



京投轨道交通科技控股有限公司

BIJ Railway Transportation Technology Holdings Company Limited

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



2019 ANNUAL
REPORT

SPEEDY DEVELOPMENT

REMODELING
2021

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Cao Wei (*Vice Chairman*)

Ms. Xuan Jing (*Chief Executive Officer*)

Non-Executive Directors

Mr. Zhang Yanyou (*Chairman*)

Mr. Guan Jifa

Mr. Zheng Yi

Mr. Ren Yuhang

Independent Non-Executive Directors

Mr. Bai Jinrong

Mr. Luo Zhenbang (*CPA*)

Mr. Huang Lixin

AUTHORISED REPRESENTATIVES PURSUANT TO RULE 3.05 OF THE LISTING RULES

Ms. Xuan Jing

Ms. Cheung Yuet Fan

COMPANY SECRETARY

Ms. Cheung Yuet Fan

AUDIT COMMITTEE

Mr. Luo Zhenbang (*CPA*) (*Chairman*)

Mr. Bai Jinrong

Mr. Huang Lixin

REMUNERATION COMMITTEE

Mr. Bai Jinrong (*Chairman*)

Mr. Guan Jifa (*appointed on 30 March 2020*)

Mr. Huang Lixin

Mr. Cao Wei (*resigned on 30 March 2020*)

NOMINATION COMMITTEE

Mr. Zhang Yanyou (*Chairman*)

Mr. Bai Jinrong

Mr. Huang Lixin

AUDITORS

KPMG

*Public Interest Entity Auditor registered in accordance
with the Financial Reporting Council Ordinance*

LEGAL ADVISERS TO THE COMPANY

Chiu & Partners

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation
Limited

REGISTERED OFFICE

Cricket Square

Hutchins Drive

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Grand Cayman, KY1-1111

Cayman Islands

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Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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Wanchai, Hong Kong

WEBSITE

www.biitt.cn

STOCK CODE

1522

COMPANY OVERVIEW

COMPANY INTRODUCTION

The Group is a high-tech enterprise specialising in the field of rail transit, integrating investment and financing, technology R&D, and intelligent rail transport construction, operation and maintenance.

The Company was listed on the Growth Enterprise Market (GEM) of the Stock Exchange on 16 May 2012 and transferred to Main Board of the Stock Exchange on 6 December 2013, with the stock code of 1522.

The Group, which concentrates on rail transit for more than a decade, focuses on two core businesses, namely:

<p>intelligent rail transit</p>	<p>Its intelligent rail transit business provides hardware and software products and services to clients in high-speed rail, intercity, urban and suburban railway, subway and other fields in both domestic and overseas markets. It is an industry leader in China in terms of PIS and AFC businesses.</p>
<p>infrastructure information</p>	<p>As for its infrastructure information business mainly based in Beijing, the Group is a leading provider of civil communications transmission systems for subways and integrated utility tunnel informatisation systems.</p>



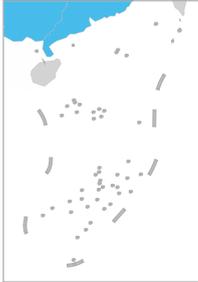
Company Overview (continued)

MARKET STRATEGY

The Group adheres to its market strategy of “relying on Beijing and Hong Kong, radiating across the country, and making presence in international markets”, has been making remarkable results in market expansion.

As of 31 December 2019, the Group’s businesses covered 39 cities in China, with 119 projects under construction, where it provided products and services, including intelligent rail transit and infrastructure information. As for overseas market, it has expanded into nine cities overseas in four countries and regions, with eight projects under construction, where it provided intelligent rail transit-related (PIS) products and services.

● Areas covered by the our businesses in China



● Areas covered by our businesses overseas

Note: It has expanded its footprint to India, Sri Lanka, Indonesia, Costa Rica, etc.

Company Overview (continued)

SUMMARY WITH FIGURES

The Group concentrates on rail transit for

15 YEARS

Its businesses cover

39 CITIES

in China and

9 CITIES

overseas in four countries and regions.

It owns

75

PATENTS

and obtains

291

SOFTWARE COPYRIGHTS.

As at the end of 2019, the orders on hand of the Group was approximately

HK\$ 1.99 BILLION.



technology company that has achieved MLC standardisation.



data warehouse-based information centre.



cloud-based ANCC system combining AFC Clearing Centre and MLC systems.



high-tech enterprise capable of providing products and technologies, system integration, operation services and technical consultation for high-speed rail, normal-speed railway, urban rail transit, intercity railway, and urban railway.

Revenue was approximately

HK\$ 1,193.9 MILLION

in 2019, representing an increase of approximately

↑ 163.4%

as compared to 2018.

Profit attributable to equity shareholders in 2019 amounted to approximately

HK\$ 96.9 MILLION

representing an increase of approximately

↑ 104.4%

as compared to 2018.

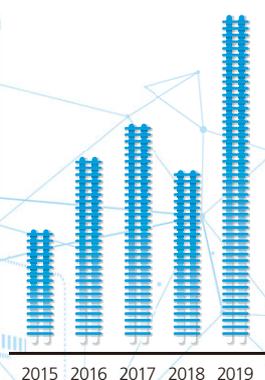
FINANCIAL HIGHLIGHTS

	2019	For the year ended 31 December			
		2018	2017	2016	2015
Key profit items (HK\$ Thousand)					
Revenue	1,193,937	453,204	564,587	479,309	320,782
Gross profit	424,779	108,815	113,286	103,985	121,452
Earnings before interest, taxes, depreciation and amortization	209,019	105,303	93,839	66,020	61,965
Profit attributable to equity shareholders of the Company	96,870	47,398	38,554	25,728	22,945

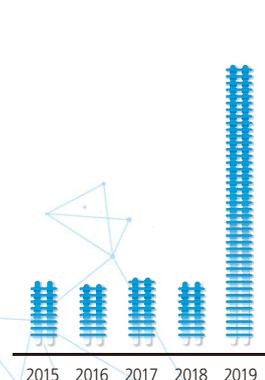
	2019	As at 31 December			
		2018	2017	2016	2015
Key statement of financial position items (HK\$ Thousand)					
Non-current assets	1,528,471	703,412	731,123	654,271	315,212
Current assets	2,505,375	2,340,020	1,981,904	1,840,626	1,231,066
Total assets	4,033,846	3,043,432	2,713,027	2,494,897	1,546,278
Total liabilities	1,761,306	845,780	498,918	378,370	324,776
Equity attributable to equity shareholders of the Company	2,189,216	2,168,810	2,194,076	2,104,699	1,211,100

Financial year	2019	2018	2017	2016	2015
Return to shareholders					
Earnings per share					
– Basic (HK\$ cent)	4.6	2.3	1.8	1.7	1.7
– Diluted (HK\$ cent)	4.6	2.3	1.8	1.7	1.7
Dividend per share (HK\$ cent)	2.0	1.0	1.0	–	–
Net assets per share (HK\$)	1.0	1.0	1.0	1.0	0.9

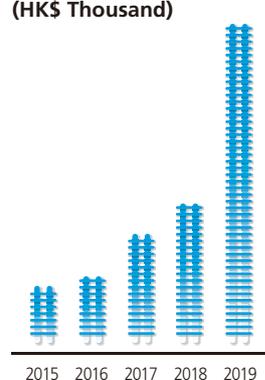
**Revenue
(HK\$ Thousand)**



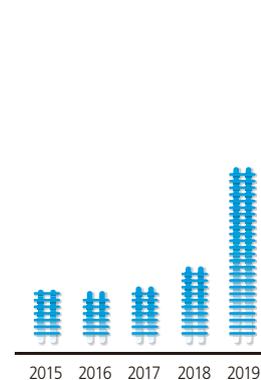
**Gross profit
(HK\$ Thousand)**



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



**Basic earnings per share
(HK\$ cent)**



CHAIRMAN'S STATEMENT



*Seize strategic opportunities,
lead intelligent upgrade and
achieve rapid development*

Mr. Zhang Yanyou
Chairman

Dear valued shareholders and friends,

On behalf of the board of directors (the Board), I am pleased to present the annual results of the Group for FY 2019.

2019 is a boom year for China's rail transit industry as well as the first year for the Group to implement its development strategy of "New Journey and Remodelling 2021". In 2019, the Group seized the strategic development opportunities arising from intelligentisation of China's rail transit, continuously deepened its strategic positioning of "China's leading intelligent rail transit system service provider", and firmly adhered to the strategy of "one body, one platform, and one centre". It made an effective shift from a "market-driven" model to a "market, capital, and technology-driven" model,

fortified its businesses to build a solid foundation, and increased profits from diversified channels. Efforts were made to leverage capital competitiveness to continuously improve the industrial competitive advantage of the Group's main businesses. The Group increased its investments in scientific R&D and innovation and improved the ability to export its own products and core technologies. With higher awareness of risk prevention and control, it established a good market image and created a high brand value. Thanks to the improved corporate governance mechanism and the strategic guidance and scientific decision making of the Board, the Group saw sound, sustained and fast-growing operating results, paving a good start to further fulfil its strategic mission of "energise the railway transportation by intelligent technology".

Chairman's Statement (continued)

RESULTS

The Group recorded revenue of approximately HK\$1,193.9 million in FY 2019, an increase of approximately HK\$740.7 million or 163.4% from FY 2018. Profit attributable to equity shareholders in FY 2019 amounted to approximately HK\$96.9 million, a year-on-year rise of approximately HK\$49.5 million or 104.4%, marking a high growth rate for the fourth consecutive year. This has laid a solid foundation for the Group to achieve its future strategic development goals.

DIVIDENDS

As a token of gratitude to our Shareholders for their continuing support, the Board proposed payment of a dividend of HK\$0.02 per share for FY 2019, an increase of 100.0% from FY 2018. The total amount of dividends will be approximately HK\$42,002,000, subject to the approval of the Shareholders at the 2020 AGM. The Company has declared cash dividends for three consecutive years.

The Group will continue to strive for excellence and valuing returns to shareholders while achieving sustainable development. After the Board took comprehensive consideration of strategic planning, business expansion, operation management, dividend payout and other factors, the Group has established a sustainable, stable and scientific return mechanism for Shareholders. The mid-to-long-term dividend payout ratio will not be lower than 30% in principle, which will provide Shareholders with tangible returns. The specific dividend allocation will depend on the annual results, cash flows and other factors, subject to the approval of Shareholders at the relevant annual general meeting.

STRATEGIC RESULTS AND SUSTAINED GROWTH

The Group further clarified its business deployment of "focusing on intelligent rail transit service and infrastructure informatisation service, supplemented by new business development through joint ventures", which helped it achieve high-quality and leapfrog development and make a solid step towards "the world's top-class intelligent rail transit leader".

Develop strategies and make comprehensive breakthroughs to step up presence in and outside mainland China

As of the end of 2019, the orders on hand of the Group was approximately HK\$1.99 billion, demonstrating its great business development and strong development potential. The Group has further deepened its market strategy of "relying on Beijing and Hong Kong, radiating across the country, and making presence in international markets" while it successfully promoted "products and services in Beijing".

As for market expansion, the Group solidified the foundation, adjusted the structure, expanded the boundaries, and saw breakthroughs in 2019.

Business in Beijing saw stable development. The Group won the bidding of some important projects, including the AFC of Beijing Subway Line 12 and the project of connecting new rail transit lines to the system of Beijing Metro Network Control Centre's information centre. It was responsible for the operation and maintenance of multiple systems of the city's rail transit network, including "three centres and one platform" (This refers to the ACC, the testing centre and the information centre, as well as the integrated management and control platform and integration system). The Group provided all-round services for the construction of intelligent subways in Beijing to contribute to the development of rail transit in the city.

Business in Hong Kong bucked the trend for growth. The Group accurately grasped the strategic development opportunities arising from the Guangdong-Hong Kong-Macao Greater Bay Area. So, the value of newly signed contracts and other indicators in Hong Kong grew year on year. Its customer resources cover the field of public transport, including buses, Mass Transit Railway (MTR) and New World First Ferry, showing the development trend of diversification. It provides citizens with more convenient and efficient public transport services.

Business across the country increased significantly.

The Group has successively secured rail transit projects in many cities, including metro projects in Kunming, Fuzhou, Hangzhou, Chengdu, Shenzhen and Xuzhou. The proportion of projects outside Beijing has risen year by year. It has expanded business to many other regions. The Group operated business in 39 cities in 26 provinces, municipalities, autonomous regions and special administrative regions in China as of the end of 2019. Its business covered 75% of the cities where rail transit services are available. Market expansion work is fruitful.

Making breakthroughs in overseas business.

The Group is the winning bidder of the PIS of Mumbai Metro Line 2 and 7 and the integrated PIS of Pune Metro in India, gaining presence in the Indian market. The Group, which actively responds to the "Belt and Road" Initiative and policies, made breakthroughs in nine cities in India, Indonesia, Sri Lanka and Costa Rica, marking its continuous business expansion abroad.

Go through trials and hardships and accumulate and develop to set a benchmark in Beijing

In terms of major projects, the Group strengthened management, built models, set examples, and won praise in 2019.

The era of 5G subway comes. Daxing Airport Express was put into service in September 2019, marking the official operation of China's first rail-based metro line invested and built by the Group and the metro line was covered with 5G services by all operators. The eastern extension line of Beijing Subway Line 7 became 5G-enabled before the end of 2019. The Group's civil communications service ran into the "era of 5G".

It offered a utility tunnel management platform for Expo 2019 Beijing to escort the event.

The Group provided a self-developed, leading Chinese intelligent utility tunnel operation and maintenance management platform for International Horticultural Exhibition 2019, Beijing, China. It created a new model integrating "construction, operation and maintenance", gave full play to the brand effect, and enhanced core competitive advantages to ensure the success of the expo.

Winter Olympics' utility tunnel project advances efficiently.

The Group won the bidding of the peripheral supporting utility tunnel project of Beijing 2022 Winter Olympics' Yanqing zone. It will provide low-voltage equipment, software development and other services for the underground utility tunnel, known as the "lifeline" of Winter Olympics, to fully support the event.

It strove to participate in the construction of a series of key projects in Beijing, in order to establish a benchmark, create a classic, improve its reputation and win praise.

Come up with new ideas and forge ahead to centre on scientific research innovation

The Group invested heavily in scientific research innovation, established mechanisms, promoted transformation and created new ideas in 2019.

The proportion of its R&D spending grew year by year.

The total investment of the Group in research and development ("R&D") amounted to approximately HK\$117.9 million in FY 2019, representing an increase of approximately 252.8% from 2018, accounting for approximately 9.9% of its total full-year revenue. The proportion of the number of R&D personnel exceeded 30% of the Group's employees. It took actions to meet its scientific research goal of "promoting industrial upgrading with scientific and technological innovation and enhancing core competitiveness through R&D innovation".

Chairman's Statement (continued)

Increased efforts on innovative mechanisms. The Group established the Research Institute of Intelligent Technology for Rail Transit in order to lead the new development trend of intelligent rail transit and follow the national strategic initiative to "Building China into a Country with Strong Transportation Network". It integrated R&D forces, focused on the need of rail transit intelligentisation, started with forward-looking technology research, pursued collaborative innovation to build technical systems and product lines containing intelligent passenger service, intelligent production, operation and maintenance, intelligent operation control, as well as intelligent technologies, with big data platforms as the core, intelligent perception technologies as the foundation and intelligent rail transit business as the traction. All these have enhanced the strategic competitiveness and comprehensive strength of the Group's overall R&D innovation.

Promoted achievements transformation. The Group saw much, high-quality and fast transformation of scientific and technological achievements, and the demonstration effect gradually appeared, as cloud platforms' technologies were applied by Zhengzhou Metro, China's first data warehouse-based information centre came into service in Nanjing Metro, and innovative technologies, including the visible on-board passenger alarm system and pantograph monitoring system, were put into practice in the Hangzhou metro project and Beijing-Xiong'an high-speed-rail project.

Strive together and unite as one to strengthen capital operation

In terms of capital operation, the Group combined efforts together, optimised its deployment, improved efficiency and enjoyed win-win results in 2019.

Establishment of an industrial system continued.

The Group completed the acquisition of 95% equity interests of Huaqi Intelligent, a leading on-board PIS provider in China, in 2019. It enriched and strengthened its business segments and consolidated the leading edge in the industry, with the advantage of coordinated development highlighted. In addition, the Group concentrated on its main business – intelligent rail transit. It completed the acquisition of 10% equity interest in its subsidiary BII ERG and the capital injection for Litmus last year, aiming to improve its industrial system, enhance the competitive advantage of its main business, actively seek new profit growth points and further boost its core competitiveness.

SOCIAL RESPONSIBILITY

The Group fulfilled its social responsibility and actively advocated sustainable development in 2019.

It rewarded the environment and society. Due to its technical superiority and rich experience, the Group reduced train operation energy consumption, improved train transportation efficiency, provided passengers with better mobility experience, upgraded the efforts to ensure passenger safety, facilitated rail transit intelligentisation, in a bid to build a harmonious, green and safe rail transit environment. The Group continuously paid attention to the physical and mental health of employees, attached importance to the cultivation of outstanding talents, improved employee benefits, and advocated a green and healthy office model. It actively devoted to charity activities and helped impoverished students strive to give back to the society.

It made timely responses to the governance requirement. The Group is well aware that strict and standardised corporate governance is the cornerstone of its longevity. The Group incorporated director diversification, corporate social responsibility and other requirements into corporate governance according to the newly-revised Listing Rules and relevant guidances, and discussed newsletters from the Stock Exchange at the Board meetings. In terms of internal control, it revised several securities-related systems, including the securities dealing code, connected transaction regulation, information disclosure management system, and inside information provisions, in hope of reaching a higher corporate governance level.

The Group will keep improving its social responsibility system, changing means to fulfil responsibilities and enriching practices to fulfil responsibilities in the future to share the same breath and destiny with the government and the society and contribute to the sustainable development of mankind.

PROSPECTS

I have been actively coordinating with relevant government departments and city-level state-owned enterprises in recent years to push forward the development of intelligent rail transit in Beijing, so as to better meet the aspirations of citizens for a better life. I took the lead in formulating the Action Plan on Development of Intelligent Rail Transit in Beijing (2019-2021) as the top-level design principle for the digital transformation of the subway system in the city.

As chairman of the Board, I will guide the Group to continue leading the development of intelligent rail transit in a new era, focus on promoting the in-depth integration of advanced information technologies, including big data and cloud computing, with the rail transit industry, gradually narrow the space-time boundaries of physical space and virtual space via technological innovation, and accelerate the upgrading of rail transit from informatisation to digitalisation, networking, and intelligentisation.

The size of China's rail transit industry will remain at a high level in 2020. In the meantime, driven by the rapid development of smart cities and fast popularization of artificial intelligence technology, the rail transit industry will enter a new era of intelligentisation. In the face of the important historical opportunities from the rapid development of domestic digital transportation and the complex situation of rising risks and challenges at home and abroad, the Group, as a leading Chinese intelligent rail transit system service provider, will endeavour to create overall cloud-to-end intelligent rail transit services and lifecycle solutions, in order to provide customers and passengers with greener and more eco-friendly, efficient and convenient new-generation products and services. The Group will adhere to the development strategy of "New journey and remodel 2021". It will develop its main businesses centering on intelligent rail transit in a clearer strategic development direction under the core values of "professionalism, innovation, integrity and win-win belief", so as to better meet its strategic development goals.

Looking ahead, the Group will always adhere to its technology-driven strategy, continuously deepen innovation-driven moves, increase efforts on service assurance, and promote the modernisation of corporate governance level and governance capability. Efforts will be made in various dimensions, such as brand building, product development, technological innovation, quality improvement, system building, and ecological integration, to achieve rapid development and quality improvement during changes. It will strive to stabilize the operation of the rail transit system, make mobility convenient for passengers, build green, smart cities, and create returns and values for Shareholders.

Chairman's Statement (continued)

The outbreak of the epidemic at the beginning of this year has tremendous impacts on the country, society, companies and people. The Group, whose businesses cover many cities in mainland China and Hong Kong as well as India, needs to be calm and prudent about the epidemic. As part of the efforts to fight against the epidemic, we actively care for our employees and perform disinfection to protect their physical health. Meanwhile, we make an active response to customer needs. The Group's employees still stayed at their post at service stations and provided customers with 24x7 services in Wuhan, Hubei around the Spring Festival, when the epidemic was at its height, winning the trust and recognition from customers. I appreciate them as "heroes in harm's way" for their brave actions. For the next step, I will lead the formulation of detailed schemes to increase revenue while cutting down expenses for the Group and make all efforts to cope with the adverse effects of the epidemic. In the meantime, continuous efforts will be made in various aspects, such as management improvement, technology R&D and brand building, to further enhance the Group's ability for sustainable development in the medium and long term.

APPRECIATION

On behalf of the Board, I would like to thank all of our staff members and the management teams for their tireless efforts and outstanding contributions to the steady development of the Group. I would also like to express my appreciation to our customers, partners and peers as well as our shareholders and investors for their strong support and trust.

Aspirations can always be realised. We will keep working hard and move forward hand in hand!

Dr. Zhang Yanyou

Chairman

Hong Kong, 30 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS



Ms. Xuan Jing
Chief Executive Officer

MARKET AND BUSINESS ENVIRONMENT

Due to urbanisation and population agglomeration in central cities, China's rail transit industry is experiencing an explosive growth continuously. Data from the China Association of Metros* (中國城市軌道交通協會) showed that the length of newly-added urban rail transit lines in operation exceeded 900 km in 2019. As of 31 December 2019, a total of 40 cities in mainland China opened rail transit lines spanning over a length of 6,730.27 km. The NDRC last year approved a new round of urban rail transit construction plans in Zhengzhou, Xi'an and Chengdu, with a total length of 486.25 km and a total investment of approximately RMB342.6 billion. The total railway lines reached 139,000 km as of the end of 2019, and the total fixed-asset investments in railway exceeded RMB800 billion. A total of 51 new lines, including Beijing-Zhangjiakou High-speed Railway line, Beijing Daxing International Airport section of Beijing-Xiong'an Intercity Railway and Chengdu-Guiyang High-speed Railway, were put into operation. Railway investments remained at a high level.

In 2019, Beijing's rail transit network had a total passenger volume of approximately 3.962 billion, and the average daily passenger volume had reached approximately 10.86 million. With the opening of 3 lines such as the Beijing Daxing International Airport Express Line, Beijing's rail transit operating mileage reached 699.3 km, with 23 lines and 405 stations in operation as of the end of 2019. According to the scheme in relation to the adjustment of the second phase of an urban rail transit construction plan in Beijing which was approved by NDRC in December 2019, there was an adjustment of 201.2 km of lines that will cost RMB122.212 billion, on top of the originally planned lines of 998.5 km with a total investment of RMB212.28 billion.

Management Discussion and Analysis (continued)

Under the guidance and support of macro policies, the railway and urban rail transit sector in mainland China will maintain rapid development, thereby driving the rapid development of the entire relevant chain involving investment, construction, operation, and maintenance. Under this rapid development environment, the Group has well achieved its goals of 2019 by virtue of its own advantages and its judgment on development opportunities. Besides, it integrated internal systems and gained momentum to lay the foundation for the next stage of sustainable growth.

