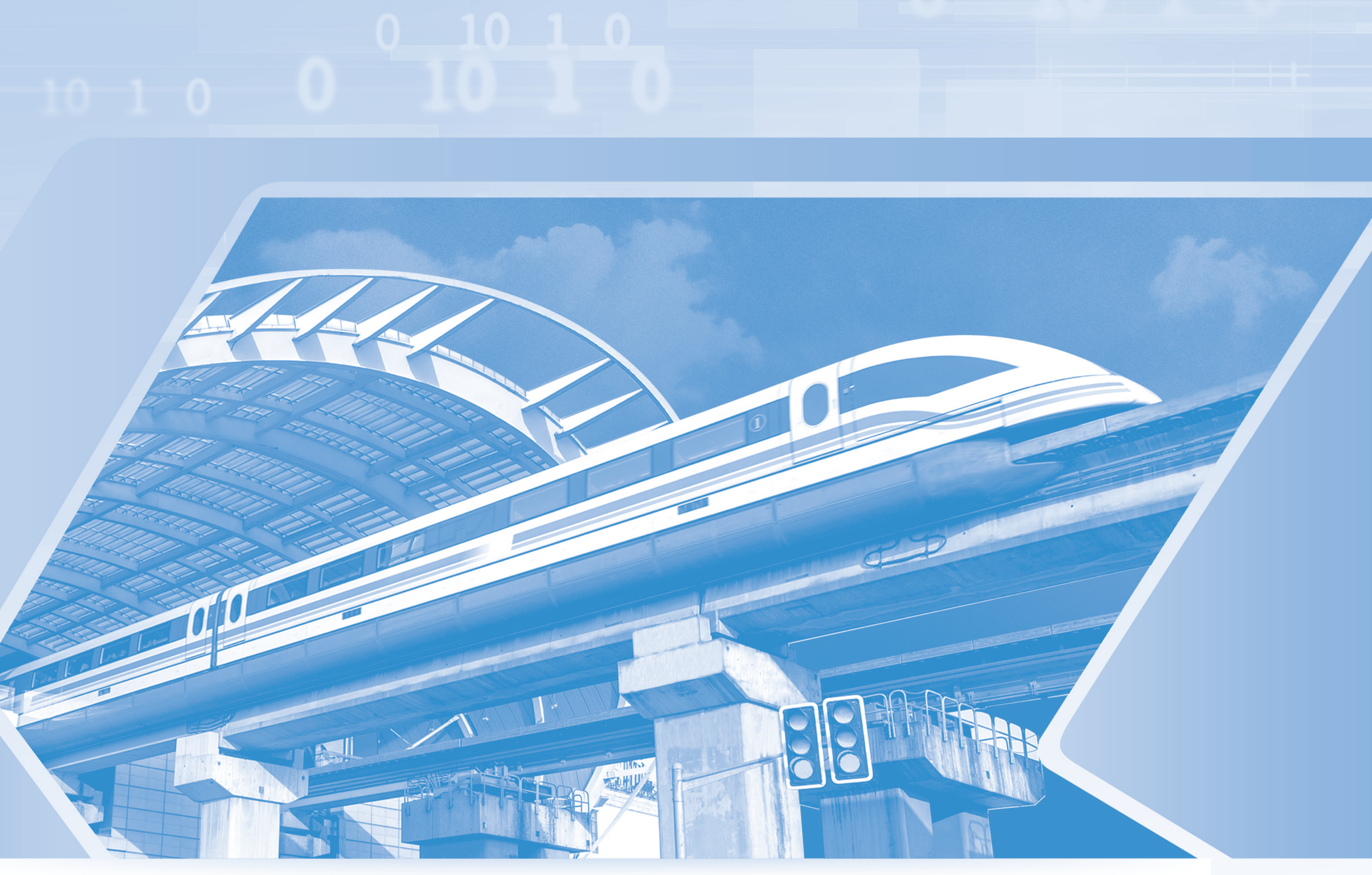
中国智能交通系统(控股)有限公司

China ITS (Holdings) Co., Ltd.

(incorporated in the Cayman Islands with limited liabilty)

Stock Code: 1900

2019 Annual Report



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

Mr. Ye Zhou
Mr. Wang Dong *(CICPA, CIMA, AAIA, CGMA)*
Mr. Zhou Jianmin

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. Wang Dong *(CICPA, CIMA, AAIA, CGMA)* *(committee chairman)*
Mr. Zhou Jianmin
Mr. Ye Zhou

REMUNERATION COMMITTEE

Mr. Ye Zhou *(committee chairman)*
Mr. Wang Dong *(CICPA, CIMA, AAIA, CGMA)*
Mr. Zhou Jianmin

NOMINATION COMMITTEE

Mr. Zhou Jianmin *(committee chairman)*
Mr. Ye Zhou
Mr. Wang Dong *(CICPA, CIMA, AAIA, CGMA)*

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

8/F., Golden Star Building
20-24 Lockhart Road
Wanchai
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

Mazars CPA Limited
Certified Public Accountants
42/F., Central Plaza
18 Harbour Road
Wanchai
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 Everbright Bank Co., Ltd. Beijing Branch Xicheng sub-branch
China Guangfa Bank Beijing Branch
Fubon Bank (China) Co., Ltd. Tianjin Branch
Ping An Bank Co., Ltd. Shanghai Pilot Free Trade Zone Branch
Shengjing Bank Beijing Branch Guanyuan 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)
"CEEC"	CEECGLOBAL LIMITED (世波工程有限公司)
"CIC Infrastructure"	CIC Infrastructure Industry Investment Limited (中智基礎產業投資有限公司)
"CIC Information"	CIC Information Technology Company Limited
"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)
"Myanmar Ahlone"	Myanmar Ahlone Power Plant Company Limited

Financial Highlights

HIGHLIGHTS OF AUDITED 2019 ANNUAL RESULTS

As of 31 December 2019 (the "**Year**" or the "**2019**"), audited results of China ITS (Holdings) Co., Ltd. (the "**Company**") and its subsidiaries (collectively the "**Group**") are as follows:

- The Group recorded RMB1,001.0 million from the new contracts signed, representing a decrease of 12.8% compared to the previous year.

- Revenue of RMB1,033.2 million was generated, representing an increase of 11.8% compared to the previous year.

- As of 31 December 2019, the Group recorded RMB840.1 million from backlog, representing a decrease of 14.1% compared to the end of the previous year.

- The Group generated gross profit of RMB206.6 million, which increased by 25.5% compared to the previous year, and recorded gross profit margin of 20.0%, representing an increase of 2.2 percentage points compared to the previous year.

- The loss attributable to owners of the parent of the Company amounted to RMB44.2 million as compared to the loss of RMB116.3 million for the previous year. Although the Group's railway business recorded a loss of RMB71.0 million for the Year, including the impairment loss of the business, the Group's financial performance for the Year was still better than the previous year, mainly attributable to the following factors: (i) the profit of CEECGLOBAL LIMITED, which was acquired by the Group in 2019, the financial results of which were consolidated into the Group's financial statements; (ii) the loss from changes in fair value of financial assets was relatively large for the year ended 31 December 2018, while the gain from changes in fair value of financial assets was relatively significant for the 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	2019	2018	2017	2016	2015
	Year ended December 31,				
New contracts signed	**1,001,014**	1,148,084	974,722	1,665,755(1)	2,642,215(2)

RMB'000	2019	2018	2017	2016	2015
	As at December 31,				
Backlog	**840,148**	978,122	900,699	1,059,909(1)	2,193,050(2)

2. FINANCIAL PERFORMANCE

RMB'000	2019	2018	2017	2016	2015
	Year ended December 31,				
Revenue	**1,033,190**	923,966	1,164,838	1,551,844(1)	2,317,541(2)
Gross profit	**206,620**	164,635	259,338	279,108(1)	393,063(2)
Profit/(loss) attributable to owners of parent	**(44,239)**	(116,278)	24,490	75,506(1)	(278,476)(2)

3. FINANCIAL POSITION

RMB'000	2019	2018	2017	2016	2015
	As at December 31,				
Total assets	**3,940,615**	4,105,634	4,333,194	5,347,011	6,384,993
Net assets	**1,987,451**	2,030,689	2,202,490	2,164,758	2,126,140
Net cash position	**(269,678)**	(269,198)(3)	(581,175)	(415,220)	(367,494)

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 10 to page 13.

Financial Summary

4. FINANCIAL RATIOS

	For the year ended/As at December 31,				
	2019	2018	2017	2016	2015
Sales cycle ratios:					
Trade receivables turnover days (days)(1)	**333**	409	371	283	245
Contract assets/contract liabilities turnover days (days)(2)	**82**	114	15	58	51
Combined trade receivables and contract assets/contract liabilities turnover days (days)	**415**	523	386	341	296
Other ratios:					
Trade payables turnover days (days)(3)	**230**	251	228	200	234
Current ratio (times)(4)	**1.6**	1.9	1.8	1.5	1.4
Gearing ratio (%)(5)	**–5.6%**	–17.4%	–14.6%	–29.2%	5.3%
Return on assets (%)(6)	**–1.1%**	–2.8%	0.6%	1.4%	–4.4%
Return on equity (%)(7)	**–2.2%**	–5.7%	1.1%	3.5%	–13.1%

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 10 to page 13.

Chairman's Statement

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

In 2019, the Group recorded RMB1,001.0 million from new contracts signed, representing a decrease of 12.8% compared to the previous year. The Group generated revenue of RMB1,033.2 million, representing an increase of 11.8% compared to the previous year, and as of 31 December 2019, the Group recorded RMB840.1 million from backlog, representing a decrease of 14.1% compared to the end of the previous year. The Group generated gross profit of RMB206.6 million, which increased by 25.5% compared to the previous year, and recorded gross profit margin of 20.0%, increased from 17.8% for the previous year. The loss attributable to owners of the parent of the Company amounted to RMB44.2 million for the Year compared to the loss of RMB116.3 million for the previous year.

BUSINESS REVIEW

The Company and its subsidiaries (the "**Group**") is mainly a provider of products, specialised solutions and services related to infrastructure technology in the PRC and overseas. The main businesses of this Group are as follows:

(a) Products and specialised solutions business (the "**Products and specialised solutions**") — in the field of infrastructure construction such as railways and electric power, we sell products and specialised solutions to customers according to their needs. It mainly includes: railway communication products, energy-base products, power communication products, power transmission and transformation equipment, power generation equipment; and

(b) Value-added operation and services business (the "**Value-added operation and services**") — We provide value-added services such as maintenance services, network optimization and network planning, and technical consulting for the products related to the communication system for railway customers, as well as the planning and technical consulting services of the infrastructure construction based on electric power such as power plant construction and power grid renovation for electric power customers.

1. Consolidating the railway sector business and vertically upgrading the traditional business

The core business of the Group is products and specialised solutions of which the products and solutions business of railway communication segment market still maintains a high market share. We are one of the largest providers in the segment market. Intelligent information solutions and energy-base solutions are also progressing as planned. In the Year, the Group has become a solution provider of wired and wireless communication systems for He'an Jiu high-speed railway project, which has significant effect on improving national and regional railway network layout and raising transportation capacity and driving the economic development along the line. Meanwhile, the Group successfully won the tender for OTN project of Shanghai Railway Administration, providing basic information channel for Shanghai Railway Administration and offering reliable, safe and quick information services to the relevant railway transportation business. The Group also provides solutions for electronic ticketing systems of multiple railway bureaus, which speeds up the process of electronic ticketing and improving travel efficiency of tourists. The involvement of such projects further consolidated the Group's leading position in the railway communication market.

The railway communications system's intelligent value-added operation and services business requires certain industry experience and expertise due to the high technical threshold. We need to provide customers with efficient and convenient services through professional technology to increase user stickiness, which is a kind of higher value-added services business. As this business is at the post-construction stage of a railway, it has covered most railway bureaus across the country and covered the backbone of the railway network based on the Group's platform advantages combining with its self-developed intelligent maintenance system, which provides intelligent operation and maintenance for railway communications. The Group attaches great importance to the technical support and service quality of value-added operation and services business, as well as the control of customer satisfaction. In the future, the Group will strive to provide high-efficiency, reliable, convenient, all-round technology and operation as well as maintenance services for railway customers through the expansion of diversified professional technical services. In 2019, on the one hand, the Group consolidated the existing value-added operation business, and also continuously expanded new value-added operation business. As a result, the revenue from value-added operation and services business increased significantly compared with the previous year.

2. **Business in electric power sector developing well and completing the overseas significant investment**

In the Year, the Group has made solid progress in expanding overseas markets through the acquisition ("**Acquisition**") of 58% equity interests in CEECGLOBAL LIMITED, which engages in investment and construction, upgrading, operation and provision of services in respect of infrastructures in electric power and communication industry to overseas customers in Southeast Asia markets. The Acquisition has provided the Group with a new opportunity to explore the infrastructure market in the Southeast Asia, and to improve and optimize the industrial structure of the Company. Please refer to the announcement of the Company dated 13 May 2019 for more details.

In the Year, the Group entered into the contract for the ALONE 147,000 kilowatts power plant project in Yangon, Myanmar. The Group plans to invest an amount of approximately RMB400.0 million in the construction and operation of this power plant. It is expected that this power plant will be put into operation and connected to the grid for power generation in the middle of 2020. This project will be remarked as a benchmark project for the Group's expansion of the overseas markets and will also lay a solid foundation for the Group developing the infrastructure market in the Southeast Asia.

SUBSEQUENT EVENTS

Since the outbreak of the 2019 Novel Coronavirus ("**COVID-19**") in January 2020, the local government and authorities in many cities have implemented various measures such as imposing travel restrictions, quarantine arrangements on travelers and home office arrangements that are adversely affecting the global economy and also the business operations of the Group. Depending on the development of the COVID-19 pandemic, the Group's business operations may continue to be affected if the control measures are not lifted. The duration and intensity of this COVID-19 pandemic and related disruptions are uncertain.

LIAO JIE
Chairman

Beijing, May 12, 2020

Management Discussion and Analysis

Revenue

For the Year, the Group generated revenue as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Revenue by business model		
Products and specialised solutions	**893,327**	849,102
Value-added operation and services	**140,169**	81,697
Elimination	**(306)**	(6,833)
Total	**1,033,190**	923,966

(i) Products and specialised solutions

For the Year, revenue of RMB893.3 million was recognised from the Products and specialised solutions business, representing an increase of RMB44.2 million compared to the previous year, and increased by 5.2%.

(ii) Value-added operation and services

Revenue recognised from the Value-added operation and services business for the Year was RMB140.2 million, representing an increase of RMB58.5 million compared to the previous year, and increased by 71.6%.

The increase in the revenue is mainly attributable to the following factors: (1) in 2019, the Group consolidated the existing value-added operation and services business and continually explored the new value-added operation and services business, thus the revenue from the value-added operation and services business of the railway business grew rapidly, increasing by RMB35.3 million compared to the previous year; (2) in the Year, the Group acquired CEECGLOBAL LIMITED, and revenue of RMB23.2 million was recorded from the value-added operation and services business of this company for the Year, which was included in the consolidated financial statements of the Group for the Year.

Management Discussion and Analysis

Gross Profit and the Gross Profit Margin

The Group generated gross profit of RMB206.6 million in the Year, representing an increase of RMB42.0 million compared to the previous year. Gross profit margin increased from 17.8% for the previous year to 20.0% for the Year.

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Gross profit and the Gross Profit Margin by business model		
Products and specialised solutions	**150,378**	136,464
Margin %	**16.8%**	16.1%
Value-added operation and services	**56,242**	28,171
Margin %	**40.1%**	34.5%
Elimination	**–**	–
Total	**206,620**	164,635
Margin	**20.0%**	17.8%

(i) Products and specialised solutions

For the Year, gross profit of RMB150.4 million was recognized from the Products and specialised solutions business, representing an increase of RMB13.9 million compared to the previous year. The gross profit margin was 16.8%, representing an increase of 0.7 percentage points compared to the previous year.

(ii) Value-added operation and services

Gross profit recognized from the Value-added operation and services business for the Year was RMB56.2 million, representing an increase of RMB28.0 million compared to the previous year. The gross profit margin of value-added operation and services was 40.1%, representing an increase of 5.6 percentage points compared to the previous year. This was mainly attributable to the following factor: the Group acquired CEECGLOBAL LIMITED in the Year and this company recorded relatively high gross profit margin from the value-added operation and services business for the 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 of the investment properties was related to the real estate price in Beijing and was in line with the market growth trend.

Selling and Administration Expense and Impairment Losses

For the Year, selling and administration expense and impairment losses were approximately RMB273.6 million, representing an increase of RMB28.8 million as compared to the previous year.

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

For the Year, selling and administration expense which was related to daily operational activities was RMB153.9 million as compared to RMB164.5 million for the previous year, decreased by RMB10.6 million compared to the previous year. This was mainly due to the Group's effective travel expense savings management and reduced investment in R&D.

(ii) Impairment losses

The impairment losses for the Year were RMB119.7 million as compared to RMB80.3 million for the previous year, increased by RMB39.4 million compared to the previous year, including: 1.due to the macro environmental impacts and changes in the upstream and downstream of the Company's industrial chain, the goodwill impairment loss was RMB97.8 million for the Year; 2. the other impairment losses after deducting goodwill impairment losses for the Year were RMB21.9 million, decreased by RMB58.4 million compared to the previous 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 finance cost minus finance revenue. For the Year, the net financial expense was RMB7.4 million, which represented an increase of RMB0.9 million compared to the previous year.

Share of Profit of Joint Venture/Associates

For the Year, share of profit of investment entities was approximately RMB0.7 million, as compared to the profit of RMB3.9 million for the previous year.

Proceeds from Disposal of Joint Venture/Associates

The proceeds from disposal of joint venture/associates by the Group were RMB16.0 million.

Profit or Loss through Fair Value Changes

For the Year, influenced by the market fluctuations, the Group's equity investments in Forever Opensource (stock code: 834415), CNBM Technology (stock code: 834082), and Shenzhen Hopeland led to the profit of RMB10.7 million through fair value changes, as compared to the loss of RMB51.2 million for the previous year.

Income Tax Expenses

The total income tax expenses for the Year were RMB8.4 million, which were RMB2.2 million for the previous year.

Loss for the Year

The loss attributable to owners of the parent of the Company amounted to RMB44.2 million as compared to the loss of RMB116.3 million for the previous year.

Inventory Turnover Days

The inventories of the Group mainly comprised of the products related to railway communication and spare parts. For the Year, the inventory turnover days was 31 days (the previous year: 0 days). The reason for this change was: due to commercial purpose, the Group made the centralized purchase of conventional equipment for cutting cost this Year.

Trade Receivables Turnover Days

For the Year, the trade receivables turnover days was 333 days (the previous year: 409 days).

Contract Assets/Contract Liabilities Turnover Days

For the Year, the contract assets/contract liabilities turnover days was 82 days (the previous year: 114 days).

Trade Payables Turnover Days

For the Year, the trade payables turnover days was 230 days (the previous year: 251 days).

Liquidity and Financial Resources

The Group's principal sources of working capital included cash flow from operating activities, bank and other borrowings. As of 31 December 2019, the Group's current ratio (current assets divided by current liabilities) was 1.6 (as of 31 December 2018: 1.9). The Group's financial position remains healthy.

As of 31 December 2019, the Group was in a net negative cash position[(1)] of RMB269.7 million (as at the previous year end: negative RMB269.2 million), similar with the previous year. As at 31 December 2019, the Group's gearing ratio was -5.6%, increased by 11.8 percentage points from -17.4% as at the end of the previous year.

Contingent Liabilities

As at 31 December 2019, the Group had no material contingent liability.

Charges on Group Assets

As at 31 December 2019, except for the pledged deposits of approximately RMB319.6 million (as at 31 December 2018: RMB368.7 million), the Group pledged a building with a net carrying amount of approximately RMB208.5 million and equity in a subsidiary (as at the end of the previous year, the Group pledged a building with a net carrying amount of approximately RMB212.9 million and equity in a subsidiary 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 31 December 2019, the Group had no other assets charged to financial institution.

(1) Net cash included cash and cash equivalents, interest-bearing bank borrowings and pledged deposits.

Report of the Directors

The Board presents its report together with the audited consolidated results of the Group for the year ended December 31, 2019.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is mainly a provider of products, specialised solutions and services related to infrastructure technology in the PRC and overseas. Details of the activities of the subsidiaries of the Company are set out in note 1 to the consolidated financial statements on pages 98 to 99.

RESULTS AND DIVIDEND

The consolidated results of the Group for the year ended December 31, 2019 are set out on pages 14 to 27 of this annual report.

The Board recommended that no dividend will be declared for the year ended December 31, 2019.

