK$)
Others	18/01/2012	April 19, 2012	Note (2)	1,766,431	–	165,870	1,600,561	1.05
	18/01/2012	July 19, 2012	Note (2)	1,766,431	–	165,870	1,600,561	1.05
	18/01/2012	October 19, 2012	Note (2)	1,766,431	–	165,870	1,600,561	1.05
	18/01/2012	January 19, 2013	Note (2)	1,766,431	–	165,870	1,600,561	1.05
	18/01/2012	April 19, 2013	Note (2)	2,664,144	–	204,564	2,459,580	1.05
	18/01/2012	July 19, 2013	Note (2)	2,664,144	–	204,564	2,459,580	1.05
	18/01/2012	October 19, 2013	Note (2)	2,664,144	–	204,564	2,459,580	1.05
	18/01/2012	January 19, 2014	Note (2)	2,664,144	–	204,564	2,459,580	1.05
	18/01/2012	April 19, 2014	Note (2)	3,561,849	–	243,259	3,318,590	1.05
	18/01/2012	July 19, 2014	Note (2)	3,561,849	–	243,259	3,318,590	1.05
	18/01/2012	October 19, 2014	Note (2)	3,561,849	–	243,259	3,318,590	1.05
	18/01/2012	January 19, 2015	Note (2)	3,574,441	–	244,239	3,330,202	1.05
Sub-total				31,982,288	–	2,455,752	29,526,536	
TOTAL:				**74,672,834**	**-**	**2,455,752**	**72,217,082**	

Notes:

(1) The closing price of the Shares immediately before the grant date of share options was HK$1.05.

(2) Expiry date of these share options shall be the earlier of: (i) the date on which the share option lapses in accordance with the Share Option Scheme or (ii) the date falling ten (10) years from the date of acceptance by the grantee.

(3) The total number of Shares to be issued upon exercise of the share options granted to Mr. Liao Jie would exceed 1% of the Shares in issue in the 12–month period up to and including the date of the grant. Such further grant of share options to Mr. Liao Jie was approved by Shareholders in an extraordinary general meeting on February 29, 2012.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at the December 31, 2018, so far as is known to any Director or chief executive of the Company, other than a Director or chief executive of the Company, the following persons had interests or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the issuer under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the group.

Name	Capacity	Long position/ Short position	Number of Shares	Percentage to Company's issued share capital
Holdco(1)	Beneficiary owner	Long position	645,912,777	39.05%
Best Partners(2)	Interest of controlled corporation	Long position	645,912,777	39.05%
Fino Investment Limited(3)	Interest of controlled corporation	Long position	645,912,777	39.05%
Tesco Investments Limited(4)	Interest of controlled corporation	Long position	645,912,777	39.05%
Credit Suisse Trust Limited(3)(4)	Trustee	Long Position	645,912,777	39.05%
Central Huijin Investment Ltd.	Security interest	Long position	215,000,000	12.99%
China Construction Bank Corporation	Security interest	Long position	215,000,000	12.99%
Joyful Business Holdings Limited(5)	Beneficiary owner	Long Position	105,758,203	6.39%
Penbay Investments Limited(6)	Beneficial owner	Long position	98,613,367	5.96%
Chen Qi(6)	Interest of controlled corporation	Long position	98,613,367	5.96%

Notes:

(1) As disclosed in the prospectus of the Company dated June 30, 2010, to facilitate the management and operation of the Company, certain major shareholders of the Company have entered into voting agreements delegating their voting rights in the Company to Holdco prior to the listing of the Company, and Holdco has been a controlling shareholder (as defined under the Listing Rules) of the Company since the listing of the Company in 2010. In connection with this arrangement and as a result of previous restructuring exercises of the Group, as at the Latest Practicable Date, Holdco, Pride Spirit Company Limited, Sea Best Investments Limited, Joy Bright Success Limited, Gouver Investments Limited, Kang Yang Holdings Limited, Huaxin Investments Limited, Rockyjing Investment Limited, Key Trade Holdings Limited, Best Partners Development Limited, Joyful Business Holdings Limited, Mr. Liao Jie, Mr. Liao Daoxun, Ms. Wu Yurui, Mr. Jiang Hailin, Mr. Wang Jing, Mr. Liang Shiping, Ms. Wu Chunhong, Mr. Zhao Lisen, Mr. Zhang Qian, Mr. Guan Xiong, Mr. Zheng Hui, Mr. Lv Xilin, Ms. Wang Li, Mr. Dang Kulun, Mr. Pan Jianguo and Mr. Jing Yang, were parties to a series of shareholders voting agreements (the "**Shareholders Voting Agreements**"), pursuant to which each of the parties (other than Holdco) to the Shareholder Voting Agreements has authorized Holdco to exercise their voting rights in the Company on their behalves.

As at December 31, 2018, Holdco is entitled to exercise or control the exercise of the voting rights of a total of 645,912,777 Shares, representing the aggregate number of Shares held by all of the parties to the Shareholder Voting Agreements.

Holdco is wholly–owned by Best Partners. Two of our Directors Mr. Jiang Hailin and Mr. Liao Jie are also directors of Holdco.

(2) The issued share capital of Best Partners is held as to 91.2015% by Fino Investments Limited and as to 8.7985% by Tesco Investments Limited. By virtue of the Shareholder Voting Agreements, Best Partners is deemed to be controlled by Fino Investments Limited and Tesco Investments Limited. Our Director Mr. Liao Jie is director of Best Partners.

(3) Fino Investments Limited is owned as to 50% by Serangoon Limited and as to 50% by Seletar Limited, as nominees and trustees for Credit Suisse Trust Limited, which is the trustee holding such interest on trust for the beneficiaries of Fino Trust, namely Mr. Liao Daoxun, Ms. Wu Yurui, Mr. Liang Shiping, Mr. Jiang Hailin, Ms. Wu Chunhong. The Fino Trust is an irrevocable discretionary trust established under the laws and regulations of Singapore.

(4) Tesco Investments Limited is owned as to 50% by Serangoon Limited and as to 50% by Seletar Limited, as nominees and trustees for Credit Suisse Trust Limited, which is the trustee holding such interest on trust for the beneficiaries of Tesco Trust, namely Mr. Wang Jing, Mr. Zhang Qian, Mr. Guan Xiong, Mr. Zheng Hui and Ms. Wang Li. The Tesco Trust is an irrevocable discretionary trust established under the laws and regulations of Singapore.

(5) Joyful Business Holdings Limited is wholly-owned by Mr. Liao Jie. Mr. Liao Jie is the sole director of Joyful Business.

(6) Penbay Investments Limited was controlled by Mr. Chen Qi and therefore Mr. Chen Qi was deemed to be interested in the 98,613,367 shares of the Company beneficially owned by Penbay Investments Limited.

Save as disclosed in the paragraphs headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" and "Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares" above, no Director or proposed director is a director or employee of a company which has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the year ended December 31, 2018.

EVENTS AFTER THE REPORTING PERIOD

The Company was unaware of any significant event since the end of the financial year until the date of this report of the Directors that had a significant impact on the Group.

MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES

During the year ended December 31, 2018, the Group did not conduct any significant investments or acquisitions or sales of subsidiaries.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2018, the aggregate sales to the Group's five largest customers, in aggregate represented approximately 23.6% of the Group's total revenue and sales to the Group's largest customer amounted to approximately 9.4% of the Group's total revenue.

For the year ended December 31, 2018, the aggregate purchases attributable to the Group's five largest suppliers, in aggregate represented approximately 55.3% of the Group's total purchases and purchases attributable to the Group's largest supplier amounted to approximately 19.5% of the Group's total purchases.

For the year ended December 31, 2018, none of the Directors nor any of their associates or any Shareholders who, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital, had any interest in the five largest suppliers or customers.

BANKING FACILITIES AND OTHER BORROWINGS

Details of the bank facilities and other borrowings of the Group as at December 31, 2018 are set out in note 29 to the consolidated financial statements on page 169.

SUFFICIENCY OF PUBLIC FLOAT

According to information that is publicly available to the Company and within the knowledge of the Board, as at December 31, 2018, the Company has maintained sufficient public float as required under the Listing Rules.

CONNECTED TRANSACTIONS

Framework Sales Agreement

Reference is made to the announcement and circular of the Company dated February 17, 2016 and March 24, 2016, respectively. As disclosed in the aforementioned announcement and circular, on February 17, 2016, Zhixun Tiancheng, Zhongzhi Runbang and Zhongtian Runbang (the "**Framework Agreement Suppliers**"), each being a subsidiary of the Company, entered into a framework sales agreement with Beijing RHY Technology Development Co., Ltd. ("**Beijing RHY**") pursuant to which the Framework Agreement Suppliers would sell their products to Beijing RHY with effect from December 31, 2016, the date of the offshore closing in the VSD, to December 31, 2018.

As Beijing RHY is an associate of Mr. Jiang Hailin and Mr. Liao Jie, who are Directors, and Holdco, a substantial shareholder of the Company, the Framework Sales Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company and are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Framework Sales Agreement was approved by independent shareholders at an extraordinary general meeting of the Company held on April 27, 2016.

The approved annual cap for the Framework Sales Agreement for the year ended December 31, 2018 was RMB3,000,000. Sales of products by the Framework Agreement Suppliers to Beijing RHY for the year ended December 31, 2018 was approximately RMB129,000.

RHY Lease

As disclosed in the announcement on July 31, 2018, Hongrui Dake, which is a subsidiary of the Company, entered into the RHY Lease with Beijing RHY pursuant which Hongrui Dake has agreed to let and Beijing RHY has agreed to rent the Hongrui Dake Properties for a term commencing on August 1, 2018 and expiring on December 31, 2020.

Beijing RHY is a connected person of the Company as aforementioned and therefore the transaction contemplated under the RHY Lease constitute continuing connected transaction of the Company under Chapter 14A of the Listing Rules and are subject to the reporting and announcement requirements, but is exempt from the circular (including independent financial advice) and shareholders' approval requirements under the Listing Rules.

The approved annual cap for the RHY Lease for the year ended December 31, 2018 was RMB2,151,000. The rental income from Beijing RHY to Hongrui Dake for the year ended December 31, 2018 was approximately RMB1,721,000.

Variation of Terms in Relation to a Very Substantial Disposal and Connected Transaction

Reference is made to the announcement and circular of the Company dated February 17, 2016 and March 24, 2016, respectively, in relation to the very substantial disposal and connected transaction (the "**VSD**") of the Company as disclosed in the announcement and the circular.

Reference is made to the announcement of the Company dated July 2, 2018, the Group entered into the Supplemental Agreements with the relevant parties of Purchaser Group in relation to the Group conditionally agreed to extend the due date of the Outstanding Amounts.

As the entering into the Supplemental Agreements constitutes a material variation of the terms of the VSD, the Supplemental Agreements were subject to reporting and announcement requirements under the Listing Rules and the approval of the Independent Shareholders by way of poll at an extraordinary general meeting in accordance with the Listing Rules. The Independent Shareholders approved the Supplemental Agreements at the said extraordinary general meeting held on September 21, 2018.

As at December 31, 2018, approximately RMB533.54 million of the consideration for the VSD and other amounts in connection with the VSD payable by the Purchaser Group were outstanding. Interest accrued on Outstanding Amounts from the Due Date until 31 December 2018 was approximately RMB24,988,000.

The independent non-executive Directors have reviewed all the above-mentioned continuing connected transactions and confirmed that during the year ended December 31, 2018, these transactions have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young has issued the Independent Auditors' Assurance Report containing their findings and conclusions in respect of all the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' report has been provided by the Company to the Stock Exchange.

RELATED PARTIES TRANSACTIONS

The Group was involved in a number of related party transactions during the year ended December 31, 2018, which have been disclosed in note 40 to the consolidated financial statements on pages 181 to 183.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

No contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling Shareholder or any of its subsidiaries subsisted at December 31, 2018 or any time during the year ended December 31, 2018.

Report of the Directors

NON-COMPETITION DEED

As disclosed in the Prospectus, the independent non-executive Directors will review, on an annual basis, the compliance by the controlling Shareholders with the non-competition undertakings under the Non-competition Agreement (as defined in the Prospectus). The independent non-executive Directors have conducted such review for the year ended December 31, 2018 and found that the Non-competition Agreement has been fully complied with.

CORPORATE GOVERNANCE

The Company places high value on its corporate governance practice and the Board firmly believes that a good corporate governance practice can improve accountability and transparency for the benefit of its shareholders.

The Company has adopted the code provisions (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The Company has complied with the code provisions contained in the CG Code for the year ended December 31, 2018.

Detailed information on the corporate governance practice adopted by the Company is set out in the Corporate Governance Report on pages 21 to 31.

AUDIT COMMITTEE

The Group's annual report for the year ended December 31, 2018 has been reviewed by the Audit Committee. Information on the work of the Audit Committee and its composition are set out in the Corporate Governance Report on pages 24 to 25.

AUDITOR

The consolidated financial statements of the Group for the year ended December 31, 2018 have been audited by Ernst & Young.