BUSINESS REVIEW

Overview

In 2019, the Group seized development opportunities arising from the construction of railway and urban rail transit in mainland China and firmly carried out its three-year (2019-2021) development strategy of “one body, one platform, and one centre”. Its two major businesses, intelligent railway transportation and infrastructure information, grew rapidly. The profit attributable to equity shareholders of the Company was approximately HK\$96.9 million in FY 2019, which has doubled when compared with the previous year. A new historic breakthrough was made in the Group’s annual results. The significant growth showed that the Group’s development has reached a new level and entered a new stage.

The Group’s operating results increased significantly and its operating quality improved continuously in 2019, with sales revenue went up approximately 163.4% from the previous year and reached approximately HK\$1,193.9 million. The proportion of the sales revenue from the intelligent railway transportation business to its total revenue increased to approximately 84.5%, as sales revenue from this segment increased approximately 211.5% from the previous year to approximately HK\$1,008.5 million. The growth is mainly attributed to the acquisition of 95% equity interests in Huaqi Intelligent in the first quarter of 2019, contributing revenue of approximately HK\$556.1 million. Sales revenue from the infrastructure information business reached approximately HK\$185.4 million, representing a year-on-year increase of approximately 43.3%. The Group’s gross margin rose approximately 11.6 percentage points from the previous year to approximately 35.6% in FY 2019 complementing the growth in sales revenue, representing a huge boost in profitability.

The Group completed the acquisition of 95% equity interests of Huaqi Intelligent for a consideration of RMB1.045 billion (equivalent to approximately HK\$1.191 billion) in March 2019, which has further reinforced its PIS business, strengthening its leading position in the mainland’s PIS industry and enhancing its core competitiveness. Huaqi Intelligent has been deeply integrated with the Group in the areas of, among others, marketing, R&D, finance, branding and management since the completion of the acquisition, and achieving initial synergic effect. Reference is made to the Company’s circular dated 31 January 2019 in relation to, among others, the acquisition of 95% equity interests in Huaqi Intelligent (“**VSA Circular**”). The Board is pleased to announce that the 2019 Actual Performance (as defined in the VSA Circular) of Huaqi Intelligent was more than 90% but less than 100% of the 2019 Guaranteed Performance (as defined in the VSA Circular), hence the 2019 Guaranteed Performance shall be treated as being fulfilled according to the terms of the Acquisition Agreements (as defined in the VSA Circular).

The Group adhered to its market strategy of “relying on Beijing and Hong Kong, radiating across the country, and exploring international markets”, and it made great progress in market expansion. The Group participated in many projects, including AFC of Beijing Subway Line 12, and expanded its businesses to Fuzhou, Hefei, Kunming, Xuzhou, Nantong, Foshan, Pingyao, Dujiangyan, etc. where public transportation needs to be upgraded urgently. Moreover, it explored the India market in Mumbai and Pune through the international business department of Huaqi Intelligent. As of the end of 2019, the Group’s businesses covered a total of 39 cities in China and 9 cities overseas. As of the end of 2019, the Group had orders on hand of approximately HK\$1.99 billion.

Management Discussion and Analysis (continued)

The Group attended various industry-leading exhibitions in 2019, including the International Metro Transit Exhibition Beijing, UITP Congress and Exhibition in Stockholm, Sweden, and International Railway Equipment Exhibition in New Delhi, India, demonstrating its technical strength and project capability on a number of international and domestic industry platforms. It became a council member of the China Association of Metros and Beijing Railway Transportation Association and joined the urban rail cloud 1+N industry alliance in 2019. These platforms, which allow industry players to communicate with each other, will help raise the Group's reputation and increase brand value.

The Group paid continuous attention to intellectual property protection. It obtained 13 patent certificates (75 in total as of the end of 2019) and 59 software copyright certificates (291 in total as of the end of 2019) in FY 2019, which have been applied in many projects. The Group maintained a strong level of R&D and innovation, improving the quality and efficiency for the Group to achieve sustainable development. The Group has also actively explored innovation in rail transit while focusing on its main businesses. The investment on technology R&D was approximately HK\$117.9 million, which represented a high level of approximately 9.9% of the total revenue in FY 2019. The investment effectively promoted the transformation of scientific and technological achievements to boost the Group's future profitability, solidifying the foundation for enhancing the Group's intelligent railway transportation business.

BUSINESS ANALYSIS BY SEGMENT

Intelligent railway transportation business: Development and breakthrough

The Group's intelligent railway transportation business mainly involves PIS, AFC, ACC and TCC. The Group continues to expand its main business which focuses on intelligent railway transportation system. It recorded sales revenue of approximately HK\$1,008.5 million in 2019, representing a year-on-year increase of approximately HK\$684.7 million or 211.5%. The revenue comprised: (1) sales revenue of approximately HK\$556.1 million from the completion of the acquisition of 95% equity interests of Huaqi Intelligent in March 2019; and (2) revenue recognised in FY 2019 from a number of partially or wholly finished large-scale projects that greatly contributed to the Group's revenue other than Huaqi Intelligent, including Kunming Metro Line 4's AFC project, new airport expressway project, MTR K0856 project, Zhengzhou ANCC project, and Beijing-Tianjin-Hebei transportation integration project.

The Group's internal statistics suggested that in terms of on-board PIS service, the Group had a market share of approximately 48% in high-speed rail, approximately 32% in subway and approximately 95% in intercity railway, which showed that the Group has achieved the top rank in the industry, and solidifying its leading position in the field of on-board PIS, and synergic effect gradually emerged. As for AFC/ACC service, it came 9th in the industry with a market share of approximately 6.0% in subway in 2019 representing an increase compared to 2.3% in 2018. The gap between the Group and the industry's first-tier companies (the industry's first-tier companies (top five companies) occupied an average market share of approximately 12.3%) has further narrowed.

Business in Beijing saw stable development. The Group secured projects, including the AFC equipment procurement project and PIS project for Beijing Subway Line 12, and the project of connecting new rail transit lines to the system of Beijing Metro Network Control Center's information centre, 04 and 05 delivery and commissioning for Beijing New Airport's utility tunnel project, and the Enterprise Resource Planning (ERP) project for Pingxifu overhaul factory. Closely following its overall strategy, the Group will deeply participate in the construction of the third-phase platform for the intelligent subway and network in Beijing, with the purpose of becoming a major service provider for the subway intelligentisation and upgrading in Beijing. It spared no efforts to increase its market share in Beijing and further solidify its leading position in the capital city by enriching the existing product lines, building an intelligent subway product system and growing its core AFC, PIS and TCC businesses.

Management Discussion and Analysis (continued)

Market expansion in mainland China (other than) Beijing produced remarkable results. The Group successively signed contracts for many projects, including the AFC project of Kunming Metro Line 4, PIS project of Fuzhou Metro Line 6, phase 3 project of Shenzhen Metro Line 4, Xuzhou Metro Line 3, on-board PIS project of Suzhou Metro Line 5, on-board PIS project of Nantong Metro Line 1, phase 1 on-board PIS projects of Hangzhou Metro Line 7 and 8, Chengdu Metro Line 9, Ningbo Metro Line 4, Hangzhou Metro Line 5, Hebei Jingche Rail Transit Vehicle Equipment's ERP project, and improvement project of slow-traffic system in Luyang District, Hefei. After obtaining the Zhengzhou ANCC project, the Group also successfully got the big data cloud platform project in Zhengzhou, laying an important foundation to transform Zhengzhou into an emerging regional hub. Drawing experience from the mature model of "Beijing products + Beijing services", the Group took actions based on the actual local conditions to better expand the market in mainland China (other than Beijing) more widely and deeply.

Breakthroughs in overseas markets. The Group was the bid winner of some projects in countries along the "Belt and Road", including on-board PIS projects of Mumbai Metro Line 2 and 7, Pune metro project, Sri Lankan Diesel Multiple-Unit (DMU) trains' passenger information, broadcasting and film and television systems, passenger information system for high-speed railway in Jakarta, Indonesia, accelerating the pace to expand the international markets thanks to its competitive advantages in technology and project management.

Scientific and technology R&D achievements emerged. The Group introduced big data and cloud computing technologies into its intelligent railway transportation system. It set up a cloud platform centering big data and cloud computing, a unified data interface platform, data centres, and a passenger information service product line based on passenger flow data analysis, and an intelligent repair and maintenance product line with a view to reduce costs and increase efficiency for precise operation. Meanwhile, the Group closely integrated R&D innovation achievements with project implementation to continuously improve the technical competitive advantage of its main businesses. The operational ANCC system on Zhengzhou Metro successfully combined ACC with MLC, enabling AFC to shift from a five-tier architecture to a four-tier one, saving the investment cost in system construction and improving the operation management efficiency. This is China's first metro network control centre built on a cloud platform. The visible on-board passenger alarm system targeting passenger services, the pantograph monitoring system that ensures production safety and the driver fatigue monitoring system that guarantees driving safety have been used in the Hangzhou Metro project, Beijing-Xiong'an high-speed-rail project and Hong Kong's MTR project respectively, which further upgraded the intelligent services and intelligent operation and maintenance capabilities of train equipment. The implementation of the big data cloud platform project in Zhengzhou and the metro clearing centre project in Foshan further enhanced the influence of the Group's self-developed intelligent platforms.

Infrastructure information business: Opportunity seizing and innovation

The Group's infrastructure information business mainly consists of 4G and 5G transmission services for subway civil communications and construction of underground utility tunnel's intelligent management system, which are mainly concentrated in Beijing. As for subway civil communications, the Group made a profit by charging fees from providing of its civil communication transmission services to China's three major telecom operators, and by gaining shared revenue from mobile data traffic. Meanwhile, in terms of underground utility tunnel's intelligent management system, the Group gained revenue by offering system construction, operation and maintenance services.

In 2019, sales revenue derived from the infrastructure information business was approximately HK\$185.4 million, representing a year-on-year increase of approximately HK\$56.0 million or 43.3%. The source and growth in revenue of this segment are mainly due to the continuous development of the civil communications transmission business and the further development of the utility tunnel business.

Management Discussion and Analysis (continued)

2019 was a year when mainland China officially entered an era of 5G commercialisation. Civil communications service, which is one of the Group's infrastructure information businesses, also entered into the "era of 5G". The Group refined the operation of its civil communications business to increase the value of civil communications assets. It explored new markets and approached new customers and created new revenue by expanding the business of innovative valued-added products and services. As of the end of 2019, the Group's civil communications service covered 21 metro lines and 208 metro stations in Beijing. The newly-added three lines in 2019 were all covered with 5G service. Besides, the number of 100 MB 3G and 4G resources used by the three major telecom operators increased by more than 100. Moreover, it actively expanded new value-added services and completed the interconnection of optical fibre for existing 19 lines to lay the foundation for subsequent expansion of the optical fibre and broadband rental market. The Group signed agreements on the use of optical fibre resources with the relevant telecom operators to continuously explore new profit models and growth points.

Utility tunnel business saw rapid development. The Group made a new attempt in the field of utility tunnel. It built a leading Chinese and self-developed and patented intelligent utility tunnel management platform, which was put into use in the International Horticultural Exhibition 2019, Beijing. The Group also won the bidding of the peripheral supporting utility tunnel project of Beijing 2022 Winter Olympics' Yanqing zone. Therefore, it will provide low-voltage integration, software development, delivery and commissioning and other services for the underground utility tunnel, which is known as the "lifeline" of Winter Olympics, to improve the intelligent management, operation and maintenance level of utility tunnel for the event. Relying on the existing platform and combining converged communications, facial recognition and other independent core technologies, the Group has created an intelligent site management system in relation to personnel and material positioning, video surveillance, labour service of utility tunnel, environmental monitoring, material management and personnel communications, and integrating background software and end-user equipment. The system has been used in three sections of the rail transit line for Winter Olympics, which are under construction and enhanced the intelligent construction level for infrastructure. In the meantime, the Group developed new local control unit (LCU) products based on LoRa and edge computing, which will be applied soon in the utility tunnel project of Beijing Subway Line 7's eastern extension. The Group will gradually promote its self-developed utility tunnel products. Furthermore, the Group actively cooperated with governmental departments to plan a city-level utility tunnel centre, in order to improve the overall management level of utility tunnel in Beijing. The Group's infrastructure information business, representing one of the major application scenarios in smart cities, will have broad market development potential in the long run.

Investments and joint ventures: Improvement and upgrading

With the moves to promote the rapid development of its main businesses and accelerate the expansion of new businesses, the Group closely followed the development trend of rail transit intelligentisation in 2019 and sorted out, analysed and studied the upstream and downstream industry chains and business lines of its main business. It completed strategic investment planning and optimised strategic investment and industrial investment that focused on industrial upgrading and improvement of industrial competitive advantages. The Group also stepped up efforts on post-investment control to promote business synergy and capital appreciation. On the basis of optimising and expanding its main businesses, the Group made presence in subway operation, maintenance and repair, mobile payment, intelligent subway and so forth to create new revenue growth momentum. Centering on the industry chain of intelligent rail transit system, the Group promoted development through equity investment, joint ventures, etc., and quickly obtained experience, mature products, market share, key technologies and industry qualifications to further add and strengthen business lines, enhance its overall core competencies, and create more benefits for the Company's shareholders.

Management Discussion and Analysis (continued)

The Group completed the acquisition of the 95% equity interests in Huaqi Intelligent in March 2019. Its financial results were consolidated into the Group's annual results, which became the major driver for the increase in revenue and profits of the Group in FY 2019.

The Group acquired a controlling stake in Litmus via injection of capital, as a move to enlarge its asset management business segment. BII Zhongfu, a subsidiary of the Group, injected capital of approximately RMB19.2 million into Litmus in December 2019 to subscribe for 51% equity interests in Litmus. The Group forayed into the fast-growing industry – rail transit asset management system – to quickly gain experience and technical capability in the sub-segment of intelligent rail transit and boost its results.

The subway operation is smooth and orderly, the maintenance and repair service is excellent and improving, the number of transactions made through the mobile payment “Yitongxing” application (APP) exceeded 900 million as of the end of 2019. In addition, the Group also strengthened the control and coordination of the companies it invested in and controlled, adopted differentiated management, optimised and integrated resources, and realised synergic effect:

- The Beijing Subway Capital Airport Express operated by Beijing Metro, a joint venture of the Group, transported approximately 12.69 million passengers in 2019, or 34,800 passengers a day on average, representing a rise of approximately 3.3% from 2018. The revenue and net profit grew approximately 4.1% and 21.6% respectively compared to 2018. The Group rolled out some new businesses like advertising business and extended the operation and management businesses to Shaoxing and other cities. It obtained the rights to operate Shaoxing Metro Line 1 and Hangzhou-Shaoxing line.
- Metro Science and Technology, a joint venture of the Group, made further efforts on AFC operation and maintenance, and on new business development and so forth while solidifying the maintenance and repair model for the Beijing Subway Capital Airport Express, boosting its revenue and net profit by approximately 15.8% and 13.4% respectively when compared to 2018.
- The registered users of “Yitongxing” APP manufactured by the Group's joint venture reached 21 million, and more than 900 million users scanned a QR code to take the subway. Its monthly active users were close to 6 million. It covered 23 urban rail transit lines and will expand its businesses to Hohhot, Dalian, Shenyang and other cities.
- Meanwhile, the Group explored new potential businesses and joint-venture projects via Cornerstone Lianying. It carefully selected investment targets, incubated high-quality companies, and identified new partners for the Group's future business collaboration.

BUSINESS PROSPECTS

The rail transit industry will maintain good development momentum

As mentioned in the “Outline of Building China into a Country with Strong Transportation Network”, China will complete various tasks about the modern comprehensive transportation system development plan for the 13th Five-Year period in 2020 and vigorously develop intelligent rail transit by promoting the in-depth integration of big data, internet, artificial intelligence and other new technologies with the transportation industry, and set up an integrated traffic big data centre system. Investments in China’s urban rail transit market tend to rise steadily in the coming years. According to the “2019 China Urban Rail Transit Market Development Report” released by China Rail Transit Network, 2020 is the final year of the 13th Five-year Plan period, and the construction and operation of urban rail transit is expected to usher in a certain amount of growth. In 2020, a total of 54 rail transit lines in 25 cities including Chengdu, Hangzhou, Shenzhen, Qingdao, Chongqing and Ningbo will commence operation, with a total mileage of 1,152.6 km, 745 stations and a total investment of RMB752.817 billion. Moreover, according to the Railway Development Plan for 13th Five-year period, China will have more than 150,000 km of railway lines by the end of 2020. It will mainly upgrade the scale of high-speed railway lines, intercity and urban (suburban) railway lines, and branch lines. The national railway network will basically cover cities with more than 200,000 permanent residents in the urban areas, and the high-speed rail network will reach more than 80% of big cities.

The Group’s revenue mainly came from the provision of PIS, AFC and other information-based systems used in the construction of new railway lines and urban rail transit lines. The market demand was closely related to the total length of the new metro lines. Moreover, as a growing number of metro lines have been put into operation, the rail transit in many first and second-tier cities showed a new trend of network-based operation and management. Therefore, new network-level systems, including ACC, TCC and big data centre, should be urgently established for unified scheduling and management in these cities. The new fast-growing demands have brought new business opportunities for the Group.

Intelligent rail transit accelerates the construction of smart cities

China has successively released many policies, including “National New Urbanisation Plan (2014-2020)”, “Guidelines for Promoting Healthy Development of Smart Cities” and “Action Plan for Promoting Development of Intelligent Transportation in 2017-2020”. With the development of smart cities and widely application of Internet of Things (IoT), cloud computing, big data and other new technologies, the operation of intelligent rail transit driven by new-generation information technologies will become one of the main symbols of smart cities. As stipulated in the “Outline of Medium-to-Long-Term Plan for the Development of Science and Technology (2006-2020)”, priorities should be given to “high-speed rail transit system” and “intelligent traffic management system”. The intelligent rail transit system is a comprehensive platform based on the power/electrification system, signal/communications system, and information system, which is an inevitable trend for the development of modern rail transit.

The intelligent upgrade of the rail transit in mainland China brought a series of new function needs, including system architecture (such as cloud platform and big data analysis), payment methods (such as facial recognition payment, mobile QR code payment, and UnionPay card payment), operation management (such as intelligent monitoring, passenger navigation, passenger flow perception and driving fatigue identification). The Group will actively extend the function of its products, enhance product performance and create more economic value added in the future.

Management Discussion and Analysis (continued)

The Group focuses on certain businesses, trying to achieve collaborative innovation and sustained growth

The Group, an enterprise specialising in the field of rail transit, integrating investment and financing, technology R&D, and intelligent rail transport construction, operation and maintenance, will fully grasp the golden development opportunities of the rail transit industry, keep up with the development trends of rail transit informatisation and intelligentisation, continue relying on scientific and technological innovation, and resolutely insist on its market expansion strategy around the main rail transit business to achieve high-quality and sustainable development, in order to grow into a high-tech enterprise with strong core competencies in the rail transit industry.

Insist on scientific and technological innovation to help build intelligent rail transit

By virtue of its technology R&D advantage, its insight in the rail transit industry and rich experience in the industry, and based on the rapid development of new-generation information technologies like big data, cloud computing, IoT and AI, mobile payments and other new tools, the Group will insist on scientific and technological innovation and set up a system of key technologies and products for intelligent rail transit that centres on a “standard big data architecture for rail transit”, including a rail transit big data platform, an intelligent passenger information service platform, an intelligent operation, maintenance and scheduling platform, a comprehensive multi-dimensional asset management platform, intelligent interconnection sensing equipment, an interactive fusion information display platform, as well as a security interconnection control platform. At the same time, the Group will be deeply involved in the design, construction, operation and maintenance of Beijing’s intelligent rail transit platform, aiming to become the most important intelligent system service provider for the city’s intelligent subway and smart trains. Riding on Beijing’s intelligent rail transit platform, the Group will launch a set of “Deliver 1.0” intelligent system solutions based on cloud computing and big data in 2021, standardise the application of intelligent technologies and promote Beijing’s new intelligent rail transit model across the country to help build smart cities. In addition, as a council member of the China Association of Metros, the Group will strengthen academic communication and exchange with owners, users, industry experts and high-end technical teams, accurately grasp the development trend of cutting-edge technologies, keep high-end technical resources in reserve, and create an ecosystem of collaborative innovation for intelligent rail transit.

Keep focusing on primary businesses and extend industry chains to achieve balanced development

The Group will continue to focus on the development of network-level traffic control centre and line-level core systems of the intelligent rail transit. Specifically, the Group will improve passenger-centric PIS service to solidify its leading position in the industry. It will develop standardised products to upgrade cloud computing-based AFC service and accelerate its pace to become one of the first-tier companies. It will further upgrade the TCC service centering on data analysis to build an advantage for the data centre. Besides, the Group will optimise the deployment of civil communications resources to achieve business diversification. At the same time, establishment of a whole-industry-chain development model will continue as the Group will extend its services to rail transit operation and maintenance, management informatisation and so forth in the aftermarket. The Group’s self-developed products and technologies will be applied in multi-scenarios. Technological achievements in intelligent rail transit will be used in ecological fields such as intelligent control systems for utility tunnels. The Group will aim to expand its business in the direction of achieving high technology content, high added-value and stable cash flows. These will help the Group to achieve technology symbiosis, ecological win-win results, and move towards a balanced and sustainable business development.

Management Discussion and Analysis (continued)

Remain steadfast in its strategies to consolidate the existing markets and expand into new markets

As the number of cities where rail transit lines have come into service and the length of rail transit lines are on the rise, the Group will insist on its market strategy of “relying on Beijing and Hong Kong, radiating across the country, and making presence in international markets”. It will deepen its presence in Beijing and Hong Kong and constantly explore potential opportunities to expand its footprint to other Chinese cities and create emerging regional hubs like Zhengzhou. Measures will be made to further diversify its businesses and increase its market share. The Group will also expand into overseas markets, including countries along the “Belt and Road”.

Actively respond to the epidemic and consolidate the foundation for sustainable development

The novel coronavirus pneumonia emerged in mainland China in January 2020 and quickly spread to more than 70 countries and regions, particularly affecting the tourism, catering and transportation industries. In order to deal with the impact caused by the epidemic, the Group adopted an “offline + remote” working method to maintain good communication with customers and suppliers, ensured that business progress was not interrupted, and steadily promoted resumption of on-going projects. The Group adopted various measures within the Group to reduce the cost and increase efficiency. The Group actively fulfilled its corporate social responsibility and donated RMB1 million to Wuhan Charity Federation* (武漢市慈善總會). After careful analysis and judgment, the current situation of epidemic prevention and control in mainland China has shown a trend of continuous improvement and the order of production and life have also started to recover. Meanwhile, the Group’s current asset-liability ratio is relatively reasonable and the cash on book remains sufficient. The epidemic will not affect the Group’s sustainability. Overall, the current epidemic situation has limited impact on the Group’s operating performance. In terms of opportunities, it is expected that after the end of the outbreak, mainland China will increase investment in infrastructure in the second half of 2020, including intercity high-speed rail and urban rail transit, which are part of the “new infrastructure”. This will provide more market opportunities for the Group.

In the future, the Group will keep up with industry development trends and remain steadfast in its strategies. The focus will still fall on its core businesses. Driven by innovation, it will create a flagship brand based on “rail+technology”, in order to strive for better results.