BUSINESS REVIEW

The business review of the Group as at December 31, 2019 is set out under the section headed "Management Discussion and Analysis" of this annual report on pages 10 to 13.

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 as 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 of the PRC government.

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 42 to the financial statements of the Company for the year ended and as at December 31, 2019 on pages 172 to 176 for the discussion of such risks.

Report of the Directors

KEY RELATIONSHIPS

Employees

Please refer to the section headed "environmental, social and governance report — 4 PEOPLE" on page 50 of this annual report for the discussion on the Group's relationships with its employee.

Customers

The nature of the Group's business requires a high level of collaboration with its customers for successful implementation of projects, therefore, 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, 2019, 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, 2019, 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 — 6 SUSTAINABILITY" on page 66 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 shall comply with relevant laws and regulations in the mainland China. During the year ended December 31, 2019 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 14 to the consolidated financial statements on pages 141 to 142.

SHARE CAPITAL

Details of the movement in the Company's share capital during the year ended December 31, 2019 are set out in note 30 to the consolidated financial statements on page 161.

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, 2019 are set out in note 31 to the consolidated financial statements on page 161. As at December 31, 2019, the Group's distributable reserve is RMB1,282.3 million.

Report of the Directors

CHARITABLE DONATIONS

The Company made no charitable donations during the year ended December 31, 2019.

DIRECTORS

The Directors who held office as at December 31, 2019 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
Independent Non-executive Directors	
Mr. Tim Tianwei Zhang (Resigned on October 29, 2019)	May 31,2019
Mr. Choi Onward *(FCCA, HKICPA)* (Resigned on April 1, 2019)	May 23, 2017
Mr. Ye Zhou	May 31,2019
Mr. Wang Dong *(CICPA, CIMA, AAIA, CGMA)*	June 21, 2018
Mr. Zhou Jianmin (Appointed on October 29, 2019)	N/A

In accordance with Article 84 of the Articles of Association of the Company and the Listing Rules, Mr. Liao Jie and Mr. Jiang Hailin shall retire by rotation, and being eligible, have offered themselves for re-election as Directors at the forthcoming annual general meeting. In accordance with Article 83(3) of the Articles of Association of the Company, Mr. Zhou Jianmin shall hold office until the forthcoming annual general meeting. Mr. Zhou Jianmin shall offer himself for re-election as Director at the forthcoming annual general meeting.

Biographies of Directors and senior management of the Company are set out on pages 78 to 81 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, 2019, 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[3]	Approximate percentage of shareholdings as at December 31, 2019[3]
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)

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) (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, 2019, 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, 2019.

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, 2019 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, 2019.

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 9 to the consolidated financial statements on pages 135 to 136.

Report of the Directors

EMPLOYMENT AND EMOLUMENT POLICIES

As at December 31, 2019, the Group had 319 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

China ITS Co., Ltd. ("**Holdco**", one of the controlling shareholders of the Company) 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.

All of the options under the Pre-IPO Share Incentive Scheme were expired by June 30, 2018.

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, 2019 is as follows:

Grantee	Grant date[1]	Vesting start date	Expiry date	Outstanding as at January 1, 2019	Exercised during the year ended December 31, 2019	Lapsed or cancelled during the year ended December 31, 2019	Outstanding as at December 31, 2019	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	0	1.05
(Independent	18/01/2012	July 19, 2012	Note (2)	8,232	–	8,232	0	1.05
Non-Executive	18/01/2012	October 19, 2012	Note (2)	8,232	–	8,232	0	1.05
Director)	18/01/2012	January 19, 2013	Note (2)	8,232	–	8,232	0	1.05
(Resigned on April 1, 2019)	18/01/2012	April 19, 2013	Note (2)	8,232	–	8,232	0	1.05
	18/01/2012	July 19, 2013	Note (2)	8,232	–	8,232	0	1.05
	18/01/2012	October 19, 2013	Note (2)	8,232	–	8,232	0	1.05
	18/01/2012	January 19, 2014	Note (2)	8,232	–	8,232	0	1.05
	18/01/2012	April 19, 2014	Note (2)	8,232	–	8,232	0	1.05
	18/01/2012	July 19, 2014	Note (2)	8,232	–	8,232	0	1.05
	18/01/2012	October 19, 2014	Note (2)	8,232	–	8,232	0	1.05
	18/01/2012	January 19, 2015	Note (2)	8,272	–	8,272	0	1.05
Sub-total				98,824	–	98,824	0	

Grantee	Grant date[1]	Vesting start date	Expiry date	Outstanding as at January 1, 2019	Exercised during the year ended December 31, 2019	Lapsed or cancelled during the year ended December 31, 2019	Outstanding as at December 31, 2019	Exercise price per share (HK$)
Others	18/01/2012	April 19, 2012	Note (2)	1,600,561	–	557,636	1,042,925	1.05
	18/01/2012	July 19, 2012	Note (2)	1,600,561	–	557,636	1,042,925	1.05
	18/01/2012	October 19, 2012	Note (2)	1,600,561	–	557,636	1,042,925	1.05
	18/01/2012	January 19, 2013	Note (2)	1,600,561	–	557,636	1,042,925	1.05
	18/01/2012	April 19, 2013	Note (2)	2,459,580	–	925,232	1,534,348	1.05
	18/01/2012	July 19, 2013	Note (2)	2,459,580	–	925,232	1,534,348	1.05
	18/01/2012	October 19, 2013	Note (2)	2,459,580	–	925,232	1,534,348	1.05
	18/01/2012	January 19, 2014	Note (2)	2,459,580	–	925,232	1,534,348	1.05
	18/01/2012	April 19, 2014	Note (2)	3,318,590	–	1,292,830	2,025,760	1.05
	18/01/2012	July 19, 2014	Note (2)	3,318,590	–	1,292,830	2,025,760	1.05
	18/01/2012	October 19, 2014	Note (2)	3,318,590	–	1,292,830	2,025,760	1.05
	18/01/2012	January 19, 2015	Note (2)	3,330,202	–	1,297,291	2,032,911	1.05
Sub-total				29,526,536	–	11,107,253	18,419,283	
TOTAL:				**72,217,082**	**–**	**11,206,077**	**61,011,005**	

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, 2019, 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, 2019, 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, 2019.

EVENTS AFTER THE REPORTING PERIOD

Power Station in Myanmar

On January 17, 2020, Myanmar Ahlone Power Plant Company Limited ("Myanmar Ahlone") was incorporated in Myanmar with total share capital of US$500,000 and the Group held as to 92.4% of shares of Myanmar Ahlone. The principal activity of Myanmar Ahlone is to operate power stations in Myanmar pursuant to a power purchase agreement entered into among the Group, another shareholder of Myanmar Ahlone and the Myanmar government bureau.

2019 Novel Coronavirus ("COVID-19")

Since the outbreak of COVID-19 in January 2020, the local government and authorities in many cities have implemented various measures such as imposing travel restrictions, quarantine arrangements on travelers and home office arrangements that are adversely affecting the global economy and also the business operations of the Group. Depending on the development of the COVID-19 pandemic, the Group's business operations may continue to be affected if the control measures are not lifted. The duration and intensity of this COVID-19 pandemic and related disruptions are uncertain.

The implementations of the control measures in response to the COVID-19 pandemic are non-adjusting events after the financial year end of December 31, 2019 and do not result in any adjustments to the consolidated financial statements of the Group for the year ended December 31, 2019.

MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES

Acquisition of 58% Equity Interest In CEECGLOBAL LIMITED

On 13 May, 2019, China ITS (Holdings) Co., Ltd., a wholly-owned subsidiary of the Company (the "**Purchaser**"), entered into a share purchase agreement with Totland International Limited, Goal High Global Limited (the "**Vendors**"), Mr. Hu Weimin and CEECGLOBAL LIMITED (the "**Target Company**"), pursuant to which the Purchaser acquired 58% equity interest in the Target Company at the consideration of RMB85,840,000. The Vendors warrant to the Purchaser that in respect of the two financial years ended 31 December 2019 and 31 December 2020 (the "**Profit Guarantee Period**"), the aggregate audited consolidated net profits after tax of the Target Company shall be no less than RMB62,000,000 (the "**Guaranteed Profit**"). The actual profit of the Target Company for the year ended 31 December 2019 is approximately RMB22,000,000. If the Guaranteed Profit has not achieved, the Purchaser shall be entitled to request either Mr. Hu or Vendors to: (1) pay the Purchaser Compensation, or (2) repurchase certain shares of the Target Company held by the Purchaser. Please refer to the announcement published by the Company on 13 May 2019 for details.

To the Disposal of Equity Interest in Intelligent Aviation and Acquisition of Shares in Forever Opensource

On 13 November, 2019, Tibet Intelligent Aviation Transportation Technology Co., Ltd.* (西藏智航交通科技有限公司), an indirect wholly-owned subsidiary of the Company, entered into an agreement of acquisition of asset by way of share issuance with Forever Opensource Co., Ltd., pursuant to which the Group sold 50% equity interest in Intelligent Aviation System Co., Ltd.* (智能航空系統有限公司) at the consideration of RMB64,000,000, which was satisfied by the issuance of 15,058,824 shares by Forever Opensource Co., Ltd at the issue price of RMB4.25 per share. Please refer to the announcement published by the Company on 13 November 2019 for details.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2019, the aggregate sales to the Group's five largest customers, in aggregate represented approximately 24.2% of the Group's total revenue and sales to the Group's largest customer amounted to approximately 7.7% of the Group's total revenue.

For the year ended December 31, 2019, the aggregate purchases attributable to the Group's five largest suppliers, in aggregate represented approximately 55.5% of the Group's total purchases and purchases attributable to the Group's largest supplier amounted to approximately 18.4% of the Group's total purchases.

For the year ended December 31, 2019, 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, 2019 are set out in note 28 to the consolidated financial statements on page 159.

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, 2019, the Company has maintained sufficient public float as required under the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

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, 2019 was RMB5,164,000. The rental income and property management fee from Beijing RHY to Hongrui Dake for the year ended December 31, 2019 was approximately RMB3,804,000.

Update on Delay in Settlement of the Outstanding Amounts

Reference is made to the announcements of the Company dated 9 April 2018, 3 May 2018 and 2 July 2018 and the circular of the Company dated 6 September 2018 (the "**Circular**") and the Announcement of the Company dated 1 July 2019 (the "**Announcement**"). Terms defined in the Circular shall have the same meanings when used in this section.

As disclosed in the Announcement, the Outstanding Amounts and the interest accrued thereon, which totaled approximately RMB340.8 million, remained outstanding as at 30 June 2019 and the date of this report.

When the Outstanding Amounts expired, the Company issued an announcement on July 1, 2019 to inform Shareholders that the Company was in the process of negotiating with the Purchaser Group to vary the payment terms of the Outstanding Amounts ("**Proposed Amendment**"). At that time, the Company and the Purchaser Group were close to reaching the preliminary plan of the Proposed Amendments, and contacted the independent financial consultant to evaluate and initiate preparation of related approval and disclosure matters. However, in the negotiation process, because the two parties failed to reach a consensus on the terms of the security arrangement, the negotiation time needed to be further extended. As disclosed in the Company's announcement on May 8, 2020, the Company has been in the process of negotiating with the Purchaser Group to further vary the payment terms of the Outstanding Amounts. Its negotiation with the Purchaser Group regarding the terms of the Proposed Amendment is now in an advanced stage. The Directors currently expect that the terms of the Proposed Amendment can be finalized on or before 30 June 2020.

Mazars CPA Limited, 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. Mazars CPA Limited has issued the Independent Auditor's 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. In respect of the Outstanding Amounts, Mazars CPA Limited has expressed a qualified conclusion as the delay in settlement of the Outstanding Amounts constituted transactions that (i) have not been approved by the Company's board of directors; and (ii) were not entered into the Supplemental Agreements. A copy of the auditor's report has been provided by the Company to the Stock Exchange.

The independent non-executive Directors have reviewed all the above-mentioned continuing connected transactions and confirmed that during the year ended December 31, 2019, 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, except that the terms of the Supplemental Agreements were not fully complied with due to the delay in the settlement of the Outstanding Amounts in the circumstances as disclosed in the Announcement.

Report of the Directors

RELATED PARTIES TRANSACTIONS

The Group was involved in a number of related party transactions during the year ended December 31, 2019, which have been disclosed in note 38 to the consolidated financial statements on pages 167 to 168.

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, 2019 or any time during the year ended December 31, 2019.

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, 2019 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, 2019.

Detailed information on the corporate governance practice adopted by the Company is set out in the Corporate Governance Report on pages 28 to 38.

AUDIT COMMITTEE

The Group's annual report for the year ended December 31, 2019 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 31 to 32.

AUDITOR

The consolidated financial statements of the Group for the year ended December 31, 2019 have been audited by Mazars CPA Limited.

CHANGE OF THE AUDITOR OF THE COMPANY

Reference is made to the announcement of the Company dated April 29, 2019. Ernst & Young retired as the auditor of the Company with effect from the conclusion of the 2018 annual general meeting of the Company and did not seek for re-appointment. Mazars CPA Limited had been appointed as the auditor of the Company in place of Ernst & Young until the conclusion of the next annual general meeting of the Company.

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

Beijing, May 12, 2020

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, 2019.

Set out below is a detailed discussion of the corporate governance practices adopted and observed by the Company for the year ended December 31, 2019.

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 five Directors, including two executive Directors 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. Wang Dong, an independent non-executive Director during the year ended December 31, 2019 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, 2019, there were ten Board meetings held, at which the Directors approved, among other things, the audited consolidated results of the Group for the year ended December 31, 2018 and the unaudited consolidated results of the Group for the six months ended June 30, 2019.

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.

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, 2019, the Board convened a total of ten Board meetings and there were three meetings for the Audit Committee, two meeting for the Remuneration Committee and three 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)*	10/10	N/A	N/A	N/A	1/1
Mr. Jiang Hailin *(Chief Executive Officer)*	10/10	N/A	N/A	N/A	1/1
Independent Non-executive Directors					
Mr. Tim Tianwei Zhang (Resigned on October 29, 2019)*	9/10	2/3	1/2	1/3	1/1
Mr. Choi Onward *(FCCA, HKICPA)* (Resigned on April 1, 2019)	3/10	1/3	1/2	2/3	0/1
Mr. Ye Zhou	10/10	3/3	2/2	3/3	1/1
Mr. Wang Dong *(CICPA, CIMA, AAIA, CGMA)*	10/10	3/3	2/2	3/3	1/1
Mr. Zhou Jianmin (Appointed on October 29, 2019)	1/10	0/3	0/2	0/3	0/1

* Following the resignation of Mr. Choi Onward, Mr. Tim Tianwei Zhang, who was a non-executive Director, had been re-designated as an independent non-executive Director in place of Mr. Choi and also been appointed as the chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee with effect from April 1, 2019.

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, 2019, 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, 2019.

BOARD COMMITTEES

Audit Committee

As at December 31, 2019 and the date of this report, the Audit Committee comprised three independent non-executive Directors, being Mr. Wang Dong, Mr. Zhou Jianmin and Mr. Ye Zhou, with Mr. Wang Dong 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 three 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, 2019 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, 2019 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. Zhou Jianmin, 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 two 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, 2019 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, 2019 and the date of this annual report, the Nomination Committee comprised three independent non-executive Directors, namely Mr. Zhou Jianmin, Mr. Ye Zhou and Mr. Wang Dong, with Mr. Zhou Jianmin 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 three 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, 2019 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, 2019:

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	✔	✔	✔
Independent Non-executive Directors			
Mr. Tim Tianwei Zhang (Resigned on October 29, 2019)	✔	✔	✔
Mr. Choi Onward (Resigned on April 1, 2019)	✔	✔	✔
Mr. Ye Zhou	✔	✔	✔
Mr. Wang Dong	✔	✔	✔
Mr. Zhou Jianmin (Appointed on October 29, 2019)	✔	✔	✔

ACCOUNTABILITY AND AUDIT

Auditor's Remuneration

The remuneration paid to the Company's auditors, during the year ended December 31, 2019 is set out in note 7 on page 135.

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, Mazars CPA Limited, on its reporting responsibilities in respect of the consolidated financial statements of the Group for the year ended December 31, 2019 is set out on pages 87 to 89.

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, 2019, 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, 2019.

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 2019 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.

May 12, 2020

Environmental, Social and Governance Report

TABLE OF CONTENTS

Environmental, Social and Governance Report

1. ABOUT THIS REPORT

This is the fourth 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

China ITS (Holdings) Co., Ltd. and its main operation places of branches and wholly-owned subsidiaries in China.

Time Range

The Company's ESG report is an annual report and this report is for the period from January 1, 2019 to December 31, 2019.

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") and its subsidiaries (the "Group") is mainly a provider of products, specialised solutions and services related to infrastructure technology in the PRC and overseas.

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

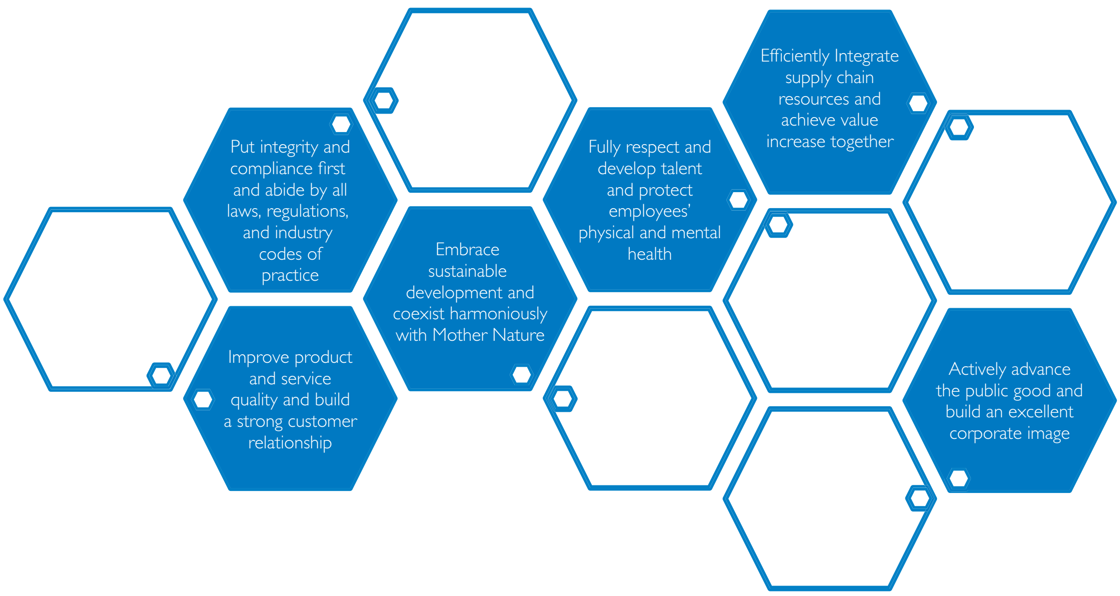
Deliver solutions which enhance safety, efficiency, convenience and sustainability for the transportation industry.

Business Goal

Become a leading enterprise in transportation industry and focus on intelligent transportation.

Corporate Value

Integrity, Professionalism, Innovation and People



Environmental, Social and Governance Report

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, analyzed and prioritized these issues so as to determine important corporate issues regarding environment, society, and governance and disclose them in the report.

Process of Importance Assessment

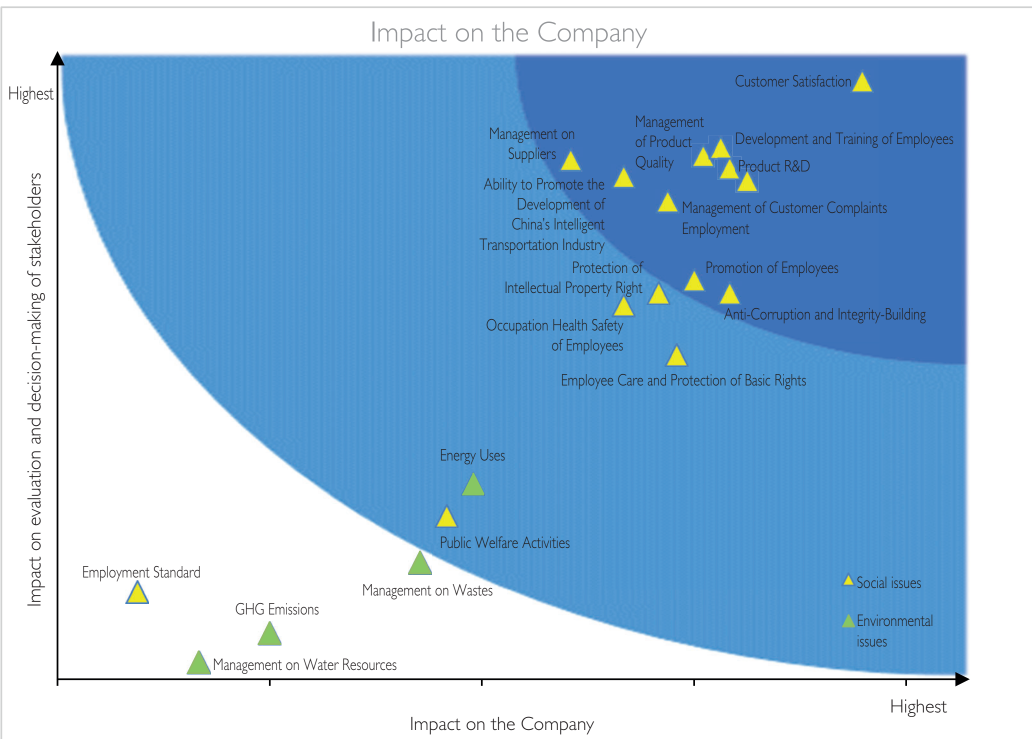
1. Identify ESG issues related to the Company by analyzing the HKEX ESG Reporting Guide and the issues disclosed by peers;

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.