On behalf of the Board of Directors
China ITS (Holdings) Co., Ltd.
Liao Jie
Chairman

Beijing, March 28, 2019

Independent Auditor's Report

Ernst & Young
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To the members of China ITS (Holdings) Co., Ltd.
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China ITS (Holdings) Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 83 to 195, which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 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 ("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 ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition on construction contracts During the year, the Group derived a significant portion of its revenue from construction contracts for which revenue is recognised over time, using an input method to measure progress towards complete satisfaction of the contracts. Revenue from the provision of construction contracts accounted for approximately 67% of the Group's consolidated revenue for the year ended December 31, 2018. The input method involved the use of significant judgement and estimates by management, including estimates of the progress towards completion, the scope of deliveries and services required, total contract cost, remaining costs to completion, total contract revenue and contract risks. In addition, revenue, cost and gross profit realised on such contracts might vary significantly from the Group's original estimates due to changes in circumstances. As a result, we identified revenue recognition on construction contracts as a key audit matter. The accounting policies and disclosures of the revenue recognition on construction contracts are included in notes 2.4, 3, 5 and 24 to the financial statements.	Our audit procedures included the following: we compared the available public bidding information with the information we obtained from the Group to understand terms of the contracts; we performed recalculation on the revenue sheet obtained using the budgeted cost estimates from the Group; we reviewed the budgeted costs by checking the details and purchase contracts, and interviewed management on the budget changes in the current year; we obtained the purchase contracts, invoices, goods delivery notes and examination and acceptance reports to check the progress of projects; we compared the gross profit in the current year to the prior year for existing contracts and enquired of management about significant fluctuations; we obtained the calculation of the provision for potential losses for onerous contracts and evaluated the management's assessment of the provision by reviewing the contract and budget cost of the project and enquired of management about the rationale behind.
Impairment of goodwill The Group performs an impairment assessment of goodwill annually. During the year, the annual impairment assessment was significant to our audit because the balance of RMB274.0 million as of December 31, 2018 was material to the financial statements. In addition, management's assessment process was complex and highly judgemental and was based on assumptions, such as the budgeted gross margin and the growth rates. Given the sensitivity of the assumptions and the level of judgement involved, we considered this as a key audit matter. The accounting policies and disclosures of the impairment of goodwill are included in notes 2.4, 3 and 15 to the financial statements.	Our audit procedures included the following: we involved an internal valuation specialist to evaluate the assumptions and methodologies used by the Group; we compared the key assumptions used in the impairment assessment to the historical data of the Company. We also focused on the adequacy of the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of goodwill.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of unlisted equity investments As at December 31, 2018, the Group had several unlisted equity investments which were accounted for as financial assets at fair value through profit or loss amounting to RMB137.8 million. The fair value of the investments was valued by management at the end of the year. Considering that the valuation involved significant judgement and estimates from management, which included the comparable public companies, the price multiple and the discount for liquidity and size difference, and the changes in fair value had significant influence on the financial statements, we considered this as a key audit matter. The Company's disclosures about the valuation of unlisted equity investments are included in notes 2.4, 3 and 25 to the financial statements.	Our audit procedures included the following: we assessed the valuation methodology used by management to estimate the fair value of the unlisted equity investments; we interviewed management to understand the assumptions used in the valuation; we involved an internal valuation specialist to assist the review of the valuation methodology and key assumptions used by the Group.
Allowance for impairment of trade receivables and contract assets As at December 31, 2018, the Group had gross trade receivables and contract assets of approximately RMB920.3 million and RMB728.5 million, respectively, and provided allowance for impairment of approximately RMB75.4 million and RMB31.8 million, respectively. The Group uses simplified approach to calculate the expected credit loss ("ECL") for trade receivables and contract assets. The establishment of provision matrix involves assessment of the Group's historical observed default rates and forecast economic conditions, which involves significant estimates. In view of the significance of the amount and use of estimates by management in assessing the recoverability, we considered this as a key audit matter. The Company's disclosures about trade receivables and contract assets are included in notes 2.4, 3, 22, and 24 to the financial statements.	Our audit procedures included the following: we reviewed and assessed the establishment of provision matrix and discussed with management to understand the nature and the judgments involved in estimating the expected credit loss on trade receivables and contract assets; we assessed the estimates used to determine the expected credit losses by considering historical collection, the historical default rate, forward-looking information and subsequent settlement; we tested the trade receivables ageing used to assess the recoverability of receivables; we reviewed the accuracy of management's judgments by comparing historical provisions against actual write-offs.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises 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 of the Company are responsible for the preparation of 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company 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. Our 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.

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 to 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 Yee Chung Man.

Ernst & Young
Certified Public Accountants
Hong Kong
March 28, 2019

Consolidated Statement of Profit or Loss

Year ended December 31, 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	**923,966**	1,164,838
Cost of sales		**(759,331)**	(905,500)
Gross profit		**164,635**	259,338
Other income and gains	5	**56,564**	40,570
Selling, distribution and administrative expenses		**(197,305)**	(200,350)
Impairment losses on financial and contract assets, net		**(47,531)**	–
Other expenses		**(52,209)**	(3,285)
Finance costs	7	**(42,171)**	(47,806)
Share of profits and losses of:			
Joint ventures		**4,913**	1,651
Associates		**(991)**	(1,031)
(LOSS)/PROFIT BEFORE TAX	6	**(114,095)**	49,087
Income tax expense	10	**(2,183)**	(24,618)
(LOSS)/PROFIT FOR THE YEAR		**(116,278)**	24,469
Attributable to:			
Owners of the parent		**(116,278)**	24,490
Non-controlling interests		**–**	(21)
		(116,278)	24,469
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		**RMB**	RMB
Basic			
— For (loss)/profit for the year	12	**(0.07)**	0.01
Diluted			
— For (loss)/profit for the year	12	**(0.07)**	0.01

Consolidated Statement of Comprehensive Income

Year ended December 31, 2018

	2018 RMB'000	2017 RMB'000
(LOSS)/PROFIT FOR THE YEAR	**(116,278)**	24,469
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**–**	5,946
Exchange differences:		
Exchange differences on translation of foreign operations	**(11,170)**	7,267
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	**(11,170)**	13,213
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(11,170)**	13,213
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	**(127,448)**	37,682
Attributable to:		
Owners of the parent	**(127,448)**	37,703
Non-controlling interests	**–**	(21)
	(127,448)	37,682

Consolidated Statement of Financial Position

December 31, 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property and equipment	13	**262,359**	261,413
Investment properties	14	**78,200**	66,800
Goodwill	15	**274,027**	274,027
Other intangible assets	16	**1,983**	15,621
Investments in joint ventures	17	**48,305**	54,368
Investments in associates	18	**3,071**	6,592
Financial assets at fair value through profit or loss	25	**117,755**	–
Available-for-sale investments	25	**–**	103,236
Deferred tax assets	30	**17,514**	7,769
Loan receivables	23	**33,000**	31,000
Pledged deposits	26	**134,290**	–
Total non-current assets		**970,504**	820,826
CURRENT ASSETS			
Inventories	20	**59,798**	80,257
Contract assets	24	**696,704**	–
Construction contracts	21	**–**	831,190
Trade and bills receivables	22	**975,011**	1,094,119
Prepayments, other receivables and other assets	23	**343,442**	365,683
Financial assets at fair value through profit or loss	25	**20,000**	–
Other financial assets	25	**–**	39,903
Amounts due from related parties	40	**650,811**	638,486
Pledged deposits	26	**234,428**	283,076
Cash and cash equivalents	26	**146,436**	179,654
		3,126,630	3,512,368
Assets classified as held for sale	19	**8,500**	–
Total current assets		**3,135,130**	3,512,368
CURRENT LIABILITIES			
Trade and bills payables	27	**651,863**	391,036
Other payables and accruals	28	**556,725**	271,516
Construction contracts	21	**–**	621,901
Interest-bearing bank borrowings	29	**363,509**	608,829
Amounts due to related parties	40	**27,956**	19,514
Income tax payable		**29,512**	46,601
Total current liabilities		**1,629,565**	1,959,397
NET CURRENT ASSETS		**1,505,565**	1,552,971
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,476,069**	2,373,797

Consolidated Statement of Financial Position

December 31, 2018

	Notes	2018 RMB'000	2017 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,476,069**	2,373,797
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	29	**420,843**	152,000
Deferred tax liabilities	30	**24,537**	19,307
Total non-current liabilities		**445,380**	171,307
Net assets		**2,030,689**	2,202,490
EQUITY			
Equity attributable to owners of the parent			
Share capital	31	**290**	290
Other reserves	32	**2,030,399**	2,202,200
		2,030,689	2,202,490
Total equity		**2,030,689**	2,202,490

Liao Jie
Director

Jiang Hailin
Director

Consolidated Statement of Changes in Equity

Year ended December 31, 2018

	Note	Attributable to owners of the parent										
		Share capital RMB'000 note 31	Share premium RMB'000	Statutory reserve RMB'000 note 32	Capital reserve RMB'000 note 32	Asset revaluation reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At January 1, 2017		290	1,088,725	155,487	630,851	7,782	–	(85,552)	367,204	2,164,787	(29)	2,164,758
Profit/(loss) for the year		–	–	–	–	–	–	–	24,490	24,490	(21)	24,469
Other comprehensive income for the year:												
Changes in fair value of available-for-sale investments, net of tax		–	–	–	–	–	5,946	–	–	5,946	–	5,946
Exchange differences related to foreign operations		–	–	–	–	–	–	7,267	–	7,267	–	7,267
Total comprehensive income for the year		–	–	–	–	–	5,946	7,267	24,490	37,703	(21)	37,682
Disposal of subsidiaries	34	–	–	–	–	–	–	–	–	–	50	50
Transfer of share options upon the forfeiture of share options		–	–	–	(31,258)	–	–	–	31,258	–	–	–
Transfer from retained earnings		–	–	10,528	–	–	–	–	(10,528)	–	–	–
At December 31, 2017		290	1,088,725	166,015	599,593	7,782	5,946	(78,285)	412,424	2,202,490	–	2,202,490

Consolidated Statement of Changes in Equity

Year ended December 31, 2018

	Note	Attributable to owners of the parent								
		Share capital RMB'000 note 31	Share premium RMB'000	Statutory reserve RMB'000 note 32	Capital reserve RMB'000 note 32	Asset revaluation reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At December 31, 2017, as previously reported		290	1,088,725*	166,015*	599,593*	7,782*	5,946*	(78,285)*	412,424*	2,202,490
Effect of adoption of IFRS 9 (note 2)		–	–	–	–	–	(5,946)	–	(25,950)	(31,896)
Effect of adoption of IFRS 15 (note 2)		–	–	–	–	–	–	–	(12,457)	(12,457)
At January 1, 2018 (restated)		290	1,088,725	166,015	599,593	7,782	–	(78,285)	374,017	2,158,137
Loss for the year		–	–	–	–	–	–	–	(116,278)	(116,278)
Other comprehensive loss for the year:										
Exchange differences related to foreign operations		–	–	–	–	–	–	(11,170)	–	(11,170)
Total comprehensive loss for the year		–	–	–	–	–	–	(11,170)	(116,278)	(127,448)
Transfer of share options upon the forfeiture of share options	33	–	–	–	(966)	–	–	–	966	–
Transfer from retained earnings		–	–	1,389	–	–	–	–	(1,389)	–
At December 31, 2018		290	1,088,725*	167,404*	598,627*	7,782*	–*	(89,455)*	257,316*	2,030,689

* These reserve accounts comprise the consolidated other reserves of RMB2,030,399,000 (2017: RMB2,202,200,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended December 31, 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(114,095)**	49,087
Adjustments for:			
Depreciation	6	**9,110**	13,314
Amortisation	6	**3,320**	1,129
Net (gain)/loss on disposal of items of property and equipment	6	**(25)**	57
Loss on disposal of subsidiaries	6	**–**	94
Gain on disposal of an available-for-sale investment	6	**–**	(883)
Impairment of construction contracts	6	**–**	5,650
Reversal of impairment of contract assets	6	**(3,799)**	–
Impairment of trade receivables	6	**46,158**	5,803
Impairment of financial assets included in prepayment, other receivables and other assets	6	**5,172**	14,847
Write-down of inventories to net realisable value	6	**6,705**	–
Impairment of property and equipment	6	**6,193**	–
Impairment of assets held for sale	6	**2,476**	–
Impairment of investment in a joint venture	6	**–**	3,000
Impairment of investment in an associate	6	**2,530**	–
Impairment of other intangible assets	6	**10,318**	–
Share of profits and losses of joint ventures and associates		**(3,922)**	(620)
Gain on investment property transferred from inventory	5	**(1,244)**	–
Fair value gain on investment properties	5	**(6,400)**	(5,000)
Fair value loss on financial assets at fair value through profit or loss	6	**51,207**	407
Dividend income from equity investments at fair value through profit or loss		**(1,695)**	–
Finance income	5	**(35,667)**	(22,198)
Finance costs	7	**42,171**	47,806
		18,513	112,493
Changes in assets and liabilities:			
Decrease/(increase) in inventories		**9,998**	(35,175)
Increase in construction contracts		**–**	(501,842)
Decrease in contract assets		**107,488**	–
Decrease in trade and bills receivables		**45,943**	191,498
Decrease in prepayments, other receivables and other assets		**19,537**	347,548
Decrease in amounts due from related parties		**12,673**	412,515
Increase in loan receivables		**(2,000)**	(31,000)
(Increase)/decrease in pledged deposits		**(55,852)**	9,570
Increase/(decrease) in trade and bills payables		**260,827**	(342,872)
Increase/(decrease) in amounts due to related parties		**8,442**	(196,074)
(Decrease)/increase in other payables and accruals		**(337,946)**	85,872
Cash generated from operations		**87,623**	52,533

Consolidated Statement of Cash Flows

Year ended December 31, 2018

	Notes	2018 RMB'000	2017 RMB'000
Interest received		**8,897**	16,078
Interest paid		**(40,915)**	(47,756)
Income tax paid		**(26,161)**	(42,812)
Net cash flows generated from/(used in) operating activities		**29,444**	(21,957)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment		**(16,256)**	(30,743)
Additions to other intangible assets		**–**	(9,618)
Dividend received from investments		**1,000**	40,658
Proceeds from disposal of items of property and equipment		**31**	–
Purchase of a shareholding in a joint venture		**–**	(2,000)
Disposal of subsidiaries	34	**–**	(357)
Disposal of an available-for-sale investment		**–**	30,883
Acquisition of a subsidiary		**–**	1,170
Purchase of financial assets at fair value through profit or loss		**(30,000)**	–
Purchase of available-for-sale investments		**–**	(100,000)
Net cash flows used in investing activities		**(45,225)**	(70,007)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from interest-bearing bank borrowings		**567,024**	912,180
Repayment of interest-bearing bank borrowings		**(543,501)**	(1,171,414)
Increase in pledged deposits for bank loans		**(29,790)**	(81,250)
Net cash flows used in financing activities		**(6,267)**	(340,484)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(22,048)**	(432,448)
Effect of foreign exchange rate changes, net		**(11,170)**	7,259
Cash and cash equivalents at beginning of year		**179,654**	604,843
CASH AND CASH EQUIVALENTS AT END OF YEAR	26	**146,436**	179,654

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on February 20, 2008. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, the Cayman Islands. The Company's principal place of business in Hong Kong is located at Room 1004, Tung Wah Mansion, 199-203 Hennessy Road, Wanchai. The principal executive office of the Company is located at Building 204, No. A10, Jiuxianqiao North Road, Chaoyang District, Beijing, 100015, the People's Republic of China (the "PRC").

The Group is a provider of transportation infrastructure technology solutions and services in the PRC. During the year, the Group was involved in the following principal activities:

(a) Specialised solution business — providing solutions to discrete problems occurring in clients' existing or planned transportation infrastructure through the design, development and implementation of hardware-based and software-based systems; and

(b) Value-added operation and services — engaging in the provision of operation outsourcing and value-added services, via intelligent transport system platforms, to transportation operators and participants.