Management Discussion and Analysis (continued)

FINANCIAL REVIEW

Revenue

The Group recorded revenue of approximately HK\$1,193.9 million in FY 2019, representing an increase of approximately HK\$740.7 million or 163.4% from FY 2018. Revenue from intelligent railway transportation services and infrastructure informatisation services accounted for approximately 84.5% and 15.5% of the total revenue, respectively.

The Group mainly operates its businesses in Mainland China and Hong Kong. For FY 2019, the Group recorded revenue of approximately HK\$1,124.0 million in Mainland China, representing an increase of approximately HK\$712.3 million as compared to FY 2018. This is mainly attributed to the completion of the acquisition of 95% equity interests of Huaqi Intelligent in March 2019. Huaqi Intelligent's results were consolidated into the Group's results, thereby boosting the Group's revenue in Mainland China up significantly. Meanwhile, the Group made a breakthrough in Hong Kong with revenue of approximately HK\$69.9 million, representing an increase of approximately HK\$28.4 million or 68.4% as compared to FY 2018.

Cost of sales

The Group's cost of sales was approximately HK\$769.2 million in FY 2019, representing an increase of approximately HK\$424.8 million or 123.3% from FY 2018. The increase in cost of sales was mainly due to the increase in the cost in line with the above increased revenue.

Gross profit

The Group's gross profit was approximately HK\$424.8 million in FY 2019, representing an increase of approximately HK\$316.0 million or 290.4% from FY 2018. The increase in gross profit was mainly due to the increase in the gross profit of the Group due to the acquisition of 95% equity interests of Huaqi Intelligent and the incorporation of its performance into the Group.

Investment income

The Group recorded an investment income of approximately HK\$25.2 million, an increase of approximately 17.8% compared to the previous year. The increase in investment income was mainly attributable to an increase in ticket revenue due to an increase in passenger flows of the Group's joint venture, Beijing Metro, and the sustainable development of the business of the Group's joint venture, Metro Science and Technology.

Selling, general and administrative expenses

The Group's selling, general and administrative expenses were approximately HK\$249.7 million in FY 2019, representing an increase of approximately HK\$172.0 million or 221.4% from FY 2018. The increase was mainly attributable to the selling, general and administrative expenses of the newly acquired subsidiary, Huaqi Intelligent, being consolidated in the Group's results and the labour cost of the Group has increased.

Profit attributable to equity shareholders of the Company

The profit attributable to equity shareholders of the Company was approximately HK\$96.9 million in FY 2019, representing a year-on-year increase of approximately 104.4%. Earnings per share were HK\$0.046, representing a year-on-year increase of 100%.

Management Discussion and Analysis (continued)

INVESTMENT PROJECTS MADE DURING FY 2019

BII Railway, a subsidiary of the Company, completed the acquisition of the 95% equity interest in Huaqi Intelligent in March 2019. The acquisition will help strengthen the Company's leading position in the field of intelligent rail transit. Please refer to the Company's circular dated 31 January 2019 and the Company's announcement dated 28 March 2019 for further details of the acquisition.

BII Zhuoyue, a subsidiary of the Company, completed the acquisition of a 10% stake in BII ERG in February 2019 from a vendor at a consideration of RMB17.69 million. Please refer to the Company's announcement dated 20 February 2019 for further details. BII ERG has become a wholly-owned subsidiary of the Company since then. BII Zhuoyue injected capital of RMB20 million into BII ERG in June 2019, increasing the latter's registered capital to RMB100 million. The acquisition and capital injection will further enhance the market competitiveness of BII ERG and bring better economic benefits for the Group.

The Company established a wholly-owned subsidiary, BII Zhongfu, in Beijing in July 2019.

On 2 December 2019, BII Zhongfu, a wholly-owned subsidiary of the Company, entered into a Capital Injection Agreement with Litmus pursuant to which BII Zhongfu injected capital of RMB19.2015 million into Litmus in December 2019 to subscribe for 51% equity interest of Litmus. Litmus became a subsidiary of the Company since then. Please refer to the Company's announcement dated 2 December 2019 for further details.

In view of changes in capital demand of Beijing Metro, on 27 December 2019, the Company and Beijing Subway Operation entered into the Supplemental Agreement pursuant to which the capital injection of RMB245 million, agreed under Capital Injection Agreement entered into between the Company and Beijing Subway Operation which was disclosed in the Company's announcement dated 4 December 2018, was suspended in December 2019. Please refer to the Company's announcement dated 27 December 2019 for further details.

The Group will continue developing its main businesses in 2020 based on its strategic planning and quicken its pace to make or step up presence in various industries to make specialised investments, realize the optimization and integration of resources and grow its businesses in various industries. It will focus on its merger and acquisition strategy based on "Business Capability Reinforcement Model", "Business Scope Expansion Model", and "Business Scale Enhancement Model". The top priority will be given to businesses with large market capacity, high profit margins and high technology content, which will help increase its revenue and profit rapidly, propel the Group to become a flagship brand in the intelligent rail transit sector in Hong Kong's stock market and maximise Shareholders' interests.

SIGNIFICANT INVESTMENTS HELD AND FUTURE PLANS

Beijing Metro was established on 15 February 2016, and its equity interest was held by the Company and Beijing Subway Operation as to 49% and 51%, respectively. Its registered capital was RMB500 million of which RMB245 million was contributed by the Company and RMB255 million was contributed by Beijing Subway Operation which is an independent third party. Beijing Metro is principally engaged in investing, constructing, operating, managing subway lines, operating value-added services and related property development, including managing the Operating Income Rights of Beijing Subway Airport Express, Dongzhimen Terminal and new lines of the Beijing Subway.

Beijing Metro is a private company whose quoted market price is not available. As of 31 December 2019, the carrying amounts of Beijing Metro in the Group's consolidated financial statements by using equity method is HK\$325,659,000, accounting for approximately 8.07% of the Group's total assets as at 31 December 2019. In FY 2019, the profit contributed by Beijing Metro was approximately HK\$12.96 million. The Company did not receive any realised and unrealised gain or loss or any dividends from Beijing Metro. In the future, the Group will implement investment strategies based on the actual funding and operation needs of Beijing Metro.

Management Discussion and Analysis (continued)

Save as disclosed, there were no other significant investments held, material acquisitions or disposals of subsidiaries and affiliated companies, and other plans for material investments or capital assets during FY 2019.

Liquidity, financial and capital resources

Capital structure

As at 31 December 2019, the Company's issued share capital consisted of 2,100,126,727 ordinary shares of HK\$0.01 each (31 December 2018: 2,100,126,727 ordinary shares of HK\$0.01 each).

Cash position

As at 31 December 2019, the Group's cash on hand and in bank were approximately HK\$850.9 million (31 December 2018: approximately HK\$1,069.6 million).

Borrowings

As at 31 December 2019, the Group's borrowing was approximately HK\$559.9 million, of which HK\$500 million was derived from the borrowing from a subsidiary of the Company's ultimate holding company, BII, and the remaining was bank borrowings amounted to approximately HK\$59.9 million (2018: approximately HK\$342.4 million). The Group has no charges on its assets as at 31 December 2019 (31 December 2018: Nil).

Working capital and gearing ratio

As at 31 December 2019, the Group had current assets of approximately HK\$2,505.4 million (31 December 2018: approximately HK\$2,340.0 million), while its current liabilities were approximately HK\$986.9 million (31 December 2018: approximately HK\$827.8 million), resulting in net current assets of approximately HK\$1,518.5 million (31 December 2018: approximately HK\$1,512.2 million). As at 31 December 2019, the current ratio, calculated based on current assets divided by current liabilities, was approximately 2.5 (31 December 2018: approximately 2.8).

Gearing ratio is calculated based on total debts at the end of a period divided by total assets at the end of such period multiplied by 100%. As at 31 December 2019, the Group's gearing ratio was 43.7% (31 December 2018: 27.8%).

FOREIGN EXCHANGE EXPOSURE

The Group has six main operating subsidiaries, one was incorporated in Hong Kong and the other five were established in Mainland China. All of these subsidiaries earn revenue and incur cost in their local currencies. The Directors consider that the impact of foreign exchange exposure on the Group is minimal, therefore, the Group did not have any hedges against foreign exchange exposure.

CONTINGENT LIABILITIES

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

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group employed a total of 889 employees, (including the executive Directors) (31 December 2018: 316). The total staff costs, including Directors' remuneration, were approximately HK\$242 million (FY 2018: approximately HK\$119 million).

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

Management Discussion and Analysis (continued)

FINAL DIVIDEND

In view of the business growth of the Group and in response to the long term support of the Shareholders, the Board recommended the declaration of a final dividend of HK\$0.02 per share for 2019 financial year (FY 2018: HK\$0.01 per share). The proposed final dividend will be payable to Shareholders whose names appear on the register of members of the Company on Thursday, 4 June 2020, subject to the approval of the Shareholders at the 2020 AGM. It is expected that the final dividend will be paid on or before Monday, 31 August 2020.

MATTERS SUBSEQUENT TO THE REPORTING PERIOD

There were no other significant events arising subsequent to FY 2019 as at the date of this report.

PERORATION

Energetic Huaqi Intelligent joined the Group in 2019. The integration of business and culture in the first year after the acquisition is gratifying. I will spend more time participating in the discovery of synergic effect this year! Here, I remind colleagues across the country to protect themselves and their family members. The epidemic will be eventually over, and we will work together to live up to the expectations and trust of customers, partners and investors, no matter how much time is left for us in 2020.

Ms. Xuan Jing

Chief Executive Officer

Hong Kong, 30 March 2020

RISK FACTOR ANALYSIS

The Group is faced with risks, including risks arising from changes in national strategies and macro economy and industrial policies, risks related to its businesses, as well as changes in regulatory rules on listed companies that will have an impact on the Group. Therefore, the Group will be committed to building a more scientific and systematic risk control system to address these risks. On the basis of its increasingly perfect internal control system, it will closely monitor and prevent various risks from risk assessment, financial control, internal audit and legal risk control.

RISKS FROM MACRO ECONOMY

In terms of the macro environment, as China's economy underwent structural transformation, the global economy and trade saw a significant slowdown, major economies' economic growth slowed and China's economy was under heavy downward pressure in 2019. According to a report on China's macro economy, the economic growth will still slow in 2020, but the decline in economic growth will narrow. The Chinese economy is expected to grow by about 6% in 2020. Due to the outbreak of an epidemic, there are still many uncertainties about whether the economic growth will remain at the original level. However, the basic trend that China's overall macro economy will stabilize and grow this year will remain unchanged. In response to the above risks, the Group will proactively adapt to the new normal of economic development. It will further optimise its business structure, accelerate transformation and upgrading, continuously develop businesses with stable cash flows, such as civil communications and rail transit operation and maintenance, and promote collaborative innovation and development.

RISKS FROM EMERGENCIES

The World Health Organization declared at 2:30am on 31 January (Beijing time) the novel coronavirus outbreak a public health emergency of international concern. Currently, the number of confirmed cases of novel coronavirus is still rising. The prevention and control of the epidemic is still the main concern at present, which has exerted an obvious impact on the tertiary industry. The impact of the epidemic on the subway will be reflected in tendering, construction and operation in the short term. Companies that engage in subway construction will see fluctuations in their financial results and face more pressure from cash flows. If investments in rail transit and newly-added projects will increase in the second half of this year, small and medium-sized private enterprises will be under heavier operating and financial pressure in case of delayed payments. The Matthew Effect will further appear. In the medium term, subway, an essential way of getting around, will quickly resume after the epidemic eases. Investments in subway are likely to grow in the second half of 2020. Investments in the field of PIS with publicity and disaster response functions will benefit from the construction of 5G communications network. Subway will see continuous development in the long run against the backdrop of urbanisation and vigorous public transportation development.

The epidemic's impact on fixed-asset investments is relatively controllable, and investments may be backed by policies to some extent. Although the epidemic will affect the investment schedule in infrastructure in the short term, infrastructure investment is expected to further grow under the policy support after the epidemic eases. It mainly affects construction progress now. China unprecedentedly imposed strict restrictions on mobility all over the country as an anti-epidemic measure, which restrained the mobility demand of passengers. Passenger and freight volumes at urban rail transit lines, railway stations, airports and highways will drop sharply in the short term. Moreover, consumption is now at a stable stage and hard to resume. Therefore, the Group, which actively responds to the call of the central and local governments, gradually restores the construction of some projects, takes full advantage of technologies, including control informatisation for projects and networked mobile officing, to provide services for customers while ensuring employees' physical health. It actively fulfils social responsibility, optimises internal process management and steps up efforts on the study of cutting-edge technologies, such as intelligentisation and informatisation of rail transit, in order to reduce the impact of the epidemic. As a high-tech conglomerate, the Group faces challenges and opportunities, but opportunities outweigh risks.

RISKS FROM INDUSTRY FLUCTUATIONS

In recent years, China's macro economy maintained sustained and stable growth, urbanisation sped up and infrastructure planning accelerated, which provided a favourable environment for industry development. However, if big changes in the macroeconomic situation lead to slow industry development, this will cause adverse effects on the Group's development. So the Group will increase efforts to study industrial policies, development directions and industrial development laws to address the risks. It will improve its core technologies and develop its own core products. The number of orders in hand will be increased, and production and management cost optimisation will be performed to enhance its core competitiveness. The Group will also integrate various advantageous resources, work together with its partners to build an industrial ecosystem, and improve the ability to resist risks arising from industry fluctuations.

INTERNAL MANAGEMENT RISKS

The Group is faced with risks from incomplete management systems of its investees and failure of the systems to function normally or effectively integrate with its own systems to produce synergic effect. It will lay down practicable integration and control measures for business management, corporate governance and so forth before investing in the companies, in a bid to curb the above risks. After the investment, the Group will not only take its integration and control measures, but also gain an insight into the investees and participate in the latter's business management. It will give full play to the coordination of post-investment management at the group level on the basis of risk control to guarantee the coordinative development of its businesses.

RISKS FROM UNSATISFACTORY FINANCIAL RESULTS OF INVESTEES AND ACQUIREES

There are risks from investees' and acquirees' unsatisfactory financial results caused by slow industry development, intensified competition, loss of core personnel, and poor management. Analysing industry development trends and laws, the Group will conduct thorough research on investees and acquirees and work out executable response measures, including control measures, incentive mechanism and safeguard measures, in order to curb the above risks.

INVESTOR RELATIONS

INVESTOR RELATIONS

Communication with investors

We maintained close ties with investors in the past year. We believe that we can give existing investors and potential investors a clearer understanding of the Group's overall businesses by informing them of its strategic direction, business progress and prospects, so as to further improve the value for shareholders.

In 2019, the Group held about 45 meetings with research analysts in Hong Kong and Beijing, and attended several investor conferences.

Channels to gain information

We ensure that all the investors can have access to the Company's important information equally, accurately and in time through its website. Investors can gain details about corporate governance, information disclosure, stock information, investor liaison, etc. on the Investor Relations section of the Company's website. They can also easily search and obtain annual reports together with other company news. The specific communication methods are detailed in paragraphs, including "Investor Relations and Communication with Shareholders" and "Shareholders' Rights" in the Corporate Governance Report.

Financial summary for 2020

2019 annual results announcement	30 March 2020
2020 AGM	26 May 2020
Closing of register of members (in relation to the 2020 AGM)	21 May 2020 to 26 May 2020 (both days inclusive)
Closing of register of members (in relation to dividend distribution)	2 June 2020 to 4 June 2020 (both days inclusive)
Distribution of final dividend for 2019	HK\$42,002,534.54
2020 interim results announcement	August 2020
End of financial year	31 December 2020

Dividend performance

Dividend per Share

Final dividend per ordinary Share for FY 2017	HK\$0.01 per Share
Final dividend per ordinary Share for FY 2018	HK\$0.01 per Share
Final dividend per ordinary Share for FY 2019	HK\$0.02 per Share

Dividend policy

After the Board took comprehensive consideration of strategic planning, business expansion, operation management, dividend payout and other factors, the Group will adopt a dividend policy which it believes is a sustainable, stable and scientific return mechanism for Shareholders. The mid-to-long-term dividend payout ratio will not be lower than 30% in principle, which will provide Shareholders with tangible returns. The specific dividend allocation will depend on the annual results, cash flows and other factors, subject to the approval of Shareholders at the relevant annual general meeting.

Investor Relations (continued)

Shareholding as of 31 December 2019

Ordinary Shares

Total number of issued Shares 2,100,126,727

Market value

As of 31 December 2019, HK\$1,134 million (closing price as at 31 December 2019: HK\$0.54)

Key ratios

P/E ratio (Market Price per Common Share/Earnings per Common Share)	11.74
P/B ratio (Market Price per Common Share/Net Assets per Common Share)	0.52
Net profit margin (Profit for the year/Revenue × 100%)	9.25%
Return on equity (Profit for the year/Average total equity × 100%)	4.94%
Dividend yield (Dividend per Common Share/Market price per Common Share × 100%)	3.70%

Stock information

Stock code

The Stock Exchange	1522
Reuters	1522.HK
Bloomberg	1522 HK
ISIN	KYG1267V1005

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

CAO Wei (曹璋), Mr. Cao, aged 56, joined our Group in April 2009. He was appointed as a Director on 7 January 2011 and redesignated as an executive Director on 7 December 2011. He was redesignated from Chief Executive Officer to Vice Chairman on 28 February 2017. He ceased to be a member of the Remuneration Committee from 30 March 2020. Mr. Cao obtained a bachelor's degree in industrial automation from Harbin Institute of Technology in July 1985 and received his certification as senior engineer in 1996. Mr. Cao subsequently obtained an executive master's degree in business administration (EMBA) from Tsinghua University in July 2009. From 1996 to 2001, Mr. Cao was the general manager of Beijing Telecom Network Technology Co., Ltd.. Mr. Cao had been a director and the general manager of Beijing Enterprises Teletron Information Technology Co., Ltd., a company which became a subsidiary of Beijing Development, a company listed on the Main Board of the Stock Exchange, (stock code: 154) in 2001. From 2005 to 2010, Mr. Cao was an executive director and vice president of Beijing Development. Mr. Cao has over 20 years of experience in the management technology and communications industry and has developed strong business relationship and networks in the industry. Mr. Cao also had been a director of Great Legend, Beijing City Railway and ERG (HK) (each a subsidiary of the Group). Mr. Cao now serves as the director of Innovation Holding Co., Ltd., CCRTT Investment and BII Zhuoyue (each a subsidiary of the Group) and has served as the director of Beijing Metro and Metro Science and Technology (each a joint venture of the Group) since February 2016. Mr. Cao is the sole director of More Legend, a substantial shareholder of the Company, and indirectly holds the shares of the Company through his 100% equity interest in More Legend. More Legend holds as to 11.65% of the issued share capital of the Company. Mr. Cao also directly holds approximately 0.04% of the issued share capital of the Company as at the date of this annual report.

XUAN Jing (宣晶), Ms. Xuan, aged 46, was appointed as an executive Director on 27 June 2014 and appointed as Chief Executive Officer on 28 February 2017. Ms. Xuan graduated from Tianjin University in the PRC in July 1995 with a bachelor's degree in engineering majoring in engineering management and obtained a master's degree in business administration from Nankai University in March 2001. In November 2003, Ms. Xuan was qualified as an economist approved by Beijing Intermediate Specialised Technique Qualification Assessment Committee (北京市中級專業技術職務評審委員會). From July 1995 to September 1998, Ms. Xuan was the project manager of Changshi International (Tianjin) Group Limited (長實國際(天津)集團公司). From March 2001 to November 2007, Ms. Xuan was the deputy general manager of the finance department of Digital China (China) Ltd. From November 2007 to May 2010, Ms. Xuan served as the secretary to the board of directors and the general manager of the development department of Beijing Jinxin Technology Co., Ltd (北京神州金信科技股份有限公司). From May 2010 to January 2017, Ms. Xuan successively served as the assistant to the manager, deputy manager and general manager of the investment management department of BII, the ultimate holding company of the Company. In July 2015, Ms. Xuan was appointed as the director of BII HK, the controlling shareholder of the Company, and ceased to be the director thereof with effect from May 2017. Ms. Xuan now serves as the director of Great Legend, Beijing City Railway, CCRTT Investment, ERG (HK), BII Zhuoyue, ERG (BJ) and serves as the chairman of BII ERG (each a subsidiary of the Group), and has served as the director of Metro Science and Technology since December 2016 and Beijing Metro, the joint venture of the Group, since February 2017 and the chairman of BII Xin An since 15 January 2018. Ms. Xuan was appointed as the director of Huaqi Intelligent with effect from 28 February 2019 and the chairman of BII Zhongfu with effect from 12 August 2019. Ms. Xuan directly holds approximately 0.19% of the issued share capital of the Company as at the date of this annual report.

Biographical Details of Directors and Senior Management (continued)

NON-EXECUTIVE DIRECTORS

ZHANG Yanyou (張燕友), Mr. Zhang, aged 56, was appointed as a non-executive Director on 14 December 2018. Mr. Zhang is also the Chairman and the chairman of the Nomination Committee. Mr. Zhang obtained a bachelor's degree in metallic material and heat treatment from Beijing Union University (北京聯合大學) in July 1985. He also obtained a postgraduate degree in finance from Capital University of Economics and Business (首都經濟貿易大學) and a doctor's degree in management science and engineering from Beijing University of Technology (北京工業大學) in May 2001 and January 2008, respectively. Mr. Zhang obtained the qualifications of professional engineer and senior economist issued by Beijing Municipal Planning Commission Intermediate Specialised Technique Qualification Assessment Committee (北京市計劃委員會中級專業技術職務評審委員會) and Beijing Senior Specialised Technique Qualification Assessment Committee (北京市高級專業技術職務評審委員會), respectively, in August 1992 and October 1998, respectively. In July 2019, he obtained the qualifications of senior economist issued by Beijing Economic Senior Professional and Technical Qualification Assessment Committee (北京市經濟系列高級專業技術資格評審委員會). Mr. Zhang has been working as the chairman of the board of directors in BII, the ultimate holding company of the Company, since April 2018. Prior to joining BII, Mr. Zhang worked at Beijing Municipal Commission of Development and Reform (北京市發展和改革委員會) from November 2003 to July 2011 and successively served as a director of industry department and the deputy director. From July 2011 to April 2018, he worked at Beijing Changping District People's Government (北京市昌平區人民政府) and successively served as the deputy district chief, the acting district chief and the district chief.