Priority Matrix of Issues



2. PROFESSIONALISM

2.1 Strictly Guaranteeing Product Quality

Product quality management:

Strictly 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.

In terms of software product quality, the Company continues to improve the software product quality management system from the four aspects of system, audit, personnel and information system to ensure that the products meet customer needs and continuously improve customer satisfaction.

- The Company has formulated various quality standards such as *Data Network Product Software Quality Management Specification, Optical Network Product Software Quality Management Specification, Access Network Product Software Quality Management Specification, GSM-R Network Product Software Quality Management Specification*, which require product quality management regulations in all major links from product R&D to delivery;

- In the evaluation process of each stage of product development, in addition to following the ISO quality management system standards ISO9001, ISO14001, OHSAS18001, ISO20000, ISO27001, the Company also follows the overall product R&D evaluation standards, technical evaluation standards, market evaluation standards and input-output evaluations as well as the internal requirements such as risk factors evaluation standards and controllability evaluation standards;

- The Company has established a full-time quality management team, including the technical experts and business experts, and set up quality assurance personnel to monitor the entire product life circle, they would match the evaluation results with target management, performance output, and track feedback and improvement, to promote the product quality effectively by the evaluation process and evaluation results;

- The Company has developed a quality assurance process management information system that meets the actual requirements of the Company, and timely discovered quality risks, summarized the quality assurance results and problems, and formed a closed-loop quality management system that can be continuously improved.

In terms of the service quality management in construction projects, in accordance with the requirements of GB/T19001-2016/ISO9001:2015 *Quality Management Systems Requirements*, GB/T24001-2016/ISO14001:2015 *Environmental Management System Requirements and Use Guide*, GB/T28001-2011/OHSAS18001:2007 *Occupational Health and Safety Management System Requirements*, and TB10205–99 Codes for Construction of Railway Communication, etc., the Company strictly abides by relevant industry standards, and the Company has developed the *General Hardware Quality Management Specification* by its actual service products. On that basis, meanwhile, the Company has set up the quality management goal of project delivery quality with a passing score of 90 and full score of 100, it has established the Technical and Quality Department to carry out inspections and spot checks on various regional projects.

At the same time, the Company's quality management system and management measures for construction project services include:

- Establish a project quality group, formulate technical delivery procedures, quality control procedures and technical management pre-control, establish a construction quality control system, determine various quality detection methods, determine quality assurance measures during the construction process, and strictly follow technical assurance measures;

- Establish and improve the information platform of product management and quality management, and conducting closed-loop management from product planning, functional requirements, developing task decentralization to functional test, integration test, and product launch, so as to ensure that all problems can be tracked and make use of big data to analyze the problems immediately, which results that the key modules and problems can be central resolved by the product and R&D team;

- Collaborative division of labor between product, R & D and delivery teams to ensure that the quality of the released products can meet the needs of on-site delivery, while timely report the problems happened at the link of on-site delivery back to R&D team for improvement and modification;

- Add product and R & D quality dimensions to target management so that product quality is accurate in each key output of target management.

Future plans and goals:

- The Company will increase its efforts in the market feasibility evaluation of previous products, optimization and improvement of the quality process management information system, and inductive analysis and traceability of quality issues;

- The Company will continue to strictly improve its service quality in accordance with the established project quality standards and systems, and ensure that the pass rate of all projects reaches 100%;

- The Company will adopt effective quality assurance measures to ensure that products meet quality measurement requirements, meet customer needs, and continuously improve customer satisfaction;

- The Company will further increase the diversity of the evaluation team and increase the management of the archives of the output of the quality assurance process.

During the year, the Company had no incident of non-compliance that significantly affected the product and service liability to 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, etc..

2.2 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. The Company has set up the goal of 95% customer satisfaction and has established a customer satisfaction evaluation system for it, 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 30 customer satisfaction surveys on 15 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

Based on the Customer Complaint Management System, the Company has established a variety of complaint mechanisms and methods, such as on-site complaints and 400-hotline.

On-site complaints take the form of guiding customers to complain level by level: "Project Manager — Regional Supervisor —— Complaints Commissioner of the Company". The form of gradual complaints simplifies the Company's communication with customers and improves the speed of the Company's response to customer complaints.

The procedures for handling 400-hotline complaints are:

1. Listen to customer's opinions: Listen fully and patiently to customers comments and suggestions, and carefully record complaints;

2. Analyze causes of complaints: Understand the causes of customers complaints and conduct comprehensive analysis of complaints to determine whether customer complaints are established;

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

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

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

High-quality completion of Shangqiu-Hangzhou High-speed railway project
The Shangqiu-Hangzhou High-speed Railway ("Shangqiu-Hangzhou Passenger Dedicated Line "), also known as the Shang-Hang High-speed Railway and the Shang-Hang Passenger Dedicated Line, is a high-speed railway connecting Shangqiu City in Henan Province, Hefei City in Anhui Province and Hangzhou City in Zhejiang Province. The Company undertook the communication system supply, supervision and commissioning of the Shangqiu-Hefei section of the project, and the project required delivery within two months under the conditions of a short construction period, a large amount of engineering and high quality standards. In order to successfully complete the project task, the Company timely deployed human resources and technology, set up a project special team and dispatched technical experts of headquarters to provide professional support, and completed the project delivery with high quality within the prescribed period.

Management of customer privacy
In order to protect customer privacy, the confidential system developed by the Company for relevant customer information is led by the Company's technology and quality and safety department. The department arranges special personnel to authorize customer management authority, updates customer related information and is responsible for conducting random checks on customer information usage so as to protect the rights and interests of customers. The Company properly keeps customer information. It is strictly forbidden to provide customer network information and data to the outside without the customer's permission, to copy the customer's existing information, and to operate the customer's existing network. Customer communication is based on the project name and does not reveal the customer's name.

2.3 Actively Protecting Intellectual Property Rights

The Company attaches great importance to the protection of intellectual property rights and strictly abides by the relevant laws and regulations such as the *Patent Law of the People's Republic of China*, the *Copyright Law of the People's Republic of China*, and the *Trademark Law of the People's Republic of China*. While continuously improving the Company's level of independent innovation, it has continued to improve its intellectual property management to prevent all acts that infringe or endanger the legal rights and interests of the Company's intellectual property.

Innovation is an important guarantee for improving the Company's core competitiveness. Therefore, the Company will upgrade intellectual property management to the level of corporate development strategy and regard it as an important part of the Company's medium and long-term strategy. Intellectual property management positions are set up under the Company's administrative department, and intellectual property management is integrated into the Company's R&D, marketing, production, personnel administration, brand building and other aspects. At the end of each year, the Company formulates the next year's intellectual property management work plan, and breaks down the plan into departments such as R&D, marketing, production, personnel administration and brand building, and integrates intellectual property management into daily work evaluation.

The Company attaches importance to the protection of independent intellectual property rights, establishes a complete IT management system, adopts professional encryption software to ensure the security of the Company's intranet, achieves effective control and complete protection of R&D materials, products and data, and prevents the confidential information and data of enterprises from the source. The Company requires that software copyrights and related patent certificates be applied to protect intellectual property rights, and a special qualification commissioner is required to keep the relevant patent certificates.

In addition, in order to encourage and promote the smooth development of intellectual property work, the Company occasionally conducts publicity and training of intellectual property protection to employees, and spreads the importance and significance of intellectual property protection to each employee.

At present, the Company has 8 patents, 44 copyrights, and 9 additional copyrights this year.

3. INNOVATION

3.1 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. Through 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 mainly consisted of four stages of concept design, planning, development and commercial application:

- At the stage of concept design: We conduct a quick assessment of the product opportunity appeal and the overall strategy, and determine the overall product demand range and alternatives;
- At the planning stage: We define products ,formulate project and implement plan;
- At the development stage: We complete the design and development of the product, and produce a product which meets the related specifications.
- At the stage of commercial application: We conduct product management from the start of steady production to end of product life.

In order to improve the Company's R&D standards and ensure its leading position in the industry, the Company has adopted a series of measures:

- We regularly organize 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;

- We investigate the technical capability advantages of new employees during recruitment so as to continuously improve the Company's technical level and ensure the industry level of R & D standards;

- We actively participate in communication activities organized by associations or organizations in the transportation industry, security industry and big data industry, etc. We also actively participate in the early formulation of standards and the opinions and suggestions of the later stages, and improve the Company's popularity in the industry and build product brands;

- We increase investment in scientific research projects, and actively cooperate with scientific research projects of the Academy of Railway Sciences, Road Bureau and other units to maintain a leading position in the industry.

In 2019, the Company continued to increase R & D investment, and R & D was mainly focused on two aspects:

- Refactoring video basic platform, combining with the current security industry requirements for the intelligent video and cloud, the Company actively explore and research the cloud native, service mesh and artificial intelligence algorithms on technology breakthrough. After the refactoring to the existing video basic platform , we achieved the flexible deployment under the private and public cloud environment so as to make them more advanced architecture and intelligent;

- We initially established company-level business platform and successfully linked the researched video platform, informatization platform and IoT platform, which formed an integrated business platform that can provide consistent service interface to the outside.

In the future, the Company will further open up several company-level basic platforms, improve development efficiency, and provide strong business support and technical capabilities; the Company will create a big data center platform and provide big data service products based on existing diversified data so as to promote the overall informatization of the enterprise together with business center platform; the Company will improve and enrich the IoT platform, optimize the IoT data collection process and tools, and combine with the big data analysis platform to form a data chain with industrial value.

The Company's innovative products in the field of intelligent transportation at present 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. IVSS sets up the access nodes of the video surveillance system at each station along railway lines, and carries out video surveillance at the communication, signal room, GSM-R base station, interval repeater station and other places along railway lines, supporting automatic monitoring and manual monitoring modes. The IVSS provides unified video monitoring services for the duty officers, public security, communication segments and other business departments of each station along railway lines, and realizes the video resource sharing of each business department through the unified management and deployment of system resources.

The application of the system in various road bureaus has greatly improved the safety of railways and nodes, and effectively guaranteed traffic safety. In 2019, the Company rebuilt the structure based on the original system and added intelligent algorithms to further improve the system's digital and intelligent standards and management intelligence. In the future, the Company will continue to strengthen independent R & D on artificial intelligence algorithms, and increase cooperation with third-party algorithm companies to continuously improve the core competitiveness of the IVSS.

Railway communication intelligent inspection system (RCIIS)

With the acceleration of the process of informatization and digitization, the data volume and complexity of the railway communication system have increased exponentially. This has brought unprecedented challenges to the Company's daily operation and maintenance management. In order to meet the challenges and respond to China Railway Corporation's proposal on strengthening railway construction and implementing the "Internet +", the Company has developed a set of information systems based on exploring more advanced, more scientific and convenient auxiliary field intelligent operations. Through the RCIIS, field operators can complete operations such as equipment inquiries, operation meter management, personnel positioning and video communications. Inspection personnel can conveniently and quickly perform maintenance operations on the communication lines and communication equipment rooms and equipment under their jurisdiction. Operation and maintenance management personnel can instantly check the maintenance status including maintenance data and inspection trajectory.

The RCIIS has realized the integrated operation management process of operation planning, operation execution, process control and data archiving, which improved the smoothness of railway communication. At the same time, the application of the system in various road bureaus greatly has improved the work efficiency of inspection personnel and has ensured the safety of railway operation.

Zhixun cloud

The Company developed functional modules for transmission systems, GSM-R trains, GSM-R networks and data networks. By conducting intelligent inspection and analysis of big data on key parameters or configurations of communication networks such as GSM-R, the Company can discover the hidden network hazards in advance and prevent them, meanwhile, locate the real-time location of trains, eliminate business hazards that affect traffic and other services, ensure the normal operation of trains and passenger travel safety, improve network security and operation and maintenance efficiency, and reduce maintenance costs.

3.2 Leading Industry, Promoting Development

CIC aims to become a leader in the railway industry focusing on the field of communications and information, focuses on railway communications through high-quality services and professional solutions, and grasps the rapidly growing market opportunities and development rhythm through strategic layouts. The Company promotes the corporate value of "integrity, professionalism, innovation, and people", helps railway communication information management more safe, efficient and convenient. At present, the Company has formed a software product system based on multiple systems such as the safety production dispatching command system and the railway field intelligent operation system in the field of information technology. It is widely used in the railway industry. In addition, the application systems, with rich modules and multiple functions, developed by the Company has been deployed in several networks of road bureaus, which has improved network security and maintenance efficiency, good functional application feedback, and facilitated cooperative development with several road bureau customers.

In the future, the Company will continue to invest in technology R & D and deeply explore railway business while maintaining market share in traditional transmission wireless and data networks. In addition, the Company will combine with new technologies such as cloud computing and big data to continuously expend new fields while consistently optimizing the existing module functions. Accordingly, the Company will provide customers with more comprehensive services and ensure the safety of railway communication networks. At the same time, the Company will open the data platform access and share data to continuously create value for the platform and customers. The Company will continue to improve its own strength. Meanwhile, the Company will continue to promote the development of the intelligent transportation industry in China and gradually establish its leading position in the industry by virtue of its achievements and reputation in the intelligent transportation industry,.

In 2019, the Company participated in a total of 679 cases (packages) and 172 bidding projects, representing a market share of 27.98% for the transmission products line, 12.96% for wireless products line and 31.37% for data network products line and 27.69% for video surveillance and maintenance.

4. PEOPLE

Talent is the intellectual guarantee and core competitiveness for sustainable development of the enterprise. Based on this, the Company will further advance the implementation of the "people-oriented" talent management concept, improve the employment and compensation system, respect and protect the rights and interests of employees, and provide employees with learning opportunities, provide fair and reasonable career development channels, pay attention to the physical and mental health of employees, affirm the value of employees, and strive to create a relaxed, harmonious and free working atmosphere. The Company works with its employees to strive and grow together, and makes unremitting efforts to attract talents in various fields and establish long-term and stable employment relationship.

4.1 Employment and Rights

The Company strives to protect the rights and obligations of employees, continues to establish and improve human resources management systems and procedures. The Company has compiled and improved the Employee Handbook in strict accordance with relevant 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 employee's code of conduct, hiring and dismissal, compensations and benefits, training and performance management and employee communication and grievance, so that human resources management can be based on evidence. Every link and node of employees from entry to departure, there are professionals to track and counsel, so that they can quickly adapt to the Company's culture and help personal growth. The Company set up face-to-face departure interviews for departure employees, understands the reasons for employees' departure, and listens to employees' opinions and suggestions on the Company so as to achieve continuous improvement and optimization.

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. We insist on equal pay for equal work and equality and gender equity, and prohibit the use of child labour and forced labour. And we ensure equal employment opportunities and labour security for employees of different nationalities, races, genders, religious beliefs and cultural backgrounds.

As of December 31, 2019, the Company had a total of 319 employees, with a decrease of 29 employees over 2018. Employee-related indicators of the Company for 2019 are shown as follows:

Indicator	As at the end of 2019 (persons)	Percentage of the year-end total
Male employees	236	73.98
Female employees	83	26.02
Number of employees who have signed labour contract	319	100.00
Number of employees who have signed labour service agreement	0	0.00
Beijing-based employees	248	77.74
Non-local employees	71	22.26
Employees at or under 25 years of age	24	7.52
Employees at 25-30 years of age	67	21.00
Employees at 30-35 years of age	99	31.04
Employees at 35-40 years of age	88	27.59
Employees at or over 40 years of age	41	12.85
Employees with postgraduate diplomas	24	7.52
Employees with undergraduate diplomas	188	58.94
Employees with junior college degrees or below	107	33.54
Grassroots employees	253	79.31
Mid-level managers	52	16.30
Senior managers	14	4.39

Remuneration and benefits system:

The Company strictly abides by relevant laws and regulations such as the *Labour Contract Law* and the *Labour Law*, and follows the principles of external competition and internal fairness to provide employees with competitive compensation and benefits. Meanwhile, the Company adjusts employees' salaries dynamically according to their performance and skills in the light of the general compensation level in the industry.

The Company actively provides all-round benefits to employees, pays all statutory social security contributions for employees in full and on time, and provides employees with commercial insurance to provide additional protection. The Company implements the paid annual leave system. On the basis of protecting employees' statutory holiday leave in accordance with the law, we provide welfare holidays and protect the employee's leave rights in accordance with the law. In addition, the Company actively provides employees with all-round benefits such as holiday gifts, birthday gifts, lunch subsidies, transportation subsidies, remote mountainous areas subsidies, marriage and childcare gifts, and funeral benefits.

The Company is committed to providing employees with more attractive compensation and benefits guarantees, guiding employees to pursue a happy life, enhancing employees' sense of belonging and happiness, while continuously improving the cohesion of the enterprise.

Channels of communication

The Company has especially set up public platforms such as OA system and WeChat public account to facilitate timely communication with employees and various departments to understand related demands. The public platform provides an effective channel for communication between employees and the Company. All rules and regulations of the Company are formulated through democratic procedures prescribed by law and implemented after being publicized to employees through the public platform. Employees can also appeal and receive feedback through the platform.

In 2019, the Company had no labour disputes caused by violations of laws and regulations, child labour or forced labour, or any social insurance violations or defaults.

4.2 Training and Development

The Company adheres to the "people-oriented" philosophy and believes that employees with sufficient skills and experience are the Company's most valuable wealth. Under the guidance of an open, unified, innovative, and shared corporate culture, we continuously improve and deepen talent training, and take learning as the important part of core competitiveness and corporate culture of the Company. The Company continues to integrate internal and external training resources, guided by the professional development needs of employees, gradually builds a three-dimensional and multi-level training system covering all employees, and comprehensively improves employees' professional capabilities to ensure the sustainable and healthy development of the Company.

In 2019, the Company uses various internal and external resources to continuously improve and optimize the curriculum system at all lines and levels. The Company organizes and optimizes internal training projects, such as boost new businesses, Tiancheng College and department-specific training to ensure the benign inheritance of the Company's knowledge and the in-depth training of talents. In addition, the Company provides employees with a wealth of external training options, such as school-enterprise cooperation, Huawei partner universities, well-known forum cooperation, and external talent exchange.

4.2.1 Internal Training

The Company's internal training projects include helping new business training, Tiancheng College and department-specific training:

Boost new business: In order to boost the Company's new business development, help front-line sales staff and product managers become familiar with new business, new product knowledge and sales models as soon as possible as well as open up the barriers between new and old business, the Company launched the training with the theme of "boost new business". The training covers 16 offices, and a total of 60 product managers and customer managers have been trained.

New business training office field

Tiancheng College: It is a brick-and-mortar organization for the cadre management of Tiancheng Group. Tiancheng College advocates the learning culture of "reading after practicing", the College adopts the motto of "greatness in simplicity, realization at Tiancheng; knowledge as action, live and learn". It strengthens strategic recognition and cultural identity, and trains, selects and generates cadres. It teaches the methodologies required for the Company's management personnel to work with, so as to realize the strategic goal of developing talents. 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.

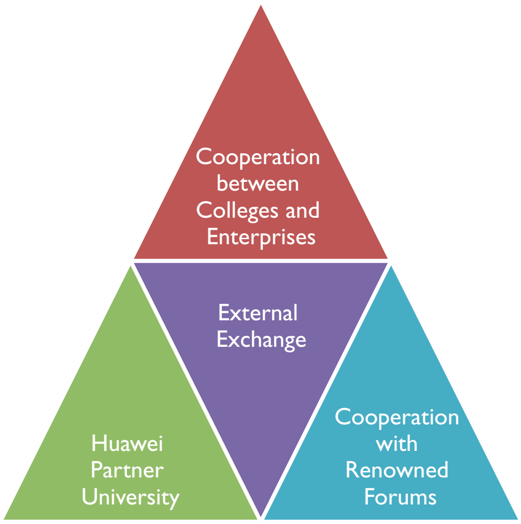
In 2019, Tiancheng College organized a special session of the market line and launched a training session covering 28 people, helping middle-level cadres of the market to consolidate their business foundations, breaking through customer management bottlenecks, and helping everyone pass down ways and methods to improve team management capabilities.