The Group's principal operations and geographic market are in Mainland China.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered capital	Percentage of equity interest attributable to the Company Direct	Percentage of equity interest attributable to the Company Indirect	Principal activities
Jiangsu Zhongzhi Ruixin IOT Technology Co., Ltd.	PRC/Mainland China November 19, 2013	RMB100 million	–	100	Internet information technology, real estate development, and sale of electronics
Zhongtian Runbang Information Technology Co., Ltd. ("Zhongtian Runbang")	PRC/Mainland China December 8, 2014	RMB50 million	–	100	Technology specialised services and sale of electronics
Beijing Hongrui Dake Technology Co., Ltd. ("Hongrui Dake")	PRC/Mainland China October 17, 2014	RMB196 million	–	100	Commercial properties leasing
Beijing Haotian Jiajie Technology Co., Ltd. ("Haotian Jiajie")	PRC/Mainland China March 30, 2007	RMB125 million	–	100	Communications specialised solutions and value-added operation and services

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered capital	Percentage of equity interest attributable to the Company Direct	Percentage of equity interest attributable to the Company Indirect	Principal activities
Beijing Aproud Technology Co., Ltd. ("Aproud Technology")	PRC/Mainland China February 15, 2001	RMB280 million	–	100	Communications, surveillance specialised solutions and value-added operation and services
Beijing Zhongzhi Runbang Technology Co., Ltd. ("Zhongzhi Runbang")	PRC/Mainland China September 3, 2004	RMB100 million	–	100	Value-added operation and services and specialised solutions
Beijing Zhixun Tiancheng Technology Co., Ltd. ("Zhixun Tiancheng")	PRC/Mainland China June 25, 2007	RMB500 million	–	100	Communications specialised solutions
Jiangsu Zhongzhi Transportation Technology Co., Ltd. ("Jiangsu Zhongzhi Transportation")	PRC/Mainland China December 15, 2011	US$30 million	–	100	Intelligent Transportation system service
Tibet Intelligent Aviation Transportation Technology Co., Ltd. ("Tibet Intelligent Aviation")	PRC/Mainland China June 8, 2017	RMB10 million	–	100	Communications specialised solutions and value-added operation and services
Chengdu Zhongzhi Runbang Transportation Technology Co., Ltd. ("Chengdu Zhongzhi Runbang")	PRC/Mainland China November 26, 2009	RMB30 million	–	100	Communications specialised solutions and value-added operation and services

None of the statutory financial statements of the above subsidiaries were audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

Aproud Technology and Haotian Jiajie are registered as Sino-foreign equity joint ventures. Jiangsu Zhongzhi Transportation is a wholly-foreign-owned enterprise under PRC law. The other subsidiaries registered in Mainland China are domestic companies with limited liability under PRC law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations issued and approved by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and equity investments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

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

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

Except for the amendments to IFRS 4 and *Annual Improvements 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) Amendments to IFRS 2 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

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

The Group has recognised the transition adjustments against the applicable opening balances in equity at January 1, 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Classification and measurement

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

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

	Notes	IAS 39 Measurement RMB'000	Re-classification RMB'000	ECL RMB'000	Fair value changes RMB'000	IFRS 9 Measurement RMB'000
Financial assets						
Financial assets at fair value through profit or loss	(i)	–	143,139	–	15,824	158,963
Other financial assets	(i)	39,903	(39,903)	–	–	–
Available for sale investments	(i)	103,236	(103,236)	–	–	–
Trade receivables		1,094,119	–	(27,007)	–	1,067,112
		1,237,258	–	(27,007)	15,824	1,226,075
Other assets						
Contract assets	(ii)	818,733	–	(18,340)	–	800,393
Total		2,055,991	–	(45,347)	15,824	2,026,468
Other liabilities						
Deferred tax liabilities		19,307	–	–	2,373	21,680

Other than the accounts listed in the above table, the carrying amount of the other accounts under IAS 39 is the same as the balances reported under IFRS 9 as at January 1, 2018.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Classification and measurement (continued)

Notes:

(i) Financial assets at fair value through profit or loss includes the Group's previous available-for-sale equity investments and other financial assets which the Group had not irrevocably elected to designate as fair value through other comprehensive income.

(ii) The gross carrying amounts of the contract assets under the column "IAS 39 measurement" represent the amounts after adjustments for the adoption of IFRS 15 but before the measurement of ECLs. Further details of the adjustments for the adoption of IFRS 15 are included in note 2.2(c) to the financial statements.

(iii) Upon adoption of IFRS 9, trade receivables, financial assets included in prepayments, other receivables and other assets, amounts due from related parties, pledged deposits, cash and cash equivalents, and other non-current financial assets (i.e., loan receivables) previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as financial assets at amortised cost.

(iv) The Group has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Group's financial liabilities.

Impairment

The following table reconciles the aggregate opening impairment allowances under IAS 39 to the ECL allowances under IFRS 9. Further details are disclosed in notes 22 and 24 to the financial statements.

	Impairment allowances under IAS 39 at December 31, 2017	Re-measurement	ECL allowances under IFRS 9 at January 1, 2018
	RMB'000	RMB'000	RMB'000
Trade receivables	8,182	27,007	35,189
Contract assets	17,300	18,340	35,640
	25,482	45,347	70,829

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Impact on reserves and retained profits

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

	Reserves and retained profits RMB'000
Fair value reserve under IFRS 9 (available-for-sale investment revaluation reserve under IAS 39)	
Balance as at December 31, 2017 under IAS 39	5,946
Reclassification of financial assets from available-for-sale investments to financial assets at fair value through profit or loss	(5,946)
Balance as at January 1, 2018 under IFRS 9	–
Retained profits	
Balance as at December 31, 2017 under IAS 39	412,424
Recognition of expected credit losses for contract assets under IFRS 9	(18,340)
Recognition of expected credit losses for trade receivables under IFRS 9	(27,007)
Reclassification and remeasurement of available-for-sale investments to financial assets at fair value through profit or loss	21,770
Deferred tax in relation to the above	(2,373)
Balance as at January 1, 2018 under IFRS 9	386,474

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 3 and 5 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

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

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

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

	Notes	Balance at December 31, 2017 RMB'000	Adjustments due to IFRS 15 RMB'000	Balance at January 1, 2018 RMB'000
Assets				
Construction contracts	(ii)	831,190	(831,190)	–
Contract assets	(i)/(ii)	–	818,733	818,733
Subtotal		831,190	(12,457)	818,733
Liabilities				
Other payables and accruals	(iii)	271,516	621,901	893,417
Construction contracts	(iii)	621,901	(621,901)	–
Subtotal		893,417	–	893,417
Equity				
Retained earnings	(i)	412,424	(12,457)	399,967

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) (continued)

Set out below are the amounts by which each financial statement line item was affected as at December 31, 2018 and for the year ended December 31, 2018 as a result of the adoption of IFRS 15. The adoption of IFRS 15 has had no impact on other comprehensive income or on the Group's operating, investing and financing cash flows and the impact on the basic and diluted loss per share attributable to ordinary equity holders of the parent is immaterial. The first column shows the amounts recorded under IFRS 15 and the second column shows what the amounts would have been had IFRS 15 not been adopted:

Consolidated statement of profit or loss for the year ended December 31, 2018:

	Note	Amounts prepared under IFRS 15 RMB'000	Previous IFRS RMB'000	Decrease RMB'000
Revenue	(i)	923,966	925,021	(1,055)
Loss for the year		(116,278)	(115,223)	(1,055)
Attributable to:				
Owners of the parent		(116,278)	(115,223)	(1,055)

Consolidated statement of financial position as at December 31, 2018:

	Notes	Amounts prepared under IFRS 15 RMB'000	Previous IFRS RMB'000	Increase/ (decrease) RMB'000
Assets				
Construction contracts	(ii)	–	697,759	(697,759)
Contract assets	(i)/(ii)	696,704	–	696,704
Subtotal		696,704	697,759	(1,055)
Liabilities				
Other payables and accruals	(iii)	556,725	229,121	327,604
Construction contracts	(iii)	–	327,604	(327,604)
Subtotal		556,725	556,725	–
Retained earnings	(i)	257,316	258,371	(1,055)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) (continued)

The nature of the adjustments as at January 1, 2018 and the reasons for the significant changes in the statement of financial position as at December 31, 2018 and the statement of profit or loss for the year ended December 31, 2018 are described below:

(i) Construction of system integration solutions

The Group provides construction on intelligent transportation systems to many of its customers.

Prior to the adoption of IFRS 15, the Group recognised revenue using the percentage of completion, and the stage of completion was determined by reference to the contract costs incurred to date. Any contract costs that relate to future activity on the contract must be excluded. This included the costs of materials that had been delivered to a contract site or set aside for use in a contract but not yet installed, used or applied during contract performance, while if the materials were made especially for the contract, they should be included in the contract cost.

Under IFRS 15, the Group assesses all of the goods and services promised in the system integration solution contract as a single performance obligation, and concluded that revenue from system integration solution will continue to be recognised over time, using an input method to measure progress towards complete satisfaction of the obligation similar to the previous accounting policy.

Under IFRS 15, if an entity is using an input method based on costs incurred to measure its progress, when goods are delivered to the customer site, and control of the individual goods has transferred to the customer, but the entity has not yet integrated the goods into the overall project, the entity should recognise revenue at an amount equal to the cost of the goods used to satisfy the performance obligation.

Accordingly, the Group has adjusted the revenue recognised for those goods delivered to the customer but has not been integrated, which resulted in a decrease in retained earnings of RMB12,457,000 as at January 1, 2018. As at December 31, 2018, the adoption of IFRS 15 resulted in a decrease in contract assets by RMB1,055,000, and revenue decreased by RMB1,055,000 for the year ended December 31, 2018.

(ii) Contract assets

Before the adoption of IFRS 15, contract costs were recognised as an asset provided it was probable that they would be recovered. Such costs represented an amount due from the customers and were recorded as construction contracts in the statement of financial position before the construction services were billed to customers. Upon the adoption of IFRS 15, a contract asset is recognised when the Group performs by transferring goods or services to customers and the Group's right to consideration is conditional. Accordingly, the Group reclassified RMB831,190,000 from construction contracts to contract assets as at January 1, 2018.

As at December 31, 2018, the adoption of IFRS 15 resulted in a decrease in construction contracts of RMB697,759,000 and an increase in contract assets of RMB697,759,000.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) (continued)

(iii) Consideration received from customers in advance

Before the adoption of IFRS 15, the Group recognised consideration received from customers in advance as construction contracts due to customers and advances from customers included in other payables and accruals. Under IFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

Therefore, upon adoption of IFRS 15, the Group reclassified RMB97,984,000 from advances from customers included in other payables and accruals, and RMB621,901,000 from construction contracts due to customers to contract liabilities included in other payables and accruals, respectively, as at January 1, 2018 in relation to the consideration received from customers in advance as at January 1, 2018.

As at December 31, 2018, under IFRS 15, RMB34,123,000 and RMB327,604,000 were reclassified from advances from customers included in other payables and accruals and construction contracts due to customers to contract liabilities included in other payables and accruals, respectively, in relation to the consideration received from customers in advance for the sale of products and the provision of construction services.

(d) Amendments to IAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(e) IFRIC 22, provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that 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) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	Definition of Material[2]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[1]

1 Effective for annual periods beginning on or after January 1, 2019
2 Effective for annual periods beginning on or after January 1, 2020
3 Effective for annual periods beginning on or after January 1, 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from January 1, 2020.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases — Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from January 1, 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at January 1, 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of IFRS 16. The Group expects that there will be no significant impact upon the adoption of IFRS 16.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from January 1, 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on January 1, 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on January 1, 2019 using the transitional requirements in the amendments. The amendments are not expected to have any significant impact on the Group's financial statements.

IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from January 1, 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated statement of comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

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, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at December 31. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment properties and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1	–	based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties, and non-current assets classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and 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 of a parent of the Group;

or

(b) the party is an entity where 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 of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group 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); and

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment and depreciation

Property and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Building	49.2 years
Computers and electronic equipment	3 to 5 years
Office equipment	3 to 5 years
Motor vehicles	5 years
Software	5 years
Leasehold improvements	Over the shorter of the expected life of the leasehold improvements and the lease terms

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underling products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets (policies under IFRS 9 applicable from January 1, 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from January 1, 2018)" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under IFRS 9 applicable from January 1, 2018) (continued)

Initial recognition and measurement (continued)

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under IFRS 9 applicable from January 1, 2018) (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Investments and other financial assets (policies under IAS 39 applicable before January 1, 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under IAS 39 applicable before January 1, 2018) (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before January 1, 2018)" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition (applicable before January 1, 2018)" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under IAS 39 applicable before January 1, 2018) (continued)

Subsequent measurement (continued)

Available-for-sale financial investments (continued)

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition of financial assets (policies under IFRS 9 applicable from January 1, 2018 and policies under IAS 39 applicable before January 1, 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

(a) the rights to receive cash flows from the asset have expired; or

(b) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass through" arrangement, and either (i) the Group has transferred substantially all the risks and rewards of the asset, or (ii) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if,and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under IFRS 9 applicable from January 1, 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 360 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under IFRS 9 applicable from January 1, 2018) (continued)

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Impairment of financial assets (policies under IAS 39 applicable before January 1, 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under IAS 39 applicable before January 1, 2018) (continued)

Financial assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss — is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under IFRS 9 applicable from January 1, 2018 and IAS 39 applicable before January 1, 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables, amounts due to related parties and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities (policies under IFRS 9 applicable from January 1, 2018 and IAS 39 applicable before January 1, 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments (policies under IFRS 9 applicable from January 1, 2018 and IAS 39 applicable before January 1, 2018)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the specific identification basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

The Group provides for warranties in relation to the sale of certain industrial products and the provision of construction services for general repairs of defects occurring during the warranty period. Provisions for product these assurance-type warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

(a) when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

(a) when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition (applicable from January 1, 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable from January 1, 2018) (continued)

Revenue from contracts with customers (continued)

(a) *Sale of industrial products*

Revenue from the sale of industrial products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products.

(b) *Maintenance services*

The Group provides maintenance services to its specialised solution customers.

Revenue from maintenance services is recognised over time, using an output method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group. The output method recognises revenue on the basis of the completed maintenance period to the total contract maintenance period.

(c) *Construction services*

Revenue from the provision of construction services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services.

Claims to customers are amounts that the Group seeks to collect from the customers as reimbursement of costs and margins for scope of works not included in the original construction contract. Claims are accounted for as variable consideration and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The Group uses the expected value method to estimate the amounts of claims because this method best predicts the amount of variable consideration to which the Group will be entitled.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable before January 1, 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts (applicable before January 1, 2018)" below;

(c) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services (applicable before January 1, 2018)" below;

(d) rental income, on a time proportion basis over the lease terms;

(e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(f) dividend income, when the shareholders' right to receive payment has been established.