GUAN Jifa (關繼發), Mr. Guan, aged 54, was appointed as a non-executive Director on 28 October 2015 and redesignated as Chairman from 28 February 2017 to 14 December 2018. He is also a member of the Remuneration Committee. He ceased to be the chairman of the Nomination Committee on 14 December 2018. Mr. Guan graduated from Xi'an Institute of Metallurgy and Architecture (西安冶金建築學院) (now known as Xi'an University of Architecture and Technology) with a bachelor's degree in engineering in July 1987. In September 1999, Mr. Guan obtained the engineer qualification certificate and was qualified as a senior engineer approved by Beijing Senior Specialised Technique Qualification Assessment Committee (北京市高級專業技術職務評審委員會). In July 2019, Mr. Guan obtained the qualifications of senior economist issued by Beijing Senior Professional and Technical Qualification Assessment Committee (北京市經濟系列高級專業技術資格評審委員會). He had taken a post-graduate course in the International Business School of the University of International Business and Economics from March 2002 to August 2004. He obtained a doctorate's degree in engineering from Xi'an University of Architecture and Technology in December 2008. From July 1987 to August 1992, Mr. Guan worked at the Heilongjiang Metallurgical Design and Planning Institute (黑龍江冶金設計規劃院) as an Engineer. From June 1994 to April 2005, Mr. Guan worked at Beijing Urban Construction No. 3 Development Co., Ltd (北京城建三建設發展有限公司) as a project manager and subsequently served as a deputy general manager. From April 2005 to January 2008, Mr. Guan acted as the deputy general manager and subsequently the general manager of Beijing Subway Construction Co., Ltd (北京地下鐵道建設公司). Mr. Guan served as the chairman of Beijing Jing Chuang Investment Ltd. (北京京創投資有限公司) from January 2008 to March 2010. From March 2010, Mr. Guan successively served as the general manager of the Land Development Department of BII, the ultimate holding company of the Company, assistant to general manager of BII and now serves as the deputy general manager of BII. He also serves as a non-executive director of Beijing Urban Construction Design & Development Group Co., Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1599), since January 2016. Mr. Guan served as the director of Beijing Metro from February 2016 to February 2017. Mr. Guan was appointed as the chairman of Huaqi Intelligent with effect from 28 February 2019.

Biographical Details of Directors and Senior Management (continued)

ZHENG Yi (鄭毅), Mr. Zheng, aged 45, was appointed as a non-executive Director on 25 August 2017. Mr. Zheng obtained a Master's degree in engineering, specialised in Road and Railway Engineering, at the School of Civil Engineering of Northern Jiaotong University (now known as Beijing Jiaotong University) in May 2000. He was qualified as a senior engineer by Beijing Senior Specialised Technique Qualification Evaluation Committee (北京市高級專業技術資格評審委員會) in July 2006 and was subsequently qualified as a professor-grade senior engineer in 2017. Since November 2005, he once took up various positions in BII, the ultimate holding company of the Company, as the senior planner and deputy manager, Head of office of railway routing consolidation department of BII, general manager of preliminary planning department, and assistant general manager of BII and general manager of railway transportation business department.

REN Yuhang (任宇航), Mr. Ren, aged 44, was appointed as a non-executive Director on 28 February 2017. Mr. Ren obtained a bachelor's degree in thermal engineering from Wuhan University in June 1996. He also obtained a master's degree in technology economics and management and a doctorate's degree in business administration from Beijing Institute of Technology in June 2004 and March 2008, respectively. From July 1996 to September 2003, Mr. Ren worked at Henan No. 1 Electrical Power Company (河南省電力公司火電一公司) as an engineer. From September 2004 to September 2005, he worked for the Credit Management Authority of China Development Bank. From September 2005 to June 2006, he took the position of manager at the research department of Beijing Boxing Investment Consultancy Company Limited (北京博星投資顧問有限公司). From May to September 2007, he worked as a senior consultant at the business consulting department of INNOFI Financial Information Industry Group (北京正信嘉華管理顧問有限公司). Mr. Ren has worked as a project manager, senior project manager and general manager of the financial planning department of BII since September 2007. Mr. Ren is currently the board secretary and the general manager of investment development headquarters of BII, the ultimate holding company of the Company. Mr. Ren was appointed as the director of BII HK, a controlling shareholder of the Company, in July 2015. Mr. Ren was appointed as a director of Beijing Traffic Control Technology Co., Ltd, a company listed on the Shanghai Stock Exchange on July 2019 (stock code: 688015), in March 2017 and appointed as non-executive director of Beijing Urban Construction Design & Development Group Co., Limited, a company listed on the Main Board of the Stock Exchange of Hong Kong Limited (stock code: 1599), in August 2018. Mr. Ren was appointed as the director of Huaqi Intelligent with effect from 28 February 2019, the vice chairman of Shaoxing Jingyue Metro Co., Ltd.* (紹興京越地鐵有限公司) with effect from April 2019, a director of Huangshan Region Travel Metro Investment Development Co., Ltd* (黃山市市域旅遊鐵路投資發展有限公司) with effect from August 2019 and the executive director of BII Investment Co., Ltd* (北京京投投資控股有限公司) with effect from November 2019.

Biographical Details of Directors and Senior Management (continued)

INDEPENDENT NON-EXECUTIVE DIRECTORS

BAI Jinrong (白金榮), Mr. Bai, aged 69, was appointed as an independent non-executive Director on 7 December 2011. Mr. Bai is also the chairman of the Remuneration Committee and member of the Audit Committee and the Nomination Committee. Mr. Bai graduated from Beijing Normal University in 1985. Mr. Bai has over 30 years of experience in economics, finance and enterprise management. From 1984 to 1992, Mr. Bai served as a deputy director and director of the Policy Research Office of Beijing Chemical Industry Group. From 1992 to 1997, Mr. Bai served as a deputy director of Beijing Economic Structure Reforms Committee (北京市經濟體制改革委員會). From 2003 to 2004, Mr. Bai was the deputy director of Beijing State-owned Assets Supervision and Administration Commission. From 2005 to 2010, Mr. Bai was the vice board chairman and general manager of Beijing Enterprises Group Company Limited. From June 2005 to June 2011, Mr. Bai was the executive director of Beijing Enterprises Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 392). From February 2015 to March 2016, Mr. Bai also served as the independent non-executive director of Shi Shi Services Limited (formerly known as Kong Shum Union Property Management (Holding) Limited and Heng Sheng Holdings Limited), a company listed on GEM of the Stock Exchange (stock code: 8181).

LUO Zhenbang (CPA) (羅振邦), Mr. Luo, aged 54, was appointed as an independent non-executive Director on 13 November 2012. He is also the chairman of the Audit Committee. Mr. Luo graduated from the School of Business of Lanzhou in 1991 majoring in enterprise management. From September 2005 to July 2007, Mr. Luo took a master's degree course in management (technology and innovation) in Tsinghua University jointly organised by The Australian National University and Tsinghua University and obtained a master's degree in management from The Australian National University in July 2007. Mr. Luo has over 20 years' experience in accounting, auditing and financial management and is a Chinese Certified Public Accountant, Certified Tax Agent, Certified Public Valuer and Certified Accountant in securities and futures industry. Mr. Luo has extensive experience in the audit of listed companies in various sectors and provides business consultation services in corporate restructuring and strategic planning for initial public offerings and assets and debts restructuring. Mr. Luo had been the deputy general manager of Zhong Zhou Certified Public Accountants and Baker Tilly China Certified Public Accountants. He was an expert supervisor of China Cinda Asset Management Co., Ltd. and China Great Wall Asset Management Corporation. Mr. Luo had served as an independent director of several listed companies in the PRC, including Long March Vehicle Technology Company Limited (now known as China Aerospace Times Electronics Company Limited) (stock code: 600879) and AVIC Heavy Machinery Company Limited (stock code: 600765), each a company listed on the Shanghai Stock Exchange; Ning Xia Orient Tantalum Industry Company Limited (stock code: 962), Wuzhong Instrument Company Limited (now known as Ningxia Yinxing Energy Company Limited) (stock code: 862) and Ningxia Zhongyin Cashmere Company Limited (stock code: 982), and Xinjiang Goldwind Science & Technology Co., Ltd.* ("**Xinjiang Goldwind**") (stock code: 2202), each a company listed on the Shenzhen Stock Exchange. Mr. Luo has also been the independent director of Digital China Information Service Company Ltd. (stock code: 555), a company listed on the Shenzhen Stock Exchange from September 2011 to December 2019. Mr. Luo had also served as an independent non-executive director of Xinjiang Goldwind (stock code: 2208), a company listed on the Main Board of the Stock Exchange from June 2013 to June 2019. Mr. Luo has been the independent non-executive director of China Aerospace International Holdings Limited (stock code: 31) since December 2004 and the independent non-executive director of Guorui Properties Limited (stock code: 2329) since July 2014, each a company listed on the Main Board of the Stock Exchange. Mr. Luo had also served as a member of the internal audit committee of Northeast Securities Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 686) from October 2002 to May 2018. Mr. Luo is the director and managing partner of BDO China Shu Lun Pan Certified Public Accountants LLP.

Biographical Details of Directors and Senior Management (continued)

HUANG Lixin (黃立新), Mr. Huang, aged 48, was appointed as an independent non-executive Director on 9 July 2014. He is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee. Mr. Huang graduated from the Law School of Renmin University of China with a bachelor's degree in law in July 1993 and obtained a master's degree in law from the University of International Business and Economics in July 1996. Mr. Huang obtained the Postgraduate Certificate in Laws (PCLL) from the University of Hong Kong in June 2001. Mr. Huang was qualified as a lawyer in the PRC since October 1995 and obtained the practising certificate issued by the Law Society of Hong Kong for the period from January to December 2004. Mr. Huang possessed extensive experience in the legal practice and had participated in numerous issues of securities, initial public offerings, post-listing financing as well as merger and acquisition projects over the past 20 years as a practising lawyer. Mr. Huang was an intern in the Department of Legal Affairs of the China Securities Regulatory Commission from November 1993 to February 1996. From August 1996 to July 2000, Mr. Huang was a PRC legal consultant at Herbert Smith LLP. From July 2001 to May 2007, Mr. Huang was appointed as a trainee solicitor and later a solicitor at Herbert Smith LLP. Mr. Huang is now a partner of Beijing Haiwen & Partners which he joined in May 2007.

SENIOR MANAGEMENT OF THE COMPANY

LIU Yu (劉瑜), Mr. Liu, aged 46, Vice President. Mr. Liu joined the Group in May 2013 and was appointed as vice president of our Group in July 2014. He who takes charge of BII ERG is fully responsible for the operation management of the subsidiary. Since his secondment to our Group, Mr. Liu has served as deputy general manager of BII ERG and deputy general manager of the Group. He has concurrently become general manager of BII ERG since October 2014 and general manager of ERG (BJ) since August 2016. Mr. Liu has taken up the position of director of BII ERG since February 2017 and chairman and general manager of BII ERG since February 2019. He has assumed the role of director of BII Zhongfu since August 2019 and chairman of Litmus since December 2019.

Mr. Liu obtained a master's degree in transportation planning and management from Beijing University of Technology and is an accredited engineer. From July 2005 to May 2013, Mr. Liu had served as manager of TCC project department, head of TCC technical workshop, deputy director of technical engineering department, manager of information centre project department and deputy chief engineer of Beijing Metro Network.

WANG Xinjiang (王新江), Mr. Wang, aged 53, Vice President. He joined the Group and was appointed as vice president of our Group in March 2016. Currently, Mr. Wang is a specialist expert of BII. He is mainly responsible for the financial management, operation management, business management, informatisation management, etc. Mr. Wang has served as director of BII ERG since May 2016 and has held the positions of deputy general manager and financial officer of BII Zhuoyue since July 2017 as well as director of BII Zhuoyue since October 2017. He has assumed the positions of director of ERG (BJ) since March 2016 and directors of Great Legend, Beijing City Railway and CCRTT Investment since December 2017. He has been a director of BII Xin An since January 2018. Mr. Wang has been working as director of BII Railway since November 2018, director of ERG (HK) since March 2019 and director of BII Zhongfu since August 2019.

Mr. Wang was granted with a bachelor's degree of accounting and a master's degree of accounting from Central University of Finance and Economics. Prior to this, he worked as chief financial officer of Veolia Transport-RATP China (威立雅交通巴黎地鐵中國有限公司), and successively served as financial directors of Shengkang Group and KCS Green Energy International (Group) Investments Co., Ltd (中馬綠能(國際)集團有限公司).

Biographical Details of Directors and Senior Management (continued)

LIU Zhongliang (劉忠良), Mr. Liu, aged 46, Vice President. Mr. Liu joined the Group in March 2009 and was appointed as vice president of our Group in September 2012. He is primarily responsible for civil communications, utility tunnel, and research and development and innovation of our Group. After he joined the Group, Mr. Liu served as deputy general manager of ERG (BJ) and was transferred to BII ERG as deputy general manager in October 2009. He was appointed as deputy general manager of BII Zhuoyue in January 2018 and director and general manager of ERG (BJ) in February 2019. Mr. Liu took office as chairman of ERG (BJ) in January 2020.

Mr. Liu obtained a master's degree in management information from the Institute of Scientific and Technical Information of China in 2000 and was a visiting scholar at the University of Maryland that year. He has over 15 years of experience in the management technology and communications industry as well as the metro industry. Prior to joining our Group, Mr. Liu had worked at Anshan Municipal Commission of Development and Reform, and had served as project manager at Motorola (China) Electronics Limited, department manager at Samsung SDS (China) Limited, director of engineering and software development at Telvent Control System (China) Limited (now known as Schneider Electric (China) Company Limited) and China regional deputy general manager at ERG Group (now known as Vix-ERG) respectively.

ZHAO Jingyuan (趙婧媛), Ms. Zhao, aged 40, Vice President. Ms. Zhao joined our Group as vice president in April 2016. She is mainly responsible for human resources, administration affairs, brand promotion, legal affairs and internal control and auditing of the Group. Ms. Zhao has served as deputy general manager of BII Zhuoyue since June 2016 and director of BII ERG since February 2017. She has been executive deputy general manager of BII ERG since February 2019, director of BII Zhongfu since August 2019 and directors of BII Xin An and Litmus since December 2019.

Ms. Zhao obtained a bachelor's degree of arts and a master's degree of history from Liaoning University. She was awarded with the practicing qualification as senior human resources administrator. Ms. Zhao owns over ten years of experience in human resources management. Prior to joining the Group, Ms. Zhao worked in Beijing Zhongdian Feihua Communication Co., Ltd. (中電飛華通信股份有限公司), a company held by State Grid Information and Communication (國網信通), as manager of the human resources department. She joined BII in 2011 and took the position of senior director of the human resources department of BII, director of the human resources and administration department of BII ERG, assistant to general manager and deputy general manager of the human resources department of BII.

WANG Yuzhe (王玉哲), Mr. Wang, aged 38, Vice President. Mr. Wang joined the Group as vice president in December 2018. He is mainly responsible for the Party-masses management, affairs of Board, strategic planning and management, and securities affairs management. Mr. Wang has assumed the role of directors of Great Legend and Beijing City Railway since March 2019, director of BII Zhongfu since August 2019, and directors of Litmus and BII Railway since December 2019.

He obtained a bachelor's degree of finance and a master's degree of accounting from Guanghua School of Management, Peking University. Mr. Wang owns over ten years of experience in investment and financing management and enterprise management. Prior to joining the Group, Mr. Wang had worked in Dangdai Investment Group Company Limited (當代投資集團有限公司) as assistant manager of the finance department, and served as project manager of HNA Property Holdings (Group) Company Limited (海航置業控股(集團)有限公司). He joined the Group in 2009 and successively served as office supervisor, senior office supervisor, assistant to officer of the Board of Directors' office, and deputy officer of the Board of Directors' office.

COMPANY SECRETARY

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

DIRECTORS' REPORT

The Directors are pleased to present their report for FY 2019:

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities and other particulars of material subsidiaries are set out in Note 14 to the consolidated financial statements. None of the subsidiaries of the Company has issued debt securities.

As far as the Company is aware, during FY 2019, it has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company.

RESULTS

The Group's profit for FY 2019 and the state of affairs of the Group and of the Company as at that date are set out in the consolidated financial statements on pages 82 to 176. The Company is not aware of any arrangement under which a Shareholder has waived or agreed to waive any dividends.

FINAL DIVIDEND

In view of the business growth of the Group and in response to the long term support of the Shareholders of the Company, the Board recommended the declaration of a final dividend of HK\$0.02 per share for FY 2019 (FY 2018: HK\$0.01 per share). The proposed final dividend will be payable to Shareholders whose names appear on the register of members of the Company on Thursday, 4 June 2020, subject to the approval of the Shareholders at the 2020 AGM. It is expected that the final dividend will be paid on or before Monday, 31 August 2020.

ANNUAL GENERAL MEETING

The 2020 AGM will be held on Tuesday, 26 May 2020. Shareholders should refer to details regarding the 2020 AGM in the circular to be despatched by the Company and the notice of meeting and form of proxy accompanying therewith.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the 2020 AGM to be held on Tuesday, 26 May 2020, the register of members of the Company will be closed from Thursday, 21 May 2020 to Tuesday, 26 May 2020 (both days inclusive), during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2020 AGM, unregistered holders of Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 20 May 2020 (Hong Kong time).

For determining the entitlement to the proposed final dividend (subject to the approval by the Shareholders at the 2020 AGM), the register of members of the Company will be closed from Tuesday, 2 June 2020 to Thursday, 4 June 2020 (both days inclusive), during which period no transfer of Shares will be registered. In order to qualify for the proposed final dividend, unregistered holders of Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 1 June 2020 (Hong Kong Time).

BUSINESS REVIEW

The business review of the Company for FY 2019 is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report which form part of the directors' report. As the current technology replacement cycle is getting shorter, the Internet is in the ascendant, mobile payment is booming, and open source software is becoming a trend, China's technological development is faster than ever before. As a technology-based company in the field of railway transportation, the Group will also be affected and face the risks of profound reform in technological trends and directions, internetisation of behavior patterns and usage patterns of users and fierce competition for core talents and innovative talents. It also encounters risks such as barriers in foreign markets, intensified competition in the industry, and risks on legal proceedings, credit, liquidity, interest rates and foreign exchange during the business process, details of which are set out in Note 32 to the financial statements.

Discussions on the Group's environmental, social, and governance practices as well as relationships with employees, customers, suppliers and other stakeholders are set out in "2019 ESG Reporting" separately published by the Group.

SHARE CAPITAL

Details of the movements in the Company's share capital are set out in Note 29(a) to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Company and the Group for FY 2019 are set out in Note 29(a) to the consolidated financial statements and the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

In accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account is distributable to the Shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business. As at 31 December 2019, the Company's reserves available for distribution amounted to approximately HK\$1,813.2 million (31 December 2018: HK\$1,834.2 million). Such amount includes the Company's share premium.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group for FY 2019 are set out in Note 11 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years as extracted from the audited consolidated financial statements is set out on page 6 in this annual report. This summary does not form part of the audited financial statements in this annual report.

Directors' Report (continued)

MAJOR CUSTOMERS AND SUPPLIERS

For FY 2019, the purchases and sales percentage from the major customers and suppliers of the Group are set out below:

	Percentage of total purchases
(1) Purchases	
– the largest supplier	9.0%
– the five largest suppliers combined	27.3%

	Percentage of total sales
(2) Sales	
– the largest customer	20.7%
– the five largest suppliers combined	42.8%

Save as disclosed under the sections headed “Connected transactions” and “Continuing connected transactions” in this Directors' Report, as far as the Directors are aware, none of the Directors or any of their close associates, or any Shareholders (which, to the knowledge of the Directors, owns more than 5% of the Company's issued shares) had any beneficial interest in the Group's five largest customers and suppliers for FY 2019.

DIRECTORS

The Directors for FY 2019 and up to the date of this report were:

Executive Directors

Mr. Cao Wei (*Vice Chairman*)

Ms. Xuan Jing (*Chief Executive Officer*)

Non-executive Directors

Mr. Zhang Yanyou (*Chairman*)

Mr. Guan Jifa

Mr. Zheng Yi

Mr. Ren Yuhang

Independent non-executive Directors

Mr. Bai Jinrong

Mr. Luo Zhenbang (*CPA*)

Mr. Huang Lixin

According to article 16.18 of the Articles, Mr. Zheng Yi, Mr. Ren Yuhang and Mr. Bai Jinrong will retire as Directors by rotation at the 2020 AGM. All of the retiring Directors, being eligible, will offer themselves for re-election as Directors at the 2020 AGM.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received annual written confirmation from each of the independent non-executive Directors in respect of their independence during FY 2019 in accordance with the requirements set out in Rule 3.13 of the Listing Rules and all independent non-executive Directors are considered to be independent.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on pages 30 to 34 of this annual report.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who was proposed for re-election at the 2020 AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group for FY 2019 are set out in Notes 8 and 9 to the consolidated financial statements.

MANAGEMENT CONTRACTS

As at 31 December 2019, other than a contract of service with a Director or any person engaged in the full-time employment of the Company, the Company did not enter into or have any management and administration contracts in respect of the whole or any substantial part of the business of the Company.

EMOLUMENT POLICY

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

RELATIONSHIP WITH EMPLOYEES

Employees are the Group's most valuable assets. The Group actively improves the human resources system and corporate culture construction, protects the rights and interests of employees, pays attention to the reasonable demands of employees, builds a comprehensive salary system, provides high-quality training and career development opportunities, and organises various activities for employees. The Group has established good relationship with its employees throughout the year.

REMUNERATION OF SENIOR MANAGEMENT

The remuneration payable to the senior management of the Company for FY 2019 is within the range of HK\$1,000,001 to HK\$2,500,000.

Directors' Report (continued)

SHARE OPTION SCHEME

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

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

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

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

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

Subject to the terms of the Share Option Scheme, the Board may, at its absolute discretion, grant or invite any person belonging to any of the following classes to take up options to subscribe for shares: (a) any employee, supplier, service provider, customer, partner or joint-venture partner of the Group (including any director, whether executive or non-executive and whether independent or not, of the Group) who is in full-time or part-time employment with the Company or any subsidiaries; and (b) any person who have contributed or may contribute to the Group. During FY 2019, no options were granted.

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

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

Directors' Report (continued)

Where any grant of options to a substantial Shareholder or an independent non-executive Director (or any of their respective close associates) will result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted to such person under the Share Option Scheme and any other share option schemes of the Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million,

such further grant of options must be approved by the Shareholders. The Company must send a circular to the Shareholders. The grantee, his/her associates and all core connected persons of the Company must abstain from voting in favour at such general meeting.

As of 5 December 2019, the share options granted by the Company had all lapsed.

As at 31 December 2019, there were no outstanding share options under the Share Option Scheme, details as follows:

Grantee	Position/ Capacity	Date of Grant	Exercise price (HK\$)	Vesting period	Exercise period	Number of share options					Balance as at 31 December 2019	Market value per share on exercise of options
						Balance as at 1 January 2019	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year		
BII HK	Substantial Shareholder	5 December 2014	2.69	5 December 2014 to 4 December 2015 (Note 1)	5 December 2015 to 4 December 2019 (Note 1)	1,300,000	-	-	-	1,300,000	-	-
Mr. Cao Wei	Vice Chairman and Executive Director	5 December 2014	2.69	5 December 2014 to 4 December 2015 (Note 1)	5 December 2015 to 4 December 2019 (Note 1)	500,000	-	-	-	500,000	-	-
Others	Employees	5 December 2014	2.69	5 December 2014 to 4 December 2015 (Note 1)	5 December 2015 to 4 December 2019 (Note 1)	13,450,000	-	-	-	13,450,000	-	-
Total						15,250,000	-	-	-	15,250,000	-	-

Note:

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

Directors' Report (continued)

DIRECTORS' INTEREST IN CONTRACTS

Saved as disclosed under the sections headed "Connected transactions" and "Continuing connected transactions" below and disclosed in Note 33 to the consolidated financial statements under the heading "Material related party transactions", (i) no transaction, arrangement, or contract of significance to which the Company, or any of its holding company or subsidiaries was a party, and in which a Director or an entity connected with such Director had a material interest, whether directly or indirectly, subsisted at 31 December 2019 or at any time during FY 2019; (ii) no transaction, arrangement, or contract of significance had been entered into between the Company or any of its subsidiaries and the controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries; and (iii) no transaction, arrangement, or contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling shareholder of the Company or any of its subsidiaries was entered into.