Department-specific training: According to the training needs of special business of departments, we seek external resources to satisfy internal training needs of departments. The participants are mostly from the same department and are expected to sharpen their department-specific business skills.

From December 9th to 10th, the Company's R & D department sent technical backbones to participate in the TOP100 Annual Summit organized by the Company's cooperative training institution, msup, to learn about a large number of software development cases in the industry.

4.2.2 External Exchange

External talent exchange projects:



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, under which the Company sent 7 middle and senior managers to participate in projects such as CHO, CFO and MBA in 2019. In addition, the Company closely maintains cooperative relationship with Tsinghua University, Beijing Jiaotong University and other tertiary institutions.

Huawei Partner University: The Company cooperates closely with Huawei. Combining with existing training needs and introducing Huawei's advanced management experience, the two parties have jointly conducted multiple business-related communication and training courses. For example, Huawei provides the course of *Problem Analysis and Solution* for our colleagues, in which a total of 18 people participated, which improved their ability to analyze and solve problems.

Course of Problem Analysis and Solution

Cooperation with renowned forums: The Company carries out cooperation with renowned forums such as China Stone and Business School of Renmin University of China, sending mid-level and senior managers to annual summits or seminars of those forums. The Company also sent some innovative talents this year to universities for study, broadening the scope of cooperation forums.

In 2019, the Company provided training for a total of 298 employees, with a training coverage rate of 93.41% and a per capital training time of 37.89 hours. The proportion of training time by gender and level is shown in the figure below:

Indicator	End of 2019 (Persons)	Percentage of the year-end total	Average training hours
Male employees under training	225	95.34	44.12
Female employees under training	73	87.95	18.68
Grassroots employees under training	240	94.86	33.50
Mid-level managers under training	49	94.23	59.00
Senior managers under training	9	64.29	40.00

In 2020, CIC will deeply cultivate the existing training system, enrich the existing course system, train more lecturers, and optimize the mentor system and growth path. At the same time, CIC keeps close to the Company's business, popularizes basic product knowledge, consolidates basic capabilities, and cements a solid foundation for business development.

4.2.3 Promotion of Employees

The Company values the career development of each employee, encourages employees to formulate their personal career development plans under the guidance and help of the Company, and provides employees with multi-channel development space, including professional channels, technical channels and management channels, to stimulate personal advantages and guide them to exert the most value in the areas where they excel.

The Company has established an inventory system for qualifications. According to the post qualification model, the Company makes an inventory of the existing staff every year, evaluates the staff's ability through evaluation, examination, defense and other links, combines with the annual performance assessment, and finally evaluates whether the employee meets the post requirements. In addition, the Company provides employees with promotion opportunities based on the assessment results and job requirements.

In 2019, the Company continues to optimize and improve employee promotion mechanisms and promotion channels, empowers employees at all levels in all business lines, and helps employees achieve their career change and promotion. The Company improves the *Management Measures for Reserve Cadres*, promotes the construction of the Company's reserve cadre team, realizes the standardization and institutionalization of reserve cadre selection, training and management, and ensures that outstanding employees with responsibility, professionalism and dedication, loyalty to the Company and outstanding contributions will be selected to the Company's cadre reserve pool for training, and of which 17 reserve cadres of the Company were selected.

4.3 Health and Safety

In order to enhance employees' health and safety and ensure the Company's smooth operation, the Company attaches great importance to the employee welfare and pays close attention to each employee's safety and health. On the basis of strictly abiding by the relevant laws and regulations such as the *Law of the People's Republic of China on work safety* and the *Law of the People's Republic of China on Occupational Disease Prevention and Control*, the Company took a series of measures to fully protect the health and safety of employees.

Physical examinations: The Company organizes physical examinations for its employees every year and designs targeted physical examination projects 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 projects in time according to their needs.

Buying Insurance: The Company proactively purchases personal accident insurance and major illness insurance for its employees, and at the same time insures employees for supplementary medical insurance as a supplement to social insurance. For the employees who suffer accident, the Company gives active support and rescue. In order to maximize the compensation of accidents, the Company added commercial insurance projects in 2019.

TCM physiotherapy: The Company invites experts from the Academy of Chinese Medical Sciences to consult with colleagues who are unwell. At the same time, the Company provides services such as popularizing health food, health care, cupping, massage, scraping, moxibustion, meridian conditioning and acupoint therapy. The scope of physiotherapy includes cervical spondylosis, lumbar spondylosis, sciatica, arthritis, periarthritis and other bone and joint pain diseases, varicose veins, women's cold womb and dysmenorrhea, men's prostate and cardiovascular and cerebrovascular, rhinitis and pharyngitis.

Precautionary exercise: The property department organized a fire drill for all employees in the Company's building, which enhanced employees' safety awareness

The safety management of workers in on-site engineering

- **Establish a safety management organization and allocate full-time safety management personnel:** Establish a project safety leadership group with project managers as the chief safety officer, on-site safety officers, project technical leaders and project team leaders as its members, responsible for from start to completion of the whole process of safe production.

  - The allocation of full-time safety management personnel must comply with the provisions of the *Measures for the Establishment of Safety Production Management Institutions and the Distribution of Full-time Safety Production Management Staff in Construction Enterprises* and have three requirements: First is that they must have certain professional knowledge and safety management skills to be able to discover hidden safety hazards, know how to deal with hidden dangers, and at the same time be able to organize relevant personnel to carry out related safety production activities; the second is to have a rigorous work style, namely, "diligent and meticulous", a strong sense of responsibility; the third is to have a service mentality and modesty .

- **Establish, improve and strictly implement the safety production responsibility system and various management systems:** The safety production responsibility system is an important organizational measure to do a good job of safety, and is the core and central link of safety production management.

  - Make clear stipulations on the responsibilities, rights and benefits of the responsible persons at all levels, functional departments and various types of construction personnel in the process of construction;

  - The *Safety Production Responsibility Letter* is stipulated in accordance with the job responsibility system of management personnel and implemented and signed level by level, so as to meet the requirement of "Supervisor is responsible; Person who is on duty is responsible ", and investigate related responsibilities as required.

- **Define safety production goals and formulate safe construction organization design:** According to the project situation, the Company formulates practicable safety production goals, and clarifies the standards to be achieved for on-site safety management, such as safety investment, civilized construction goals, so that safety management has a clear direction. Meanwhile, the person in charge of the project technology must compile relevant and targeted safe construction organization designs and plans to play a guiding role in on-site safe construction.

- **Strengthen education and training, and do a good job in safety technology disclosure and team safety activities:** "Accept training first before on duty". To ensure safety, training must come first. Adhere to the principle of training before on duty, and the principle of no entry without passing the exam.

  - Value and strictly implement safety education and training for new workers and migrant workers entering the field;

  - Safety education must be combined with the actual situation of the project, and resolutely put an end to "the fake, the exaggerated, the impractical" and other articles.

- **Carry out safety inspections, flexibly apply normative standards and immediately rectify any hidden dangers.** Relevant personnel carry out a detailed inspection to the field every day. The inspection standards must be "strict" and "accurate". When any hidden danger is discovered, rectification should be proposed "as required", and the rectification requirements should be agreed in accordance with the relevant norms and standards and the actual situation of the field.

In 2019, the Company did not violate any relevant laws and regulations that have a significant impact on the Company. During the year, an employee was deemed to have suffered a work-related injury. During the business trip, the employee died suddenly in a hotel. After judicial identification, he died of hypertrophic cardiomyopathy. In this regard, the Company attaches great importance to this unfortunate incident, actively cooperates with employees' families in handling aftercare matters, and handles the procedures for the identification and payment of work injuries for employees in accordance with the provisions of the *Labour Law of the People's Republic of China* and the *Regulations on Work Injury Insurance*. In addition, the Company provides financial compensation and condolences to employees' families in accordance with humanitarian principles. During the year, the Company's work-related death rate was 0.31%, and the number of working days lost by employees due to work-related injuries was 0.

4.4 Care and Cohesion

4.4.1 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 organizes a variety of activities relating to employee care and culture and sports, 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 organizes birthday parties for its employees on a regular basis and mobilizes the work enthusiasm of the employees as well as creates an atmosphere of unity, mutual assistance and fraternity.

- **Sweet pantry and employee dormitory:** The Company has considerately established a pantry and coffee house where are equipped with direct drinking water equipment and also provided employee dormitories for colleagues who work overtime. Employees can take a break from work, which improves the comfort and happiness level of employees.

Employee care plan: Make year-round family condolences plan and implement condolences in accordance with the plan (mainly for frontline employees and employees who travel frequently); Increase team building activities before the holidays (Such as New Year's Day, Spring Festival, Lantern Festival and Dragon Boat Festival) . Motivate employees to participate in team building activities, create an atmosphere of corporate culture and enhance employees 'sense of belonging; Establish standards for employees' family members ' condolence money (newborn baby condolence, immediate family members' death condolence money) based on job rank.

Dragon Boat Festival condolences

The Company respects traditional culture and cares for employees. During the traditional Chinese Dragon Boat Festival and Mid-Autumn Festival, the Company issues holiday benefits and condolences gifts to employees, and sends its care and holiday wishes to them.

Children are the root of happiness in every family and the foundation of stability behind the enterprise. The Company presents gifts to employees' children on Children's Day under the selective principles of exquisiteness, generosity and meeting the needs of children, and shares the joy with employees' children. The above reflects the Company's humanistic feelings and the service consciousness of caring for employees' children with practical actions, and builds harmonious and active corporate atmosphere.

Activities of Caring Employee's Child

4.4.2 Cultural and Sports Activities

After the Spring Festival in 2019, the Company organized all employees to conduct team building in Thailand. This is the first cross-border team building of the Company. The cooperation and participation of employees are very high, which has further increased the overall cohesion and mutual understanding between employees. Let employees tolerate and trust each other, and respect each other among team members, so as to bring the relationship between employees closer and form a closer team as a whole.

On July 13, 2019, Zhixun Tiancheng held an executive meeting in Anshun, with about 130 participants, including supervisors and above. Anshun is known as "the belly of Guizhou, the throat of Yunnan, the lips and teeth of Guangdong and Sichuan" and "the conjugate of Yunnan and Guizhou". It not only contains a profound red culture, but also casts the soul of the city with the "three-line spirit" of "hard work, innovation, unity and cooperation, selfless dedication", which is highly consistent with the core culture of the Company's hard work.

The past history demonstrates our endeavor and innovation; the future still needs our persistent progress and more responsibilities. Zhixun People will stay true to their mission, down-to-earth, step by step to a better future, and contribute to China's railway industry!

5. INTEGRITY

5.1 Eliminating Corruption in Accordance with Law and Regulations

Combating corruption and upholding integrity work is a significant component of enterprise management and also critical link to self-restraint mechanism. Strengthening the combating corruption and upholding integrity work of enterprises is an internal requirement for boosting the reform and development of enterprises, but also forms a necessary option to regulate enterprise operation management activities.

In 2019, 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 corruption, bribery, extortion, fraud, money laundering and other illegalities, the Company has constantly improved its internal anti-corruption supervision mechanism, and strengthened integrity publicity and education on employees, so as to enhance the vigilance of employees against corruption. As a result, a good atmosphere of discipline and law compliance, integrity and self-discipline, and honesty and trustworthiness is formed.

The Company mainly complete the combating corruption and upholding integrity work mechanism among the following aspects, so as to improve its actual efficiency:

- In terms of the internal anti-corruption supervision mechanism, the Company implements the relevant requirements of the regulatory agencies on anti-corruption work, effectively exerts the effective role of internal linkage meetings, makes full use of internal supervision resources such as audit, law, financial accounting and risk, and continuously improves internal anti-corruption supervision mechanism from senior management to key positions to clarify and implement the anti-corruption responsibilities of personnel in various departments. Procurement and related procurement employees are responsible for their own integrity and self-discipline, and all members of the Company supervise the integrity and self-discipline involved in procurement. Regarding the integrity risks and blind spots of supervision and restriction that may exist in the internal control management, the Company has established a scientific investigation plan, carried out the investigation by relying on the information network platform of the Company, and formulated corresponding anti-corruption measures according to the investigation results.

- In terms of strengthening the integrity education among employees, the Company is committed to increasing employees' awareness of professional ethics and anti- corruption and further increases efforts to education on integrity so as to create an atmosphere of integrity. The Company increases training on combating corruption and upholding integrity in the departments involved in purchasing so as to improve their anti-corruption awareness. The Company requires its employees to carefully study the relevant anti-corruption regulations in the Employee Handbook: Employees must not use their positions for personal fraud and bribery, and severe punishment will be imposed on those who commit serious misconduct. At the same time, the Company conducted relevant training to enhance employees' awareness of the risk prevention of corruption.

- 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. In addition, we have properly concentrated or decentralized power to form an effective system of checks and balances so as to avoid any corrupt practice.

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;

- The supplier should warrant that it will not engage in any economic relations with employees or relatives of the purchaser and shall declare any affiliation if have. 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. The supplier should warrant that it will not collude with employees of the purchaser to falsify business results. The supplier shall guarantee that abide by the commitments made to the purchaser, the contracts, agreements and memoranda signed by the two parties, and do not conceal any information that may affect the interests of the purchaser.

Meanwhile, the Company strictly deals with the procurement employees and suppliers who violate relevant regulations, commitments or terms. For procurement employees who have violations, the Company has the right to unilaterally and irrevocably terminate the labor contract, and reserves the right to hold the parties responsible; for suppliers who have violations, the Company will first put them on the supplier blacklist, disqualify the supplier and have no responsibility for terminating the business contract. At the same time, the Company will hold the suppliers legally responsible and claim compensation for losses in accordance with the terms of the commitment guarantee.

In 2019, 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 the 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.

5.2 Conducting Compliant Procurement to Ensure Quality

Sincere cooperation with suppliers is an important guarantee for CIC to realize the Company's strategy, and it is also an inexhaustible driving force for the Company's development. The Company values communication with suppliers, actively builds cooperation platforms, and strives to establish closely long-term and mutually beneficial cooperative relationships with suppliers, and work together to provide customers with quality products and services to promote the sustainable and stable development of the industry.

In order to meet the requirements of the Company's development, regulate the behavior of the Company and related cooperation units, guide the cooperation units to improve service awareness, in accordance with the relevant laws and regulations of the *Contract Law of People's Republic of China* and relevant regulations relating to the Company, under the principles of complementary advantages, equality and voluntary, CIC has formulated the Supplier Management Measures. In addition to the main supplier, Huawei Technologies Co., Ltd., the Company's suppliers also include cable suppliers, cabinet suppliers, computer suppliers, etc.

Access of Suppliers:

The Company adopts the database of qualified suppliers to implement supplier access management. The Company adopts a supplier access qualification certification system, which mainly evaluates suppliers from their qualifications (including registered capital, whether they have obtained relevant certifications required by the industry, product testing reports, etc.), business scale, financial condition and industry reputation. For suppliers involved in related environmental and social risks in the production process, the Company requires such suppliers to have "Environmental Management System Certification", "Occupational Health and Safety Management System Compliance Standard Certificate", etc. For the purchase of large-scale equipment, the Company's procurement department and product department will go to the supplier's factory to conduct an on-site assessment in respect of environmental, safety and quality. Only qualified suppliers can enter the supplier database.

Bidding for the project:

For general products, the Company will conduct bidding in the supplier database at the beginning of each year, and the evaluation criteria include the supplier's product quality, price and cooperation status in the previous year;

For the single bidding of non-general products, the Company determines the qualified bidding of suppliers according to the process screening criteria introduced by new suppliers, and investigates the suppliers in terms of environmental protection according to the needs of users. The suppliers shall have the certification certificate of environmental license.

Annual assessment:

According to the cooperation with suppliers in the current year, the Company will conduct comprehensive evaluation from the aspects of product quality compliance, price, supply cycle, after-sales service cooperation, etc., these evaluations would be deemed as the criteria for whether the supplier can continue to be a qualified supplier of the Company and the purchase quantity in the next 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, and be inclined to cooperate with well-known brand manufacturers based on the consideration of social responsibility.

6. SUSTAINABILITY

CIC always believes that it is duty-bound to promote sustainable development. We strictly abide 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*. The Company practices green behavior and build a low-carbon society. And we acknowledge the goal of synergistic development of economic and environmental benefits. While developing our business, we thoroughly implement the concept of energy conservation and environmental protection, and we take various measures to achieve clean, efficient, green and smart development.

6.1 Creating Green Office and Eliminating Waste

Frugal behavior, energy-saving working, practicing the concept of green development and meeting the requirements of green and low carbon can effectively prevent extravagance and waste and reduce the occurrence of unreasonable consumption behavior. As a non-production high-technology company, CIC actively implements the philosophy of energy conservation and consumption reduction, creates a green and environment-friendly business model and strives to be the faithful practitioner of the "resource-saving" society.

Energy consumption

Energy is an important material foundation for national economic and social development. Energy shortage has become an important factor restricting the sustainable development of the national economy. CIC attaches great importance to issues related to energy use, and actively promotes energy conservation, reduction of energy consumption and emissions reduction.

Energy consumed by the Company during its operation 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 by the Company in 2019:

	2019		2018	
Energy type	**Energy use**	**Intensity**	**Energy use**	**Intensity**
Gasoline	18.50 tonnes	–	20.16 tonnes	–
Electricity	849,201.34 KWh	166.10 KWh/m^2	959,902.19 KWh	203.74 KWh/m^2
Integrated energy	1,070,689.54 KWh	3,356.39 KWh/person	1,201,264.47 KWh	3,451.91 KWh/person

The Company takes the establishment of an energy-saving culture as the lead to enable employees to develop a good habit of saving electricity, water and protecting the environment. The Company's administrative department cooperates with property management and maintenance to ensure better implementation and management of energy-saving work.

In 2019, the Company adopted the following measures to save energy:

- Save electricity for lighting. Offices and other public areas make the best use of natural light during the day to reduce the use of lighting lamps; reduce the number of lamps in places with low lighting requirements, such as public areas, corridors and aisles, and prevent the occurrence of "lamp which burns day and night";

- Save electricity for air conditioning. Control the air-conditioning temperature of the office, conference room and other office areas. The temperature should not be lower than 26℃ in summer and not higher than 25℃ in winter. The security guards should conduct patrol inspection on whether the window is closed when the air conditioning is turned on. Based on the practical research from the Company's property department, which finds that maintaining low-temperature operation at 19℃ at night is more power-efficient than shut down at night and start in the morning, while employees feel more comfortable working in the morning;

- After work and during weekends and holidays, security guards should patrol the building every hour, switching off lights in unoccupied office areas at once; only one elevator shall be open, the other one is open as the case may be;

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

- In order to save gasoline consumption and reduce the cost of vehicles, the Company recharges fuel cards in a fixed amount according to the vehicle's displacement and frequency of use; The Company should strengthen the management of business vehicles and rationally arrange cars for official use. Reduce unnecessary use of business vehicles and choose green travel modes.

In terms of water resources management, the Company adheres to strengthen employees' awareness of water saving, develops water recycling as appropriate, and improves water resource utilization efficiency. During the operation of the Company, water resources are mainly used for drinking and cleaning. During the year, the Company did not have any problems in obtaining suitable water sources.

The use of water resource in 2019:

	Data in 2019	Data in 2018
Water consumption in total (m^3)	642.74	795.20
Intensity of water consumption (m^3/m^2)	0.34	0.45

In 2019, the Company adopted the following measures to improve the utilization efficiency of water resource:

- Enhance inspection management. Maintenance staff of the property company conducts two patrols each day, one in the morning and the other in the afternoon, covering office areas, equipment rooms, toilets, water meter rooms, etc., in order to avoid leakage;

- Timely troubleshooting. In case of any leakage, deal with it as soon as possible, analyze the cause of the troubles and formulate a maintenance plan; If need the construction party's cooperation, such maintenance staff should actively contact them to repair and restore the original condition as soon as possible;

- Cultivate awareness of water conservation. Promote employees to save water, if any water waste is found, the property management department will warn and punish according to the seriousness of the situation;

- Strengthen water recycling. Under reasonable circumstances, increase the recycle and reuse of water resources. For example, water could be used firstly for cleaning by cleaners and then for toilet flushing.

With regard to the use of packaging materials, the Company's products are distributed directly to customers by our provider Huawei, and no packaging materials are generated during the operation.