Contract assets (applicable from January 1, 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities (applicable from January 1, 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract costs (applicable from January 1, 2018)

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Construction contracts (applicable before January 1, 2018)

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from cost plus construction contracts is recognised using the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contracts for services (applicable before January 1, 2018)

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

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

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Share-based payments

China ITS Co., Ltd. (one of the controlling shareholders of the Company) and the Company operate share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 34 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The assets of the scheme are held separately from that of the Group in an independently administered fund. These subsidiaries are required to contribute 20% of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Since the Company conducts its primary business operations through its subsidiaries established in the PRC, the Company adopts RMB as the presentation currency of the Group. The Company's functional currency is the Hong Kong dollar. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or transaction of monetary items are recognised in the statement of profit or loss.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of foreign operations. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on changes in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain non-PRC subsidiaries and joint ventures are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of foreign operations are translated into RMB at the rates of exchange prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of foreign operations, the component of other comprehensive income relating to that particular foreign operations is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of foreign operations and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operations and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of non-PRC subsidiaries are translated into RMB at the exchange rates prevailing at the dates of the cash flows. Frequently recurring cash flows of non-PRC subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

(i) Identifying performance obligations in system integration solutions

The Group observes that the nature of its promise is to establish and provide an integrated system for which the customer has contracted in accordance with the customer's specifications. The Group considers that it is responsible for the overall management of the contract and for providing a significant service in integrating various goods and services (the inputs) into its overall service and the resulting system (the combined output) and, therefore, the equipment and the various promised services inherent are not separately identifiable under IFRS 15. In this case, the integration system provided by the Group is specific to its contract with the customer. Therefore, the Group accounts for all of the goods and services promised in the contract as a single performance obligation.

(ii) Determining the timing of satisfaction of maintenance services

The Group concluded that revenue for maintenance services is to be recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group. The fact that another entity would not need to re-perform the maintenance service that the Group has provided to date demonstrates that the customer simultaneously receives and consumes the benefits of the Group's performance as it performs.

The Group determined that the output method is the best method in measuring the progress of the maintenance services because there is a direct relationship between the completed period of maintenance services and the transfer of services to the customer. The Group recognises revenue on the basis of the completed period of maintenance services relative to the total contract period.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Revenue from contracts with customers (continued)

(iii) Determining the method to estimate variable consideration and assessing the constraint for construction services

The Group seeks to collect claims from the customers as reimbursement of costs and margins for scope of works not included in the original construction contract, which give rise to variable consideration. The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for claims in construction services, given there is a wide range of possible outcomes which are subject to negotiations with third parties.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, current negotiations with customers, profitability of the head contracts of the customers and the current economic conditions.

Estimation uncertainty

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

Variable considerations for claims to customers

The Group estimates variable considerations for claims to be included in the transaction price for the provision of construction services.

Based on the past experience, as the customers of the Group have a strong bargaining power, the claims are not probable to determine before the customers agree. Any significant changes in experience as compared to historical successful claims pattern will impact the expected successful claims percentages estimated by the Group.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. No impairment of goodwill was recognised for the year ended December 31, 2018 (2017: Nil). Further details are given in note 15.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision for expected credit losses on trade receivables and contract assets

The Group uses provision matrixes to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrixes are initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of the customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in note 22 and note 24 to the financial statements, respectively.

Percentage of completion of construction work

The Group recognises revenue using the input method for individual contracts of construction work, which requires estimation to be made by management. The stage of completion is estimated by reference to the actual costs incurred over the total budgeted costs, and the corresponding contract revenue is also estimated by management. Due to the nature of the activity undertaken in construction contracts, the date at which the activity is entered into and the date at which the activity is completed usually fall into different accounting periods. Hence, the Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each contract as the contract progresses. Where the actual contract revenue is less than expected or actual contract costs are more than expected, an impairment loss may arise.

Current income tax and deferred income tax

The Group is subject to income taxes in numerous jurisdictions. Judgement is required to determine the provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the current income tax and deferred income tax provisions in the periods in which the differences arise.

Deferred tax assets relating to certain deductible temporary differences and unused tax losses are recognised as management considers it is probable that future taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised. The realisation of the deferred tax assets mainly depends on whether sufficient profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in the statement of profit or loss for the period in which such a reversal takes place. The carrying value of deferred tax assets at December 31, 2018 was RMB17,514,000 (2017: RMB7,769,000).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 42 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 3.

Impairment of available-for-sale financial assets

Before January 1, 2018, the Group classified certain assets as available for sale and recognised movements of their fair values in equity. When the fair value declined, management made assumptions about the decline in value to determine whether there was an impairment that should be recognised in the statement of profit or loss. At December 31, 2017, no impairment losses had been recognised for available-for-sale assets. The carrying amount of available-for-sale assets as at December 31, 2017 was RMB103,236,000.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group has the following operating segments based on its business units:

(i) Specialised solutions: Provides solutions to discrete problems occurring in clients' existing or planned transportation infrastructure through the design, development and implementation of hardware-based and software-based systems; and

(ii) Value-added operation and services: Engages in the provision of operation outsourcing and value-added services, via intelligent transportation system platforms, servicing transportation operators and participants.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that finance income, finance costs, exchange losses, changes in fair value of investment properties and equity investments, gain on disposal of equity investments, dividend income from equity investments at fair value through profit or loss as well as head office and corporate expenses are excluded from this measurement.

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

4. OPERATING SEGMENT INFORMATION (continued)

Year ended December 31, 2018	Specialised solutions RMB'000	Value-added operation and services RMB'000	Total RMB'000
Segment revenue (note 5)			
Sales to external customers	849,102	74,864	923,966
Intersegment sales	–	6,833	6,833
	849,102	81,697	930,799
Reconciliation:			
Elimination of intersegment sales			(6,833)
Revenue			923,966
Segment results	(27,422)	(3,783)	(31,205)
Reconciliation:			
Finance income			35,667
Finance costs			(42,171)
Exchange losses			(653)
Changes in fair value of investment properties			6,400
Gain on investment property transferred from inventory			1,244
Changes in fair value of financial assets at fair value through profit or loss			(51,207)
Dividend income from equity investment at fair value through profit or loss			1,695
Corporate and other unallocated expenses			(33,865)
Loss before tax			(114,095)
December 31, 2018			
Other segment information:			
Share of profits/(losses) of:			
Joint ventures	4,913	–	4,913
Associates	(991)	–	(991)
Impairment losses recognised in the statement of profit or loss	73,872	4,351	78,223
Depreciation and amortisation	2,294	870	3,164
Capital expenditure*	2,547	103	2,650

* Capital expenditure consists of additions to property and equipment, and intangible assets.

4. OPERATING SEGMENT INFORMATION (continued)

Year ended December 31, 2017	Specialised solutions RMB'000	Value-added operation and services RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	1,080,994	83,844	1,164,838
Intersegment sales	1,673	16,430	18,103
	1,082,667	100,274	1,182,941
Reconciliation:			
Elimination of intersegment sales			(18,103)
Revenue			1,164,838
Segment results	67,762	45,501	113,263
Reconciliation:			
Finance income			22,198
Finance costs			(47,806)
Exchange losses			(2,736)
Changes in fair value of investment properties			5,000
Changes in fair value of other financial assets			(407)
Gain on disposal of available-for-sale investments			883
Corporate and other unallocated expenses			(41,308)
Profit before tax			49,087
December 31, 2017			
Other segment information:			
Share of profits/(losses) of:			
Joint ventures	1,441	210	1,651
Associates	(1,007)	(24)	(1,031)
Impairment losses recognised in the statement of profit or loss	18,249	568	18,817
Depreciation and amortisation	7,423	1,333	8,756
Capital expenditure*	14,297	1,388	15,685

* Capital expenditure represents the additions to property and equipment, and intangible assets.

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2018 RMB'000	2017 RMB'000
Mainland China	**895,791**	1,114,797
Other	**28,175**	50,041
	923,966	1,164,838

(b) Non-current assets

	2018 RMB'000	2017 RMB'000
Mainland China	**950,504**	795,519
Other	**20,000**	25,307
	970,504	820,826

Information about a major customer

No individual customer of the Group contributed 10% or more to the Group's revenue.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers	**923,966**	–
Construction services	**–**	1,000,660
Sale of products	**–**	87,625
Maintenance services	**–**	76,553
	923,966	1,164,838

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended December 31, 2018

Segments	Specialised solutions RMB'000	Value-added operation and services RMB'000	Total RMB'000
Type of goods or services			
Construction services	619,730	–	619,730
Sale of products	229,372	–	229,372
Maintenance services	–	74,864	74,864
Total revenue from contracts with customers	849,102	74,864	923,966
Geographical markets			
Mainland China	831,319	64,472	895,791
Other	17,783	10,392	28,175
Total revenue from contracts with customers	849,102	74,864	923,966
Timing of revenue recognition			
Goods transferred at a point in time	229,372	–	229,372
Services transferred over time	619,730	74,864	694,594
Total revenue from contracts with customers	849,102	74,864	923,966

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Construction services	**192,921**
Sale of products	**706**
Maintenance services	**1,541**
	195,168
Revenue recognised from performance obligations satisfied in previous periods:	
Gross margin not previously recognised due to the construction contracts not signed	**27,614**

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of products

The performance obligation is satisfied upon delivery of the industrial products and payment is generally due within 30 to 180 days from delivery, except for new customers, where payment in advance is normally required.

Maintenance services

The performance obligation is satisfied over time as services are rendered and payment is generally due upon completion of maintenance and customer acceptance, except for new customers, where payment in advance is normally required.

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(ii) Performance obligations (continued)

Construction services

The performance obligation is satisfied over time as services are rendered and payment is generally due within 30 to 180 days from the date of billing.

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at December 31, 2018 are as follows:

	2018 RMB'000
Within one year	537,968
More than one year	440,155
	978,123

The remaining performance obligations expected to be recognised in more than one year relate to construction services that are to be satisfied within two years. All the other remaining performance obligations are expected to be recognised within one year. The amounts disclosed above do not include variable consideration which is constrained.

	2018 RMB'000	2017 RMB'000
Other income		
Finance income	35,667	22,198
Gross rental income	7,212	7,256
Dividend income from equity investments at fair value through profit or loss	1,695	–
Government grants*	1,617	3,565
Income from the sale of properties	2,704	1,649
Others	25	19
	48,920	34,687
Gains		
Gain on disposal of available-for-sale investments	–	883
Gain on investment property transferred from inventory	1,244	–
Changes in fair value of investment properties	6,400	5,000
	56,564	40,570

* Various government grants have been received by the Group as subsidies for the business activities of the Group. There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT/(LOSS) BEFORE TAX

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

	2018 RMB'000	2017 RMB'000
Cost of services rendered for the implementation of projects	**511,243**	798,940
Cost of inventories sold	**194,563**	68,508
Cost of services provided	**53,525**	38,052
	759,331	905,500
Depreciation (note 13)	**9,110**	13,314
Amortisation of intangible assets (note 16)	**3,320**	1,129
Minimum lease payments under operating leases	**7,667**	9,170
Auditors' remuneration	**3,642**	3,537
Wages and salaries	**42,405**	46,463
Pension scheme contributions (defined contribution scheme)	**4,953**	6,226
Social insurance costs and staff welfare	**11,398**	10,408
	58,756	63,097
Impairment of financial and contract assets, net		
Impairment of construction contracts	**–**	5,650
Reversal of impairment of contract assets (note 24)	**(3,799)**	–
Impairment of trade receivables (note 22)	**46,158**	5,803
Impairment of financial assets included in prepayments, other receivables and other assets (note 23)	**5,172**	14,847
Impairment of investment in a joint venture (note 17)	**–**	3,000
Impairment of investment in an associate (note 18)	**2,530**	–
Impairment of assets held for sale (note 19)	**2,476**	–
Impairment of other intangible assets (note 16)	**10,318**	–
Impairment of property and equipment (note 13)	**6,193**	–
Write-down of inventories to net realisable value	**6,705**	–
Changes in fair value of investment properties (note 14)	**(6,400)**	(5,000)
Changes in fair value of financial assets at fair value through profit or loss (note 25) *	**51,207**	407
Rental income (note 5)	**(7,212)**	(7,256)
Net (gain)/loss on disposal of items of property and equipment	**(25)**	57
Loss on disposal of subsidiaries (note 34)	**–**	94
Gain on disposal of an available-for-sale investment	**–**	(883)
Exchange losses	**653**	2,736
Dividend income from financial assets at fair value through profit or loss (note 5)	**(1,695)**	–

* The changes in fair value of financial assets at fair value through profit or loss are included in "Other expenses" in the consolidated statement of profit or loss.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 RMB'000	2017 RMB'000
Interest on bank loans	**42,171**	47,806

8. DIRECTORS' REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2018 RMB'000	2017 RMB'000
Fees	**1,556**	1,554
Other emoluments:		
Salaries, allowances and benefits in kind	**2,094**	2,070
Pension scheme contributions	**55**	50
	2,149	2,120
	3,705	3,674

During the year, no payments were made by the Group to the directors of the Company as an inducement to join the Group or compensation for loss of office (2017: Nil).

In the years of 2008 and 2012, certain directors were granted share options, in respect of their services to the Group, under the share option schemes of China ITS Co., Ltd. and the Company, further details of which are set out in note 33 to the financial statements. The fair value of these options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant. In the current year, there was no equity-settled share option expense included in the above directors' remuneration disclosures.

8. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year are as follows:

	2018 RMB'000	2017 RMB'000
Mr. Choi Onward	193	190
Mr. Ye Zhou	193	190
Mr. Zhou Chunsheng (resigned on June 21, 2018)	–	190
Mr. Wang Dong (appointed on June 21, 2018)	101	–
	487	570

(b) Executive directors and non-executive directors

2018	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:				
Mr. Jiang Hailin	876	525	55	1,456
Mr. Liao Jie	–	1,569	–	1,569
	876	2,094	55	3,025
Non-executive director:				
Mr. Zhang Tianwei	193	–	–	193
	1,069	2,094	55	3,218

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors (continued)

2017	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:				
Mr. Jiang Hailin	867	521	50	1,438
Mr. Liao Jie	–	1,549	–	1,549
	867	2,070	50	2,987
Non-executive director:				
Mr. Zhang Tianwei	117	–	–	117
	984	2,070	50	3,104

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2017: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2017: three) non-director highest paid employees are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	**1,412**	1,393
Pension scheme contributions	**166**	143
	1,578	1,536

The number of non-director highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees 2018	2017
Nil to HK$500,000 (Nil to RMB438,100)	**1**	–
HK$500,001 to HK$1,000,000 (RMB438,100 to RMB876,200)	**2**	3
	3	3

In the years of 2008 and 2012, share options were granted to certain non-director highest paid employees in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 33. The fair value of these options, which has been recognised in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant. In the current year, there was no equity-settled share option expenses included in the above non-director highest paid employees' remuneration disclosures.