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

As at 31 December 2019, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Cap 571 of the Laws of Hong Kong (the "SFO") which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules were as follows:

Long positions in shares and underlying shares

Name of Director	The Company/ Name of associated corporation	Capacity	Number of shares	Approximate percentage of issued share capital of the Company/ associated corporation
Mr. Cao Wei ("Mr. Cao")	The Company	Interest of controlled corporation (Note 1)	244,657,815	11.65%
	The Company	Beneficial owner	800,000	0.04%
				11.69%
Ms. Xuan Jing	The Company	Beneficial owner	4,032,000	0.19%

Note:

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

Save as disclosed above, as at 31 December 2019, so far as was known to the Directors or the chief executive of the Company, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be recorded in the register required to be kept by the Company; or (c) pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

As at 31 December 2019, so far as was known to the Directors or the chief executive of the Company, the persons (other than the Directors and the chief executive of the Company) who had interests and/or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long positions in shares and underlying shares of the Company

Name of substantial shareholder	Capacity	Number of shares	Approximate percentage of issued share capital of the Company
More Legend	Beneficial owner (Note 1)	244,657,815	11.65%
Ms. Wang Jiangping (" Ms. Wang ")	Interest of spouse (Note 2)	245,457,815	11.69%
BII HK	Beneficial owner (Note 3)	1,157,634,900	55.12%
BII	Interest of controlled corporation (Note 3)	1,157,634,900	55.12%
China Property and Casualty Reinsurance Company Ltd.* (中國財產再保險有限責任公司)	Beneficial owner (Note 4)	148,585,534	7.08%
China Reinsurance (Group) Corporation* (中國再保險(集團)股份有限公司)	Interest of controlled corporation (Note 4)	191,193,534	9.10%
Central Huijin Investment Ltd.	Interest of controlled corporation (Note 4)	191,193,534	9.10%

* For identification purposes only

Directors' Report (continued)

Notes:

1. More Legend is the legal and beneficial owner of 244,657,815 shares of the Company and is wholly-owned by Mr. Cao. Mr. Cao is also the sole director of More Legend.
2. Ms. Wang is the spouse of Mr. Cao and by virtue of the SFO, is deemed to be interested in the 245,457,815 shares of the Company which Mr. Cao is interested in.
3. BII HK is a wholly-owned subsidiary of BII, a company established under PRC law with limited liability and wholly owned by the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality. By virtue of the SFO, BII is deemed to be interested in the 1,157,634,900 shares of the Company owned by BII HK.
4. China Property and Casualty Reinsurance Company Ltd. and China Life Reinsurance Company Ltd. which hold 148,585,534 shares and 42,608,000 shares of the Company, respectively, are each a wholly-owned subsidiary of China Reinsurance (Group) Corporation, which is in turn owned as to 71.56% by Central Huijin Investment Ltd. By virtue of the SFO, China Reinsurance (Group) Corporation and Central Huijin Investment Ltd. are deemed to be interested in the 148,585,534 shares of the Company owned by China Property and Casualty Reinsurance Company Ltd. and 42,608,000 shares of the Company owned by China Life Reinsurance Company Ltd.

Save as disclosed above, as at 31 December 2019, the Directors have not been notified by any person (other than the Directors or the chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made with all the Directors and employees to whom the Securities Dealing Code applies. The Directors have confirmed that they have complied with the Securities Dealing Code and Model Code throughout the year ended 31 December 2019. No incident of non-compliance with the Securities Dealing Code by the employees was noted by the Company.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2019.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the paragraph headed "Directors' and Chief Executive's interests and short positions in shares, underlying shares and debentures of the Company or its associated corporations" and in the paragraph headed "Share Option Scheme", at no time during FY 2019 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their respective spouse or minor children to acquire such rights in any other body corporate.

COMPETITION AND CONFLICT OF INTERESTS

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

CONNECTED TRANSACTIONS

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

1. The acquisition of 10% equity interest in BII ERG

Reference is made to the announcement of the Company dated 20 February 2019, on 20 February 2019, BII Zhuoyue and Beijing MTR Consultation entered into the equity transfer agreement, pursuant to which BII Zhuoyue has agreed to acquire, and Beijing MTR Consultation has agreed to sell, 10% equity interest in BII ERG at the consideration of RMB17,688,060 (equivalent to approximately HK\$20,518,000) (the "**Acquisition**"). Upon completion of the Acquisition, BII ERG became a wholly-owned subsidiary of the Company. The Company believes that the Acquisition can maximise its autonomy to manage its operations and enhance the profit return of the Group.

As at the date of such announcement, BII ERG was a non-wholly owned subsidiary of the Company, which was held as to 90% and 10% by BII Zhuoyue and Beijing MTR Consultation, respectively. Beijing MTR Consultation was therefore a substantial shareholder of BII ERG and hence a connected person of the Company. The Acquisition therefore constituted a connected transaction for the Company under Chapter 14A of the Listing Rules. As the Board has approved the Acquisition and all independent non-executive Directors have confirmed that the terms thereof are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole, the Acquisition is only subject to the reporting and announcement requirements, and is exempted from the circular, independent financial advice and independent Shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules.

2. Loan Agreement entered into between the Company and Eastern Creation II

Reference is made to the announcement of the Company dated 26 April 2019 and the circular of the Company dated 21 June 2019. On 26 April 2019, the Company (as the borrower) entered into the loan agreement with Eastern Creation II (as the lender) pursuant to which Eastern Creation II agreed to provide a loan of HK\$500 million to the Company for a term commencing from the drawdown date and expiring on 12 December 2021. Pursuant to the loan agreement, the Company and Eastern Creation II would enter into the share charge agreement within 30 business days from the drawdown date. Pursuant to the share charge agreement, the loan shall be secured by the share charge provided by the Company in favour of Eastern Creation II.

As at the date of such announcement, Eastern Creation II is a wholly-owned subsidiary of BII. BII indirectly holds approximately 55.12% of the Shares through its wholly-owned subsidiary, namely BII HK, thus BII is the ultimate holding company of the Company and Eastern Creation II is therefore a connected person of the Company under the Listing Rules. Therefore, the transaction contemplated under the loan agreement and the share charge agreement constituted a connected transaction for the Company under Chapter 14A of the Listing Rules. Further details regarding the loan agreement were set out in the announcement and the circular of the Company dated 26 April 2019 and 21 June 2019, respectively. The Directors considered that entering into of the loan agreement would enable the Group to obtain additional capital for its general operations purpose. The Directors were of the view that the transactions contemplated under the loan agreement and the share charge agreement, although were not in the ordinary and usual course of business, were entered into on normal commercial terms, fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

CONTINUING CONNECTED TRANSACTIONS

1. Framework agreement entered into between the Company and Beijing Metro Network

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

As of 11 May 2016, Beijing Metro Network was wholly owned by BII which also wholly owned BII HK. BII HK, as a Shareholder, held approximately 34.12% of the issued share capital of the Company at that time. Under 14A.07 of the Listing Rules, since Beijing Metro Network was an associate of BII HK, hence it was regarded as a connected person of the Company. Accordingly, under Chapter 14A of the Listing Rules, the Beijing Metro Network Framework Agreement constituted continuing connected transaction of the Company.

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

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

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

For FY 2019, the total transaction amount carried out under the Beijing Metro Network Framework Agreement amounted to approximately HK\$36.1 million.

2. Framework agreement entered into between the Company and Beijing MTR Construction

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

As of 11 May 2016, BII ERG was a non-wholly owned subsidiary of the Group. Beijing MTR Consultation was a substantial shareholder of BII ERG holding 10% of the equity interest in BII ERG at that time, and hence a connected person of the Group. Beijing MTR Construction is the holding company of Beijing MTR Consultation which holds 93% of the equity interests in Beijing MTR Consultation, hence Beijing MTR Construction is an associate of Beijing MTR Consultation and also a connected person of the Group under Rule 14A.07 of the Listing Rules at that time.

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

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

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

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

For FY 2019, the total transaction amount carried out under the Beijing MTR Construction Framework Agreement was Nil.

After the completion of the Acquisition of 10% equity interest in BII ERG by BII Zhuoyue from Beijing MTR Consultation in February 2019, Beijing MTR Construction ceased to be a connected person of the Company.

Directors' Report (continued)

3. Framework agreement entered into between the Company and BII

Reference is made to the announcement of the Company dated 2 August 2019 and the circular of the Company dated 30 August 2019, the Company entered into the BII Framework Agreement ("**BII Framework Agreement**") with BII on 2 August 2019 for a period commencing from 1 July 2019 and ending on 31 December 2021 (both days inclusive).

As at 2 August 2019, BII held approximately 55.12% of the Shares through its wholly-owned subsidiary, namely BII HK, thus BII is the ultimate holding company of the Company and is therefore a connected person of the Company under the Listing Rules. Thus, the transactions contemplated under the BII Framework Agreement would constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Pursuant to the BII Framework Agreement, the Group agrees to provide to BII, its subsidiaries and/or its associates with the consultation and technical support services, information technology support services, technology services, technology development, software development, software procurement, hardware design and development, hardware procurement, system integration, system procurement, operations and maintenance, construction of projects and other types of ancillary services to be agreed by parties in writing from time to time (collectively, the "**BII Framework Services**") during the term of the BII Framework Agreement provided that (i) the member of the Group is awarded with the relevant contract in accordance with the stipulated procedures under the relevant PRC laws and regulations (if required); and (ii) the parties thereto negotiate at arm's length regarding the commercial terms to be set out in the individual agreements for the BII Framework Services.

Pursuant to the BII Framework Agreement, the Group and BII, its subsidiaries and/or its associates will enter into individual agreements for the provision of the BII Framework Services. Pursuant to the BII Framework Agreement, the terms (including the service fees) of the individual agreements to be entered into will be negotiated by the parties at arm's length and will be determined by the parties from time to time on normal commercial terms in the ordinary course of business. The price of the transactions contemplated under the BII Framework Agreement will be determined by government-prescribed price, or government-guided price, or tender process, or the market price, or the agreed price (as the case may be) depending on the methods as set out in the circular of the Company dated 30 August 2019. Further details regarding the BII Framework Agreement and related continuing connected transactions were set out in the announcement and the circular of the Company dated 2 August 2019 and 30 August 2019, respectively.

As (i) BII has been the ultimate controlling Shareholder of the Company; and (ii) there has been a long-standing business relationship between BII, its subsidiaries and/or its associate and the Group, the Directors consider BII, its subsidiaries and/or its associate are reliable business partners and further business cooperation will be beneficial to and provide a steady income stream to the Group.

For FY 2019, the total transaction amount carried out under the BII Framework Agreement amounted to approximately RMB69.7 million.

4. Tenancy agreements with Beijing Metro Network in relation to leasing of properties for the year ended 31 December 2019

On 3 January 2019, Beijing Metro Network entered into tenancy agreements (collectively, "**2019 Tenancy Agreements**") with BII Zhuoyue, BII ERG and ERG (BJ) (collectively, the "**Tenants**"), whereby the Tenants leased properties from Beijing Metro Network for a term of one year from 1 January 2019 to 31 December 2019.

The consideration in respect of the transactions contemplated under the 2019 Tenancy Agreements for the year ended 31 December 2019 was RMB4,666,397.25 (equivalent to approximately HK\$5,319,692.87), which was calculated with reference to the aggregate annual rent payable by the Tenants to Beijing Metro Network pursuant to the 2019 Tenancy Agreements.

The terms of the 2019 Tenancy Agreements (together with the consideration) were determined after arm's length negotiations between the parties and after making reference to the prevailing market rates. The rental payment will be paid in cash in one lump sum after signing of the 2019 Tenancy Agreements. The Directors are of the view that the transactions under the 2019 Tenancy Agreements represented an opportunity for the Group to continue its constant and established operation in Beijing in a prime business location without substantial costs incurred in acquiring properties for office use. Details of the transactions contemplated under the 2019 Tenancy Agreements were set out in the announcement of the Company dated 3 January 2019.

On 18 September 2019, BII Zhuoyue (as tenant) and Beijing Metro Network (as landlord) entered into a termination agreement pursuant to which both parties had agreed to terminate one of the 2019 Tenancy Agreements, i.e. the tenancy agreement entered into between BII Zhuoyue and Beijing Metro Network on 3 January 2019 ("**BII Zhuoyue Tenancy Agreement**"), with effect from 1 July 2019.

The BII Zhuoyue Tenancy Agreement was terminated because the property leased under the BII Zhuoyue Tenancy Agreement was no longer sufficient to accommodate the number of staff and officers of the Group, and the Group had entered into new leases of bigger offices with independent third parties. Upon termination of BII Zhuoyue Tenancy Agreement, BII Zhuoyue and Beijing Metro Network shall be released and discharged from their respective rights and obligations under the BII Zhuoyue Tenancy Agreement. The Directors (including the independent non-executive Directors) are of the view that the termination agreement has been negotiated on an arm's length basis, entered into in the ordinary and usual course of business of the Company and is on normal commercial terms which are fair and reasonable, and is in the interests of the Company and its shareholders as a whole.

As at 3 January 2019, BII HK held 1,157,634,900 shares in the Company, representing approximately 55.12% of the existing issued share capital of the Company. BII HK is a substantial shareholder of the Company and hence a connected person of the Company. BII is the sole beneficial shareholder of BII HK and Beijing Metro Network. Accordingly, Beijing Metro Network is an associate of BII and BII HK, and is therefore a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the 2019 Tenancy Agreements constitute continuing connected transactions for the Company under the Listing Rules.

As at the date of the termination agreement, BII Zhuoyue is a subsidiary of the Company, while Beijing Metro Network is an associate of BII and BII HK, and is therefore a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the termination of the BII Zhuoyue Tenancy Agreement was subject to the announcement requirement under the Listing Rules. Please refer to the announcement of the Company dated 18 September 2019 for details of the termination agreement.

For FY 2019, the total transaction amount carried out under the 2019 Tenancy Agreements amounted to approximately RMB3.5 million.

Directors' Report (continued)

5. Tenancy agreement with BII Technical for the period between 1 October 2019 and 30 September 2020

As disclosed in the announcement of the Company dated 18 September 2019, BII Zhuoyue and BII Technical entered into a tenancy agreement ("**New Tenancy Agreement**") on 18 September 2019 pursuant to which BII Zhuoyue agreed to lease a property from BII Technical for a term of one year from 1 October 2019 to 30 September 2020. The consideration in respect of the transactions contemplated under the New Tenancy Agreement was RMB238,379.46 (equivalent to approximately HK\$271,752.58), which was the annual rent payable by BII Zhuoyue to BII Technical. The terms of the New Tenancy Agreement, including the rental payment, were determined after arm's length negotiations between the parties and after making reference to the prevailing market rates. The rental payment will be paid in cash quarterly after signing of the New Tenancy Agreement. The Directors are of the view that the New Tenancy Agreement enables the Group to strengthen co-operation with BII Technical. The Directors (including the independent non-executive Directors) are of the opinion that the transaction contemplated under the New Tenancy Agreement is entered into in the ordinary and usual course of business of the Group, and the New Tenancy Agreement (together with the rental payment) have been entered into on normal commercial terms after arm's length negotiations between the parties, and the terms of the transactions contemplated under the New Tenancy Agreement (together with the rental payment) are fair and reasonable and in the interests of the Company and its shareholders as a whole. Details of the New Tenancy Agreement were set out in the announcements of the Company dated 18 September 2019 and 27 September 2019.

As at 18 September 2019, BII HK held 1,157,634,900 shares in the Company, representing approximately 55.12% of the existing issued share capital of the Company. BII HK is a controlling shareholder of the Company and hence a connected person of the Company. BII is the sole beneficial shareholder of BII HK and BII Technical. Accordingly, BII Technical is an associate of BII and BII HK, and therefore is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transaction contemplated under the New Tenancy Agreement constitutes continuing connected transaction for the Company under the Listing Rules.

For FY 2019, the total transaction amount carried out under the New Tenancy Agreement amounted to approximately RMB55,000.

6. Tenancy agreements with Beijing Metro Network in relation to leasing of properties for the year ended 31 December 2020

On 23 December 2019, Beijing Metro Network entered into tenancy agreements (collectively, "**2020 Tenancy Agreements**") with BII Zhuoyue and ERG (BJ) (collectively, the "**2020 Tenants**") whereby the 2020 Tenants agreed to lease certain properties from Beijing Metro Network for a term of one year from 1 January 2020 to 31 December 2020.

The consideration in respect of the transactions contemplated under the 2020 Tenancy Agreements for the year ending 31 December 2020 was RMB5,924,808 (equivalent to approximately HK\$6,754,281.12), which is calculated with reference to the aggregate annual rent payable by the 2020 Tenants to Beijing Metro Network pursuant to the 2020 Tenancy Agreements. The terms of the 2020 Tenancy Agreements (together with the consideration) were determined based on the open bidding process conducted through the CBEX after making reference to the prevailing market rates which are around RMB7 to RMB10 per square metre of gross floor area per day. The rental payment would be paid in cash in one lump sum after signing of the 2020 Tenancy Agreements. The Directors are of the view that the transactions under the 2020 Tenancy Agreements represented an opportunity for the Group to continue its constant and established operation in Beijing in a prime business location without substantial costs incurred in acquiring properties for office use. Further details regarding the 2020 Tenancy Agreements were set out in the announcement of the Company dated 23 December 2019.

Directors' Report (continued)

As at 23 December 2019, BII HK held 1,157,634,900 shares in the Company, representing approximately 55.12% of the existing issued share capital of the Company. BII HK is a substantial shareholder of the Company and hence a connected person of the Company. BII is the sole beneficial shareholder of BII HK and Beijing Metro Network. Accordingly, Beijing Metro Network is an associate of BII and BII HK, and is therefore a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the 2020 Tenancy Agreements constitute continuing connected transactions for the Company under the Listing Rules. Reference is also made to the announcements of the Company dated 18 September 2019 and 27 September 2019 in relation to, among others, the New Tenancy Agreement pursuant to which BII Zhuoyue agreed to lease a property from BII Technical which was wholly owned by BII. Accordingly, BII Technical is an associate of BII and BII HK, and is therefore a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, when calculating the applicable percentage ratios under Chapter 14A of the Listing Rules for the transactions contemplated under the 2020 Tenancy Agreements, the transactions under the 2020 Tenancy Agreements and the New Tenancy Agreement would be calculated on an aggregated basis.

For FY 2019, the total transaction amount carried out under the 2020 Tenancy Agreements was nil.

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

The independent non-executive Directors have confirmed that the continuing connected transactions are in accordance with Rule 14A.55 of the Listing Rules. Specifically, the independent non-executive Directors confirmed that the continuing connected transactions entered into by the Group were in the ordinary and usual course of its business, on normal commercial terms or on terms no less favourable than those available to or from independent third parties, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the Shareholders as a whole.

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

Details of material related party transactions entered into by the Group are set out in Note 33 to the consolidated financial statements. Except for those described under the paragraphs headed "Connected transactions" and "Continuing connected transactions" above, in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with, none of those related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules.

Directors' Report (continued)

EVENTS AFTER THE REPORTING PERIOD

Save for the events described under the paragraphs headed "Significant investments held and future plans" and "Final dividend" in this annual report, and under Note 35 to the consolidated financial statements, there is no other material events after the reporting period as at the date of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, during FY 2019 and until the date of this annual report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

TAX RELIEF AND EXEMPTION

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

DONATIONS

During FY 2019, the donation of the Group was approximately HK\$34,100 (FY 2018: HK\$1,087,000).

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme as disclosed on pages 40 to 41 of this annual report, no equity-linked agreements were entered into by the Company, or existed during FY 2019.

DIRECTORS' PERMITTED INDEMNITY PROVISION

Under the Articles, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

The Group recognises its responsibility to protect the environment when conducting its business activities. The Group continually seeks to identify and manage environmental impacts attributable to its operational activities in order to minimise these impacts if possible. Details of the Group's environmental, social, and governance practices are set out in the "2019 ESG Reporting" separately published by the Group.

Directors' Report (continued)

AUDITORS

The consolidated financial statements for FY 2019 were audited by KPMG and they have issued an unqualified opinion. KPMG shall retire and, being eligible, offer themselves for re-appointment at the 2020 AGM. A resolution to reappoint KPMG as auditors of the Company and to authorise the Directors to fix the auditors' remuneration will be proposed at the 2020 AGM.

By Order of the Board

BII Railway Transportation Technology Holdings Company Limited

Xuan Jing

Executive Director

Chief Executive Officer

Hong Kong, 30 March 2020

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the Corporate Governance Report for FY2019.

CORPORATE GOVERNANCE PRACTICES

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

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

The Company has adopted the principles and code provisions of the CG Code as the basis of the Company's corporate governance practices and has devised its own code of corporate governance based on the major principles and practices as set out in the CG Code. For FY 2019, the Company was in compliance with all the CG Code.

BOARD OF DIRECTORS

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

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

Board Composition

The Board currently has nine Directors, comprising two executive Directors, four non-executive Directors and three independent non-executive Directors. Details of the Board composition are set out below:

Executive Directors

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

Non-executive Directors

Mr. Zhang Yanyou	(Chairman and chairman of the Nomination Committee)
Mr. Guan Jifa	(member of the Remuneration Committee)
Mr. Zheng Yi	
Mr. Ren Yuhang	

Independent non-executive Directors

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

Corporate Governance Report (continued)

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

The biographical information of the Directors are set out in the section headed “Biographical details of Directors and senior management” on pages 30 to 35 of this annual report. None of the members of the Board is related to one another.

Chairman and Chief Executive Officer

The roles of the Chairman and Chief Executive Officer are segregated and held by Mr. Zhang Yanyou and Ms. Xuan Jing, respectively, to ensure their respective independence, accountability and responsibility. The Chairman provides leadership and is responsible for the Group’s strategic planning and the management of the operations of the Board, while the Chief Executive Officer is responsible for carrying out the policies of the Board, takes the lead in the Group’s operations and business development, and focuses on the daily management and operations generally. There is a clear division of responsibilities between the Chairman and Chief Executive Officer which provides a balance of power and authority.

Independent non-executive Directors

The Board consists of at least three independent non-executive Directors representing one-third of the Board with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise at all times during FY 2019.

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

Appointment and re-election of Directors

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

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

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

Corporate Governance Report (continued)

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

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

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

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

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

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

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

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

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

Corporate Governance Report (continued)

BOARD MEETINGS

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

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

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

Four regular Board meetings and five extraordinary Board meetings were held during FY 2019. The attendance record of each Director at the Board meetings is set out below:

Name of Directors	Meetings attended/Number of meetings	
	Regular Board meeting	Extraordinary Board meeting
Executive Directors		
Mr. Cao Wei (<i>Vice Chairman</i>)	4/4	5/5
Ms. Xuan Jing (<i>Chief Executive Officer</i>)	4/4	5/5
Non-executive Directors		
Mr. Zhang Yanyou (<i>Chairman</i>)	4/4	5/5
Mr. Guan Jifa	4/4	5/5
Mr. Zheng Yi	4/4	5/5
Mr. Ren Yuhang	4/4	5/5
Independent Non-executive Directors		
Mr. Bai Jinrong	4/4	5/5
Mr. Luo Zhenbang (<i>CPA</i>)	4/4	5/5
Mr. Huang Lixin	4/4	5/5

Code provision A.2.7 of the CG Code has been revised to require that the Chairman of the Board should at least annually hold meetings with independent non-executive Directors without the presence of other directors. Arrangements have been made for compliance with the revised code provision which took effect from 1 January 2019.