In 2020, the Company will continue the management objectives of the previous year and strengthen the energy conservation and environmental protection. Specific management plans include:

- Carefully check the annual electricity and water charges, and review and analyze the reasons for large differences;

- Comprehensively and systematically plan the switch-on time of lighting and start-stop time of the air-conditioning cooling and heating periods in each area of the building;

- The property department strengthens energy conservation management, and sends promotional materials on energy conservation and emission reduction to various subsidiaries and employees by mail or in a more pleasing manner for the employees to increase the employees' awareness of energy conservation and emission reduction.

6.2 Controlling Emissions, Reducing Pollution

Solid wastes generated during the operation of the Company mainly come from the office process, including waste papers, ink cartridges, toner cartridges, batteries, etc.

The statistical table of the Company's hazardous and non-hazardous solid wastes emission and per capita intensity in 2019:

	Data in 2019		Data in 2018	
Wastes	Annual emission volume of wastes (Kg)	Per capita intensity (Kg/person)	Annual emission volume of wastes (Kg)	Per capita intensity (Kg/person)
Ink cartridge	187	0.59	192	0.55
Toner cartridge	168	0.53	168	0.48
Fluorescent tube	22	0.07	26	0.07
Battery	69	0.22	79	0.23
Paper	4,250.00	13.32	4,390.89	12.62

The Company has adopted the following measures to control emission, reduce pollution, and achieve energy conservation and emissions reduction:

- Dispose of waste reasonably. Hazardous solid waste is delivered to a qualified third-party unit for processing; non-hazardous solid waste is collected and delivered to a waste paper recycling station.

- Reduce paper usage. Promote paperless office and reduce unnecessary printing content; paste a sign in relation to saving paper, energy conservation and environmental protection in the printing room to remind printer users, and promote double-sided printing.

- Disposal of decoration wastes reasonably: Although the Company engages outsourcing companies to be responsible for decoration and subsequent waste treatment, the Company still has the responsibility to supervise the outsourcing company's reasonable and standardized treatment of decoration wastes. Decoration waste includes muck, wood chips, gypsum boards, glass, scrap metal, etc. generated from decoration. The Company requires to implement the "bag collection, fixed-point delivery, and centralized cleaning and removal" operation mode for the decoration waste to set up temporary waste storage points under the principle of facilitating the placement, clear and cleaning without affecting the aesthetics of the park.; If there is a need for secondary decoration to each company, the decoration management regulations and decoration agreement should be signed after the decoration approval is confirmed by the property department, which includes compliance with the decoration regulations, saving water and electricity, and cleaning decoration garbage.

In 2019, the Company discharged domestic sewage of 391.16 m^3 in total. Exhaust emissions by the Company mainly come from its business vehicles, which emitted 0.37 kg of sulfur dioxide, 18.73 kg of carbon dioxide and 1.38 kg of particulate emission 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 574.74 tonnes Carbon Dioxide Equivalent[1] in total, including 56.65 tonnes of Carbon Dioxide Equivalent directly from business vehicles, and 518.10 tonnes Carbon Dioxide Equivalent indirectly from power consumption, with the related emission intensity being 5.56 kg Carbon Dioxide Equivalent per RMB10,000 in business income. The company achieved the goal of reducing GHG emissions by saving energy. For example, the Company advocated low-carbon travel for employees. At the same time, the Company arranged regular and scheduled shuttle buses between the industrial park and nearby metro stations.. In addition, it strengthened green plant deployment and created a comfortable office environment.

Compared with 2018, the Company has reduced waste emissions in 2019, which demonstrates the effectiveness of its annual work. In 2020, the Company will continue its management goals of the previous year. Specific management plans include:

- Training employees and cleaning service personnel to clean up the garbage in the building so that they have a sense of classification;

- Increasing related trainings such as garbage classification and improving employees' environmental awareness;

In 2019, there were no confirmed cases relating to any violation of environmental laws or regulations with a significant impact on the Company.

1 In 2018, the direct greenhouse gas (GHG) emissions arising from business vehicles shall be 61.73 tonnes Carbon Dioxide Equivalent, therefore GHG emissions by the Company shall stood at 647.37 tons Carbon Dioxide Equivalent in total, with the related emission intensity being 7.01kg Carbon Dioxide Equivalent per RMB10,000 in business income.

7. BENEVOLENCE

As a responsible social citizen, CIC adheres to the development philosophy of "Benevolence", 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 bringing volunteer service closer to the grassroots and the people, sublimating the corporate culture, and improving employees' sense of honor.

In 2019, the Company strengthened campus recruitment, increased 14 recruitment quotas compared with 2018, and established long-term cooperative relationships with Hebei University, Northwest Agriculture & Forestry University and Yanshan University. The leaders of the Company's office also paid enough concern and attention to campus recruitment, and went to the school to give a lecture in person. By doing so, the Company has not only attracted a large number of outstanding fresh graduates, but also established a good reputation in the industry.

In 2020, the Company will further strengthen the work of community's public welfare undertakings through the following aspects:

Cooperate with Universities to provide more jobs: further increase the position of campus recruitment, carry out large-scale campus recruitment in spring and autumn and provide more employment opportunities for students of industry-related institutions.

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Director and Senior Management

BOARD OF DIRECTORS

As at the date of this report, the Board consisted of five Directors, two of whom are executive Directors, three are independent non-executive Directors.

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	54	Chairman and executive Director
Mr. Jiang Hailin	51	Executive Director
Mr. Ye Zhou	52	Independent non-executive Director
Mr. Wang Dong	44	Independent non-executive Director
Mr. Zhou Jianmin	53	Independent non-executive Director

Executive Director

Mr. LIAO Jie (廖杰), 54, 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.

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.

Director and Senior Management

Mr. JIANG Hailin (姜海林), 51, 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 from November 2015 to July 2019.

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 26 years of experience in general management and over 18 years of experience in the China ITS industry.

Independent Non-Executive Director

Mr. YE Zhou (葉舟), 52, 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), 44, is an independent non-executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee and Nomination 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 Technology Co., Ltd. (Shenzhen Stock Exchange stock code: 002701, formerly known as ORG Packaging Co., Ltd.), of which he has also been serving as a director and deputy general manager since February 2014. Prior to joining ORG Technology 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 21 years of experience in accounting and finance and 13 years of experience in business management.

Mr. Zhou Jianmin (周建民), aged 53, is an independent non-executive Director, the chairman of the Nomination Committee and a member of the Audit Committee and Remuneration Committee. Mr. Zhou is currently the co-chairman of the Center for Global Merger Acquisition and Restructuring of PBC School of Finance of Tsinghua University, and the executive vice president of the Shandong Chamber of Commerce in Beijing.

Mr. Zhou is also currently, and has been since March 1999, the chairman of the board of directors and the general manager of Jinan Jinri International Advertising Development Co., Ltd.* (濟南金日國際廣告發展有限公司). Prior to these roles, Mr. Zhou served at Shandong Dafengche Industrial Co., Ltd.* (山東大風車實業有限公司), which he founded in December 1996, as a director and the general manager of this company from December 1996 to September 2018. Mr. Zhou was also the executive director and general manager at Beijing Dafengche Education Technology Development Co., Ltd.* (北京大風車教育科技發展有限公司) from December 2009 to September 2014.

Mr. Zhou has served as an executive director of Wudaokou Capital Company Limited* (北京五道口投資基金管理有限公司) from March 2014 to March 2016 and again since March 2020, and has served as the vice chairman of Chery Holding Co., Ltd. since December 2019.

Mr. Zhou graduated with a Bachelor of Arts degree in Chinese Language from Shandong University in July 1989 and obtained an EMBA degree from PBC School of Finance of Tsinghua University in August 2018. Mr. Zhou engaged in the advertising and education industries after his graduation before he founded Shandong Dafengche Industrial Co., Ltd.* (山東大風車實業有限公司).

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	51	Chief Executive Officer
Mr. Luo Haibin	43	President
Mr. Mou Yi	53	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), 43, 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 19 years of experience in marketing and management.

Mr. MOU Yi (牟軼), 53, 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 served as the legal representative, executive director, and manager of Intelligent Transportation Co., Ltd. from July 2012 to June 2019, and he served as the supervisor of Beijing Hongrui Dake Technology Co., Ltd. from November 2015 to July 2019 and its legal representative, executive director, and manager since August 2019. And he served as the director and general manager of Beijing Haotian Jiajie Technology Co., Ltd. since August 2017 and served as the director of Forever Opensource Co., Ltd. since September 2017, which is the shareholding company of the Company listed on the National Equities Exchange and Quotations in the PRC (stock code: 834415). Since December 2018, he served as the director of Shenzhen Anxiao Investment Co., Ltd., which is the shareholding company of the Company. He also served as the director of Shenzhen Honglu Technology Co., Ltd. since February 2019, which is the shareholding company of the Company.

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.

Independent Auditor's Report

Mazars CPA Limited
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To the shareholders 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 (together the "Group") set out on pages 90 to 179, which comprise the consolidated statement of financial position as at December 31, 2019, 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 financial position of the Group as at December 31, 2019, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accounts ("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.

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the key Audit Matter
Revenue recognition on products and specialised solutions *Refer to notes 2.4 and 5 to the consolidated financial statements*	
The Group derives a significant portion of its revenue from products and specialised solutions for which revenue is recognised over time, using the input method to measure progress towards complete satisfaction of the performance obligations. The input method involved the use of significant judgement and estimates by management, including the scope of deliveries and services required, total budgeted cost and cost to completion and total contract revenue, etc. As a result, we considered this as a key audit matter.	Our key procedures in relation to the revenue recognition on products and specialised solutions included: — Reviewing the content of the contracts and interviewing the responsible personnel of the Group to understand terms of the contracts and the scope of deliveries and services required; — Performing recalculation on revenue using budgeted cost estimates provided by the Group; — Reviewing the budgeted costs by checking the details against purchase contracts, etc. and discussing with management on changes in budget costs during the current year; — Checking purchase contracts, invoices, goods delivery notes and acceptance reports to ascertain the actual cost incurred to date; and — Comparing the gross profit in the current year to the prior year for existing contracts.

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the key Audit Matter
Impairment of goodwill *Refer to notes 2.4 and 16 to the consolidated financial statements*	
As at December 31, 2019, the carrying amount of goodwill amounted to RMB254.9 million. Management assessed the recoverable amounts of the goodwill, with the involvement of an independent professional valuer when considered necessary, which involved value in use calculations. As a result of the impairment assessment, an impairment loss of RMB97.8 million was recognised for the current year. As set out in note 3 to the consolidated financial statements, the value in use calculations involved exercise of significant judgements and estimations. As a result, we considered this as a key audit matter.	Our key procedures in relation to the impairment of goodwill included: — Reviewing the valuation report from the valuer and management and discussing with the management and the valuer to understand the valuation basis and methodology used, and underlying assumptions applied; — Evaluating the objectivity, capabilities and competence of the valuer; — Examining the determination of the recoverable amount which is the value in use of cash-generating units to which goodwill has been allocated; — Assessing the reasonableness of the assumptions, methodologies and key inputs used in the value in use calculation; and — Considering the result of sensitivity analysis on reasonably possible downside changes in key assumptions; and — Checking arithmetical accuracy of the calculations.

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the key Audit Matter
Valuation of unlisted equity investments *Refer to notes 2.4, 24 and 41 to the consolidated financial statements*	
As at December 31, 2019, the carrying amount of unlisted equity investments which was accounted for as financial assets at fair value through profit or loss amounted to RMB32.4 million. The fair value of the investments was estimated by management which involved significant judgement and estimations. As a result, we considered this as a key audit matter.	Our key procedures in relation to the valuation of unlisted equity investments included: — Assessing the valuation methodology used by management to estimate the fair value of the equity investments; — Discussing with management about the assumptions used in the valuation; — Evaluating reasonableness of key assumptions used; and — Checking arithmetical accuracy of the calculations.
Valuation of investment properties *Refer to notes 2.4 and 15 to the consolidated financial statements*	
As at December 31, 2019, the Group had investment properties stated at fair value of RMB83.7 million. The fair value of the investment properties was valued by an independent professional valuer at the end of the year, which involved significant judgement and estimations from management. As a result, we considered this as a key audit matter.	Our key procedures in relation to the valuation of investment properties included: — Assessing the competence, objectivity and capabilities of the valuer; — Reviewing the valuation reports from the valuer and discussing with management and the valuer to understand the valuation basis and methodology used, and underlying assumptions applied; — Evaluating reasonableness of key assumptions used; and — Checking arithmetical accuracy of the calculations.

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the key Audit Matter
Allowance for impairment of trade receivables and contract assets *Refer to notes 2.4, 21 and 23 to the consolidated financial statements*	
The Group uses simplified approach to calculate the expected credit loss ("ECL") on 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 involved significant estimations. As a result, we considered this as a key audit matter.	Our key procedures in relation to the ECL included: — Discussing with management to understand judgement involved in estimating the ECL on trade receivables and contract assets; — Assessing the reasonableness of estimates used to determine the ECL by considering historical collection and default rate, forward-looking information and subsequent settlement information; — Checking accuracy of ageing of trade receivables and contract assets; and — Checking arithmetical accuracy of the calculation of the ECL on trade receivables and contract assets.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the Company's 2019 annual report but does not include the consolidated financial statements and our auditor's report thereon.

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

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

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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

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

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

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

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

We communicate with 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.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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 year 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.

Mazars CPA Limited
Certified Public Accountants
Hong Kong, May 12, 2020

The engagement director on the audit resulting in this independent auditor's report is:

Yip Ngai Shing
Practising Certificate number: P05163

Consolidated Statement of Profit or Loss

Year ended December 31, 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	**1,033,190**	923,966
Cost of revenue	7	**(826,570)**	(759,331)
Gross profit		**206,620**	164,635
Other income and gains	6	**76,545**	56,564
Selling, distribution and administrative expenses		**(151,472)**	(197,305)
Impairment losses on financial and contract assets, net	7	**(21,259)**	(47,531)
Other expenses		**(101,080)**	(52,209)
Finance costs	8	**(37,357)**	(42,171)
Share of profits and losses of:			
Joint ventures		**1,772**	4,913
Associates		**(1,044)**	(991)
LOSS BEFORE TAX	7	**(27,275)**	(114,095)
Income tax expense	11	**(8,365)**	(2,183)
LOSS FOR THE YEAR		**(35,640)**	(116,278)
Attributable to:			
Owners of the Company		**(44,239)**	(116,278)
Non-controlling interests		**8,599**	–
		(35,640)	(116,278)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY		**RMB**	RMB
Basic	13	**(0.03)**	(0.07)
Diluted	13	**(0.03)**	(0.07)

Consolidated Statement of Comprehensive Income

Year ended December 31, 2019

	2019 RMB'000	2018 RMB'000
LOSS FOR THE YEAR	**(35,640)**	(116,278)
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(12,199)**	(11,170)
OTHER COMPREHENSIVE LOSS FOR THE YEAR	**(12,199)**	(11,170)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(47,839)**	(127,448)
Attributable to:		
Owners of the Company	**(56,474)**	(127,448)
Non-controlling interests	**8,635**	–
	(47,839)	(127,448)

Consolidated Statement of Financial Position

December 31, 2019

	Notes	**2019 RMB'000**	2018 RMB'000
NON-CURRENT ASSETS			
Prepayment for acquisition of property and equipment	43	**124,708**	–
Property and equipment	14	**251,158**	262,359
Investment properties	15	**83,710**	78,200
Goodwill	16	**254,851**	274,027
Other intangible assets	17	**5,938**	1,983
Investments in joint ventures	18	**2,067**	48,305
Investments in associates	19	**2,027**	3,071
Financial assets at fair value through profit or loss	24	**182,977**	117,755
Deferred tax assets	29	**–**	17,514
Loan receivables	22	**30,000**	33,000
Pledged deposits	25	**70,000**	134,290
Total non-current assets		**1,007,436**	970,504
CURRENT ASSETS			
Inventories	20	**206,684**	59,798
Contract assets	23	**449,616**	696,704
Trade and bills receivables	21	**909,025**	975,011
Prepayments, deposits and other receivables	22	**473,419**	343,442
Financial assets at fair value through profit or loss	24	**–**	20,000
Amounts due from related parties	38	**386,096**	650,811
Pledged deposits	25	**249,617**	234,428
Cash and cash equivalents	25	**258,722**	146,436
		2,933,179	3,126,630
Assets held for sale		**–**	8,500
Total current assets		**2,933,179**	3,135,130
CURRENT LIABILITIES			
Trade and bills payables	26	**388,251**	651,863
Contract liabilities, other payables and accruals	27	**671,954**	556,725
Interest-bearing bank borrowings	28	**701,767**	363,509
Amounts due to related parties	38	**4,769**	27,956
Income tax payable		**31,244**	29,512
Total current liabilities		**1,797,985**	1,629,565
NET CURRENT ASSETS		**1,135,194**	1,505,565
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,142,630**	2,476,069

Consolidated Statement of Financial Position

December 31, 2019

	Notes	2019 RMB'000	2018 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,142,630**	2,476,069
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	28	**146,250**	420,843
Deferred tax liabilities	29	**8,929**	24,537
Total non-current liabilities		**155,179**	445,380
Net assets		**1,987,451**	2,030,689
EQUITY			
Equity attributable to owners of the Company			
Share capital	30	**290**	290
Reserves		**1,973,693**	2,030,399
		1,973,983	2,030,689
Non-controlling interests		**13,468**	–
Total equity		**1,987,451**	2,030,689

These consolidated financial statements on pages 90 to 179 were approved and authorized for issue by the Board of Directors on May 12, 2020 and signed on its behalf by

Liao Jie
Director

Jiang Hailin
Director

Consolidated Statement of Changes in Equity

Year ended December 31, 2019

		Attributable to owners of the Company									
	Note	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Capital reserve RMB'000	Asset 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, 2019		290	1,088,725*	167,404*	598,627*	7,782*	(89,455)*	257,316*	2,030,689	–	2,030,689
Loss for the year		–	–	–	–	–	–	(44,239)	(44,239)	8,599	(35,640)
Other comprehensive loss for the year:											
Exchange differences related to foreign operations		–	–	–	–	–	(12,235)	–	(12,235)	36	(12,199)
Total comprehensive loss for the year		–	–	–	–	–	(12,235)	(44,239)	(56,474)	8,635	(47,839)
Acquisition of non-controlling interests		–	–	–	(232)	–	–	–	(232)	(382)	(614)
Acquisition of subsidiaries		–	–	–	–	–	–	–	–	5,215	5,215
Transfer upon the forfeiture of share options	32	–	–	–	(4,367)	–	–	4,367	–	–	–
Transfer from retained earnings		–	–	23,870	–	–	–	(23,870)	–	–	–
Total transactions with owners		–	–	23,870	(4,599)	–	–	(19,503)	(232)	4,833	4,601
At December 31, 2019		290	1,088,725*	191,274*	594,028*	7,782*	(101,690)*	193,574*	1,973,983	13,468	1,987,451

Consolidated Statement of Changes in Equity

Year ended December 31, 2019

		Attributable to owners of the Company							
	Note	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Capital reserve RMB'000	Asset revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At January 1, 2018		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 upon the forfeiture of share options	32	–	–	–	(966)	–	–	966	–
Transfer from retained earnings		–	–	1,389	–	–	–	(1,389)	–
Total transactions with owners		–	–	1,389	(966)	–	–	(423)	–
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 reserves of RMB1,973,693,000 (2018: RMB2,030,399,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended December 31, 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(27,275)**	(114,095)
Adjustments for:			
Depreciation		**10,927**	9,110
Amortisation		**441**	3,320
Gain on disposal of a joint venture		**(15,990)**	–
Net gain on disposal of property and equipment		**–**	(25)
Reversal of impairment of contract assets		**(2,163)**	(3,799)
Impairment of trade receivables		**1,815**	46,158
Impairment of financial assets included in prepayment, other receivables and other assets		**21,607**	5,172
Write-down of inventories to net realisable value		**–**	6,705
Impairment of property and equipment		**595**	6,193
Impairment of assets held for sale		**–**	2,476
Impairment of investment in an associate		**–**	2,530
Impairment of goodwill		**97,816**	–
Impairment of other intangible assets		**–**	10,318
Share of profits and losses of joint ventures and associates		**(728)**	(3,922)
Gain on transfer from inventories to investment properties		**(865)**	(1,244)
Changes in fair value of investment properties		**(310)**	(6,400)
Changes in fair value of financial assets at fair value through profit or loss		**(10,696)**	51,207
Dividend income from financial assets at fair value through profit or loss		**(1,867)**	(1,695)
Finance income		**(29,858)**	(35,667)
Finance costs		**37,357**	42,171
		80,806	18,513
Changes in assets and liabilities:			
Inventories		**(149,646)**	9,998
Contracts assets		**249,251**	107,488
Trade and bills receivables		**93,706**	45,943
Prepayments, deposits and other receivables		**(109,056)**	19,537
Amounts due from related parties		**264,715**	12,673
Loan receivables		**3,000**	(2,000)
Pledged deposits		**(25,883)**	(55,852)
Trade and bills payables		**(263,612)**	260,827
Amounts due to related parties		**(23,187)**	8,442
Contract liabilities, other payables and accruals		**36,541**	(337,946)
Cash generated from operations		**156,635**	87,623

Consolidated Statement of Cash Flows

Year ended December 31, 2019

	Notes	2019 RMB'000	2018 RMB'000
Cash generated from operations		**156,635**	87,623
Interest received		**25,878**	8,897
Interest paid		**(37,357)**	(40,915)
Income tax paid		**(4,727)**	(26,161)
Net cash flows generated from operating activities		**140,429**	29,444
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property and equipment		**(1,874)**	(16,256)
Purchase of other intangible assets		**(4,396)**	–
Dividend received from investments		**2,562**	1,000
Proceeds from disposal of items of property and equipment		**–**	31
Prepayment for acquisition of property and equipment		**(124,708)**	–
Purchase of financial assets at fair value through profit or loss		**–**	(30,000)
Disposal of assets held for sales		**8,500**	–
Disposal of financial assets at fair value through profit or loss		**29,474**	–
Acquisition of a subsidiary	37	**(64,151)**	–
Net cash flows used in investing activities		**(154,593)**	(45,225)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from interest-bearing bank borrowings	33	**559,852**	567,024
Repayment of interest-bearing bank borrowings	33	**(496,187)**	(543,501)
Decrease/(Increase) in pledged deposits for bank loans		**74,984**	(29,790)
Net cash flows generated from/(used in) financing activities		**138,649**	(6,267)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**124,485**	(22,048)
Effect of foreign exchange rate changes, net		**(12,199)**	(11,170)
Cash and cash equivalents at beginning of year		**146,436**	179,654
CASH AND CASH EQUIVALENTS AT END OF YEAR	25	**258,722**	146,436

1. CORPORATE AND GROUP INFORMATION

China ITS (Holdings) Co., Ltd. (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 at 8/F., Golden Star Building, 20-24 Lockhart 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 Company and its subsidiaries (the "Group") is mainly a provider of products and specialised solutions and services related to infrastructure technology in the PRC and overseas. During the year, the main businesses of the Group are as follows:

(a) Products and specialised solutions business — in the field of infrastructure construction such as railways and electric power. The Group mainly sells products and provides specialised solutions that meet the needs of customers, which mainly include railway communication products, energy-base products, power communication products, power transmission and transformation equipment, power generation equipment; and

(b) Value-added operation and services business — providing value-added services such as maintenance services, network optimization and network planning and technical consultations for products related to the communication system for railway customers, as well as the planning and technical consultations for infrastructure construction such as power plant construction and power grid renovation for electric power customers.