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

Details of the tax benefits enjoyed by the Group's PRC subsidiaries in 2018 are as follows:

(i) Zhixun Tiancheng was designated and approved as a High and New Technology Enterprise ("HNTE") in December 2017 for a period of three years from 2017 and was entitled to a preferential tax rate of 15% for 2018.

(ii) Zhongzhi Runbang was designated and approved as an HNTE in October 2018 for a period of three years from 2018 and was entitled to a preferential tax rate of 15% for 2018.

(iii) Zhongtian Runbang and Tibet Intelligent Aviation are companies set up in Tibet, and were entitled to a preferential tax rate of 15% for 2018.

According to PRC tax regulations, from January 1, 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, are subject to withholding tax at the rate of 10% on various types of passive income such as dividends derived from entities in the PRC. Distributions of the pre-2008 earnings are exempted from the above-mentioned withholding tax. At December 31, 2018, no deferred tax liabilities have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries, joint ventures and associates established in Mainland China (2017: Nil). In the opinion of the directors, it is not probable that these subsidiaries, joint ventures and associates will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB886,831,000 (2017: RMB945,595,000). No aggregate amount of temporary differences associated with investments in joint ventures and associates in Mainland China for which deferred tax liabilities have not been recognized in 2018 (2017: Nil).

The major components of income tax expense are as follows:

	2018 RMB'000	2017 RMB'000
Current income tax charge in Mainland China		
Provision for the year	**6,033**	4,977
Underprovision in prior year	**3,038**	166
Withholding tax on disposal of subsidiaries	**–**	2,553
	9,071	7,696
Deferred income tax (note 30)	**(6,888)**	16,922
Total tax charge for the year	**2,183**	24,618

10. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

2018	Hong Kong RMB'000	%	Cayman Islands and British Virgin Islands RMB'000	%	Mainland China RMB'000	%	Total RMB'000	%
Loss before tax	(23,501)	–	–	–	(90,594)	–	(114,095)	–
Tax at statutory tax rates	(3,878)	16.5	–	–	(22,649)	25.0	(26,527)	23.2
Tax holiday or lower tax rates enacted by local authorities	–	–	–	–	5,727	(6.3)	5,727	(5.0)
Expenses not deductible for tax	1,295	(5.5)	–	–	15,633	(17.3)	16,928	(14.8)
Adjustments in respect of current income tax of previous periods	–	–	–	–	3,038	(3.4)	3,038	(2.7)
Profit attributable to joint ventures and associates*	–	–	–	–	(588)	0.6	(588)	0.5
Tax losses utilized from previous period	(100)	0.4	–	–	(5,921)	6.5	(6,021)	5.3
Tax losses not recognised	2,683	(11.4)	–	–	6,943	(7.7)	9,626	(8.4)
Tax charge at the Group's effective rate	–	–	–	–	2,183	(2.4)	2,183	(1.9)

10. INCOME TAX (continued)

2017	Hong Kong RMB'000	%	Cayman Islands and British Virgin Islands RMB'000	%	Mainland China RMB'000	%	Total RMB'000	%
Profit/(loss) before tax	(10,603)	–	(2,508)	–	62,198	–	49,087	–
Tax at statutory tax rates	(1,750)	16.5	–	–	15,550	25.0	13,800	28.1
Tax holiday or lower tax rates enacted by local authorities	–	–	–	–	(19,144)	(30.8)	(19,144)	(39.0)
Effect of withholding tax at 10% on the gain on disposal of the Group's PRC subsidiaries	–	–	–	–	2,553	4.1	2,553	5.2
Expenses not deductible for tax	841	(7.9)	–	–	18,293	29.4	19,134	39.0
Income not subject to tax								
Effect of tax rate change	–	–	–	–	338	0.5	338	0.7
Adjustments in respect of current income tax of previous periods	–	–	–	–	166	0.3	166	0.3
Profit attributable to joint ventures and associates*	–	–	–	–	20	–	20	–
Tax losses utilized from previous period	–	–	–	–	(1,185)	(2.0)	(1,185)	(2.4)
Tax losses not recognised	909	(8.6)	–	–	8,027	12.9	8,936	18.2
Tax charge at the Group's effective rate	–	–	–	–	24,618	39.6	24,618	50.2

* The share of tax attributable to joint ventures and associates amounting to RMB588,000 (2017: RMB20,000) is included in "Share of profits and losses of joint ventures" and "Share of profits and losses of associates" in the consolidated statement of profit or loss.

11. DIVIDENDS

No dividend was proposed by the Company for the years ended December 31, 2018 and December 31, 2017.

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

Basic earnings per share is calculated by dividing the profit/(loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

The calculation of the diluted earnings per share amount is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, plus the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed conversion of all the dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic earnings per share amounts presented for the years ended December 31, 2018 and December 31, 2017 in respect of a dilution as the impact of the share option scheme outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

The calculations of basic and diluted earnings per share are based on:

	2018 RMB'000	2017 RMB'000
Earnings		
(Loss)/Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**(116,278)**	24,490

	Number of shares	
	2018	2017
Shares		
Weighted average number of shares in issue during the year used in the basic earnings per share calculation	**1,654,024,868**	1,654,024,868

13. PROPERTY AND EQUIPMENT

	Building RMB'000	Computers and electronic equipment RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Software RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
December 31, 2018								
At January 1, 2018								
Cost	231,613	12,466	1,343	10,791	1,036	1,264	32,699	291,212
Accumulated depreciation and impairment	(9,666)	(7,833)	(1,321)	(9,617)	(471)	(891)	–	(29,799)
Net carrying amount	221,947	4,633	22	1,174	565	373	32,699	261,413
At January 1, 2018, net of accumulated depreciation and impairment	221,947	4,633	22	1,174	565	373	32,699	261,413
Additions	–	612	2,169	251	–	–	13,224	16,256
Transfers	35,101	–	799	–	–	–	(35,900)	–
Disposals	–	–	–	(7)	–	–	–	(7)
Impairment	–	–	–	–	–	–	(6,193)	(6,193)
Depreciation provided during the year	(6,195)	(2,058)	(149)	(415)	(104)	(189)	–	(9,110)
At December 31, 2018, net of accumulated depreciation and impairment	250,853	3,187	2,841	1,003	461	184	3,830	262,359
At December 31, 2018								
Cost	266,714	13,077	4,311	10,912	1,036	1,264	3,830	301,144
Accumulated depreciation and impairment	(15,861)	(9,890)	(1,470)	(9,909)	(575)	(1,080)	–	(38,785)
Net carrying amount	250,853	3,187	2,841	1,003	461	184	3,830	262,359

13. PROPERTY AND EQUIPMENT (continued)

	Building RMB'000	Computers and electronic equipment RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Software RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
December 31, 2017								
At January 1, 2017								
Cost	227,000	26,063	1,369	10,041	846	3,899	60,221	329,439
Accumulated depreciation and impairment	(5,191)	(11,453)	(1,219)	(7,870)	(404)	(2,914)	–	(29,051)
Net carrying amount	221,809	14,610	150	2,171	442	985	60,221	300,388
At January 1, 2017, net of accumulated depreciation and impairment	221,809	14,610	150	2,171	442	985	60,221	300,388
Additions	4,613	7,164	884	–	223	432	17,427	30,743
Transfers	–	4,421	–	–	–	–	(4,421)	–
Acquisition of a subsidiary	–	13	32	101	–	–	–	146
Disposals	–	(2)	(1)	(54)	–	–	–	(57)
Disposal of a subsidiary	–	(15,029)	(762)	–	(7)	(167)	(13,135)	(29,100)
Impairment	–	–	–	–	–	–	(27,393)	(27,393)
Depreciation provided during the year	(4,475)	(6,544)	(281)	(1,044)	(93)	(877)	–	(13,314)
At December 31, 2017, net of accumulated depreciation and impairment	221,947	4,633	22	1,174	565	373	32,699	261,413
At December 31, 2017								
Cost	231,613	12,466	1,343	10,791	1,036	1,264	32,699	291,212
Accumulated depreciation and impairment	(9,666)	(7,833)	(1,321)	(9,617)	(471)	(891)	–	(29,799)
Net carrying amount	221,947	4,633	22	1,174	565	373	32,699	261,413

14. INVESTMENT PROPERTIES

	2018 RMB'000	2017 RMB'000
Carrying amount at January 1	**66,800**	61,800
Transfer from inventory	**5,000**	–
Net gain from fair value adjustment	**6,400**	5,000
Carrying amount at December 31	**78,200**	66,800

The Group's investment properties are situated in Mainland China and are leased to third parties under operating leases, further summary details of which are included in note 37(a) to the financial statements.

The Group's investment properties were revalued by Savills Valuation and Professional Services Limited ("Savills") on December 31, 2018, an independent firm of professional valuers, at RMB78,200,000. Each year, when the Group decides to appoint which external valuer to be responsible for the external valuations of the Group's properties, selection criteria including market knowledge, reputation, independence and whether professional standards are maintained have been considered. The Group's chief financial officer has discussions with the valuer on the valuation assumptions and valuation results when the valuation is performed for annual financial reporting.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at December 31, 2018 using			
Recurring fair value measurement for:	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Commercial properties	–	–	73,200	73,200
Industrial properties	–	–	5,000	5,000
	–	–	78,200	78,200

14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

	Fair value measurement as at December 31, 2017 using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Recurring fair value measurement for:	RMB'000	RMB'000	RMB'000	RMB'000
Commercial properties	–	–	66,800	66,800

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: Nil).

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial properties RMB'000	**Industrial properties** RMB'000
Carrying amount at January 1, 2017	61,800	–
Net gain from a fair value adjustment recognized in other income and gains in profit or loss	5,000	–
Carrying amount at December 31, 2017 and January 1, 2018	66,800	–
Net gain from a fair value adjustment recognized in other income and gains in profit or loss	6,400	–
Transfer from inventory	–	5,000
Carrying amount at December 31, 2018	73,200	5,000

14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

Below is a summary of the valuation technique used and the key inputs to the valuation of investment properties:

	Valuation technique	Significant unobservable inputs	Weighted average 2018	Weighted average 2017
Commercial properties	Income approach	Estimated rental value (per sq.m. and per month)	**317**	274
		Capitalisation rate	**7.7%**	6.5%
Industrial properties	Income approach	Estimated rental value (per sq.m. and per month)	**40**	N/A
		Capitalisation rate	**6.8%**	N/A

Under the income approach, the fair value is determined based on capitalisation of rental income of contractual tenancies for the unexpired term of tenancies. The reversionary market rent after the expiry of tenancies is also taken into account.

The capitalisation rate and estimated rental value are derived from market asking and sales transaction evidence as appropriate. A significant increase (decrease) in the estimated rental value would result in a significant increase (decrease) in the fair value of the investment properties. A significant increase (decrease) in the capitalisation rate would also result in a significant decrease (increase) in the fair value of the investment properties.

15. GOODWILL

	2018 RMB'000	2017 RMB'000
At January 1	**274,027**	230,664
Acquisition of a subsidiary	**–**	43,363
Net carrying amount at December 31	**274,027**	274,027

Impairment testing of goodwill

Goodwill acquired through business combinations is initially allocated to the following cash-generating unit for impairment testing:

- Aproud subgroup
- Chengdu Zhongzhi Runbang

15. GOODWILL (continued)

Impairment testing of goodwill (continued)

Aproud subgroup

Aproud Technology and its subsidiaries (collectively "Aproud subgroup"), which principally engages in communications specialised solutions in the railway business. The recoverable amount of Aproud subgroup in 2018 has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The discount rate applied to the cash flow projections is 18% (2017: 20%) for Aproud subgroup. The growth rate used to extrapolate the cash flows beyond the five-year period is 3% (2017: 3%) for Aproud subgroup.

Chengdu Zhongzhi Runbang

Chengdu Zhongzhi Runbang is a subsidiary which was acquired by the Company in 2017, which principally engaged in communications specialised solutions and value-added operation and services. As the business of Chengdu Zhongzhi Runbang was transferred to Aproud group in the current year, and Chengdu Zhongzhi Runbang does not engage in the telecommunication business in the railway sector anymore, the carrying amount of goodwill on acquisition of Chengdu Zhongzhi Runbang was grouped with the carrying amount of goodwill on acquisition of Aproud group.

The carrying amount of goodwill allocated to the cash-generating unit is as follows:

	2018 RMB'000	2017 RMB'000
Aproud subgroup	**274,027**	230,664
Chengdu Zhongzhi Runbang	**–**	43,363
	274,027	274,027

Assumptions were used in the value-in-use calculation of each cash-generating unit for December 31, 2018 and December 31, 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Gross margins — Gross margins are based on average values achieved in the three years preceding the beginning of the budget period.

Discount rates — The discount rates used are after tax and reflect specific risks relating to the relevant units. In determining an appropriate discount rate, a consideration has been given to the applicable borrowing interest rates in the year immediately before the budget years.

Growth rates — The Group determines the growth rates which shall not exceed the long-term average gross growth rate of the relevant market in Mainland China.

The values assigned to the key assumptions on market development, gross margins and discount rates are consistent with external information sources.

16. OTHER INTANGIBLE ASSETS

December 31, 2018	Deferred development cost RMB'000
Cost at January 1, 2018, net of accumulated amortisation	**15,621**
Amortisation provided during the year	**(3,320)**
Impairment during the year	**(10,318)**
At December 31, 2018	**1,983**
At December 31, 2018	
Cost	**16,750**
Accumulated amortization and impairment	**(14,767)**
Net carrying amount	**1,983**

December 31, 2017	Deferred development cost RMB'000
Cost at January 1, 2017, net of accumulated amortisation	9,128
Additions	9,618
Amortisation provided during the year	(1,129)
Reversal	(1,996)
At December 31, 2017	15,621
At December 31, 2017	
Cost	16,750
Accumulated amortisation	(1,129)
Net carrying amount	15,621

The recoverable amount of other intangible assets as at December 31, 2018 has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering the remaining useful life of other intangible assets. The discount rate applied to cash flow projections is 18%.

17. INVESTMENTS IN JOINT VENTURES

	2018 RMB'000	2017 RMB'000
Share of net assets	**20,599**	29,662
Goodwill on acquisition	**27,706**	27,706
	48,305	57,368
Impairment	**–**	(3,000)
	48,305	54,368

The Group's receivable and payable balances with the joint ventures are disclosed in note 40 to the financial statements.