Corporate Governance Report (continued)

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the aforesaid committees have been posted on the Company's website and the website of the Stock Exchange and are available to the Shareholders upon request.

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

Audit Committee

The Company established the Audit Committee on 8 December 2011 with written terms of reference in compliance with Rules 3.21 and 3.22 of the Listing Rules. On 30 December 2015, the Board adopted the revised written terms of reference which became effective on 1 January 2016. On 25 December 2018, the Board adopted the further revised written terms of reference which became effective on the same date. The written terms of reference of the Audit Committee were adopted in compliance with code provisions C.3.3 and C.3.7 of the CG Code.

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

The Audit Committee held two meetings during FY 2019 to, among others, review the interim and annual financial results and reports of the Group and significant issues on financial reporting, operational and compliance controls. The Audit Committee also reviewed the effectiveness of the Group's risk management and internal control systems, internal audit function and compliance procedures, and considered matters regarding appointment of external auditors, relevant scope of works and connected transactions and arrangements for employees to raise concerns about possible improprieties.

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

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

	Meetings attended/ Number of meetings
Mr. Luo Zhenbang (CPA) (chairman of the Audit Committee)	2/2
Mr. Bai Jinrong	2/2
Mr. Huang Lixin	2/2

Corporate Governance Report (continued)

Remuneration Committee

The Company established the Remuneration Committee on 8 December 2011 with written terms of reference in compliance with Rules 3.25 and 3.26 of the Listing Rules. On 25 December 2018, the Board adopted the revised written terms of reference which became effective on the same date. The written terms of reference of the Remuneration Committee was adopted in compliance with code provision B.1.2 of the CG Code.

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

The Remuneration Committee held one meeting during FY 2019 to review and make recommendation to the Board on the remuneration policy and the remuneration packages of the Directors and senior management. Details of the remuneration of senior management are set out in Note 9 to the consolidated financial statements in this annual report.

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

	Meeting attended/ Number of meeting
Mr. Bai Jinrong (<i>chairman of the Remuneration Committee</i>)	1/1
Mr. Cao Wei	1/1
Mr. Huang Lixin	1/1

Note:

Mr. Cao Wei has resigned as a member of the Remuneration Committee with effect from 30 March 2020 as he would like to spend more time on his other commitments. Mr. Guan Jifa has been appointed as a member of the Remuneration Committee with effect from 30 March 2020.

Nomination Committee

The Company established the Nomination Committee on 8 December 2011 with written terms of reference in compliance with code provisions A.5.1 and A.5.2 of the CG Code. On 25 December 2018, the Board adopted the revised written terms of reference which became effective on the same date. The Nomination Committee adopted a board diversity policy on 30 August 2013 to achieve diversity on the Board which was subsequently revised on 25 December 2018.

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

Corporate Governance Report (continued)

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's board diversity policy. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption. In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Company's director nomination policy that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board. The director nomination policy as adopted by the Board sets out the procedure and criteria in the nomination and appointment of Directors.

The Nomination Committee held one meeting during FY 2019 to discuss and review the structure, size and composition of the Board and the independence of the independent non-executive Directors as well as matters regarding appointment and retirement and re-election of Directors at annual general meeting.

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

	Meeting attended/ Number of meeting
Mr. Zhang Yanyou (<i>chairman of the Nomination Committee</i>)*	1/1
Mr. Bai Jinrong	1/1
Mr. Huang Lixin	1/1

BOARD DIVERSITY POLICY

The Company adopted a board diversity policy on 30 August 2013 to achieve diversity on the Board which was subsequently revised on 6 December 2013 and 25 December 2018 ("**Board Diversity Policy**") and is available on the website of the Company. The Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to maintaining diversity at all levels and will consider the measurable objectives, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience.

The Company aims to maintain an appropriate balance of diversity perspectives of the Board that are relevant to the Company's business growth and is also committed to ensuring that selection and nomination of Board positions are appropriately structured so that a diverse range of candidates are considered.

The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

At present, the Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained and has achieved the measurable objectives in implementing the Board Diversity Policy.

The Nomination Committee will review the Board Diversity Policy, as appropriate and on a regular basis, to ensure its continued effectiveness.

DIRECTOR NOMINATION POLICY

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company. Without prejudice to the authority and duties of the Nomination Committee as set out in its terms of reference, the ultimate responsibility for selection and appointment of Directors of the Company rests with the entire Board.

The Company has adopted a director nomination policy ("**Director Nomination Policy**") which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- Diversity aspects under the Board Diversity Policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience;
- Requirements of independent non-executive Directors on the Board and independence of the proposed independent non-executive Directors in accordance with the Listing Rules; and
- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee of the Company.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings and the recommendations to be made by the Nomination Committee and the Board in these respects. During FY 2019, there was no change in the composition of the Board.

The Nomination Committee will conduct regular review on the Director Nomination Policy, as appropriate, to ensure its effectiveness.

Corporate Governance Report (continued)

CORPORATE GOVERNANCE FUNCTIONS

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

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has devised the Securities Dealing Code on terms no less exacting than the required standard of dealings set out in the Model Code. The Company customarily issues notices to its Directors reminding them of the general prohibition on dealing in the Company's listed securities during the blackout periods before the publication of announcements of financial results. Having made specific enquiry of the Directors, all the Directors confirmed that they have complied with the required standards set out in the Securities Dealing Code and the Model Code throughout FY 2019. The Securities Dealing Code also applies to employees to whom the Securities Dealing Code was given. The Company was not aware of any non-compliance of the Model Code for FY 2019.

DIRECTORS' AND OFFICERS' LIABILITIES

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

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

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

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

During FY 2019, the Company organised three training sessions for all the Directors on the Listing Rules and the relevant guidances. All Directors attended the trainings.

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

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

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

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

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

Corporate Governance Report (continued)

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

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

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

On the basis of its established internal control system, the Company regularly reviewed and sorted out the overall operation of the internal control system in accordance with the Basic Standard for Enterprise Internal Control and supporting guidelines, its Internal Control Management Handbook and relevant rules, and compiled the Internal Control System Evaluation Report. The Company identified and sorted out risks and deficiencies during the operation of the internal control system in a timely manner through ways such as individual interviews, system reviews, data inspections, and walk-through tests and put forward corresponding rectification suggestions. It formulated the Internal Control System Evaluation Results and Rectification Plan, and followed up and supervised related divisions' rectifications.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for FY 2019.

The Board, as supported by the Audit Committee and with the management report and the internal audit findings, reviewed the risk management and internal control systems including the financial, operational and compliance controls for FY 2019, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources of the Company.

Corporate Governance Report (continued)

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

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Company for FY 2019 and ensure that the financial statements are prepared in accordance with applicable statutory requirements and financial reporting standards. Appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made.

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

The statement of the external auditors of the Company regarding their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 72 to 81 of this annual report.

AUDITORS' REMUNERATION

The fees paid and payable to the Company's external auditors in respect of their audit and non-audit services provided to the Company for FY 2019 were as follows:

	Amount HK\$'000
Type of services	
Statutory audit services	3,182
Non-statutory audit services	1,364
	4,546

COMPANY SECRETARY

Ms. Cheung Yuet Fan has been appointed as the Company's company secretary since 29 May 2018. Ms. Cheung is a director of Corporate Services of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services.

All Directors have access to the advice and services of the company secretary on corporate governance and board practices and matters. Mr. Wang Yuzhe, vice president of the Group, has been designated as the primary contact person at the Company who would work and communicate with Ms. Cheung on the Company's corporate governance and secretarial and administrative matters.

For FY 2019, Ms. Cheung has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

Corporate Governance Report (continued)

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

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

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

The annual general meeting or extraordinary general meeting ("EGM") of the Company provide opportunities for direct communication between the Shareholders and the Board and the Directors are available to meet the Shareholders and answer their questions. During FY 2019, an AGM and three EGMs were held.

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

Name of Directors	Meetings attended/Number of meetings	
	AGM	EGM
Executive Directors		
Mr. Cao Wei (<i>Vice Chairman</i>)	1/1	3/3
Ms. Xuan Jing (<i>Chief Executive Officer</i>)	1/1	3/3
Non-executive Directors		
Mr. Zhang Yanyou (<i>Chairman</i>)	1/1	3/3
Mr. Guan Jifa	1/1	1/3
Mr. Zheng Yi	1/1	0/3
Mr. Ren Yuhang	0/1	2/3
Independent Non-executive Directors		
Mr. Bai Jinrong	1/1	2/3
Mr. Luo Zhenbang (<i>CPA</i>)	* 1/1	3/3
Mr. Huang Lixin	1/1	1/3

* Mr. Luo Zhenbang has appointed Mr. Bai Jinrong as delegate to attend the AGM.

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

SHAREHOLDERS' RIGHTS

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

The Company engages with Shareholders through various communication channels.

Procedures for Shareholders to Convene an EGM

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

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

Procedures for Shareholders to Put Forward Proposals at Shareholders' Meetings

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

Procedures for Shareholders to Direct Enquiries to the Board

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

Address:	Unit 4407, 44th Floor, COSCO Tower 183 Queen's Road Central Sheung Wan Hong Kong
Email:	IR@biitt.cn
Tel (HK):	(852) 2805 2588
Tel (Beijing):	(86) 010 843 85084
Fax:	(852) 2805 2488
Attention:	The Board of Directors c/o the Board of Directors' office

Corporate Governance Report (continued)

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

Address: Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong
Email: is-enquiries@hk.tricorglobal.com
Tel: (852) 2980 1333
Fax: (852) 2810 8185

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

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

Policies relating to Shareholders

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

The Company has adopted a dividend policy ("**Dividend Policy**") on payment of dividends, which sets out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its net profits as dividends to the Shareholders. After the Board took comprehensive consideration of strategic planning, business expansion, operation management, dividend payout and other factors, the Group has established a sustainable, stable and scientific return mechanism for Shareholders. The mid-to-long-term dividend payout ratio is not lower than 30% in principle, which will provide Shareholders with tangible returns. The specific dividend allocation will depend on the annual results, cash flows and other factors, subject to the approval of Shareholders at the relevant annual general meeting.

DEFINITIONS

Automatic Fare Collection Clearing Centre (自動售檢票清算中心)	“ACC”
Automated Fare Collection System (自動售檢票系統)	“AFC”
Automatic Fare Collection Network Control Centre (自動售檢票線網管理中心)	“ANCC”
Baoding Cornerstone Lianying Venture Capital Investment Fund Centre (Limited Liability Partnership)* (保定基石連盈創業投資基金中心(有限合夥))	“Cornerstone Lianying”
Beijing Cornerstone Chuangying Investment Centre (Limited Liability Partnership)* (北京基石創盈投資中心(有限合夥))	“Cornerstone Chuangying”
Beijing Cornerstone Chuangying Investment Management Centre (Limited Liability Partnership)* (北京基石創盈投資管理中心(有限合夥))	“Chuangying Centre”
Beijing Infrastructure Investment (Hong Kong) Limited* (京投(香港)有限公司)	“BII HK”
Beijing Infrastructure Investment Co., Ltd.* (北京市基礎設施投資有限公司)	“BII”
Litmus Technologies (Beijing) Co., Ltd.* (北京樂碼仕智能科技有限公司)	“Litmus”
Beijing Metro Co., Ltd.* (北京京城地鐵有限公司)	“Beijing Metro”
Beijing Metro Consultation Co., Ltd.* (北京城市軌道交通諮詢有限公司)	“Beijing MTR Consultation”
Beijing Metro Network Administration Co., Ltd.* (北京軌道交通路網管理有限公司)	“Beijing Metro Network”
Beijing Metro Science and Technology Development Co., Ltd.* (北京地鐵科技發展有限公司)	“Metro Science and Technology”
Beijing Tong Jian Tai Li Te Intelligence System Engineering Technology Company Limited* (北京通建泰利特智能系統工程技術有限公司)	“Tong Jian Tai Li Te”
Beijing Subway Operation Co., Ltd.* (北京市地鐵運營有限公司)	“Beijing Subway Operation”

Definitions (continued)

Beijing MTR Construction Administration Corporation Limited*(北京市軌道交通建設管理有限公司)	“Beijing MTR Construction”
Board of Directors	“Board”
China Beijing Equity Exchange Company Limited* (北京產權交易所有限公司)	“CBEX”
2020 annual general meeting of the Company	“2020 AGM”
BII Information Security Technology Development Company Limited* (北京京投信安科技發展有限公司)	“BII Xin An”
BII Railway Transportation Technology Holdings Company Limited*(京投軌道交通科技控股有限公司)	“the Company”
BII Railway Transportation Technology Holdings Company Limited and its subsidiaries	“the Group”
BII Technical Equipment Group Co., Ltd.* (北京軌道交通技術裝備集團有限公司)	“BII Technical”
BII Technology Development Co., Ltd.* (北京京投卓越科技發展有限公司)	“BII Zhuoyue”
BII Transit Systems (Beijing) Co., Ltd.* (億雅捷交通系統(北京)有限公司)	“ERG (BJ)”
BII Transit Systems (HK) Co., Ltd* (京投交通科技(香港)有限公司)	“ERG (HK)”
BII Transportation Technology (Beijing) Co., Ltd.* (北京京投億雅捷交通科技有限公司)	“BII ERG”
BII Zhongfu Technology Company Limited* (京投眾甫科技有限公司)	“BII Zhongfu”
the director(s) of the Company	“Director(s)”
Eastern Creation II Investment Holdings Ltd	“Eastern Creation II”
For the year ended 31 December 2018	“FY 2018”
For the year ended 31 December 2019	“FY 2019”

Definitions (continued)

Multiple Line Centre (多線共用線路中心)	“MLC”
National Development and Reform Commission of People’s Republic of China (中華人民共和國國家發展和改革委員會)	“NDRC”
Passenger Information System (乘客信息系統)	“PIS”
Suzhou Huaqi Intelligent Technology Co., Ltd.* (蘇州華啟智能科技有限公司)	“Huaqi Intelligent”
Traffic Control Centre (線網指揮中心)	“TCC”
The Stock Exchange of Hong Kong Limited* (香港聯合交易所有限公司)	“Stock Exchange”
Zhuhai Tonghai Technology Holdings Company Limited* (珠海市同海科技股份有限公司)	“Tonghai Technology”
Beijing Development (Hong Kong) Limited (now known as Beijing Enterprises Environment Group Limited)* (北京發展(香港)有限公司) (現稱北京控股環境集團有限公司)	“Beijing Development”
Beijing City Railway Holdings Company Limited* (北京城市軌道交通控股有限公司)	“Beijing City Railway”
BII Railway Technology Development Holdings Company Limited* (京投軌道科技發展有限公司)	“BII Railway”
China City Railway Transportation Technology Investment Co., Ltd.* (中國城市軌道交通科技投資有限公司)	“CCRTT Investment”
Great Legend Development Limited* (華駿發展有限公司)	“Great Legend”
The Rules Governing the Listing of Securities on the Stock Exchange	“Listing Rules”
More Legend Limited	“More Legend”
Ordinary share(s) of HK\$0.01 each in the share capital of the Company	“Share(s)”
Shareholder(s) of the Company	“Shareholder(s)”

* For identification purpose only

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BII RAILWAY TRANSPORTATION TECHNOLOGY HOLDINGS COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of BII Railway Transportation Technology Holdings Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 82 to 176, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report (continued)

KEY AUDIT MATTERS

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

Recognition of contract revenue

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

The Key Audit Matter

The Group's business involves entering into contractual relationships with customers to provide a range of services, including provision of design, production, implementation and sale, and maintenance of application solutions for the networking and controlling systems of public transport and other companies, the provision of civil communication transmission services, design, implementation and sale of related software, hardware and spare parts in utility tunnel areas.

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

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

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

How the matter was addressed in our audit

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

- obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls over the recognition of contract revenue, including the controls over recording work done, invoicing and cash receipts;
- selecting a sample of contracts, using a variety of quantitative and qualitative criteria, and performing the following procedures for each contract selected:
 - inspecting key terms, including price, deliverables, timetable and milestones, set out in the contract and inquiring of the relevant project managers and engineers about key aspects of the contract, including the estimated total contract costs, key project risks, contingencies and billing schedules;

Independent Auditor’s Report (continued)

KEY AUDIT MATTERS (CONTINUED)

Recognition of contract revenue (continued)

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

The Key Audit Matter

We identified the recognition of contract revenue as a key audit matter because contract revenue accounts for a significant proportion of the Group’s revenue and because the recognition of contract revenue involves a significant degree of management judgement in assessing factors which can be inherently uncertain and may be subject to management bias.

How the matter was addressed in our audit

- challenging the underlying judgements of senior operational and financial management personnel in their estimations of total estimated contract costs and estimated costs to complete the contract where it was still in progress at the reporting date by comparing their estimates with relevant underlying documentation, including suppliers’ quotations and agreed contracts;
 - comparing items recorded as contract costs during the year with suppliers’ contracts, goods receipt notes and other relevant underlying documentation;
 - agreeing total contract revenue to the contracted terms;
 - recalculating the percentage of completion based on contract costs occurred up to the reporting date and estimated total contract costs; and
 - recalculating revenue recognised to date, based on total contract revenue and the percentage of completion.
- on a sample basis, comparing management’s estimated costs to complete selected contracts at the end of the previous financial year with actual costs incurred during the current year and enquiring of the management about any significant variances identified; and
 - performing site visits to a sample of major contracts in progress at the reporting date and discussing with site project managers and engineers the stage of completion, services provided and goods delivered.

KEY AUDIT MATTERS (CONTINUED)

Loss allowances for trade receivables and contract assets

Refer to Notes 18(a) and 19 to the consolidated financial statements and the accounting policies in Note 2(k)(i).

The Key Audit Matter

The Group's operations gave rise to significant trade receivable balances and contract assets. As at 31 December 2019, trade receivables and contract assets amounted to HK\$286,419,000 and HK\$424,721,000, respectively, which represented 7.10% and 10.53% of the total assets of the Group as at that date, respectively.

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

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

How the matter was addressed in our audit

Our audit procedures to assess the loss allowances for trade receivables and contract assets included the following:

- obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to credit control, debt collection and estimating loss allowances for trade receivables and contract assets;
- comparing, on a sample basis, the categorisation of trade receivables and contract assets in the ageing report with invoices issued, contract terms, contract progress reports and other relevant underlying documentation;
- obtaining an understanding on the key data and assumptions of the expected credit loss model adopted by the management, including the basis of the segmentation of the accounts receivable based on credit risk characteristics, the historical default data, and the assumptions involved in management's estimated loss rate;
- assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information; and
- inspecting cash receipts, on a sample basis, from customers subsequent to the financial year end relating to trade receivables and contract assets balances as at 31 December 2019.

Independent Auditor's Report (continued)

KEY AUDIT MATTERS (CONTINUED)

Assessing potential impairment of goodwill and intangible assets

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

The Key Audit Matter

As at 31 December 2019, goodwill amounted to HK\$622,239,000 in total and was allocated to operations in the provision of application solutions related services and operations related to the civil communication transmission services business for the purpose of assessing potential impairment. Compared with the year ended 31 December 2018, goodwill increased HK\$559,850,000, which mainly due to the acquisition of 95% interests in Suzhou Huaqi Intelligent Technology Co., Ltd. ("Huaqi Intelligent") on 1 March 2019 and the acquisition of 51% interests in Litmus Technologies (Beijing) Co., Ltd. on 2 December 2019.

As at 31 December 2019, intangible assets, which comprised software relating to certain types of application solutions, income rights relating to the civil communication transmission services, patent rights and trademark amounted to HK\$228,771,000.

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

How the matter was addressed in our audit

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

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

KEY AUDIT MATTERS (CONTINUED)

Assessing potential impairment of goodwill and intangible assets (continued)

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

The Key Audit Matter

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

We identified assessing potential impairment of goodwill and intangible assets as a key audit matter because the impairment assessment of these assets involves a significant degree of management judgement in relation to the key assumptions adopted in the impairment assessment models some of which are inherently uncertain and may be subject to management bias.

How the matter was addressed in our audit

- performing a retrospective review of the prior year's discounted cash flow forecasts and comparing the forecast revenue and profit with the current year's actual results to assess the reliability of management's forecasting process;
- obtaining from management sensitivity analyses of the key assumptions, which include the value of contracts still to be delivered to customers, the expected timetable for those contracts, contract prices, estimated costs and the discount rates applied, adopted in the discounted cash flow forecasts and assessing the impact on the conclusion of the impairment assessment, the impairment charge for the year, and whether there were any indicators of management bias; and
- considering the disclosures in the consolidated financial statements in respect of impairment testing of goodwill and intangible assets with reference to the requirements of the prevailing accounting standards.

Independent Auditor's Report (continued)

KEY AUDIT MATTERS (CONTINUED)

Valuation of contingent considerations and cash-settled share-based transaction arising from acquisition of Huaqi Intelligent

Refer to Notes 21, 25, 27(b), 30(a) and 32(e) to the consolidated financial statements.

The Key Audit Matter

As at 31 December 2019, the fair values of contingent considerations payable in connection with acquisition of Huaqi Intelligent and the liabilities arising from the cash-settled share-based payment transaction with the employees of Huaqi Intelligent, were HK\$280,385,000 and HK\$505,000, respectively.

The fair value of contingent considerations payable was determined using valuation model considering the present value of expected payments, discounted using a risk-free discount rate. The fair value of the liabilities arising from the cash-settled share-based transaction was measured based on Black-Scholes model, expected fulfilment of vesting conditions and expected likelihood of occurrence of non-vesting condition.

We identified valuation of contingent considerations and cash-settled share-based transaction as a key audit matter because the valuation of these liabilities involves a significant degree of management judgement in relation to the key assumptions adopted in the valuation models some of which are inherently uncertain and may be subject to management bias.

How the matter was addressed in our audit

Our audit procedures to assess the valuation of contingent considerations payable and liabilities arising from the cash-settled share-based transaction included the following:

- evaluating the methodology used by management in its preparation of the valuation with reference to the requirements of the prevailing accounting standards;
- engaging our internal valuation specialists to assist us in assessing the valuation methodology, assumptions and inputs adopted by management at acquisition date;
- assessing and challenging the key assumptions and inputs adopted by management in its valuation model as at 31 December 2019; and
- considering the disclosures in the consolidated financial statements in respect of the fair value measurement of the contingent considerations and liabilities arising from the cash-settled share-based transaction with reference to the requirements of the prevailing accounting standards.

Independent Auditor's Report (continued)

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

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's 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.

Independent Auditor's Report (continued)

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report (continued)

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yeung Ka Chun.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

30 March 2020

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019 (Expressed in Hong Kong dollars ("HK\$"))

		2019	2018
	Note	HK\$'000	(Note) HK\$'000
Revenue	4	1,193,937	453,204
Cost of sales		(769,158)	(344,389)
Gross profit	4(b)	424,779	108,815
Other income	5	70,758	42,336
Selling, general and administrative expenses		(249,725)	(77,717)
Research expenses		(117,928)	(33,423)
Profit from operations		127,884	40,011
Finance costs	6(a)	(27,414)	(2,747)
Share of profits of joint ventures and associates		25,182	21,375
Fair value change in contingent considerations		(6,304)	–
Profit before taxation	6	119,348	58,639
Income tax	7	(8,865)	(5,311)
Profit for the year		110,483	53,328
Attributable to:			
Equity shareholders of the Company		96,870	47,398
Non-controlling interests		13,613	5,930
Profit for the year		110,483	53,328
Earnings per share			
– Basic (HK\$)	10	0.046	0.023
– Diluted (HK\$)	10	0.046	0.023

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2(c).