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 indirectly	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.	PRC/Mainland China December 8, 2014	RMB50 million	100	Technology specialised services and sale of electronics
Beijing Hongrui Dake Technology Co., Ltd.	PRC/Mainland China October 17, 2014	RMB196 million	100	Commercial properties leasing
Beijing Haotian Jiajie Technology Co., Ltd.	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 indirectly	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.	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.	PRC/Mainland China December 15, 2011	US$30 million	100	Intelligent Transportation system service
Tibet Intelligent Aviation Transportation Technology Co., Ltd.	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.	PRC/Mainland China November 26, 2009	RMB30 million	100	Communications specialised solutions and value-added operation and services
CEECGlobal Limited ("CEEC")	Hong Kong October 16, 2014	HK$10,000	58	Sales of products and provision of specialised solutions for various segments of overseas electronic power industry and communication industry
CIC Information Technology Company Limited	Myanmar May 17, 2017	USD550,000	58	Sales of products and provision of specialised solutions for various segments of overseas electronic power industry and communication industry

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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued and approved by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, these consolidated financial statements also include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

They have been prepared under the historical cost convention, except for investment properties and equity investments, which have been measured at fair value. These consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

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 consolidated financial statements.

Annual Improvements to IFRSs	2015–2017 Cycle
IFRS 16	Leases
IFRIC 23	Uncertainty over income tax treatments
Amendments to IAS 19	Employee benefits
Amendments to IAS 28	Investments in Associates and Joint Ventures
Amendments to IFRS 9	Prepayment Features with Negative Compensation

Except for IFRS 16 which is explained below, the adoption of the new/revised IFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the year ended December 31, 2019 and prior years.

IFRS 16 "Leases"

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

A lessee measures right-of-use assets similarly to other non-financial assets (such as property and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation (and, if applicable, impairment loss) of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the consolidated statement of cash flows applying IAS 7.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 16 "Leases" (continued)

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

The Group has opted for the modified retrospective application permitted by IFRS 16. Accordingly, IFRS16 has been applied from 1 January 2019 (i.e. the date of initial application) onwards and the cumulative impact of adoption of IFRS 16 was recognised in equity at 1 January 2019, if any.

Based on the practical expedients under IFRS 16, the Group has elected not to apply the requirements of IFRS 16 in respect of recognition of lease liability and right-of-use asset to leases for which the lease term ends within twelve months of the date of initial application.

The Group has a building situated on leasehold land in the PRC, which was, and upon the adoption of IFRS 16 continues to be, included in property and equipment. The Group has reviewed all other leases with lease term ending after twelve months of the date of initial application and assessed that the overall impact of those leases to the Group was insignificant. Therefore, no lease liability or other right-of-use asset has been recognised in these consolidated financial statements.

2.3 ISSUED BUT NOT 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 consolidated financial statements.

Amendments to IFRS 3	Definition of a Business[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
IFRS 17	Insurance Contracts[2]
Amendments to IAS 1 and IAS 8	Definition of Material[1]
Amendments to IAS 1	Classification of Liabilities as Current or non-Current[3]

1 Effective for annual periods beginning on or after January 1, 2020
2 Effective for annual periods beginning on or after January 1, 2021
3 Effective for annual periods beginning on or after January 1, 2022
4 No mandatory effective date yet determined but available for adoption

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended December 31, 2019. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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.

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 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

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 or other comprehensive income as appropriate.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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 consolidated 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 consolidated 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, 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)

Related parties (continued)

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

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment and depreciation (continued)

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.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under a lease for a 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 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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases — *Applicable from January 1, 2019*

The Group assesses whether a contract is, or contains, a lease at inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As lessee

The Group applies the recognition exemption to short-term leases and low-value asset leases. Lease payments associated with these leases are recognised as an expense on a straight-line basis over the lease term.

The Group has elected not to separate non-lease components from lease components, and accounts for each lease component and any associated non-lease components as a single lease component.

The Group accounts for each lease component within a lease contract as a lease separately. The Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component.

Amounts payable by the Group that do not give rise to a separate component are considered to be part of the total consideration that is allocated to the separately identified components of the contract.

The Group recognises a right-of-use asset and a lease liability at the commencement date of the lease.

The right-of-use asset is initially measured at cost, which comprises

(a) the amount of the initial measurement of the lease liability;

(b) any lease payments made at or before the commencement date, less any lease incentives received;

(c) any initial direct costs incurred by the Group; and

(d) an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases — *Applicable from January 1, 2019* (continued)

As lessor

The Group classifies each of its leases as either a finance lease or an operating lease at the inception date of the lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset. All other leases are classified as operating leases.

The Group accounts for each lease component within a lease contract as a lease separately from non-lease components of the contract. The Group allocates the consideration in the contract to each lease component on a relative stand-alone price basis.

As lessor — operating lease

The Group applies the derecognition and impairment requirements in IFRS 9 to the operating lease receivables.

A modification to an operating lease is accounted for as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Leases — *Applicable before January 1, 2019*

Leases where substantially all 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 and equipment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Initial recognition and measurement

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

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest 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)

Financial assets (continued)

Financial assets at amortised cost (debt instruments) (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.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Financial assets at amortised cost (debt instruments) (continued)

General approach (continued)

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss or at amortised cost, as appropriate.

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

Subsequent measurement

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

Financial liabilities at amortised cost

After initial recognition, financial liabilities at amortised cost are 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

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

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 products and the provision of specialised solutions for general repairs of defects occurring during the warranty period. Provisions for 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

(a) *Products and specialised solutions business*

Revenue from products and specialised solutions 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 services.

Revenue from the sale of products which does not form part of a contract for the provision of specialised solution services is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(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.

Revenue from other sources

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

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.

Contract assets

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

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

Other than the costs which are capitalised as inventories, property 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.

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.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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 consolidated 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 consolidated 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. Uncertainty about these assumptions and estimates could result in 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 consolidated 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 for products and provision of specialised solutions*

The Group's promise in its contract with the customer is to provide products and specialised services in accordance with the customer's specifications. The Group considers that goods and services are highly interdependent and highly integrated with each other and, therefore, the equipment and the various promised services inherent are not separately identifiable under IFRS 15. Therefore, the Group accounts for all of the goods and services promised in the contract as a single performance obligation.

(ii) *Determining the contract price for products and specialised solutions*

In the absence of a signed contract with the customer, the Group recognises revenue from the provision of products and specialised solutions to the extent of cost incurred because the contract price is subject to change until the signed contract is obtained from the customer and the Group expects that it can recover the costs incurred.

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.

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. Further details are given in note 16 to the consolidated financial statements.

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 are expected to deteriorate over the next year which can lead to an increased number of defaults in the 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 21 and note 23 to the consolidated financial statements, respectively.

Percentage of completion of products and specialised solutions

The Group recognises revenue using the input method for individual contracts of products and specialised solutions, 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 revenue is also estimated by management. Due to the nature of the activity undertaken in products and specialised solutions, 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 revenue and costs in the budget prepared for each contract as the contract progresses. Where the actual revenue is less than expected or actual costs are more than expected, a 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 profit or loss for the year in which such a reversal takes place.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (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 41 to the consolidated 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.

Fair value of investment properties

The Group estimates the fair value of its investment properties with reference to valuation performed by an independent professional valuer. The valuation of investment properties is performed using the income approach. The income approach requires estimates of rental value and capitalisation rate.

4. OPERATING SEGMENT INFORMATION

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

(i) Products and specialised solutions business — in the field of infrastructure construction such as railways and electric power. The Group mainly sells products and provides specialised solutions that meet the needs of customers, which mainly include railway communication products, energy-base products, power communication products, power transmission and transformation equipment and power generation equipment; and

(ii) Value-added operation and services business — providing value-added services such as maintenance services, network optimization and planning and technical consultations for products related to communication system for railway customers, as well as planning and technical consultations for infrastructure construction such as power plant construction and power grid renovation for electric power customers.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, 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, dividend income from and changes in fair value of financial assets at fair value through profit or loss, changes in fair value of investment properties as well as head office and corporate income and 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, 2019	Products and specialised solutions business RMB'000	Value-added operation and services RMB'000	Total RMB'000
Segment revenue (note 5)			
Sales to external customers	**893,021**	**140,169**	**1,033,190**
Intersegment sales	**306**	**–**	**306**
	893,327	**140,169**	**1,033,496**
Reconciliation:			
Elimination of intersegment sales			**(306)**
Revenue			**1,033,190**
Segment results	**3,780**	**1,054**	**4,834**
Reconciliation:			
Finance income			**29,919**
Finance costs			**(37,357)**
Changes in fair value of investment properties			**310**
Gain on transfer from inventories to investment properties			**865**
Changes in fair value of financial assets at fair value through profit or loss			**10,681**
Dividend income from financial assets at fair value through profit or loss			**1,867**
Corporate and other unallocated income and expenses			**(38,394)**
Loss before tax			**(27,275)**
Other segment information:			
Share of profits/(losses) of:			
Joint ventures	**1,722**	**–**	**1,722**
Associates	**(1,044)**	**–**	**(1,044)**
Impairment losses	**117,247**	**815**	**118,062**
Depreciation and amortisation	**2,137**	**771**	**2,908**
Capital expenditure*	**4,711**	**395**	**5,106**

4. OPERATING SEGMENT INFORMATION (continued)

Year ended December 31, 2018	Products and specialised solutions business 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 transfer from inventories to investment properties			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 income and expenses			(33,865)
Loss before tax			(114,095)
Other segment information:			
Share of profits/(losses) of:			
Joint ventures	4,913	–	4,913
Associates	(991)	–	(991)
Impairment losses	73,872	4,351	78,223
Depreciation and amortisation	2,294	870	3,164
Capital expenditure*	2,547	103	2,650

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

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2019 **RMB'000**	2018 RMB'000
Mainland China	**967,287**	895,791
Overseas	**65,903**	28,175
	1,033,190	923,966

(b) Non-current assets

	2019 **RMB'000**	2018 RMB'000
Mainland China	**595,657**	596,569
Overseas	**124,708**	20,000
	720,365	616,569

Information about major customers

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

5. REVENUE

An analysis of revenue is as follows:

	2019 **RMB'000**	2018 RMB'000
Revenue from contracts with customers within IFRS 15	**1,033,190**	923,966

5. REVENUE (continued)

(i) Disaggregated revenue information

Year ended December 31, 2019

Segments	Products and specialised solutions business RMB'000	Value-added operation and services RMB'000	Total RMB'000
Type of goods or services			
Sale of products and provision of specialised solutions	893,021	–	893,021
Maintenance services	–	140,169	140,169
Total revenue from contracts with customers	893,021	140,169	1,033,190
Geographical markets			
Mainland China	874,593	92,694	967,287
Overseas	18,428	47,475	65,903
Total revenue from contracts with customers	893,021	140,169	1,033,190
Timing of revenue recognition			
Goods and services transferred at a point in time	176,303	–	176,303
Goods and services transferred over time	716,718	140,169	856,887
Total revenue from contracts with customers	893,021	140,169	1,033,190

5. REVENUE (continued)

(i) Disaggregated revenue information (continued)

Year ended December 31, 2018

Segments	Products and specialised solutions business RMB'000	Value-added operation and services RMB'000	Total RMB'000
Type of goods or services			
Sale of products and provision of specialised solutions	849,102	–	849,102
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
Overseas	17,783	10,392	28,175
Total revenue from contracts with customers	849,102	74,864	923,966
Timing of revenue recognition			
Goods and services transferred at a point in time	229,372	–	229,372
Goods and services transferred over time	619,730	74,864	694,594
Total revenue from contracts with customers	849,102	74,864	923,966

5. REVENUE (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:

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of products and provision of specialised solutions	**159,127**	193,627
Maintenance services	**2,017**	1,541
	161,144	195,168
Revenue recognised from performance obligations satisfied in previous periods:		
Gross margin not previously recognised due to the contracts not signed	**26,444**	27,614

(ii) Performance obligations

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at December 31, 2019 are as follows:

	2019 RMB'000	2018 RMB'000
Within one year	**592,643**	537,968
More than one year	**247,505**	440,155
	840,148	978,123

The amounts disclosed above do not include variable consideration which is constrained.

6. OTHER INCOME AND GAINS

	2019 **RMB'000**	2018 RMB'000
Finance income	**29,919**	35,667
Gain on disposal of a joint venture (note 18)	**15,990**	–
Gross rental income	**12,632**	7,212
Dividend income from financial assets at fair value through profit or loss	**1,867**	1,695
Changes in fair value of financial assets at fair value through profit or loss	**10,681**	–
Government grants*	**171**	1,617
Income from the sale of properties, net	**2,474**	2,704
Gain on transfer from inventories to investment properties	**865**	1,244
Changes in fair value of investment properties (note 15)	**310**	6,400
Others	**1,636**	25
	76,545	56,564

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

7. LOSS BEFORE TAX

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

	2019 RMB'000	2018 RMB'000
Cost of inventories	**826,570**	759,331
Depreciation (note 14)	**10,927**	9,110
Amortisation of intangible assets (note 17), included in selling, distribution and administrative expenses	**441**	3,320
	11,368	12,430
Wages and salaries	**54,227**	42,405
Pension scheme contributions (defined contribution scheme)	**6,654**	4,953
Social insurance costs and staff welfare	**10,921**	11,398
	71,802	58,756
Lease payments		
Short-term leases	**3,050**	–
Operating leases	**–**	7,667
	3,050	7,667
Impairment of financial and contract assets, net		
Reversal of impairment of contract assets (note 23)	**(2,163)**	(3,799)
Impairment of trade receivables (note 21)	**1,815**	46,158
Impairment of financial assets included in prepayments, other receivables and other assets (note 22)	**21,607**	5,172
	21,259	47,531

7. LOSS BEFORE TAX (continued)

	2019 RMB'000	2018 RMB'000
Impairment of investment in an associate	–	2,530
Impairment of assets held for sale	–	2,476
Impairment of other intangible assets (note 17), included in selling, distribution and administrative expenses	–	10,318
Impairment of property and equipment (note 14), included in other expenses	595	6,193
Impairment of goodwill (note 16), included in other expenses	97,816	–
Auditors' remuneration	3,074	3,642
Write-down of inventories to net realisable value	–	6,705
Changes in fair value of investment properties (note 15)	(310)	(6,400)
Changes in fair value of financial assets at fair value through profit or loss	(10,696)	51,207
Rental income	(12,632)	(7,212)
Gain on disposal of a joint venture	(15,990)	–
Net gain on disposal of items of property and equipment	–	(25)
Research and development cost, included in selling, distribution and administrative expenses	15,984	19,860
Exchange losses	(61)	653
Dividend income from financial assets at fair value through profit or loss	(1,867)	(1,695)

8. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest on bank loans	37,357	42,171

9. DIRECTORS' REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules and the Hong Kong Companies Ordinance, is as follows:

	2019 RMB'000	2018 RMB'000
Fees	1,509	1,556
Other emoluments:		
Salaries, allowances and benefits in kind	2,108	2,094
Pension scheme contributions	50	55
	2,158	2,149
	3,667	3,705

During the year, no payments were made by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office (2018: Nil).

9. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

	2019 RMB'000	2018 RMB'000
Mr. Zhou Jianmin	**34**	–
Mr. Choi Onward	**48**	193
Mr. Ye Zhou	**194**	193
Mr. Wang Dong	**194**	101
	470	487

(b) Executive directors and non-executive directors

2019	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:				
Mr. Jiang Hailin	**880**	**532**	**50**	**1,462**
Mr. Liao Jie	**–**	**1,576**	**–**	**1,576**
	880	**2,108**	**50**	**3,038**
Non-executive director:				
Mr. Zhang Tianwei	**159**	**–**	**–**	**159**
	1,039	**2,108**	**50**	**3,197**

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2018: two) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining three (2018: three) non-director highest paid employees are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	**1,423**	1,412
Pension scheme contributions	**136**	166
	1,559	1,578

The number of non-director highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2019	2018
Nil to HK$1,000,000 (equivalent to RMB880,230)	**3**	3

During the year, no payments were made by the Group to the non-director highest paid employees of the Group as an inducement to join or upon joining the Group or as compensation for loss of office (2018: Nil).

11. INCOME TAX

The Group is subject to income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The determination of current and deferred income taxes was based on the enacted tax rates.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

PRC subsidiaries of the Group are subject to PRC Enterprise Income Tax at a rate 25% (2018: 25%) on their respective taxable income, except for those subsidiaries which are qualified as High and New Technology Enterprises and are entitled to 15% (2018: 15%) preferential income tax rate.

No provision for Hong Kong profits tax has been made for the year ended December 31, 2019 (2018: nil), as the Group had no assessable profits arising in Hong Kong for the year.

The Group is subject to withholding tax in Myanmar at the rate of 2.5% on the service income charged to the companies in Myanmar by non-Myanmar subsidiaries.

11. INCOME TAX (continued)

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. As at December 31, 2019, 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 established in Mainland China (2018: nil) because in the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

The major components of income tax expense are as follows:

	2019 **RMB'000**	2018 RMB'000
Current tax:		
PRC Enterprise Income Tax		
— Provision for the year	**2,294**	6,033
— Underprovision in prior year	**3,643**	3,038
Others	**522**	–
	6,459	9,071
Deferred tax:		
Origination and reversal of temporary differences (note 29)	**1,906**	(6,888)
Income tax expense	**8,365**	2,183

11. INCOME TAX (continued)

Reconciliation of income tax expense

	2019 RMB'000	2018 RMB'000
Loss before tax	**(27,275)**	(114,095)
Income tax at applicable tax rate	**(8,684)**	(26,527)
Preferential tax rate entitled by certain subsidiaries	**(6,302)**	5,727
Income not taxable for tax	**(13,646)**	–
Expenses not deductible for tax	**30,761**	16,928
Underprovision in prior year	**3,643**	3,038
Unrecognised temporary differences	**4,871**	–
Recognition of previously unrecognised temporary differences	**(1,640)**	–
Profit attributable to joint ventures and associates	**(109)**	(588)
Utilisation of previously unrecognised tax losses	**(1,618)**	(6,021)
Withholding tax	**522**	–
Tax losses not recognised	**567**	9,626
Income tax expense	**8,365**	2,183

The applicable tax rate is the weighted average of the tax rates prevailing in the locations in which the Group entities operate.