Particulars of the Group's material joint venture are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Intelligent Aviation System Co., Ltd. ("Intelligent Aviation")	Registered capital of RMB50 million	PRC/ Mainland China	50	50	50	Civil aviation technology and surveillance specialised solutions and value-added operation and services

The above investment is indirectly held by the Company.

17. INVESTMENTS IN JOINT VENTURES (continued)

The following table illustrates the summarised financial information in respect of Intelligent Aviation adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements:

	2018 RMB'000	2017 RMB'000
Cash and cash equivalents	**15,548**	5,686
Other current assets	**98,451**	46,288
Current assets	**113,999**	51,974
Non-current assets, excluding goodwill	**30,167**	32,949
Goodwill on acquisition of the joint venture	**27,706**	27,706
Current liabilities	**(111,148)**	(61,683)
Non-controlling interests	**46**	26
Net assets	**(60,770)**	(50,972)
Net asset, excluding goodwill	**(33,064)**	(23,266)

	2018 RMB'000	2017 RMB'000
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	**50%**	50%
Group's share of net assets of the joint venture, excluding goodwill	**16,532**	11,620
Goodwill on acquisition	**27,706**	27,706
Carrying amount of the investment	**44,238**	39,326
Revenue	**48,267**	12,794
Depreciation and amortisation	**4,655**	432
Tax	**339**	–
Profit and total comprehensive income for the year	**9,830**	3,439

17. INVESTMENTS IN JOINT VENTURES (continued)

The following table illustrates the aggregate financial information in respect of the Group's joint ventures that are not individually material:

	2018 RMB'000	2017 RMB'000
Share of the joint ventures' losses for the year	**(2)**	(68)
Share of the joint ventures' total comprehensive loss	**(2)**	(68)
Aggregate carrying amount of the Group's investments in the joint ventures	**4,067**	15,042

18. INVESTMENTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Share of net assets	**5,601**	6,592
Provision for impairment	**(2,530)**	–
	3,071	6,592

The Group's receivables and payables with the associates are disclosed in note 40 to the financial statements.

The following table illustrates the aggregate financial information of the Group's associates:

	2018 RMB'000	2017 RMB'000
Share of the associates' losses for the year	**(991)**	(1,031)
Share of the associates' total comprehensive loss	**(991)**	(1,031)
Aggregate carrying amount of the Group's investments in the associates	**3,071**	6,592

19. ASSETS CLASSIFIED AS HELD FOR SALE

On June 10, 2018, the Group entered into an equity transfer agreement with an independent third party ("the Purchaser"), pursuant to which the Group has conditionally agreed to dispose of and the Purchaser has conditionally agreed to purchase 51% equity interests in Chengdu Zhida Weilute Technology Co., Ltd. ("Chengdu Zhida"), which was a joint venture of the Group, at a consideration of RMB8,500,000. By December 31, 2018, all the shareholders of Chengdu Zhida have approved the transaction, but the change of industrial and commercial registration has not completed, which is expected to be completed in the first half year of 2019. As the Group has signed the disposal agreement with the Purchaser, and the investment is available for immediate sale in its present condition, the investment in Chengdu Zhida was classified as an asset held for sale, and measured at the lower of its carrying amount and fair value less costs to sell, which resulted in an impairment loss amounting to RMB2,476,000.

20. INVENTORIES

	2018 **RMB'000**	2017 RMB'000
Raw materials	**–**	1,535
Properties	**59,798**	71,955
Finished goods	**–**	6,767
	59,798	80,257

21. CONSTRUCTION CONTRACTS

	2018 **RMB'000**	2017 RMB'000
Gross amount due from contract customers	**–**	831,190
Gross amount due to contract customers	**–**	(621,901)
	–	209,289
Contract costs incurred plus recognised profits less recognised losses to date	**–**	6,322,035
Less: Progress billings	**–**	(6,112,746)
	–	209,289

22. TRADE AND BILLS RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	**920,309**	974,298
Impairment	**(75,437)**	(8,182)
	844,872	966,116
Bills receivable	**130,139**	128,003
	975,011	1,094,119

Trade receivables, which are non-interest-bearing, are recognised and carried at the original invoiced amount less any loss allowance. Trade receivables generally have credit terms ranging from 30 days to 180 days.

In view of the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its balances of trade receivables. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2018 RMB'000	2017 RMB'000
Less than 6 months	**461,207**	348,608
6 months to 1 year	**113,224**	89,056
1 year to 2 years	**138,766**	286,727
2 years to 3 years	**75,312**	116,092
Over 3 years	**56,363**	125,633
	844,872	966,116

22. TRADE AND BILLS RECEIVABLES (continued)

The movements in the loss allowance for impairment of trade receivables are as follows:

	2018 RMB'000	2017 RMB'000
At beginning of year	**8,182**	5,379
Effect of adoption of IFRS 9	**27,007**	–
At beginning of year (restated)	**35,189**	5,379
Impairment losses (note 6)	**46,158**	5,803
Amount written off as uncollectible	**(5,910)**	(3,000)
At end of year	**75,437**	8,182

Impairment under IFRS 9 for the year ended December 31, 2018

The breakdown of the loss allowance as at December 31, 2018 is as follows:

At December 31, 2018	Expected credit losses			
	Credit-impaired RMB'000	Aproud Technology RMB'000	Entities other than Aproud Technology RMB'000	Total RMB'000
Gross carrying amount	**7,867**	**8,794**	**903,648**	**920,309**
Credit loss	**7,867**	**6,183**	**61,387**	**75,437**
Average credit loss rate	**100%**	**70.31%**	**6.79%**	**8.20%**

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past the invoice date for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than five years and are not subject to enforcement activity.

Management categorises its trade receivables based on the ageing of the balances. The lifetime expected credit losses for receivables by assessing future cash flows for each group of trade receivables including a probability weighted amount determined by evaluating a range of possible outcomes based on historical credit loss experience by the customer segment, geographical region, tenure and type of customer and applying to the receivables held at the year end. The determining factor impacting collectability is customer attributes. The impact of economic factors, both current and future, is considered in assessing the likelihood of recovery from customers. As the customer group of Aproud Technology is different with other entities in the Group, there are two different provision matrixes. Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix.

22. TRADE AND BILLS RECEIVABLES (continued)

Aproud Technology

Aproud Technology was engaged in providing intelligent transportation services in the expressway sector in prior years, and has little business in recent years. The main customers are the administration department of the expressway. The information about the credit risk of Aproud Technology is as below:

At December 31, 2018	Expected credit loss rate	Gross carrying amount RMB'000	Expected credit losses RMB'000
Less than 1 year	16.61%	447	74
1 year to 2 years	34.85%	1,590	554
2 year to 3 years	38.45%	1,256	483
3 year to 4 years	71.89%	563	405
4 year to 5 years	86.74%	1,362	1,181
5 year to 6 years	89.23%	833	743
Over 6 years	100.00%	2,743	2,743
Total		8,794	6,183

Entities other than Aproud Technology

The entities in the Group other than Aproud Technology are mainly engaged in providing specialised solutions and value-added operation and services in railway sectors. Most of the customers are state-owned enterprises and railways bureau. The information of about the credit risk of entities other than Aproud Technology is as below:

At December 31, 2018	Expected credit loss rate	Gross carrying amount RMB'000	Expected credit losses RMB'000
Less than 1 year	1.83%	584,759	10,701
1 year to 2 years	4.35%	143,995	6,265
2 year to 3 years	9.85%	82,683	8,144
3 year to 4 years	16.04%	19,967	3,203
4 year to 5 years	25.92%	33,201	8,606
5 year to 6 years	35.61%	22,636	8,061
Over 6 years	100.00%	16,407	16,407
Total		903,648	61,387

Other than the loss allowance using the provision matrix, included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB7,867,000 with a carrying amount before provision of RMB7,867,000.

22. TRADE AND BILLS RECEIVABLES (continued)

Impairment under IAS 39 for the year ended December 31, 2017

Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under IAS 39, as at December 31, 2017, was a provision for individually impaired trade receivables of RMB3,743,000 with a carrying amount before provision of RMB3,743,000.

The ageing analysis of the trade receivables as at December 31, 2017 that were not individually nor collectively considered to be impaired under IAS 39, was as follows:

	2017 RMB'000
Less than 6 months	348,608
6 months to 1 year	89,056
1 year to 2 years	286,727
2 years to 3 years	116,092
	840,483

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

As at December 31, 2018, no trade receivables (2017: RMB94,235,000) were pledged for the current bank loans (2017: RMB74,541,000).

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Note	2018 RMB'000	2017 RMB'000
Prepayments to suppliers for purchases of goods		**172,817**	160,125
Loan receivables	(a)	**69,930**	106,807
Tender deposits		**18,250**	20,737
Contract deposits		**27,915**	17,455
Advances to staff		**20,671**	16,194
Interest receivable		**8,714**	7,590
Dividend receivable		**4,266**	14,243
Others		**88,270**	82,751
		410,833	425,902
Impairment allowance		**(34,391)**	(29,219)
		376,442	396,683
Less: Loan receivables-non current	(a)	**33,000**	31,000
		343,442	365,683

Note:

(a) The balance represents unsecured loans to other companies which are repayable within one year and interest free except that: (i) Loans of RMB30,000,000 to an independent third party, for the subscription of shares of Forever Opensource Co., Ltd. ("Forever Opensource"), is repayable in 2023, bears interest at a rate of 8% per annum, and is secured by the pledge of the related shares of Forever Opensource, which is mainly engaged in providing software designing and application development services; (ii) Unsecured loans of RMB3,000,000 to an independent third party with an interest rate of 7% and is due in 2020; and (iii) Unsecured loans of RMB1,000,000 to an independent third party with an interest rate of 7% and is due in 2019.

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (continued)

The movements in the loss allowance for impairment of other receivables are as follows:

	2018 RMB'000	2017 RMB'000
At January 1	**29,219**	15,162
Impairment losses	**5,172**	14,847
Amount written off	**–**	(790)
At December 31	**34,391**	29,219

Financial assets included in prepayment, other receivables and other assets mainly represent contract deposits, tender deposits with customers and loans to other companies. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of each company and the historical loss record of the Group.

As at December 31, 2018, the Group assessed the credit exposures of the financial assets included in prepayment, other receivables and other assets, and there has not been a significant increase in credit risk since initial recognition and the Group performed expected credit loss assessment for credit losses that result from default events that are possible within the next 12 months, and provided a loss allowance amounting to RMB5,172,000 in the current year.

24. CONTRACT ASSETS

	December 31, 2018 RMB'000	January 1, 2018 RMB'000	December 31, 2017 RMB'000
Contract assets arising from:			
Construction services	**690,059**	799,191	–
Maintenance services	**38,486**	36,842	–
	728,545	836,033	
Impairment	**(31,841)**	(35,640)	–
	696,704	800,393	–

Contract assets are initially recognised for revenue earned from the sale of products and the provision of system integration solutions and rending of services as the receipt of consideration is conditional on successful completion of installation of the products and construction, respectively. Upon completion of issuing billing to the customer according to the milestones of the projects, the amounts recognised as contract assets are reclassified to trade receivables. The decrease in contract assets in 2018 was due to the decrease of ongoing construction projects at the end of the year.

24. CONTRACT ASSETS (continued)

During the year ended December 31, 2018, RMB3,799,000 was reversed as an allowance for expected credit losses on contract assets. The Group's trading terms and credit policy with customers are disclosed in note 22 to the financial statements.

The expected timing of recovery or settlement for contract assets as at December 31, 2018 is as follows:

	RMB'000
Within 1 year	564,806
More than 1 years	131,898
Total contract assets	696,704

The movements in the loss allowance for impairment of contact assets are as follows:

	2018 RMB'000
At beginning of year	**17,300**
Effect of adoption of IFRS 9	**18,340**
At beginning of year (restated)	**35,640**
Reversal of impairment during the year	**(3,799)**
At end of year	**31,841**

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on days past the invoice date of trade receivables for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

24. CONTRACT ASSETS (continued)

Set out below is the information about the credit risk exposure on the Group's contract assets using a provision matrix:

As at December 31, 2018	Credit-impaired RMB'000	Expected credit loss Aproud Technology RMB'000	Entities other than Aproud Technology RMB'000	Total RMB'000
Gross carrying amount	**16,253**	**17,272**	**695,020**	**728,545**
Expected credit losses	**16,253**	**2,869**	**12,719**	**31,841**
Expected credit loss rate	**100%**	**16.61%**	**1.83%**	**4.37%**

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/AVAILABLE-FOR-SALE INVESTMENTS/OTHER FINANCIAL ASSETS

	2018 RMB'000	2017 RMB'000
Equity investments at fair value through profit or loss		
Unlisted equity investments, at fair value	**137,755**	–
Non-current	**117,755**	–
Current	**20,000**	–
Other financial assets	**–**	39,903
Available-for-sale investments		
Unlisted equity investments, at fair value	**–**	57,929
Unlisted investments, at cost	**–**	45,307
	–	103,236

During the year ended December 31, 2018, the loss of fair value changes of the Group's equity investments at fair value through profit or loss recognised in other expenses amounted to RMB51,207,000.

During the year ended December 31, 2017, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB5,946,000. As at December 31, 2017, certain unlisted equity investment with a carrying amount of RMB45,307,000 was stated at cost less impairment because the directors are of the opinion that the fair value cannot be measured reliably.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2018 RMB'000	2017 RMB'000
Cash and bank balances	**146,436**	179,654
Pledged deposits		
— Current deposits	**234,428**	283,076
— Non current deposits	**134,290**	–
	515,154	462,730
Less: Pledged deposits for		
— Letter of guarantee for projects	**(45,758)**	(4,885)
— Bills payable (note 27)	**(15,894)**	(60)
— Interest-bearing bank borrowings (note 29)	**(306,790)**	(277,000)
— Tenders	**(276)**	(1,131)
Cash and bank balances	**146,436**	179,654

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

The cash and bank balances and pledged deposits of the Group denominated in RMB amounted to RMB470,961,000 (RMB470,435,000 in Mainland China and RMB526,000 in overseas) as at December 31, 2018 (2017: RMB454,855,000 in total). In Mainland China, the RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

27. TRADE AND BILLS PAYABLES

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

	2018 RMB'000	2017 RMB'000
Current or less than 1 year past due	**569,619**	348,011
1 to 2 years past due	**70,386**	36,854
Over 2 years past due	**11,858**	6,171
	651,863	391,036

The Group's bills payable were secured by pledged deposits of the Group of RMB15,894,000 as at December 31, 2018 (2017: RMB60,000).

Trade payables are non-interest-bearing and generally have credit terms ranging from 1 to 360 days.