The notes on pages 90 to 176 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 29(b).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019 (Expressed in HK\$)

	2019	2018
	HK\$'000	(Note) HK\$'000
Profit for the year	110,483	53,328
Other comprehensive income for the year (after tax):		
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements into presentation currency	(51,058)	(37,139)
Total comprehensive income for the year	59,425	16,189
Attributable to:		
Equity shareholders of the Company	44,015	11,441
Non-controlling interests	15,410	4,748
Total comprehensive income for the year	59,425	16,189

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2(c).

The notes on pages 90 to 176 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2019 (Expressed in HK\$)

	Note	2019 HK\$'000	2018 (Note) HK\$'000
Non-current assets			
Property, plant and equipment	11	175,604	107,415
Intangible assets	12	228,771	101,438
Goodwill	13	622,239	62,389
Interests in joint ventures and associates	15	462,687	413,466
Income tax recoverable	28(a)	3,934	–
Contingent considerations	25	181	–
Deferred tax assets	28(b)	35,055	18,704
		1,528,471	703,412
Current assets			
Other financial assets	16	169,680	74,983
Inventories and other contract costs	17	502,489	79,027
Contract assets	18(a)	424,721	326,726
Trade and other receivables	19	557,594	789,723
Cash on hand and in bank	20	850,891	1,069,561
		2,505,375	2,340,020
Current liabilities			
Trade and other payables	21	784,340	394,444
Contract liabilities	18(b)	31,568	66,045
Bank and other borrowings	22	59,876	–
Loans from a related party	23	–	342,388
Lease liabilities	24	5,634	–
Current taxation	28(a)	23,501	24,887
Contingent considerations	25	73,309	–
Provision for warranties	26	8,628	–
		986,856	827,764
Net current assets		1,518,519	1,512,256
Total assets less current liabilities		3,046,990	2,215,668

The notes on pages 90 to 176 form part of these financial statements.

Consolidated Statement of Financial Position (continued)

At 31 December 2019 (Expressed in HK\$)

	Note	2019 HK\$'000	2018 (Note) HK\$'000
Non-current liabilities			
Bank and other borrowings	22	500,000	–
Lease liabilities	24	11,537	–
Contingent considerations	25	207,076	–
Deferred tax liabilities	28(b)	52,497	18,016
Deferred income		1,077	–
Provision for warranties	26	2,263	–
		774,450	18,016
NET ASSETS		2,272,540	2,197,652
CAPITAL AND RESERVES			
	29		
Share capital		21,001	21,001
Reserves		2,168,215	2,147,809
Total equity attributable to equity shareholders of the Company		2,189,216	2,168,810
Non-controlling interests		83,324	28,842
TOTAL EQUITY		2,272,540	2,197,652

Approved and authorised for issue by the board of directors on 30 March 2020.

Cao Wei
Director

Xuan Jing
Director

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2(c).

The notes on pages 90 to 176 form part of these financial statements.

Consolidated Statement of Changes in Equity

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

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

The notes on pages 90 to 176 form part of these financial statements.

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2019 (Expressed in HK\$)

	Attributable to equity shareholders of the Company						Total	Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve	Statutory reserves	Exchange reserve	Retained profits			
	HK\$'000 (Note 29(c))	HK\$'000 (Note 29(d)(i))	HK\$'000 (Note 29(d)(ii))	HK\$'000 (Note 29(d)(iii))	HK\$'000 (Note 29(d)(iv))	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 January 2019	21,001	1,834,244	30,760	29,553	(64,325)	317,577	2,168,810	28,842	2,197,652
Changes in equity for 2019:									
Profit for the year	-	-	-	-	-	96,870	96,870	13,613	110,483
Other comprehensive income	-	-	-	-	(52,855)	-	(52,855)	1,797	(51,058)
Total comprehensive income	-	-	-	-	(52,855)	96,870	44,015	15,410	59,425
Acquisition of non-controlling interests	-	-	(2,221)	-	-	-	(2,221)	(18,508)	(20,729)
Business combinations (Note 30)	-	-	-	-	-	-	-	52,388	52,388
Capital injection by a non-controlling shareholder of subsidiaries of the Group	-	-	-	-	-	-	-	5,192	5,192
Change in capital reserve of an associate	-	-	(387)	-	-	-	(387)	-	(387)
Dividends approved in respect of the previous year (Note 29(b)(iii))	-	(21,001)	-	-	-	-	(21,001)	-	(21,001)
Appropriation to reserves	-	-	-	23,809	-	(23,809)	-	-	-
	-	(21,001)	(2,608)	23,809	-	(23,809)	(23,609)	39,072	15,463
Balance at 31 December 2019	21,001	1,813,243	28,152	53,362	(117,180)	390,638	2,189,216	83,324	2,272,540

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2(c).

The notes on pages 90 to 176 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2019 (Expressed in HK\$)

	Note	2019 HK\$'000	2018 (Note) HK\$'000
Operating activities			
Profit before taxation		119,348	58,639
Adjustments for:			
Depreciation and amortisation	6(c)	62,257	43,917
Impairment loss	6(c)	32,755	226
Interest income	5	(25,733)	(30,025)
Investment income	5	(2,592)	(6,615)
Finance cost	6(a)	27,414	2,747
Share of profits of joint ventures and associates		(25,182)	(21,375)
Net loss/(gain) on disposal of property, plant and equipment and intangible assets	6(c)	10,612	(487)
Release of deferred income		(7,568)	–
Fair value change in contingent considerations	6(c)	6,304	–
Changes in working capital:			
Increase in inventories and other contract costs		(40,204)	(446)
Decrease in trade and other receivables		737,456	354,923
Increase in contract assets		(116,125)	(335,441)
Increase in income tax recoverable		(3,934)	–
Increase in deferred income		8,557	–
Increase in provision for warranties		2,110	–
Decrease in trade and other payables		(694,984)	(47,906)
(Decrease)/increase in contract liabilities		(34,477)	66,045
Increase in restricted bank deposits		(13,030)	(16,292)
Cash generated from operations		42,984	67,910
Interest received		25,733	26,461
Income tax paid	28(a)	(29,591)	(12,264)
Net cash generated from operating activities		39,126	82,107
Investing activities			
Payments for the purchase of property, plant and equipment and intangible assets		(35,963)	(16,876)
Proceeds from disposal of property, plant and equipment		6	671
Dividend received from an associate		3,093	1,374
Investments in associates		(20,750)	–
Net (payment for)/proceeds from debt investments		(98,068)	44,246
Net payment for business combinations		(831,874)	–
Payment for acquisition of non-controlling interests of a subsidiary		(20,729)	–
Repayment/(payment) of acquisition earnest deposit		500,827	(495,228)
Repayment of cash advances due from NetPosa Technologies Limited (“NetPosa”)		223,406	–
Net cash used in investing activities		(280,052)	(465,813)

The notes on pages 90 to 176 form part of these financial statements.

Consolidated Cash Flow Statement (continued)

For the year ended 31 December 2019 (Expressed in HK\$)

		2019	2018
	Note	HK\$'000	(Note) HK\$'000
Financing activities			
Capital element of lease rentals paid	20(b)	(7,436)	–
Interest element of lease rentals paid	20(b)	(649)	–
Proceeds of bank and other borrowings	20(b)	559,742	–
Repayment of bank and other borrowings	20(b)	(147,162)	–
(Repayment)/proceeds of loans from a related party	20(b)	(346,500)	338,295
Interest paid	20(b)	(26,545)	(1,791)
Repayment of loans from a non-controlling shareholder		–	(5,400)
Payment for purchase of own shares		–	(2,321)
Dividends paid to equity shareholders of the Company	29(b)	(21,001)	(21,048)
Capital injection from a non-controlling shareholder		2,594	5,680
Net cash generated from financing activities		13,043	313,415
Net decrease in cash and cash equivalents		(227,883)	(70,291)
Cash and cash equivalents at 1 January	20(a)	1,053,269	1,128,780
Effect of foreign exchange rate changes		(3,817)	(5,220)
Cash and cash equivalents at 31 December	20(a)	821,569	1,053,269

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(c).

The notes on pages 90 to 176 form part of these financial statements.

Notes to the Financial Statements

(Expressed in HK\$ unless otherwise indicated)

1 CORPORATE INFORMATION

BII Railway Transportation Technology Holdings Company Limited (the “Company”) was incorporated in the Cayman Islands on 7 January 2011 as an exempted company with limited liability under the Companies Law (2011 Revision), Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company were listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 16 May 2012. The listing of the Company’s shares was transferred from the GEM to the Main Board of the Stock Exchange on 6 December 2013. The consolidated financial statements of the Company as at and for the year ended 31 December 2019 comprise the Company and its subsidiaries (collectively referred to as the “Group”) and the Group’s interests in joint ventures and associates. The principal activities of the Group are the design, production, implementation and sale, and maintenance, of application solutions for the networking and controlling systems of public transport and other companies, the provision of civil communication transmission services, as well as design, implementation and sale of related software, hardware and spare part in utility tunnel areas, and the investment in the railway transportation areas through investing in equity.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Group and the Group's interests in joint ventures and associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

- investments in debt investments (see note 2(i));
- contingent considerations, and
- options

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

(c) Changes in accounting policies

The IASB has issued a new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, *Leases*, none of the other developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

IFRS 16, LEASES

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating leases – incentives*, and SIC 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less (“short-term leases”) and leases of low value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

a. *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

IFRS 16, LEASES (CONTINUED)

b. Lessee accounting and transitional impact

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in Note 31(b). For an explanation of how the Group applies lessee accounting, see Note 2(j)(i).

At the date of transition to IFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 5.14%.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

- (i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019;
- (ii) when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

IFRS 16, LEASES (CONTINUED)

b. Lessee accounting and transitional impact (continued)

- (iii) when measuring the right-of-use assets at the date of initial application of IFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in Note 31(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	HK\$'000
Operating lease commitments at 31 December 2018	10,518
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(5,453)
	5,065
Less: total future interest expenses	(208)
Present value of remaining lease payments, discounted using the incremental borrowing rate and total lease liabilities recognised at 1 January 2019	4,857

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 HK\$'000	Capitalisation of operating lease contracts HK\$'000	Carrying amount at 1 January 2019 HK\$'000
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:			
Property, plant and equipment	107,415	4,857	112,272
Total non-current assets	703,412	4,857	708,269
Lease liabilities (current)	–	3,157	3,157
Current liabilities	827,764	3,157	830,921
Net current assets	1,512,256	(3,157)	1,509,099
Total assets less current liabilities	2,215,668	1,700	2,217,368
Lease liabilities (non-current)	–	1,700	1,700
Total non-current liabilities	18,016	1,700	19,716
Net assets	2,197,652	–	2,197,652

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

IFRS 16, LEASES (CONTINUED)

c. Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if IAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see Note 20(b)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a change in presentation of cash flows within the cash flow statement (see Note 20(c)).

The following tables may give an indication of estimated impact of adoption of IFRS 16 on the Group's financial result and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under IFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under IAS 17 if this superseded standard had continued to apply in 2019 instead of IFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

	2019				2018
	Amounts reported under IFRS 16 (A) HK\$'000	Add back: IFRS 16 depreciation and interest expense (B) HK\$'000	Deduct: Estimated amounts related to operating leases as if under IAS 17 (Note 1) (C) HK\$'000	Hypothetical amounts for 2019 as if under IAS 17 (D=A+B-C) HK\$'000	Compared to amounts reported for 2018 under IAS 17 HK\$'000
Financial result for the year ended 31 December 2019 impacted by the adoption of IFRS 16:					
Profit from operations	127,884	5,437	5,832	127,489	40,011
Finance costs	(27,414)	649	–	(26,765)	(2,747)
Profit before taxation	119,348	6,086	5,832	119,602	58,639
Profit for the year	110,483	6,086	5,832	110,737	53,328

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

IFRS 16, LEASES (CONTINUED)

c. Impact on the financial result, segment results and cash flows of the Group (continued)

The Group's general and administrative expenses and finance costs are not allocated to individual segments, so there is no significant impact of adoption of IFRS 16 on the Group's segment results.

	2019			2018
	Amounts reported under IFRS 16 (A) HK\$'000	Estimated amounts related to operating leases as if under IAS 17 (B) HK\$'000	Hypothetical amounts for 2019 as if under IAS 17 (C=A+B) HK\$'000	Compared to amounts reported for 2018 under IAS 17 HK\$'000
Line items in the consolidated cash flow statement for the year ended 31 December 2019 impacted by the adoption of IFRS 16:				
Cash generated from operations	42,984	(8,085)	34,899	67,910
Net cash generated from operating activities	39,126	(8,085)	31,041	82,107
Capital element of lease rentals paid	(7,436)	7,436	–	–
Interest element of lease rentals paid	(649)	649	–	–
Net cash generated from financing activities	13,043	8,085	21,128	313,415

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash used in operating activities and net cash used in financing activities as if IAS 17 still applied.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries and non-controlling interests

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

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

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

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

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire equity interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any equity interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 2(e)).

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

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Associates and joint ventures

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

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

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

When the Group's share of losses exceeds its interest in the associate or joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate or joint ventures (after applying the expected credited losses ("ECLs") model to such other long-term interests where applicable).

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

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

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

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

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Goodwill

Goodwill represents the excess of:

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held equity interests in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

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

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

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

(g) Property, plant and equipment

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

- right-of-use assets arising from leases over leasehold properties where the Group is not the registered owner of the property interest; and
- items of plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment (see Note 2(j)).

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

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

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Property, plant and equipment (continued)

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

	Estimated useful lives
Buildings	20 years
Right-of-use assets	Over the lease term
Civil communication transmission systems	The shorter of 10 years or the estimated remaining useful lives
Others	3-10 years

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

(h) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see Note 2(w)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see Note 2(k)(ii)). Other development expenditure is recognised as an expense in the period in which it is incurred.

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

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

	Estimated useful lives
Software	5 years
Income rights	The shorter of 13 years or the estimated remaining useful lives
Patent rights	10 years

Both the period and method of amortisation are reviewed annually.

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

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Other investments in debt securities

Investments in debt securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value, directly attributable transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 32(e).

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

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 2(u)(iv)). Changes in the fair value of the investment (including interest) are recognised in profit or loss.
- fair value through other comprehensive income (FVOCI) – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. 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. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) AS A LESSEE

a. Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(g) and 2(k)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'Property, plant and equipment' and presents lease liabilities separately in the statement of financial position.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Leased assets (continued)

(i) AS A LESSEE (CONTINUED)

b. Policy applicable prior to 1 January 2019

In the comparative period, as a lessee, the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases.

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

(ii) AS A LESSOR

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in Note 2(j)(i), then the Group classifies the sub-lease as an operating lease.

(k) Credit losses and impairment of assets

(i) CREDIT LOSSES FROM FINANCIAL INSTRUMENTS AND CONTRACT ASSETS

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

- financial assets measured at amortised cost (including trade and other receivables and cash and cash equivalents);
- contract assets as defined in IFRS 15 (see Note 2(m)).

Other financial assets measured at fair value, including debt investments measured at FVPL are not subject to the ECL assessment.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Measurement of ECLs

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

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

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

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

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

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

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

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

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Significant increases in credit risk

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

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

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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

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

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Basis of calculation of interest income

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

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

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

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

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

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

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(ii) IMPAIRMENT OF OTHER NON-CURRENT ASSETS

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

- property, plant and equipment, including right-of-use assets;
- intangible assets;
- goodwill;
- investments in joint ventures and associates; and
- investments in subsidiaries in the Company's statement of financial position.

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

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

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

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

– Reversals of impairment losses

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

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

(iii) INTERIM FINANCIAL REPORTING AND IMPAIRMENT

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

(l) Inventories and other contract costs

(i) INVENTORIES

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

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

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

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

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

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

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) Inventories and other contract costs (continued)

(II) OTHER CONTRACT COSTS

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

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

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

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

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

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Contract assets and contract liabilities

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

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

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

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

(n) Trade and other receivables

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

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

(o) Trade and other payables

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

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in Note 2(k)(i).

(q) Interest-bearing borrowings

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

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Employee benefits

(I) SHORT-TERM EMPLOYEE BENEFITS AND CONTRIBUTIONS TO DEFINED CONTRIBUTION RETIREMENT PLANS

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

(II) SHARE-BASED PAYMENTS

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

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

(III) TERMINATION BENEFITS

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

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Income tax

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

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

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

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

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

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

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

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Income tax (continued)

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

- in the case of current tax assets and liabilities, the Group or the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(t) Provisions, contingent liabilities and onerous contracts

(I) PROVISIONS AND CONTINGENT LIABILITIES

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

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

(II) ONEROUS CONTRACTS

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Revenue and other income

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

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

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

(I) SERVICE CONTRACT

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

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

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

If at any time the costs to complete the contract are estimated to exceed the remaining amount of the consideration under the contract, then a provision is recognised in accordance with the policy set out in Note 2(t)(ii).

(II) SALE OF GOODS

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

(III) DIVIDENDS

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Revenue and other income (continued)

(IV) INTEREST INCOME

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(k)(i)).

(V) GOVERNMENT GRANTS

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

(v) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency of the entity to which they relate using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities.

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

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

(w) Borrowing costs

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

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group.
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Segment reporting

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

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

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

Notes 13, 25, 26, 27 and 32 contain information about the assumptions and their risk factors relating to goodwill impairment, fair value of contingent considerations, estimation of provision for warranties, fair value of cash-settled share-based transaction and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Revenue recognition

As explained in Note 2(u)(i), revenue from service contracts are recognised over time. Such revenue and profit recognition on uncompleted projects is dependent on estimating the total outcome of the contract, as well as the work done to date. Based on the Group's recent experience and the nature of the manufacturing and construction activities undertaken by the Group, the Group has made estimates of the point at which it considered the work was sufficiently advanced such that the outcome of the contract can be reasonably measured. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

(b) Impairment of trade receivables and contract assets

The impairment provisions for trade receivables and contract assets are based on assumptions about the expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note 32(a). Changes in these assumptions and estimated could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the profit or loss.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(c) Impairment of tangible and intangible assets

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

(d) Deferred tax

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

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the design, production, implementation and sale, and maintenance, of application solutions for the networking and controlling systems of public transport and other companies, the provision of civil communication transmission services, as well as design, implementation and sale of related software, hardware and spare parts in utility tunnel areas, and the investment in the railway transportation areas through investing in equity. Further details regarding the Group's principal activities are disclosed in Note 4(b).

(i) DISAGGREGATION OF REVENUE

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

	2019 HK\$'000	2018 HK\$'000
Revenue from contracts with customers within the scope of IFRS 15		
Revenue from intelligent railway transportation services	1,008,564	323,812
Revenue from infrastructure information services	185,373	129,392
	1,193,937	453,204

For the year ended 31 December 2019, revenues from transactions with one customer (2018: three customers) has exceeded 10% of the Group's revenue.

	2019 HK\$'000	2018 HK\$'000
Customer A	246,540	77,140
Customer B	less than 10% of the Group's revenue	58,983
Customer C	less than 10% of the Group's revenue	47,411

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(a) Revenue (continued)

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

As at 31 December 2019, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is HK\$1,991,014,000 (31 December 2018: HK\$965,619,000). This amount represents revenue expected to be recognised in the future from intelligent railway transportation contracts and infrastructure information services contracts entered into by the customers with the Group. The Group will recognise the expected revenue in future when or as the work is completed, which is expected to occur over the next 1 to 48 months (31 December 2018: next 1 to 60 months).

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

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

	2019 HK\$'000	2018 HK\$'000
Within 1 year	98,614	100,007
After 1 year but within 5 years	266,477	311,782
	365,091	411,789

(b) Segment reporting

The Group manages its businesses by business lines in a manner consistent with the way in which the information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment. For the year ended 31 December 2019, as the relevant business has been expanded, the Group decided to change "Civil communication transmission" as previously reported for the year ended 31 December 2018 to "Infrastructure information". As a result, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments:

- Intelligent railway transportation: this segment provides design, production, implementation and sale, and maintenance of application solution services, which includes related software, hardware and spare parts in railway transportation areas.
- Infrastructure information: this segment provides civil communication transmission services as well as design, implementation and sale of related software, hardware and spare parts in utility tunnel areas.
- Business development investment: this segment manages the equity investments in railway transportation areas and infrastructure areas.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(i) SEGMENT RESULTS

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

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the costs incurred by those segments. The measure used for reporting segment profit is gross profit. No inter-segment sales have occurred for the years ended 31 December 2019 and 2018. The Group's other income and expense items, such as other income, selling, general and administrative expenses, research expenses, finance costs and fair value change in contingent considerations and assets and liabilities, including the sharing of technical know-how, are not measured under individual segments. Accordingly, such information is presented.

Disaggregation of revenue from contracts with customers by timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2019 and 2018 is set out below.

	2019			Total HK\$'000
	Intelligent railway transportation HK\$'000	Infrastructure information HK\$'000	Business development investment HK\$'000	
Disaggregated by timing of revenue recognition				
Point in time	899,334	32,726	–	932,060
Over time	109,230	152,647	–	261,877
Revenue from external customers and reportable segment revenue	1,008,564	185,373	–	1,193,937
Reportable segment gross profit	353,221	71,558	–	424,779
Share of profits of joint ventures and associates	–	–	25,182	25,182

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(i) SEGMENT RESULTS (CONTINUED)

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

(ii) RECONCILIATION OF REPORTABLE SEGMENT PROFIT OR LOSS

	2019 HK\$'000	2018 (Note) HK\$'000
Reportable segment gross profit	424,779	108,815
Share of profits of joint ventures and associates	25,182	21,375
Other income	70,758	42,336
Selling, general and administrative expenses	(249,725)	(77,717)
Research expenses	(117,928)	(33,423)
Finance costs	(27,414)	(2,747)
Fair value change in contingent considerations	(6,304)	–
Profit before taxation	119,348	58,639

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2(c).

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(iii) GEOGRAPHIC INFORMATION

All of the Group's revenue are from customers located in the People's Republic of China (the "PRC") (including mainland China and Hong Kong).

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

5 OTHER INCOME

	2019 HK\$'000	2018 HK\$'000
Interest income	25,733	30,025
Investment income	2,592	6,615
Government grants	31,142	4,305
Net foreign exchange gain	10,781	1,130
Others	510	261
	70,758	42,336

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2019	2018
	HK\$'000	(Note) HK\$'000
Interests on bank and other borrowings	15,430	–
Interests on loans from a related party	11,335	2,747
Interest on lease liabilities	649	–
	27,414	2,747

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2(c).