12. DIVIDENDS

No dividend was proposed by the Company for the years ended December 31, 2019 and December 31, 2018.

13. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

Basic loss per share is calculated by dividing the loss for the year attributable to owners of the Company 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 loss for the year attributable to owners of the Company, and the weighted average number of ordinary shares in issue during the year, as used in the basic loss 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 loss per share amounts presented for the years ended December 31, 2019 and December 31, 2018 as the outstanding share options had an anti-dilutive effect on the amounts presented.

The calculations of basic and diluted loss per share are based on:

	2019 **RMB'000**	2018 RMB'000
Loss		
Loss attributable to owners of the Company	**(44,239)**	(116,278)

	2019	2018
Shares		
Weighted average number of shares in issue	**1,654,024,868**	1,654,024,868

14. 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
Reconciliation of carrying amount — Year ended December 31, 2019								
At January 1, 2019	**250,853**	**3,187**	**2,841**	**1,003**	**461**	**184**	**3,830**	**262,359**
Additions	**278**	**376**	**1,220**	**–**	**–**	**–**	**–**	**1,874**
Acquisition of a subsidiary (note 37)	**–**	**22**	**–**	**–**	**–**	**–**	**–**	**22**
Transfers	**(1,118)**	**406**	**176**	**(283)**	**(248)**	**3,322**	**(3,830)**	**(1,575)**
Impairment	**–**	**(595)**	**–**	**–**	**–**	**–**	**–**	**(595)**
Depreciation	**(7,938)**	**(1,540)**	**(766)**	**(176)**	**(74)**	**(433)**	**–**	**(10,927)**
At December 31, 2019	**242,075**	**1,856**	**3,471**	**544**	**139**	**3,073**	**–**	**251,158**
Reconciliation of carrying amount — Year ended December 31, 2018								
At January 1, 2018	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	(6,195)	(2,058)	(149)	(415)	(104)	(189)	–	(9,110)
At December 31, 2018	250,853	3,187	2,841	1,003	461	184	3,830	262,359

14. 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
At December 31, 2019								
At cost	**265,874**	**13,881**	**5,707**	**10,629**	**788**	**4,586**	**–**	**301,465**
Accumulated depreciation and impairment	**(23,799)**	**(12,025)**	**(2,236)**	**(10,085)**	**(649)**	**(1,513)**	**–**	**(50,307)**
	242,075	**1,856**	**3,471**	**544**	**139**	**3,073**	**–**	**251,158**
At December 31, 2018								
At 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)
	250,853	3,187	2,841	1,003	461	184	3,830	262,359

The Group's building is situation on leasehold land in Mainland China with remaining lease term of 45 years.

15. INVESTMENT PROPERTIES

	2019 RMB'000	2018 RMB'000
Carrying amount at January 1	**78,200**	66,800
Transfer from inventory	**5,200**	5,000
Net gain from fair value adjustment	**310**	6,400
Carrying amount at December 31	**83,710**	78,200

The Group's investment properties are situated on leasehold land in Mainland China and are leased to third parties under operating leases.

The Group's investment properties were revalued by Savills Valuation and Professional Services Limited on December 31, 2019, an independent firm of professional valuers, at RMB83,710,000 (2018: RMB78,200,000). Each year, when the Group decides to appoint an external valuer for the valuation of the Group's investment 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.

15. INVESTMENT PROPERTIES (continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement at December 31, 2019 using			
	Quoted prices in active market (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Commercial properties	–	–	**73,510**	**73,510**
Residential properties	–	–	**10,200**	**10,200**
	–	–	**83,710**	**83,710**

	Fair value measurement at December 31, 2018 using			
	Quoted prices in active market (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Commercial properties	–	–	73,200	73,200
Residential properties	–	–	5,000	5,000
	–	–	78,200	78,200

15. INVESTMENT PROPERTIES (continued)

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 (2018: Nil).

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial properties RMB'000	Residential properties RMB'000
Carrying amount at January 1, 2018	66,800	–
Transfer from inventories	–	5,000
Net gain from fair value adjustment recognised in "other income and gains" in profit or loss	6,400	–
Carrying amount at December 31, 2018 and January 1, 2019	**73,200**	**5,000**
Transfer from inventories	**–**	**5,200**
Net gain from fair value adjustment recognised in "other income and gains" in profit or loss	**310**	**–**
Carrying amount at December 31, 2019	**73,510**	**10,200**

Below is a summary of the valuation technique used and the key inputs to the valuation of the investment properties:

	Valuation technique	Significant unobservable inputs	Weighted average 2019	2018
Commercial properties	Income approach	Estimated rental value (per sq.m and per month)	**RMB331**	RMB317
		Capitalisation rate	**7.96%**	7.7%
Industrial properties	Income approach	Estimated rental value (per sq.m and per month)	**RMB41**	RMB40
		Capitalisation rate	**6.77%**	6.80%

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 transactions. 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.

16. GOODWILL

	2019 RMB'000	2018 RMB'000
At January 1	**274,027**	274,027
Addition (note 37)	**78,640**	–
	352,667	274,027
Impairment	**(97,816)**	–
At December 31	**254,851**	274,027

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- Aproud subgroup
- CEEC subgroup

The carrying amount of goodwill allocated to the cash-generating units is as follows:

	2019 RMB'000	2018 RMB'000
Aproud subgroup	**176,211**	274,027
CEEC subgroup	**78,640**	–
Net carrying amount at December 31	**254,851**	274,027

16. GOODWILL (continued)

Aproud subgroup

Aproud Technology and its subsidiaries (collectively "Aproud subgroup") are principally engaged in sale of communication products and specialised solutions in the railway business. The Group has engaged an independent professional valuer to assess the recoverable amount of Aproud subgroup as at December 31, 2019. The recoverable amount of Aproud subgroup 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 15.4% (2018: 18%). The cash flows beyond the five-year period is extrapolated using zero growth rate (2018: 3%).

CEEC subgroup

CEEC and its subsidiary (collectively "CEEC subgroup") are primarily engaged in investment, sales of equipment and provision of specialised solutions for various segments of electric power and communication industry in Southeast Asia. The recoverable amount of CEEC subgroup 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%. The growth rate used to extrapolate the cash flows beyond the five-year period is 3%.

The following describes the key assumptions on which management has based for preparing the cash flow projections for impairment testing of goodwill:

Gross margins — Gross margins are based on past history and expectations of future changes in the market.

Discount rates — The discount rates used are after tax and reflect specific risks relating to the cash-generating unit.

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.

Sensitivity of key assumptions

The management identified the following key assumptions in which a reasonable possible change on an individual basis would cause additional impairment loss on goodwill allocated to Aproud subgroup.

Reasonable possible changes that individually would cause additional impairment loss:

	Increase (+)/ Decrease (-)	Increase (+)/ Decrease (-) of impairment RMB'000
Gross margin	+/-1%	–/+ 65,000
Discount rate	+/-1%	+/- 47,000
Growth rate	+/-1%	–/+ 85,000

17. OTHER INTANGIBLE ASSETS

Deferred development cost and software

	2019 RMB'000	2018 RMB'000
Reconciliation of carrying amount		
At January 1	**1,983**	15,621
Additions	**4,396**	–
Amortisation	**(441)**	(3,320)
Impairment	**–**	(10,318)
At December 31	**5,938**	1,983
At December 31		
Cost	**21,146**	16,750
Accumulated amortisation and impairment	**(15,208)**	(14,767)
Net carrying amount	**5,938**	1,983

18. INVESTMENTS IN JOINT VENTURES

	2019 RMB'000	2018 RMB'000
Share of net assets	**2,067**	20,599
Goodwill on acquisition	**–**	27,706
	2,067	48,305

The Group's receivable and payable balances with the joint ventures are disclosed in note 38 to the consolidated financial statements.

18. INVESTMENTS IN JOINT VENTURES (continued)

Particulars of the Group's material joint venture during the year are as follows:

Name	Particulars of capital 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

During the year, the Group disposed of the 50% interest in Intelligent Aviation at a consideration of RMB64,000,000, resulting in a gain of RMB15,990,000. The consideration was satisfied through the allotment and issue of 15,058,824 shares of Forever Opensource Co., Ltd. ("Forever Opensource") at the issue price of RMB4.25 per ordinary share.

19. INVESTMENTS IN ASSOCIATES

	2019 RMB'000	2018 RMB'000
Share of net assets	**4,557**	5,601
Impairment	**(2,530)**	(2,530)
	2,027	3,071

The Group's receivables and payables with the associates are disclosed in note 38 to the consolidated financial statements.

20. INVENTORIES

	2019 RMB'000	2018 RMB'000
Properties	**50,208**	59,798
Materials, parts and equipment	**156,476**	–
	206,684	59,798

21. TRADE AND BILLS RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**744,692**	920,309
Impairment	**(77,806)**	(75,437)
	666,886	844,872
Bills receivables	**242,139**	130,139
	909,025	975,011

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.

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:

	2019 RMB'000	2018 RMB'000
Less than 6 months	**199,283**	461,207
6 months to 1 year	**264,444**	113,224
1 year to 2 years	**98,013**	138,766
2 years to 3 years	**62,677**	75,312
Over 3 years	**42,469**	56,363
	666,886	844,872

21. TRADE AND BILLS RECEIVABLES (continued)

Impairment

The movements in the loss allowance for impairment of trade receivables are as follows:

	2019 **RMB'000**	2018 RMB'000
At January 1	**75,437**	35,189
Impairment losses (note 7)	**1,815**	46,158
Amount written off as uncollectible	**–**	(5,910)
Acquisition of a subsidiary	**554**	–
At December 31	**77,806**	75,437

The breakdown of the loss allowance is as follows:

		Expected credit losses		
At December 31, 2019	**Credit-impaired RMB'000**	**Aproud Technology RMB'000**	**Entities other than Aproud Technology RMB'000**	**Total RMB'000**
Gross carrying amount	**32,544**	**4,837**	**707,311**	**744,692**
Credit loss	**32,544**	**3,051**	**42,211**	**77,806**
Average credit loss rate	**100%**	**63.08%**	**5.97%**	**10.45%**

		Expected credit losses		
At December 31, 2018	Credit-impaired RMB'000	Aproud Technology RMB'000	Entities other than Aproud Technology RMB'000	Total RMB'000
Gross carrying amount	27,017	6,051	887,241	920,309
Credit loss	27,017	3,440	44,980	75,437
Average credit loss rate	100%	56.85%	5.07%	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 six years and are not subject to enforcement activity.

21. TRADE AND BILLS RECEIVABLES (continued)

Impairment (continued)

Management categorises its trade receivables based on the ageing of the balances. The lifetime expected credit losses are applied to trade 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. 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.

Aproud Technology

Aproud Technology was engaged in providing intelligent transportation services in the expressway sector in prior years. Since 2017, no above business for this sector has been conducted.

The information about the credit risk of Aproud Technology is as follows:

At December 31, 2019	Expected credit loss rate	Gross carrying amount RMB'000	Expected credit losses RMB'000
Past due:			
Less than 1 year	**18.68%**	**520**	**97**
1 to 2 years	**36.21%**	**492**	**178**
2 to 3 years	**43.90%**	**793**	**348**
3 to 4 years	**71.89%**	**1,148**	**825**
4 to 5 years	**83.46%**	**558**	**465**
5 to 6 years	**85.82%**	**1,326**	**1,138**
Over 6 years (credit-impaired)	**100.00%**	**2,743**	**2,743**
		7,580	**5,794**

At December 31, 2018	Expected credit loss rate	Gross carrying amount RMB'000	Expected credit losses RMB'000
Past due:			
Less than 1 year	16.61%	447	74
1 to 2 years	34.85%	1,590	554
2 to 3 years	38.45%	1,256	483
3 to 4 years	71.89%	563	405
4 to 5 years	86.74%	1,362	1,181
5 to 6 years	89.23%	833	743
Over 6 years (credit-impaired)	100.00%	2,743	2,743
		8,794	6,183

21. TRADE AND BILLS RECEIVABLES (continued)

Impairment (continued)

Entities other than Aproud Technology

The entities in the Group other than Aproud Technology are mainly engaged in providing products of sale, specialised solution services and value-added operation and services in railway sector. Most of the customers are state-owned enterprises and railways bureau.

The information about the credit risk of entities other than Aproud Technology is as follows:

At December 31, 2019	Expected credit loss rate	Gross carrying amount RMB'000	Expected credit losses RMB'000
Past due:			
Less than 1 year	2.02%	472,854	9,549
1 to 2 years	5.38%	103,254	5,555
2 to 3 years	11.93%	70,662	8,430
3 to 4 years	21.18%	29,603	6,269
4 to 5 years	32.41%	15,805	5,123
5 to 6 years	48.13%	15,133	7,285
Over 6 years (credit-impaired)	100.00%	22,167	22,167
		729,478	64,378

At December 31, 2018	Expected credit loss rate	Gross carrying amount RMB'000	Expected credit losses RMB'000
Past due:			
Less than 1 year	1.83%	584,759	10,701
1 to 2 years	4.35%	143,995	6,265
2 to 3 years	9.85%	82,683	8,144
3 to 4 years	16.04%	19,967	3,203
4 to 5 years	25.92%	33,201	8,606
5 to 6 years	35.61%	22,636	8,061
Over 6 years (credit-impaired)	100.00%	16,407	16,407
		903,648	61,387

Other than the loss allowance using the provision matrix, included in the above allowance for impairment of trade receivables is a provision for individually impaired trade receivables of RMB7,634,000 (2018: RMB7,867,000) with a carrying amount before provision of RMB7,634,000 (2018: RMB7,867,000).

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Prepayments to suppliers for purchases of goods	**279,961**	172,817
Loan receivables (Note)	**71,306**	69,930
Tender deposits	**31,760**	18,250
Contract deposits	**30,674**	27,915
Advances to staff	**31,822**	20,671
Interest receivable	**12,694**	8,714
Dividend receivable	**3,571**	4,266
Others	**91,464**	88,270
	553,252	410,833
Impairment	**(49,833)**	(34,391)
	503,419	376,442
Less: loan receivables — non-current (Note)	**30,000**	33,000
	473,419	343,442

Note: The balance represents loans to other companies which are unsecured, repayable within one year and interest-free except for: (i) Loan of RMB30,000,000 (2018: RMB30,000,000) to an independent third party which is repayable in 2023, bears interest at a rate of 8% per annum and is secured by the pledge of the shares of Forever Opensource*; and (ii) Unsecured loan of nil (2018: RMB3,000,000) to an independent third party which is repayable in 2020 and bears interest at a rate of 7% per annum.

* On April 14, 2020, the Group entered into a pledge release agreement pursuant to which the parties agreed to release the pledge of the shares of Forever Opensource and the borrower shall provide security with the value equivalent to the pledged share of Forever Opensource within 180 days.

The movements in the impairment of prepayments, deposits and other receivables are as follows:

	2019 RMB'000	2018 RMB'000
At January 1	**34,391**	29,219
Impairment losses (Note 7)	**21,607**	5,172
Write-off	**(6,165)**	–
At December 31	**49,833**	34,391

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Financial assets included in prepayments, deposits and other receivables mainly represent contract deposits, tender deposits with customers, loans to other companies and advances to staff. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of the counterparty and the historical loss record of the Group.

As at December 31, 2019, the Group assessed the credit exposures of the financial assets included in prepayments, deposits and other receivables with a result that there has not been a significant increase in credit risk since initial recognition. Therefore, 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 RMB21,607,000 (2018: RMB5,172,000) in the current year.

23. CONTRACT ASSETS

	2019 **RMB'000**	2018 RMB'000
Contract assets arising from:		
Products and specialised solutions business	**450,844**	690,059
Maintenance services	**28,450**	38,486
	479,294	728,545
Impairment	**(29,678)**	(31,841)
	449,616	696,704

Contract assets are initially recognised for revenue earned from the sale of products, the provision of specialised solutions and value-added services. Upon issuing of billings to the customers according to the milestones of the projects, the amounts recognised as contract assets are reclassified to trade receivables. The decrease in contract assets in 2019 was due to the decrease of ongoing projects at the end of the year.

The expected timing of recovery or settlement for contract assets is as follows:

	2019 **RMB'000**	2018 RMB'000
Within 1 year	**310,008**	564,806
More than 1 year	**139,608**	131,898
	449,616	696,704

23. CONTRACT ASSETS (continued)

The movements in the impairment of contract assets are as follows:

	2019 RMB'000	2018 RMB'000
At January 1	31,841	35,640
Reversal (Note 7)	(2,163)	(3,799)
At December 31	29,678	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.

Impairment

Set out below is the information about the credit risk exposure on the Group's contract assets using a provision matrix:

	Expected credit losses			
At December 31, 2019	Credit-impaired RMB'000	Aproud Technology RMB'000	Entities other than Aproud Technology RMB'000	Total RMB'000
Gross carrying amount	16,219	24,657	438,418	479,294
Credit loss	16,219	4,605	8,854	29,678
Average credit loss rate	100.00%	18.68%	2.02%	6.19%

	Expected credit losses			
At December 31, 2018	Credit-impaired RMB'000	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
Credit loss	16,253	2,869	12,719	31,841
Average credit loss rate	100%	16.61%	1.83%	4.37%

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000
Unlisted equity investments		
— Current	–	20,000
— Non-current	**32,411**	42,790
	32,411	62,790
Listed equity investments		
— Non-current	**150,566**	74,965
	182,977	137,755

Included in the listed equity investments was 30.05% equity interest in Forever Opensource with carrying amount of RMB120,669,000 as at December 31, 2019 (2018: RMB56,160,000). The Group considers that it has no significant influence over Forever Opensource as Forever Opensource's actual controller (實際控制人) is Ma Yue (馬越) and the Group has appointed only one director of Forever Opensource.

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2019 RMB'000	2018 RMB'000
Cash and bank balances	**258,722**	146,436
Pledged or fixed deposits		
— Current deposits	**249,617**	234,428
— Non-current deposits	**70,000**	134,290
	578,339	515,154
Less: Pledged and fixed deposits for		
— Maturity over 3 months	**(47,066)**	–
— Letter of guarantee for projects	**(29,952)**	(45,758)
— Bills payables	**(9,994)**	(15,894)
— Interest-bearing bank borrowings (note 28)	**(231,806)**	(306,790)
— Tenders	**(799)**	(276)
Cash and cash equivalents	**258,722**	146,436

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (continued)

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 non-current deposit of RMB70,000,000 is to be matured in January 2021.

The cash and bank balances and pledged deposits of the Group denominated in RMB amounted to RMB389,914,000 (RMB389,901,000 in Mainland China and RMB13,000 in overseas) as at December 31, 2019 (December 31, 2018: RMB470,961,000 in total). In Mainland China, 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.

26. 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:

	2019 **RMB'000**	2018 RMB'000
Current or less than 1 year	**286,496**	569,619
1 to 2 years	**76,539**	70,386
Over 2 years	**25,216**	11,858
	388,251	651,863

The Group's bills payable were secured by pledged deposits of the Group of RMB9,994,000 as at December 31, 2019 (2018: RMB15,894,000).

Trade payables are non-interest-bearing and generally have credit terms ranging from 1 to 360 days.

27. CONTRACT LIABILITIES, OTHER PAYABLES AND ACCRUALS

	2019 RMB'000	2018 RMB'000
Contract liabilities (a)	**357,009**	361,727
Business advance deposits	**34,973**	13,732
Staff costs and welfare accruals	**17,175**	12,902
Other borrowings	**133,128**	28,173
Other taxes payable	**103,931**	84,720
Interest payables	**2,206**	2,652
Others	**23,532**	52,819
	671,954	556,725

(a) Details of contract liabilities are as follows:

	2019 RMB'000	2018 RMB'000
Short-term advances received from customers		
Products and specialised solutions	**350,110**	355,342
Maintenance services	**6,899**	6,385
Total contract liabilities	**357,009**	361,727

Contract liabilities include advances received from customers to deliver products and render maintenance and specialised solution services. The decrease in contract liabilities in 2019 was mainly due to the decrease in short-term advances received from customers in relation to the sale of products, provision of specialised solution services at the end of the year.

Other payables including other borrowings are non-interest-bearing and repayable on demand.