28. OTHER PAYABLES AND ACCRUALS

	2018 RMB'000	2017 RMB'000
Advances from customers	**–**	97,984
Contract liabilities (a)	**361,727**	–
Business advance deposits	**13,732**	5,518
Staff costs and welfare accruals	**12,902**	11,853
Other borrowings	**28,173**	14,734
Other taxes payable	**84,720**	99,335
Interest payables	**2,652**	1,395
Others	**52,819**	40,697
	556,725	271,516

28. OTHER PAYABLES AND ACCRUALS (continued)

(a) Details of contract liabilities as at December 31, 2018 and January 1, 2018 are as follows:

	December 31, 2018 RMB'000	January 1, 2018 RMB'000
Short-term advances received from customers		
Construction services	**344,156**	629,939
Sale of products	**11,186**	79,629
Maintenance services	**6,385**	10,317
Total contract liabilities	**361,727**	719,885

Contract liabilities include short-term advances received to deliver products and render maintenance and construction services. The decrease in contract liabilities in 2018 was mainly due to the decrease in short-term advances received from customers in relation to the provision of construction services at the end of the year.

Other payables are non-interest-bearing and have no fixed terms of repayment.

29. INTEREST-BEARING BANK BORROWINGS

	Notes	Contractual rate (%)	2018 RMB'000	2017 RMB'000
Current				
Bank loans — secured and repayable within one year	(i)	2.5	**87,620**	476,629
Bank loans — guaranteed and repayable within one year	(ii)	6.7–7.0	**190,000**	68,000
Bills receivable endorsed		–	**85,889**	64,200
			363,509	608,829
Non-current				
Bank loans — guaranteed and repayable within two years		6.7	**–**	152,000
Bank loans — secured and repayable within two years	(i)	HIBOR	**98,923**	–
Bank loans — secured and repayable within two years	(i),(iii)	4.1–6.2	**321,920**	–
			420,843	152,000
			784,352	760,829

Notes:

(i) Current bank loans of RMB87.6 million and non-current bank loans of RMB190.8 million as at December 31, 2018 (2017: RMB242.1 million) were secured by pledged deposits of RMB306.8 million by Zhixun Tiancheng, a subsidiary of the Group (2017: RMB277.0 million) (note 26).

(ii) Bank loans of RMB30.0 million as at December 31, 2018 (2017: RMB60.0 million) were guaranteed by the Company. Bank loans of RMB160.0 million as at December 31, 2018 (2017: RMB160 million) were guaranteed by a subsidiary of King Victory, which is an associate of the two executive directors of Jiang Hailin and Liao Jie and one of the controlling shareholders of the Company.

(iii) Non-current bank loans of RMB230.0 million as at December 31, 2018 (2017: RMB60.0 million) were secured by properties of Hongrui Dake with a carrying amount of RMB212.9 million, and shares of Aproud Technology, both of which are subsidiaries of the Group.

As at December 31, 2018, the Group had no unutilised available bank borrowing facilities both in RMB (2017: RMB70.0 million) and in HKD (2017: HKD239.0 million).

As at December 31, 2018, the Group's bank loans of RMB599.6 million were charged at fixed interest rates and bank loans of RMB98.9 million were charged at floating interest rates based on HIBOR which fluctuated on a quarterly basis. The carrying amounts of the Group's current borrowings approximate to their fair values.

30. DEFERRED TAX

The movements in deferred tax assets and liabilities for the year are as follows:

Deferred tax assets

	Accrued expenses RMB'000	Impairment of other intangible assets RMB'000	Revenue recognition on construction services* RMB'000	Tax loss RMB'000	Valuation loss RMB'000	Total RMB'000
2018						
At January 1, 2018	**2,778**	**–**	**4,991**	**–**	**–**	**7,769**
Deferred tax (charged)/credited to the statement of profit or loss during the year	**2,035**	**1,958**	**(4,991)**	**8,174**	**2,569**	**9,745**
At December 31, 2018	**4,813**	**1,958**	**–**	**8,174**	**2,569**	**17,514**
2017						
At January 1, 2017	849	–	16,517	–	–	17,366
Deferred tax (charged)/credited to the statement of profit or loss during the year	1,929	–	(11,526)	–	–	(9,597)
At December 31, 2017	2,778	–	4,991	–	–	7,769

30. DEFERRED TAX (continued)

Deferred tax liabilities

	Fair value adjustment on investment properties RMB'000	Recognition of revenue on construction services* RMB'000	Fair value adjustments on equity investments RMB'000	Total RMB'000
2018				
At December 31, 2017	**10,620**	**6,705**	**1,982**	**19,307**
Effect of adoption of IFRS 9	**–**	**–**	**2,373**	**2,373**
At January 1, 2018 (restated)	**10,620**	**6,705**	**4,355**	**21,680**
Deferred tax charged/(credited) to the statement of profit or loss during the year	**2,737**	**2,557**	**(2,437)**	**2,857**
At December 31, 2018	**13,357**	**9,262**	**1,918**	**24,537**
2017				
At January 1, 2017	9,108	–	–	9,108
Deferred tax charged to the statement of profit or loss during the year	1,512	5,813	–	7,325
Deferred tax charged to other comprehensive income during the year	–	–	1,982	1,982
Deferred tax liabilities acquired by a business combination	–	892	–	892
At December 31, 2017	10,620	6,705	1,982	19,307

* The deferred tax assets and deferred tax liabilities arising from "Recognition of revenue on construction services" were recognised on the taxable temporary difference between the construction revenue recognised based on the input method under IFRSs and the revenue deemed taxable by relevant tax authorities.

The Group has tax losses of RMB40,643,000 arising in Mainland China (2017: RMB73,752,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

31. SHARE CAPITAL

Shares

	2018 RMB'000	2017 RMB'000
Issued and fully paid:		
1,654,024,868 (2017: 1,654,024,868) ordinary shares of HK$0.0002 each	**290**	290

There were no movements in the Company's share capital during the years of 2017 and 2018.

32. RESERVES

The amounts of the Group's statutory reserve and capital reserve and movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 87 and 88 of the financial statements.

Statutory reserve

According to the PRC Company Law, the PRC subsidiaries of the Group are required to transfer 10% of their respective after-tax profits, calculated in accordance with PRC accounting standards and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The statutory surplus reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of the companies, provided that the fund is maintained at a minimum level of 25% of the registered capital.

Capital reserve

The capital reserve of the Group consists of: (i) reserves arising from the reorganisation before IPO; (ii) reserves arising from the share options granted by China ITS Co., Ltd. and the Company to the employees of the Group as set out in note 33 to the financial statements; and (iii) capitalised retained earnings to the capital of certain subsidiaries.

33. SHARE OPTION SCHEME

Pre-IPO Scheme

On December 28, 2008, China ITS Co., Ltd. launched a share option scheme. Pursuant to the scheme, China ITS Co., Ltd. granted 116,653,105 options to the eligible employees of the Group and directors of the Company, of which 58,170,393 share options were vested on the grant date and the remaining 58,482,712 share options would be vested over six equal semi-annual instalments starting from the second anniversary of the grant date provided that these employees remain in service at the respective vesting dates. The expiration dates for the share options are five years after their respective vesting dates. Exercise prices are RMB0.60 per share for the first batch, RMB2.00 for the second and third batches, RMB3.00 for the fourth and fifth batches and RMB4.00 for the last two batches. There are no cash settlement alternatives.

The following share options were outstanding under the scheme during the year:

	2018		2017	
	Weighted average exercise price RMB per share	Number of options '000	Weighted average exercise price RMB per share	Number of options '000
At January 1	4.00	7,927	3.68	18,566
Expired during the year	4.00	(7,927)	3.45	(10,639)
At December 31	–	–	4.00	7,927

A number of 7,927,000 (2017: 10,639,000) share options expired during the year ended December 31, 2018, and no share option was exercised or cancelled.

33. SHARE OPTION SCHEME (continued)

Pre-IPO Scheme (continued)

There were no outstanding share options under the scheme as at the end of 2018. The exercise price and exercise periods of the share options outstanding at the end of 2017 was as follows:

2017

Batches	Number of options '000	Exercise price RMB per share	Exercise period
Batch 7	7,927	4.00	June 30, 2013 to June 29, 2018
	7,927		

Post-IPO Scheme

On January 18, 2012, the board of directors resolved to grant share options under the share option scheme adopted by the Company on June 18, 2010 to 191 grantees, which included directors, independent non-executive directors and certain employees of the Group to subscribe for an aggregate of 155,000,000 ordinary shares. A total of 155,000,000 share options would be vested over twelve quarterly instalments from three months after the grant date, provided these grantees remain in service at the respective vesting dates. The exercise price is HK$1.05 per share. There are no cash settlement alternatives.

The following share options were outstanding under the scheme during the year:

	2018		2017	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At January 1	**1.05**	**74,673**	1.05	155,000
Lapsed during the year	**1.05**	**(2,456)**	1.05	(80,327)
At December 31	**1.05**	**72,217**	1.05	74,673

33. SHARE OPTION SCHEME (continued)

Post-IPO Scheme (continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2018

Batches	Number of options '000	Exercise price HK$ per share	Exercise period
Batch 1	3,381	1.05	April 19, 2012 to January 18, 2022
Batch 2	3,381	1.05	July 19, 2012 to January 18, 2022
Batch 3	3,381	1.05	October 19, 2012 to January 18, 2022
Batch 4	3,381	1.05	January 19, 2013 to January 18, 2022
Batch 5	6,016	1.05	April 19, 2013 to January 18, 2022
Batch 6	6,016	1.05	July 19, 2013 to January 18, 2022
Batch 7	6,016	1.05	October 19, 2013 to January 18, 2022
Batch 8	6,016	1.05	January 19, 2014 to January 18, 2022
Batch 9	8,650	1.05	April 19, 2014 to January 18, 2022
Batch 10	8,650	1.05	July 19, 2014 to January 18, 2022
Batch 11	8,650	1.05	October 19, 2014 to January 18, 2022
Batch 12	8,679	1.05	January 19, 2015 to January 18, 2022
	72,217		

33. SHARE OPTION SCHEME (continued)

Post-IPO Scheme (continued)

2017

Batches	Number of options '000	Exercise price HK$ per share	Exercise period
Batch 1	3,546	1.05	April 19, 2012 to January 18, 2022
Batch 2	3,546	1.05	July 19, 2012 to January 18, 2022
Batch 3	3,546	1.05	October 19, 2012 to January 18, 2022
Batch 4	3,546	1.05	January 19, 2013 to January 18, 2022
Batch 5	6,220	1.05	April 19, 2013 to January 18, 2022
Batch 6	6,220	1.05	July 19, 2013 to January 18, 2022
Batch 7	6,220	1.05	October 19, 2013 to January 18, 2022
Batch 8	6,220	1.05	January 19, 2014 to January 18, 2022
Batch 9	8,895	1.05	April 19, 2014 to January 18, 2022
Batch 10	8,895	1.05	July 19, 2014 to January 18, 2022
Batch 11	8,895	1.05	October 19, 2014 to January 18, 2022
Batch 12	8,924	1.05	January 19, 2015 to January 18, 2022
	74,673		

* The expiry date of these share options shall be the earlier of: (a) the date on which the share option lapses in accordance with the share option scheme and (b) the date falling ten years from the date of acceptance by the grantee.

33. SHARE OPTION SCHEME (continued)

Post-IPO Scheme (continued)

The fair value of equity-settled share options granted in 2012 was estimated as at the date of grant, using a binomial model, taking into account the terms upon which the options were granted. The following table lists the inputs to the model used:

Strike price	HK$1.05
Expected life of options (year)	10 years
Risk-free interest rate (%)	1.45%
Volatility (%)	44.00%
Dividend yield (%)	0.00%
Exercise multiple	2.00
Number of steps	200

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

2,456,000 share options lapsed during the year which resulted in the reclassification of the capital reserve and retained earnings amounting to RMB966,000.

As at December 31, 2018, the Company had 72,217,000 share options outstanding under the scheme, which represented approximately 4.37% of the Company's shares in issue at that date (2017: 4.51%). The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 72,217,000 additional ordinary shares of the Company and additional issued capital of HK$14,000 (equivalent to RMB13,000) and share premium of HK$75,814,000 (equivalent to RMB66,427,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 72,217,000 share options outstanding under the scheme, which represented approximately 4.37% of the Company's shares in issue at that date.

34. DISPOSAL OF SUBSIDIARIES

Net assets disposed of:	2017 RMB'000
Cash and cash equivalents	357
Trade and bills receivables	20,610
Prepayments, deposits and other receivables	2,973
Inventories	3,449
Amounts due from related parties	21,093
Property and equipment	29,100
Trade and bills payables	(11,381)
Accrued expenses and other payables	(15,502)
Amounts due to related parties	(30,901)
Non-controlling interests	50
Total identifiable net assets	19,848
Impairment loss of the non-performing assets	58,161
Fair value of the residual investment	(37,605)
Net loss on disposal of subsidiaries	(94)
	40,310
Satisfied by:	
Financial instruments recorded in other financial assets	40,310

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries are as follows:

	2017 RMB'000
Cash and bank balances disposed of	357
Net outflow of cash and cash equivalents in respect of disposal of subsidiaries	357

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

	Bank and other loans	
	2018 RMB'000	2017 RMB'000
At January 1	**760,829**	1,020,063
Changes from financing cash flows	**23,523**	(259,234)
At December 31	**784,352**	760,829

36. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bills payables and bank borrowings are included in notes 27 and 29, respectively, to the financial statements.

37. OPERATING LEASE COMMITMENTS

(a) As lessor

The Group leases its investment properties (note 14 to the financial statements) and leased offices to certain related parties and independent third parties, with leases negotiated for terms ranging from one year to three years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At December 31, 2018, the Group had total future minimum lease receivables under non-cancellable operating lease with its tenants falling due as follows:

	2018 RMB'000	2017 RMB'000
Within one year	**10,643**	5,368
In the second to fifth years, inclusive	**12,590**	13,569
	23,233	18,937

37. OPERATING LEASE COMMITMENTS (continued)

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At December 31, 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000	2017 RMB'000
Within one year	472	1,396
In the second to fifth years, inclusive	218	678
	690	2,074

38. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 37 above, the Group had the following capital commitments as at December 31, 2018:

	2018 RMB'000	2017 RMB'000
Contracted, but not provided for:		
Land and buildings	63,806	83,090
	63,806	83,090

39. CONTINGENT LIABILITIES

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

40. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	2018 RMB'000	2017 RMB'000
Associates:			
Rental income	(i)	**21**	–
Joint ventures			
Sales of products	(ii)	**6,340**	–
King Victory and its affiliates(*)			
Sales of products	(ii)	**129**	13,746
Purchase of products	(iii)	**–**	1,874
Interest income	(iv)	**24,988**	12,025
Rental income	(i)	**1,721**	2,060

* King Victory is an associate of the two executive directors of Jiang Hailin and Liao Jie and one of the controlling shareholders of the Company.

Notes:

(i) The rental income from associates and King Victory and its affiliates arose from the rental of the Company's office building, and was based on prices mutually agreed by both parties.

(ii) The sales to joint ventures and King Victory and its affiliates were made based on prices mutually agreed by both parties.

(iii) The purchase from King Victory and its affiliates were made based on prices mutually agreed by both parties.

(iv) The interest income arose from the outstanding receivables due from King Victory and its affiliates which was caused by the disposal of certain subsidiaries by the Company in 2016 and will be due in June 30, 2019. The receivables were secured by the pledge of 75% shares of a subsidiary of King Victory. The interest rate for the offshore receivables was 3.487% in 2018 (2017: 1.580%), and the interest rate for the onshore receivables was 6.479% in 2018 (2017: 4.350%)

(b) Other transactions with related parties

A subsidiary of King Victory, has guaranteed certain bank loans made to the Group of up to RMB160.0 million as at December 31, 2018, as further detailed in note 29 (ii).

40. RELATED PARTY TRANSACTIONS (continued)

(c) Outstanding balances with related parties

As disclosed in the consolidated statement of financial position, the Group had the following outstanding balances with related parties:

	2018 RMB'000	2017 RMB'000
Due from related parties:		
Trade related		
Joint ventures	**11,338**	5,685
King Victory and its affiliates	**33,398**	38,626
Non-trade related		
Associates	**5,048**	–
Joint ventures	**26,828**	29,532
King Victory and its affiliates	**574,199**	546,643
A company of which a close member of a director of the Company is a jointly controlling shareholder	**–**	18,000
Total	**650,811**	638,486
Due to related parties:		
Trade related		
Joint ventures	**10,273**	–
King Victory and its affiliates	**12,683**	17,511
Non-trade related		
Associates	**5,000**	1,000
King Victory and its affiliates	**–**	1,003
Total	**27,956**	19,514

Other than receivables due from King Victory and its affiliates of RMB533,536,000 as disclosed in note 40(a)(iv), the receivables due from related parties and payables due to related parties were unsecured, interest-free and has no fixed terms of repayment.

40. RELATED PARTY TRANSACTIONS (continued)

(d) Compensation of key management personnel of the Group

	2018 RMB'000	2017 RMB'000
Salaries, bonuses, allowances and benefits in kind	**2,260**	2,184
Pension scheme contributions	**166**	123
Total compensation paid to key management personnel	**2,426**	2,307

Further details of the directors' remuneration are included in note 8.

41. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

2018

	Financial assets at fair value through profit or loss			
	Held for trading RMB'000	Designated as such upon initial recognition RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade and bills receivables	–	130,139	844,872	975,011
Financial assets included in prepayments, other receivables and other assets	–	–	182,954	182,954
Amounts due from related parties	–	–	650,811	650,811
Equity investment at fair value through profit or loss	137,755	–	–	137,755
Pledged deposits	–	–	368,718	368,718
Cash and cash equivalents	–	–	146,436	146,436
	137,755	130,139	2,193,791	2,461,685

41. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial assets (continued)

2017

	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Available-for-sale investments RMB'000	Total RMB'000
Available-for-sale investments	–	–	103,236	103,236
Trade and bills receivables	–	1,094,119	–	1,094,119
Financial assets included in prepayments, other receivables and other assets	–	220,364	–	220,364
Amounts due from related parties	–	638,486	–	638,486
Other financial assets	39,903	–	–	39,903
Pledged deposits	–	283,076	–	283,076
Cash and cash equivalents	–	179,654	–	179,654
	39,903	2,415,699	103,236	2,558,838

Financial liabilities

	2018 Financial liabilities at amortised cost RMB'000	2017 Financial liabilities at amortised cost RMB'000
Trade and bills payables	**651,863**	391,036
Financial liabilities included in other payables and accruals	**44,557**	21,647
Interest-bearing bank borrowings	**784,352**	760,829
Amounts due to related parties	**27,956**	19,514
	1,508,728	1,193,026

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments, other than those with carrying amount that reasonably approximate to their fair values, are follows:

	Carrying amounts		Fair values	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Financial assets				
Pledged deposits, non-current portion	**134,290**	–	**134,290**	–
Financial assets at fair value through profit or loss	**137,755**	–	**137,755**	–
Available-for-sale investments	**–**	103,236	**–**	103,236
Other financial assets	**–**	39,903	**–**	39,903
	272,045	143,139	**272,045**	143,139
Financial liabilities				
Interest-bearing bank borrowings	**784,352**	760,829	**784,352**	760,829
	784,352	760,829	**784,352**	760,829

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals and amounts due from/to related parties approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion pledged deposits and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for loans receivable and interest-bearing bank borrowings as at December 31, 2018 was assessed to be insignificant.

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The fair values of unlisted equity investments at fair value through profit or loss, which were previously classified as available-for-sale equity investments and other financial assets, have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation ("EV/EBITDA") multiple and price to earnings ("P/E") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at December 31, 2018:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investments	Market Approach	Average EV/EBITDA multiple of peers	2018: 29.2	1% increase/decrease in multiple would result in increase/decrease in fair value by RMB440,000
		Average P/E multiple of peers	2018: 15.1–26.6	1% increase/decrease in multiple would result in increase/decrease in fair value by RMB117,000
		Discount for lack of market ability	2018: 30%–36%	1% increase/decrease in discount would result in decrease/increase in fair value by RMB1,751,000

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value

As at December 31, 2018	Fair value measurement using Quoted prices in active markets (Level 1) RMB'000	 Significant observable inputs (Level 2) RMB'000	 Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	**–**	**–**	**137,755**	**137,755**

As at December 31, 2017	Fair value measurement using Quoted prices in active markets (Level 1) RMB'000	 Significant observable inputs (Level 2) RMB'000	 Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Other financial assets	–	–	39,903	39,903
Available-for-sale investments	–	–	57,929	57,929
	–	–	97,832	97,832

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value

The Group did not have any financial liabilities measured at fair value as at December 31, 2018 and 2017.

During the year, there were no transfers of fair value measurement between level 1 and level 2 and no transfer into or out of level 3 for both financial assets and liabilities. (2017: Nil)

Assets for which fair values are disclosed:

	Fair value measurement using			
As at December 31, 2018	**Quoted prices in active markets (Level 1) RMB'000**	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Pledged deposits, non-current portion	**–**	**134,290**	**–**	**134,290**

	Fair value measurement using			
As at December 31, 2017	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Pledged deposits, non-current portion	–	–	–	–

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value (continued)

Liabilities for which fair values are disclosed:

As at December 31, 2018	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank borrowings — current	–	363,509	–	363,509
Interest-bearing bank borrowings — non-current	–	420,843	–	420,843
	–	784,352	–	784,352

As at December 31, 2017	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank borrowings — current	–	608,829	–	608,829
Interest-bearing bank borrowings — non-current	–	152,000	–	152,000
	–	760,829	–	760,829

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, cash and cash equivalents, and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, amounts due from/to related parties, financial assets included in prepayments, deposits and other receivables, trade and bills payables, and financial liabilities included in other payables and accruals, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to its interest-bearing borrowings with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. If there had been a general increase/decrease in the interest rates of bank loans with floating interest rates by one percentage point, with all other variables held constant, the consolidated profit/(loss) before tax would have decreased/increased by approximately RMB474,000 for the year ended December 31, 2018 (2017: RMB185,000).

Foreign currency risk

Substantially all of the Group's sales and purchases are denominated in RMB. The Group's certain bank balances are denominated in US$, HK$ and certain expenses of the Group are denominated in currencies other than RMB.

The following table demonstrates the sensitivity as at December 31, 2018 and 2017 to a reasonably possible change in the US$ and HK$ exchange rate, with all other variables held constant, of the Group's profit or loss before tax and the Group's equity.

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit or loss before tax RMB'000	Increase/ (decrease) in equity* RMB'000
December 31, 2018			
If RMB weakens against US$	**5**	**106**	**–**
If RMB strengthens against US$	**(5)**	**(106)**	**–**
If RMB weakens against HK$	**5**	**(13,912)**	**75,393**
If RMB strengthens against HK$	**(5)**	**13,912**	**(75,393)**
December 31, 2017			
If RMB weakens against US$	5	229	–
If RMB strengthens against US$	(5)	(229)	–
If RMB weakens against HK$	5	(13,444)	73,113
If RMB strengthens against HK$	(5)	13,444	(73,113)

* Excluding retained earnings

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, balances of receivables are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging as at December 31, 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at December 31, 2018. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	RMB'000
Contract assets*	–	–	–	728,545	728,545
Trade receivables*	–	–	–	920,309	920,309
Financial assets included in prepayment, other receivables and other assets**					
— Normal	217,345	–	–	–	217,345
Pledged deposits	368,718	–	–	–	368,718
Cash and cash equivalents	146,436	–	–	–	146,436
	732,499	–	–	1,648,854	2,381,353

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 22 and 24 to the financial statements respectively.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposits, trade and bills receivables, financial assets included in prepayments, other receivables and other assets, and amounts due from related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. As the Group's major customers are PRC stated-owned enterprises, the Group believes that they are reliable and of high credit quality and hence, there is no significant credit risk with these customers. As the Group's exposure is spread over a diversified portfolio of customers, there is no significant concentration of credit risk.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade and bills receivables) and projected cash flows from operations.

The Group's objective is to ensure continuity of sufficient funding and flexibility through the use of bank and other borrowings with debt maturities within 12 months.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

As at December 31, 2018

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade and bills payables	381,799	270,064	–	–	651,863
Financial liabilities included in other payables and accruals	41,905	–	2,652	–	44,557
Amounts due to related parties	27,956	–	–	–	27,956
Interest-bearing bank borrowings	–	203,509	183,204	434,918	821,631
	451,660	473,573	185,856	434,918	1,546,007

As at December 31, 2017

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade and bills payables	320,192	70,844	–	–	391,036
Financial liabilities included in other payables and accruals	20,252	–	1,395	–	21,647
Amounts due to related parties	19,514	–	–	–	19,514
Interest-bearing bank borrowings	–	252,913	366,024	156,614	775,551
	359,958	323,757	367,419	156,614	1,207,748

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The directors have carried out a detailed review of the cash flow forecast of the Group for the next twelve months from the end of the reporting period. Based on this forecast, the directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Group during that period. In preparing the cash flow forecast, the directors have considered historical cash requirements of the Group as well as other key factors, including the availability of the loan financing and additional capital from equity holders of the Company. The directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2018 and December 31, 2017.

The Group monitors capital using net debt to capital ratio, which is net debt divided by the capital. The Group's policy is to maintain the net debt to capital ratio between 14% and 20%. Net debt includes interest-bearing bank borrowings, and amounts due to related parties, less cash and cash equivalents and pledged deposits for interest-bearing bank borrowings. Capital includes equity attributable to owners of the parent. The net debt to capital ratios as at the end of the reporting periods were as follows:

	2018 RMB'000	2017 RMB'000
Interest-bearing bank borrowings	**784,352**	760,829
Amounts due to related parties	**27,956**	19,514
Less: Cash and cash equivalents	**(146,436)**	(179,654)
Pledged deposits for interest-bearing bank borrowings	**(306,790)**	(277,000)
Net debt	**359,082**	323,689
Equity attributable to owners of the parent	**2,030,689**	2,202,490
Adjusted capital	**2,030,689**	2,202,490
Net debt to capital ratio	**17.7%**	14.7%

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**581,582**	581,582
Investment in a joint venture	**2,067**	2,067
Available-for-sale investments	**–**	25,307
Total non-current assets	**583,649**	608,956
CURRENT ASSETS		
Prepayments, other receivables and other assets	**23,131**	19,583
Financial assets at fair value through profit or loss	**20,000**	–
Amounts due from subsidiaries	**1,028,781**	1,003,577
Amounts due from related parties	**370,544**	352,673
Cash and cash equivalents	**56,552**	7,486
Total current assets	**1,499,008**	1,383,319
CURRENT LIABILITIES		
Interest-bearing bank borrowings	**87,620**	242,088
Other payables and accruals	**141,286**	65,328
Amounts due to related parties	**10,134**	806
Amounts due to subsidiaries	**148,608**	112,715
Total current liabilities	**387,648**	420,937
NET CURRENT ASSETS	**1,111,360**	962,382
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,695,009**	1,571,338
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**120,843**	–
Total non-current liabilities	**120,843**	–
Net assets	**1,574,166**	1,571,338
EQUITY		
Share capital	**290**	290
Other reserves (note)	**1,573,876**	1,571,048
Total equity	**1,574,166**	1,571,338

Liao Jie
Director

Jiang Hailin
Director

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's other reserves is as follows:

	Share premium RMB'000	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings/ accumulated losses RMB'000	Total RMB'000
At January 1, 2017	1,066,708	612,522	(18,607)	(21,709)	1,638,914
Loss for the year	–	–	–	(2,509)	(2,509)
Exchange differences related to foreign operations	–	–	(65,357)	–	(65,357)
Total comprehensive loss for the year	–	–	(65,357)	(2,509)	(67,866)
Share-based payment transactions*	–	(9,807)	–	9,807	–
At December 31, 2017 and January 1, 2018	1,066,708	602,715	(83,964)	(14,411)	1,571,048
Loss for the year	**–**	**–**	**–**	**(730)**	**(730)**
Exchange differences related to foreign operations	**–**	**–**	**3,558**	**–**	**3,558**
Total comprehensive income/(loss) for the year	**–**	**–**	**3,558**	**(730)**	**2,828**
Share-based payment transactions*	**–**	**(39)**	**–**	**39**	**–**
At December 31, 2018	**1,066,708**	**602,676**	**(80,406)**	**(15,102)**	**1,573,876**

* 99,000 share options lapsed during the year resulted in the reclassification of capital reserve and retained earnings amounted to RMB39,000.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on March 28, 2019.

Particulars of Properties

December 31, 2018

INVESTMENT PROPERTIES

Location	Use	Tenure	Attributable interest of the Group
Room C2201, C2202, C2203, C2205, Building 8 No.1 Zhong Guan Cun Dong Road, Haidian District, Beijing, the PRC	Office	Long-term lease	100%
Building 8 Zhi Hui Road, Huishan District, Wuxi, Jiangsu Province, the PRC	Office	Long-term lease	100%