28. INTEREST-BEARING BANK BORROWINGS

	2019		2018	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Current				
Short term bank loans — secured	**2.8–7.0**	**548,216**	2.5–7.0	277,620
Bills receivable discounted or endorsed	**0–4.1**	**153,551**	0–4.1	85,889
		701,767		363,509
Non-current				
Long term bank loans — secured	**HIBOR/4.1–5.7**	**146,250**	HIBOR/4.1–6.2	420,843
		146,250		420,843
		848,017		784,352

Analysed into:	**2019 RMB'000**	2018 RMB'000
Bank loans repayable:		
Within 1 year or on demand	**701,767**	363,509
After 1 year but within 2 years	**121,250**	420,843
After 2 years but within 5 years	**25,000**	–
	848,017	784,352

Notes:

(i) Current bank loans of RMB121.2 million and non-current bank loans of RMB103.2 million as at December 31, 2019 (2018: in aggregate RMB278.4 million) were secured by pledged deposits of RMB232.0 million (2018: RMB306.8 million) of the Group (note 25).

(ii) Bank loans of RMB30.0 million as at December 31, 2019 (2018: RMB30.0 million) were guaranteed by the Company. Bank loans of RMB160.0 million as at December 31, 2019 (2018: RMB160 million) were guaranteed by a subsidiary of King Victory Holdings Limited ("King Victory"), which is an associate of the two executive directors, Jiang Hailin and Liao Jie and one of the controlling shareholders of the Company.

(iii) Current bank loans of RMB230.0 million as at December 31, 2019 (2018: RMB230.0 million) were secured by properties of the Group with a carrying amount of RMB208.5 million (2018: RMB212.9 million), and shares of Aproud Technology, a subsidiary of the Company.

(iv) Current bank loans of RMB7.0 million and non-current bank loans of RMB43.0 million (2018: nil) were secured by properties of the Group with a carrying amount of RMB6.5 million (2018: nil) and a corporate guarantee by Zhixun Tiancheng.

As at December 31, 2019, the Group's bank loans of RMB593.3 million (2018: RMB599.6 million) were charged at fixed interest rates and bank loans of RMB101.1 million (2018: 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.

29. DEFERRED TAX

The movements in deferred tax assets and liabilities for the year are as follows:

	Assets		Liabilities	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
At January 1	**17,514**	7,769	**24,537**	21,680
Charged to profit or loss	**(3,003)**	9,745	**(1,097)**	2,857
Offsetting	**(14,511)**	–	**(14,511)**	–
At December 31	**–**	17,514	**8,928**	24,537

Recognised deferred tax assets and liabilities

	Assets		Liabilities	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accrued charges	**573**	4,813	**–**	–
Fair value adjustment on investment properties	**–**	–	**14,747**	13,357
Fair value adjustment on financial assets at fair value through profit or loss	**3,948**	2,569	**1,778**	1,918
Impairment of intangible assets	**–**	1,958	**–**	–
Impairment of trade and bills receivables and contract assets	**1,114**	–	**–**	–
Recognition of revenue	**6,968**	–	**6,915**	9,262
Tax losses	**1,908**	8,174	**–**	–
	14,511	17,514	**23,440**	24,537
Offsetting	**(14,511)**	–	**(14,511)**	–
Deferred tax liabilities, net	**–**	17,514	**8,929**	24,537

The Group has tax losses of RMB47,130,000 arising in Mainland China (2018: RMB40,643,000) 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 loss-generating subsidiaries and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

30. SHARE CAPITAL

	2019 RMB'000	2018 RMB'000
Authorised		
1,900,000,000 ordinary shares of HK$0.0002 each	**380**	380

	RMB'000	RMB'000
Issued and fully paid:		
1,654,024,868 ordinary shares of HK$0.0002 each	**290**	290

31. RESERVES

Share premium

The balance of share premium represented the difference between the subscription price and nominal value of the Company's ordinary's ordinary shares upon the Company issuing shares at a premium, less subsequent distributions.

In accordance with the Companies Law (Revised) of the Cayman Islands, the share premium is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

Statutory reserve

According to the PRC Company Law, the PRC subsidiaries of the Company 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 the listing of the Company on the Stock Exchange; (ii) reserves arising from the share options granted by China ITS Co., Ltd. and the Company as set out in note 32 to the consolidated financial statements; (iii) capitalised retained earnings to the capital of certain subsidiaries; and (iv) the difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received, on changes in the Group's interests in subsidiaries that do not result in the Group losing control.

31. RESERVES (continued)

Asset revaluation reserve

The balance of asset revaluation reserve represented the asset revaluation reserve of the Group's building included in property and equipment upon the transfer to investment properties in prior years.

Exchange fluctuation reserve

The functional currencies of overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the reporting currency of the Group at the exchange rates ruling at the end of the reporting period and their income statements are translated at the weighted average exchange rates for the year. The resulting exchange differences are included in the foreign currency translation reserve.

32. SHARE OPTION 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 executive 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 installments 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:

	2019		2018	
	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**	**72,217**	1.05	74,673
Forfeited during the year	**1.05**	**(11,206)**	1.05	(2,456)
At December 31	**1.05**	**61,011**	1.05	72,217

32. SHARE OPTION SCHEME (continued)

The exercise prices and exercisable periods of the share options outstanding as at the end of the reporting period are as follows:

Batches	Number of Options 2019 '000	2018 '000	Exercise Price HK$ per share	Exercise period
Batch 1	**2,815**	3,381	1.05	April 19, 2012 to January 18, 2022
Batch 2	**2,815**	3,381	1.05	July 19, 2012 to January 18, 2022
Batch 3	**2,815**	3,381	1.05	October 19, 2012 to January 18, 2022
Batch 4	**2,815**	3,381	1.05	January 19, 2013 to January 18, 2022
Batch 5	**5,082**	6,016	1.05	April 19, 2013 to January 18, 2022
Batch 6	**5,082**	6,016	1.05	July 19, 2013 to January 18, 2022
Batch 7	**5,082**	6,016	1.05	October 19, 2013 to January 18, 2022
Batch 8	**5,082**	6,016	1.05	January 19, 2014 to January 18, 2022
Batch 9	**7,350**	8,650	1.05	April 19, 2014 to January 18, 2022
Batch 10	**7,350**	8,650	1.05	July 19, 2014 to January 18, 2022
Batch 11	**7,350**	8,650	1.05	October 19, 2014 to January 18, 2022
Batch 12	**7,373**	8,679	1.05	January 19, 2015 to January 18, 2022
	61,011	72,217		

* 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.

11,206,000 (2018: 2,456,000) share options were forfeited during the year which resulted in the reclassification of the capital reserve and retained earnings amounting to RMB4,367,000 (2018: RMB966,000).

As at December 31, 2019, the Company had 61,011,000 (2018: 72,217,000) share options outstanding under the scheme, which represented approximately 3.69% of the Company's shares in issue at that date (2018: 4.37%).

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank and other loans	
	2019	2018
	RMB'000	RMB'000
At January 1	**784,352**	760,829
Changes from financing cash flows	**63,665**	23,523
At December 31	**848,017**	784,352

34. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bills payables and bank borrowings are included in notes 26 and 28, respectively, to the consolidated financial statements.

35. OPERATING LEASE COMMITMENTS

As lessor

The Group leases its investment properties and offices properties to certain independent third parties and a related party, with leases negotiated for terms of six months to three years.

The investment properties are subject to residual value risk. The lease contract, as a result, includes a provision on residual value guarantee based on which the Group has the right to charge the tenant on reimbursement basis for any damage to the investment properties caused by the tenant at the end of the lease. The amount to be deducted from the rental deposit received.

Below is a maturity analysis of undiscounted lease payments to be received from the leasing of investment properties and offices properties.

At December 31, 2019	RMB'000
Year 1	**13,632**
Year 2	**5,205**
Year 3	**1,215**
Undiscounted lease payments to be received	**20,052**

35. OPERATING LEASE COMMITMENTS (continued)

As lessor (continued)

The future aggregate minimum rental receivables under non-cancellable operating leases of investment properties and offices properties were as follows:

At December 31, 2018	RMB'000
Within one year	10,643
In the second to fifth years, inclusive	12,590
	23,233

36. CAPITAL COMMITMENTS

As at December 31, 2019, the Group had the following capital commitments:

	2019 **RMB'000**	2018 RMB'000
Contracted, but not provided for:		
Land and buildings	**–**	63,806
Equipment (note 43)	**223,740**	–
	223,740	63,806

37. BUSINESS COMBINATION

On May 13, 2019, the Group entered into a share purchase agreement with the vendors, pursuant to which the Group shall acquire 58% equity interest in CEEC at a cash consideration of RMB85,840,000 (the "Acquisition"). The vendors warrant to the Group that in respect of the two years ended December 31, 2019 and 2020 (the "Profit Guarantee Period"), the aggregate audited consolidated profits after tax of CEEC subgroup for the Profit Guarantee Period shall be no less than RMB62,000,000. If the guaranteed profits during the Profit Guarantee Period are not achieved, the Group is entitled to a compensation amount, details of which are set out in the Company's announcement dated May 13, 2019. The Acquisition was completed in late May 2019.

CEEC is primarily engaged in investment, sales of equipment and provision of specialised solutions for various segments of electric power and communication industry in Southeast Asia. The goodwill is attributable to the expectation that the Acquisition will provide the Group with an instant access into the infrastructure market in the Southeast Asia countries, which is in accordance with the Group's expansion strategy.

37. BUSINESS COMBINATION (continued)

The following summarises the consideration paid and the amounts of the assets acquired and liabilities assumed, as well as the amount of non-controlling interest recognised at the date of acquisition:

	RMB'000
Cash and cash equivalents	1,689
Trade and bills receivables	29,535
Prepayment, deposits and other receivables	39,243
Property and equipment (note 14)	22
Trade and other payables	(58,074)
Total identifiable net assets at fair value	12,415
Non-controlling interests	(5,215)
Goodwill on Acquisition	78,640
Consideration for Acquisition	85,840

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition is as follows:

	RMB'000
Cash and bank balances acquired	1,689
Consideration paid	(65,840)
	(64,151)

The initial accounting for the Acquisition is provisional mainly for the fair values of intangible assets acquired and the consideration transferred as the valuations of these items have not been completed. Once the valuations are finalised, the values of the intangible assets acquired and the consideration transferred together with deferred tax and goodwill are expected to change.

Since the Acquisition, CEEC subgroup contributed RMB23,161,000 to the Group's revenue and RMB20,617,000 to the Group's profit for the year ended December 31, 2019.

Had the combination taken place at the beginning of the year, the revenue of the Group and the loss of the Group for the year would have been RMB1,066,885,000 and RMB34,324,000, respectively.

38. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

In addition to the transactions detailed elsewhere in these consolidated financial statements, the Group had the following major transactions with related parties during the year:

	Notes	2019 RMB'000	2018 RMB'000
Associates			
Rental income	(i)	**36**	21
Joint ventures			
Sale of products	(ii)	**–**	6,340
King Victory and its affiliates			
Sale of products	(ii)	**–**	129
Interest income	(iii)	**18,105**	24,988
Rental income	(i)	**3,617**	1,721

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 on prices mutually agreed by both parties.

(iii) 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 was due in June 30, 2019. The receivables were interest-bearing at rates ranging from 3.487% to 6.479% (2018: 3.487% to 6.479%) per annum.

(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, 2019, as further detailed in note 28.

38. 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:

	Notes	2019 RMB'000	2018 RMB'000
Due from related parties			
Associates	(ii)	**4,869**	5,048
Joint ventures	(ii)	**–**	38,166
King Victory and its affiliates	(i)	**381,227**	607,597
Total		**386,096**	650,811
Due to related parties			
Associates	(ii)	**–**	5,000
Joint ventures	(ii)	**4,615**	10,273
King Victory and its affiliates	(ii)	**154**	12,683
		4,769	27,956

Notes:

(i) As at December 31, 2019, RMB347 million (2018: RMB509 million) was due on June 30, 2019 and secured by the pledge of 75% equity interests in a subsidiary of King Victory. The interest rate was 3.487% to 6.479% (2018: 3.487% to 6.479%) per annum. The balances of RMB34 million (2018: RMB99 million) was unsecured, non-interest bearing and repayable on demand.

(ii) The amounts due are unsecured, non-interest bearing and repayable on demand.

(d) Compensation of key management personnel of the Group

	2019 RMB'000	2018 RMB'000
Fees	**1,461**	1,556
Salaries, bonuses, allowances and benefits in kind	**4,348**	4,354
Pension plan contributions	**276**	221
Total compensation paid to key management personnel	**6,085**	6,131

39. CONTINGENT LIABILITIES

As at December 31, 2019, the Group did not have any significant contingent liabilities (2018: Nil).

40. 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

2019

	Mandatory financial assets at fair value through profit or loss RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade and bills receivables	**–**	**909,025**	**909,025**
Financial assets included in prepayments, other receivables and other assets	**–**	**192,784**	**192,784**
Amounts due from related parties	**–**	**386,096**	**386,096**
Financial assets at fair value through profit or loss	**182,977**	**–**	**182,977**
Pledged deposits	**–**	**319,617**	**319,617**
Cash and cash equivalents	**–**	**258,722**	**258,722**
	182,977	**2,066,244**	**2,249,221**

2018

	Mandatory financial assets at fair value through profit or loss RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade and bills receivables	–	975,011	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
Financial assets 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	2,323,930	2,461,685

40. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

	2019 Financial liabilities at amortised cost RMB'000	2018 Financial liabilities at amortised cost RMB'000
Trade and bills payables	**388,251**	651,863
Financial liabilities included in other payables and accruals	**158,866**	44,557
Interest-bearing bank borrowings	**848,017**	784,352
Amounts due to related parties	**4,769**	27,956
	1,399,903	1,508,728

Management has assessed that the fair values of financial instruments of the Group approximate to their carrying amounts largely due to the short-term maturities of these instruments.

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL 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.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments measured at fair value as at December 31, 2019:

	Fair value measurement using			
At December 31, 2019	**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	**29,897**	**120,669**	**32,411**	**182,977**

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

	Fair value measurement using			
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
Financial assets at fair value through profit or loss	18,805	56,160	62,790	137,755

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 (2018: Nil).

The fair values of unlisted equity investments at fair value through profit or loss 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 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.

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at December 31, 2019:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investments	Market Approach	Average EV/EBITDA multiple of peers	19.9 (2018: 29.2)	1% increase/decrease in multiple would result in increase/decrease in fair value by RMB319,000 (2018: RMB328,000)
		Discount for lack of market ability	35% (2018: 35%)	1% increase/decrease in discount would result in decrease/increase in fair value by RMB319,000 (2018: RMB328,000)

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. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise financial assets at fair value through profit or loss, 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, equity price 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.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 loss before tax would have increased/decreased by approximately RMB461,000 for the year ended December 31, 2019 (2018: RMB474,000).

Equity price risk

The Group is exposed to price risks arising from equity investments held under financial assets at fair value through profit or loss amounting to RMB183 million (2018: RMB137 million). The Group does not actively trade these investments. The sensitivity analysis has been determined based on the exposure to equity price risk. At the end of the reporting period, if the equity price had been 5% (2018: 5%) higher/lower while all other variables were held constant, the Group's loss would be decreased/increased by RMB9 million (2018: RMB7 million) due to change in the fair value of financial assets at fair value through profit or loss. The Group's sensitivity to equity price has not changed significantly from the prior year.

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, 2019 and 2018 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.

	2019		2018	
	Increase/ (decrease) in exchange rate %	**Increase/ (decrease) in profit or loss before tax RMB'000**	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit or loss before tax RMB'000
If RMB weakens against US$	**5**	**2,738**	5	106
If RMB strengthens against US$	**(5)**	**(2,738)**	(5)	(106)
If RMB weakens against HK$	**5**	**(3,297)**	5	(13,912)
If RMB strengthens against HK$	**(5)**	**3,297**	(5)	13,912

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

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. 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. 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.

The Group applies the simplified approach for impairment of trade receivables and contract assets, which is based on the provision matrix as disclosed in notes 21 and 23 to the consolidated 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 Group considers its exposure to credit risk in respect of the amounts due from King Victory and its affiliates is not significant as the amounts were secured by pledge of 75% equity interests in a subsidiary of King Victory which fair value exceeded the amounts due.

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:

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

As at December 31, 2019

	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	**262,455**	**46,437**	**79,359**	**–**	**388,251**
Financial liabilities included in other payables and accruals	**156,660**	**–**	**2,206**	**–**	**158,866**
Amounts due to related parties	**4,769**	**–**	**–**	**–**	**4,769**
Interest-bearing bank borrowings	**–**	**213,381**	**502,057**	**161,884**	**877,322**
	423,884	**259,818**	**583,622**	**161,884**	**1,429,208**

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

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.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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, 2019 and December 31, 2018.

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:

	2019 RMB'000	2018 RMB'000
Interest-bearing bank borrowings	**848,017**	784,352
Amount due to related parties	**4,769**	27,956
Less: Cash and cash equivalents	**(258,722)**	(146,436)
Pledged deposits for interest-bearing bank borrowings	**(231,806)**	(306,790)
Net debt	**362,258**	359,082
Equity attributable to owners of the Company	**1,973,983**	2,030,689
Adjusted capital	**1,973,983**	2,030,689
Net debt to equity ratio	**18.35%**	17.68%

43. SUBSEQUENT EVENTS

In addition to the information disclosed elsewhere in these consolidated financial statements, the Group has the following subsequent events:

(a) On January 17, 2020, a 92.4% owned subsidiary, Myanmar Ahlone Power Plant Company Limited ("Myanmar Ahlone"), was incorporated in Myanmar with total share capital of US$500,000. The principal activity of Myanmar Ahlone is to operate power stations in Myanmar pursuant to a power purchase agreement signed between the Group, another shareholder of Myanmar Ahlone and the Myanmar government bureau.

As at December 31, 2019, the Group signed contracts and made payment for acquisition of certain power station equipment in the amount of RMB321 million and RMB125 million respectively for Myanmar Ahlone.

(b) Since the outbreak of the 2019 Novel Coronavirus ("COVID-19") in January 2020, the local government and authorities in many cities have implemented various measures such as imposing travel restrictions, quarantine arrangements on travelers and home office arrangements that are adversely affecting the global economy and also the business operations of the Group. Depending on the development of the COVID-19 pandemic, the Group's business operations may continue to be affected if the control measures are not lifted. The duration and intensity of this COVID-19 pandemic and related disruptions are uncertain.

The implementations of the control measures in response to the COVID-19 pandemic are non-adjusting events after the financial year end of December 31, 2019 and do not result in any adjustments to the consolidated financial statements for the year ended December 31, 2019.

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:

	2019 **RMB'000**	2018 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**689,810**	581,582
Investment in a joint venture	**2,067**	2,067
Total non-current assets	**691,877**	583,649
CURRENT ASSETS		
Prepayments, deposits and other receivables	**42,641**	23,131
Financial assets at fair value through profit or loss	**–**	20,000
Amounts due from subsidiaries	**936,601**	1,028,781
Amounts due from related parties	**531,113**	370,544
Pledged deposits	**2,195**	–
Cash and cash equivalents	**113,971**	56,552
Total current assets	**1,626,521**	1,499,008
CURRENT LIABILITIES		
Other payables and accruals	**–**	87,620
Interest-bearing bank borrowings	**119,989**	141,286
Amounts due to related parties	**251,716**	10,134
Amounts due to subsidiaries	**210,227**	148,608
Total current liabilities	**581,932**	387,648
NET CURRENT ASSETS	**1,044,589**	1,111,360
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,736,466**	1,695,009
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**134,566**	120,843
Total non-current liabilities	**134,566**	120,843
Net assets	**1,601,900**	1,574,166
EQUITY		
Share capital	**290**	290
Other reserves (note)	**1,601,610**	1,573,876
Total equity	**1,601,900**	1,574,166

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	Accumulated losses RMB'000	Total RMB'000
At 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 and January 1, 2019	**1,066,708**	**602,676**	**(80,406)**	**(15,102)**	**1,573,876**
Loss for the year	**–**	**–**	**–**	**542**	**542**
Exchange differences related to foreign operations	**–**	**–**	**27,192**	**–**	**27,192**
Total comprehensive income/(loss) for the year	**1,066,708**	**602,676**	**(53,214)**	**(14,560)**	**1,601,610**
Share-based payment transactions*	**–**	**(39)**	**–**	**39**	**–**
At December 31, 2019	**1,066,708**	**602,637**	**(53,214)**	**(14,521)**	**1,601,610**

* 99,000 (2018: 99,000) share options forfeited during the year resulted in the reclassification of capital reserve and accumulated losses amounting to RMB39,000 (2018: RMB39,000).

45. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on May 12, 2020.

Investment Properties

December 31, 2019

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 6/8 Zhi Hui Road, Huishan District, Wuxi, Jiangsu Province, the PRC	Office	Long-term lease	100%