(b) Staff costs

	2019	2018
	HK\$'000	HK\$'000
Salaries, wages and other benefits	226,000	107,782
Contributions to defined retirement plans	15,622	11,043
Cash-settled share-based transaction expenses (Note 27(b))	505	–
	242,127	118,825

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

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

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

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

6 PROFIT BEFORE TAXATION (CONTINUED)

(c) Other items

		2019	2018
	Note	HK\$'000	(Note) HK\$'000
Cost of inventories	b	513,946	128,053
Auditors' remuneration:			
– statutory audit services		3,182	3,308
– other services		1,364	768
Fair value change in contingent considerations		6,304	–
Impairment losses of trade and other receivables and contract assets		22,578	226
Inventories write-down	17(b)	10,177	–
Depreciation charge	11		
– owned property, plant and equipment		31,549	23,603
– right-of-use assets		5,437	–
Amortisation of intangible assets	12	25,271	20,314
Net loss/(gain) on disposal of owned property, plant and equipment and intangible assets		10,612	(487)
Leases previously classified as operating leases under IAS 17		–	9,363
Short-term leases and other leases with remaining lease term ending on or before 31 December 2019		7,783	–

Notes:

- a The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See Note 2(c).
- b Cost of inventories includes HK\$120,983,000 (2018: HK\$96,302,000) relating to staff costs, and depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

7 INCOME TAX

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

	2019 HK\$'000	2018 HK\$'000
Current taxation (Note 28(a)):		
– Hong Kong Profits Tax	2,444	1,882
– PRC Corporate Income Tax	21,827	(1,961)
	24,271	(79)
Deferred taxation (Note 28(b)):		
– Origination and reversal of temporary differences	(15,406)	3,313
– Change in tax rate	–	2,077
	(15,406)	5,390
	8,865	5,311

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

	2019 HK\$'000	2018 HK\$'000
Profit before taxation	119,348	58,639
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned (Notes (i), (ii) and (iii))	27,149	10,017
Tax effect of non-deductible expenses	4,870	2,921
Tax effect of non-deductible fair value changes	1,040	–
Share of profits of joint ventures and associates	(3,382)	(2,950)
Non-taxable interest income	(1,642)	(4,492)
Non-taxable foreign exchange gains	(2,041)	–
Tax effect of change in tax rate	–	2,077
Tax effect of utilisation of prior years' temporary differences previously not recognised	(1,003)	–
Tax effect of tax losses and deductible temporary differences not recognised	14,730	2,298
Tax concessions (Note (iv), (v) and (vi))	(30,856)	(4,560)
Income tax	8,865	5,311

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

7 INCOME TAX (CONTINUED)

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

Notes:

- (i) The Company and the subsidiaries of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the year ended 31 December 2019, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime. (2018: 16.5%).

For this subsidiary, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2018.

- (ii) The Company and the subsidiaries of the Group incorporated in countries other than the PRC (including Hong Kong) are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.
- (iii) The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% for the year ended 31 December 2019 (2018: 25%).
- (iv) Certain subsidiaries of the Group established in the PRC have obtained approvals from the tax bureau to be taxed as enterprises with advanced and new technologies. As a result, these subsidiaries enjoyed a preferential PRC Corporate Income Tax rate of 15% for the year ended 31 December 2019. In addition to the preferential PRC Corporate Income Tax rate, these subsidiaries are also entitled to an additional deductible tax allowance calculated at 75% of the qualified research and development costs incurred by these subsidiaries (2018: 75%).
- (v) Certain subsidiaries of the Group were designated as software enterprises. As such, these subsidiaries were entitled to a two years' exemption from PRC Corporate Income Tax and followed by three years of 50% PRC Corporate Income Tax reduction then. As a result, these subsidiaries enjoyed an exemption from PRC Corporate Income Tax for the year ended 31 December 2019 (2018: not applicable).
- (vi) During the year ended 31 December 2019, a subsidiary of the Group met the criteria of Small Low-profit Enterprise and enjoyed a preferential income tax policy. As such, for the subsidiary, the first Renminbi ("RMB") 1 million of taxable profits are taxed at an effective tax rate of 5%; the second and third RMB1 million of taxable profits are taxed at an effective tax rate of 10%.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

8 DIRECTORS' EMOLUMENTS

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

	2019						
	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement scheme contributions HK\$'000	Sub-total HK\$'000	Share-based payments HK\$'000 (Note 27(a))	Total HK\$'000
Executive directors							
Mr. Cao Wei	1,200	168	-	76	1,444	-	1,444
Ms. Xuan Jing	1,262	118	1,149	76	2,605	-	2,605
Non-executive directors							
Mr. Zhang Yanyou	-	-	-	-	-	-	-
Mr. Guan Jifa	-	-	-	-	-	-	-
Mr. Zheng Yi	-	-	-	-	-	-	-
Mr. Ren Yuhang	-	-	-	-	-	-	-
Independent non-executive directors							
Mr. Bai Jinrong	240	-	-	-	240	-	240
Mr. Luo Zhenbang	240	-	-	-	240	-	240
Mr. Huang Lixin	240	-	-	-	240	-	240
	3,182	286	1,149	152	4,769	-	4,769

	2018						
	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement scheme contributions HK\$'000	Sub-total HK\$'000	Share-based payments HK\$'000 (Note 27(a))	Total HK\$'000
Executive directors							
Mr. Cao Wei	1,200	162	-	83	1,445	-	1,445
Ms. Xuan Jing	1,215	98	709	83	2,105	-	2,105
Non-executive directors							
Mr. Zhang Yanyou (appointed on 14 December 2018)	-	-	-	-	-	-	-
Mr. Guan Jifa	-	-	-	-	-	-	-
Mr. Zheng Yi	-	-	-	-	-	-	-
Mr. Ren Yuhang	-	-	-	-	-	-	-
Mr. Hao Weiya (resigned on 14 December 2018)	-	-	-	-	-	-	-
Independent non-executive directors							
Mr. Bai Jinrong	240	-	-	-	240	-	240
Mr. Luo Zhenbang	240	-	-	-	240	-	240
Mr. Huang Lixin	240	-	-	-	240	-	240
	3,135	260	709	166	4,270	-	4,270

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

8 DIRECTORS' EMOLUMENTS (CONTINUED)

There were no amounts paid during the year ended 31 December 2019 to the directors or any of the five highest paid individuals set out in Note 9 as an inducement to join or upon joining the Group or as compensation for loss of office. Other than Mr. Zhang Yanyou, Mr. Guan Jifa, Mr. Zheng Yi and Mr. Ren Yuhang (2018: Mr. Zhang Yanyou, Mr. Guan Jifa, Mr. Zheng Yi, Mr. Ren Yuhang and Mr. Hao Weiya), no other directors waived or agreed to waive any emoluments during the year ended 31 December 2019. Mr. Zhang Yanyou, Mr. Guan Jifa, Mr. Zheng Yi and Mr. Ren Yuhang waived their respective directors' fees of HK\$240,000 during the year ended 31 December 2019 (2018: HK\$240,000), respectively.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2018: two) are directors whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other four (2018: three) individuals are as follows:

	2019 HK\$'000	2018 HK\$'000
Salaries, allowances and benefits in kind	3,659	2,843
Discretionary bonuses	3,540	1,796
Retirement scheme contributions	249	204
	7,448	4,843

The emoluments of the four (2018: three) individuals who are not directors and who are amongst the five highest paid individuals of the Group are within the following band:

	2019	2018
HK\$1,500,001 – HK\$2,000,000	3	3
HK\$2,000,001 – HK\$2,500,000	1	–

10 BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2019 is based on the profit attributable to ordinary equity shareholders of the Company of HK\$96,870,000 (2018: HK\$47,398,000) and the weighted average of 2,100,127,000 ordinary shares (2018: 2,103,294,000 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2019 '000	2018 '000
Issued ordinary shares at 1 January	2,100,127	2,104,787
Effect of shares repurchased	–	(1,493)
Weighted average number of ordinary shares at 31 December	2,100,127	2,103,294

The Group has no dilutive ordinary shares outstanding for the year ended 31 December 2019 and 2018. Therefore, there was no difference between basic and diluted earnings per share.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Buildings HK\$'000	Right-of-use assets HK\$'000	Civil communication transmission systems HK\$'000	Others HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost:						
At 1 January 2018	-	-	237,254	7,846	1,521	246,621
Exchange adjustments	-	-	(11,016)	(604)	(459)	(12,079)
Additions	-	-	104	1,391	14,964	16,459
Disposals	-	-	-	(1,517)	-	(1,517)
Transfer	-	-	2,948	564	(3,512)	-
At 31 December 2018	-	-	229,290	7,680	12,514	249,484
Accumulated depreciation						
At 1 January 2018	-	-	121,629	4,880	-	126,509
Exchange adjustments	-	-	(6,350)	(360)	-	(6,710)
Charge for the year	-	-	22,292	1,311	-	23,603
Written back on disposals	-	-	-	(1,333)	-	(1,333)
At 31 December 2018	-	-	137,571	4,498	-	142,069
Carrying amount:						
At 31 December 2018	-	-	91,719	3,182	12,514	107,415
Cost:						
At 31 December 2018	-	-	229,290	7,680	12,514	249,484
Impact on initial application of IFRS 16 (Note)	-	4,857	-	-	-	4,857
At 1 January 2019	-	4,857	229,290	7,680	12,514	254,341
Exchange adjustments	(866)	(346)	(5,841)	(732)	(296)	(8,081)
Additions	-	18,492	-	7,989	50,767	77,248
Business Combinations (Note 30)	18,122	1,114	-	8,261	-	27,497
Disposals	-	-	-	(1,420)	-	(1,420)
Transfer	-	-	46,717	2,820	(49,537)	-
At 31 December 2019	17,256	24,117	270,166	24,598	13,448	349,585
Accumulated depreciation:						
At 1 January 2019	-	-	137,571	4,498	-	142,069
Exchange adjustments	(12)	(44)	(3,447)	(222)	-	(3,725)
Charge for the year	762	5,437	24,828	5,959	-	36,986
Written back on disposals	-	-	-	(1,349)	-	(1,349)
At 31 December 2019	750	5,393	158,952	8,886	-	173,981
Carrying amount:						
At 31 December 2019	16,506	18,724	111,214	15,712	13,448	175,604

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2(c).

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	At 31 December 2019 HK\$'000	At 1 January 2019 HK\$'000
Buildings	18,724	4,857

The Group has obtained the right to use office premises through tenancy agreements. The leases typically run for an initial period of 18 to 60 months.

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019 HK\$'000	2018 (Note) HK\$'000
Depreciation charge of properties leased for own use, carried at depreciated cost	5,437	–
Interest on lease liabilities (Note 6(a))	649	–
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	7,783	–
Total minimum lease payments for leases previously classified as operating leases under IAS 17	–	9,363

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See Note 2(c).

During the year, the Group recognised the additions to right-of-use assets of HK\$18,492,000 for certain newly signed lease agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Notes 20(c) and 24, respectively.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

12 INTANGIBLE ASSETS

	Software HK\$'000	Income rights HK\$'000	Patent rights HK\$'000	Trademark HK\$'000	Total HK\$'000
Cost:					
At 1 January 2018	90,873	112,810	–	–	203,683
Exchange adjustments	(3,005)	(5,188)	–	–	(8,193)
Additions	417	–	–	–	417
At 31 December 2018	88,285	107,622	–	–	195,907
Accumulated amortisation and impairment losses:					
At 1 January 2018	51,432	26,876	–	–	78,308
Exchange adjustments	(2,593)	(1,560)	–	–	(4,153)
Charge for the year	10,820	9,494	–	–	20,314
At 31 December 2018	59,659	34,810	–	–	94,469
Carrying amount:					
At 31 December 2018	28,626	72,812	–	–	101,438
Cost:					
At 1 January 2019	88,285	107,622	–	–	195,907
Exchange adjustments	(1,358)	(2,355)	(2,801)	(4,761)	(11,275)
Additions	8,464	–	–	–	8,464
Business combinations (Note 30)	5,546	–	58,617	99,648	163,811
Disposals	(66,606)	–	–	–	(66,606)
At 31 December 2019	34,331	105,267	55,816	94,887	290,301
Accumulated amortisation and impairment losses:					
At 1 January 2019	59,659	34,810	–	–	94,469
Exchange adjustments	(1,226)	(919)	(6)	–	(2,151)
Charge for the year	11,702	8,917	4,652	–	25,271
Written back on disposals	(56,059)	–	–	–	(56,059)
At 31 December 2019	14,076	42,808	4,646	–	61,530
Carrying amount:					
At 31 December 2019	20,255	62,459	51,170	94,887	228,771

Notes:

- (i) The amortisation charges for the year of software and income rights are included in "cost of sales" and "selling, general and administrative expense" in the consolidated statement of profit or loss.
- (ii) At 31 December 2019, the intangible asset with indefinite useful life held by the Group was trademark acquired through business combination (see Note 30(a)). The recoverable amount of the trademark is determined based on value-in-use calculations of deemed royalty income from trademark. The deemed royalty income from trademark is based on forecasts prepared by the directors of the Company covering a five-year period and expected royalty rate. Cash flows beyond the five-year period are extrapolated using a growth rate of 2.4%. The cash flows are discounted using a discount rate of 20.70%.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

13 GOODWILL

	HK\$'000
Cost:	
At 1 January 2018	65,397
Exchange adjustments	(3,008)
<hr/>	
At 31 December 2018 and 1 January 2019	62,389
Business combinations (Note 30)	589,293
Exchange adjustments	(29,443)
<hr/>	
At 31 December 2019	622,239
<hr style="border-top: 1px dashed #000;"/>	
Accumulated impairment losses:	
At 1 January 2018, 31 December 2018 and 31 December 2019	–
<hr/>	
Carrying amount:	
At 31 December 2019	622,239
<hr/>	
At 31 December 2018	62,389

Impairments tests for cash-generating units containing goodwill

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

	Note	2019 HK\$'000	2018 HK\$'000
Operations in the provision of application solutions related services	(i)	612,230	52,156
Operations related to the civil communication transmission systems business	(ii)	10,009	10,233
		622,239	62,389

Notes:

- (i) The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets prepared by the directors of the Company covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 2.4% (2018: 3%). The cash flows are discounted using a discount rate of 15.12% (2018: 16%). The discount rate used is pre-tax and reflect specific risks relating to the relevant CGU.
- (ii) The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets prepared by the directors of the Company covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% (2018: 3%). The cash flows are discounted using a discount rate of 16.5% (2018: 16.5%). The discount rate used is pre-tax and reflect specific risks relating to the relevant CGU.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

14 INVESTMENTS IN SUBSIDIARIES

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

Name of subsidiary	Place of establishment/ incorporation and operations	Particulars of registered/issued and paid-up capital	Proportion of ownership interest			Principal activities
			The Group's effective interest	Held by the Company	Held by subsidiaries	
BII Transit Systems (Beijing) Co., Ltd.* 億雅捷交通系統(北京)有限公司**	The PRC	Registered capital of RMB50,000,000 and paid-up capital of RMB12,550,000	100%	–	100%	Design, implementation and sale, and maintenance, of application solutions for the networking and controlling systems of public transport and other companies, sale of related software, hardware and spare parts in utility tunnel areas
BII Transit Systems (HK) Co., Ltd.	Hong Kong	1,000 shares	100%	–	100%	Design, implementation and maintenance of application solutions for the networking and controlling systems of public transport companies
BII Transportation Technology (Beijing) Co., Ltd.* 北京京投億雅捷交通科技有限公司**	The PRC	RMB100,000,000	100%	–	100%	Design, implementation and sale, and maintenance, of application solutions for the networking and controlling systems of public transport and other companies, sale of related software, hardware and spare parts in utility tunnel areas
BII Technology Development Co., Ltd.* 北京京投卓越科技發展有限公司**	The PRC	RMB300,000,000	100%	–	100%	Provision of civil communication transmission services, design, implementation and sale of related software
China City Railway Transportation Technology Investment Company Limited ("CCRTT Investment")	Hong Kong	HK\$18,000,010	70%	–	70%	Investment holding

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

14 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of establishment/ incorporation and operations	Particulars of registered/issued and paid-up capital	Proportion of ownership interest			Principal activities
			The Group's effective interest	Held by the Company	Held by subsidiaries	
BII Information Security Technology Development Co.,Ltd.("BII XIN'AN")* 北京京投信安科技發展 有限公司**	The PRC	RMB10,000,000	51%	–	51%	Design, implementation and maintenance of application solutions for the networking and controlling systems of public transport companies
Suzhou Huaqi Intelligent Technology Co., Ltd. ("Huaqi Intelligent")* 蘇州華啓智能科技 有限公司***	The PRC	RMB60,000,000	95%	–	95%	Design, production and sale of produce on-board passenger information system ("on-board PIS"), train control and remote diagnosis system and train network control system
Litmus Technologies (Beijing) Co., Ltd. ("Litmus")* 北京樂碼仕智能科技 有限公司***	The PRC	RMB14,285,700	51%	–	51%	Design, implementation and sale, and maintenance, of application solutions for the networking and controlling systems of public transport and other companies, sale of related software

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

** These companies are wholly foreign owned enterprises established in the PRC.

*** This company is a foreign investment enterprise established in the PRC.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

14 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The following table lists out the financial information of CCRTT Investment, BII XIN'AN, Huaqi Intelligent and Litmus, the major subsidiaries of the Group which have non-controlling interests ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	CCRTT Investment		BII XIN'AN		Huaqi Intelligent	Litmus
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000
NCI percentage	30%	30%	49%	49%	5%	49%
Revenue	–	–	27,599	–	556,069	9,000
Profit for the year/period from the date of establishment or acquisition to 31 December	19,802	17,419	2,935	(163)	110,818	1,610
Profit attributable to NCI	5,941	5,226	1,438	(80)	5,948	789
Non-current assets	58,548	41,424	78	–	210,016	2,410
Current assets	4,070	13,860	46,097	463	934,335	53,869
Current liabilities	65	12,533	32,281	49	365,834	18,440
Non-current liabilities	–	–	–	–	42,832	268
Net assets	62,553	42,751	13,894	414	735,685	37,571
Net assets attributable to NCI	18,766	12,825	6,809	203	39,340	18,410

15 INTERESTS IN JOINT VENTURES AND ASSOCIATES

	2019 HK\$'000	2018 HK\$'000
Unlisted equity investments at cost	407,773	381,377
Share of profits	56,793	31,611
Dividend	(3,093)	–
Exchange adjustments	1,214	478
	462,687	413,466

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

15 INTERESTS IN JOINT VENTURES AND ASSOCIATES (CONTINUED)

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

Name of joint venture/ associate	Note	Place of establishment and operations	Particulars of registered capital	Proportion of ownership interest			Principal activities
				The Group's effective interest	Held by the Company	Held by a subsidiary	
Joint ventures							
Beijing Metro Science and Technology Development Co., Ltd. ("Metro Science and Technology")* 北京地鐵科技發展有限公司	(i)	The PRC	RMB30,000,000	49%	–	49%	Maintenance of application solutions for the networking and controlling systems of public transport companies
Beijing Metro Co., Ltd. ("Beijing Metro")* 北京京城地鐵有限公司	(ii)	The PRC	RMB500,000,000	49%	49%	–	Subway operations management
Beijing Cornerstone Chuangying Investment Management Centre (Limited Liability Partnership) ("Chuangying Centre")* 北京基石創盈投資管理中心 (有限合夥)	(iii)	The PRC	RMB2,000,000	20%	–	20%	Management of assets and investment
Beijing Cornerstone Chuangying Investment Centre (Limited Liability Partnership) ("Cornerstone Chuangying")* 北京基石創盈投資中心 (有限合夥)	(iii)	The PRC	RMB201,000,000	24.88%	–	24.88%	Investment holding
Associates							
Baoding Cornerstone Lianying Venture Capital Investment Fund Centre (Limited Liability Partnership) ("Cornerstone Lianying")* 保定基石連盈創業投資基金中心 (有限合夥)	(iv)	The PRC	RMB313,000,000	7.99%	–	7.99%	Investment holding
Suzhou YQK Electronic Technology Co., Ltd. ("Suzhou YQK")* 蘇州易啟康電子科技有限公司	(v)	The PRC	RMB6,667,000	30%	–	30%	Research and production of "on-board PIS" products
Suzhou Shida Xunyu Electronic Technology Co., Ltd. ("Shida Xunyu")* 蘇州視達訊遠電子科技有限公司	(v)	The PRC	RMB4,280,000	29.91%	–	29.91%	Production of railway accessories
Guangdong Zhongcheng Transportation Technology Co., Ltd. ("Guangdong Zhongcheng")* 廣東眾城交通技術有限公司	(v)	The PRC	RMB50,000,000	20.60%	–	20.60%	Production of railway accessories
Zhongci Jiangsu Transportation Industry Co., Ltd. ("Zhongci Jiangsu") 中磁江蘇交通產業股份有限公司	(vi)	The PRC	RMB100,000,000	3%	–	3%	Dormant

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

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

15 INTERESTS IN JOINT VENTURES AND ASSOCIATES (CONTINUED)

Notes:

- (i) Metro Science and Technology was established on 18 February 2016 by the Group, through a subsidiary, with a major subway operation company in Beijing, the other investor to this joint venture, to carry out the maintenance of application solutions for the networking and controlling systems of public transport in Mainland China. Metro Science and Technology is a private company whose quoted market price is not available.
- (ii) Beijing Metro was established on 15 February 2016 by the Company with a major subway operation company in Beijing, the other investor to this joint venture, to carry out the operational management for subway lines in Beijing. Beijing Metro is a private company whose quoted market price is not available.
- (iii) The Group is a limited partner of Chuangying Centre and Cornerstone Chuangying, which are partnership entities and have two and five other partners, respectively. The Group provided 20% and 24.88% capital contribution into these two partnership entities. Pursuant to the partnership agreement, the Group has joint control over the governing body of respective partnership. Chuangying Centre is the general partner of Cornerstone Chuangying.
- (iv) The Group is a limited partner of Cornerstone Lianying which is a partnership entity and has 14 other partners. The Group provided 7.99% capital contribution into the partnership entity. Pursuant to the partnership agreement, the Group has the right to cast one vote at the investment committee's meeting, the governing body which directs the relevant activities that significantly affect the returns of Cornerstone Lianying.
- (v) Suzhou YQK, Shida Xunyuan and Guangdong Zhongcheng held by Huaqi Intelligent which was acquired by the Group through business combination (Note 30(a)). These companies mainly focus on railway production operation.
- (vi) Zhongci Jiangsu was established on 20 March 2019 by the Group, through a subsidiary, with other two investors, to carry out a specific project management. According to the investment agreement, the Group has rights to designate a director. As at 31 December 2019, Zhongci Jiangsu has not carried out any operation.

All of the above joint ventures and associates are accounted for using the equity method in the consolidated financial statements.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

15 INTERESTS IN JOINT VENTURES AND ASSOCIATES (CONTINUED)

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

	Metro Science and Technology		Beijing Metro	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Gross amounts of the joint ventures				
Current assets	340,063	314,913	431,321	284,505
Non-current assets	14,549	3,504	1,553,212	1,565,528
Current liabilities	232,211	233,878	1,319,923	1,211,877
Non-current liabilities	2,860	–	–	–
Net assets	119,541	84,539	664,610	638,156
Included in the above assets and liabilities:				
Cash and cash equivalents	50,193	42,564	339,172	199,271
Current financial liabilities (excluding trade and other payables and provisions)	9,713	2,853	8,500	9,871
Revenue	466,629	403,071	411,837	395,616
Profit for the year ended 31 December	40,488	35,703	26,454	21,757
Included in the above profit:				
Depreciation	1,942	623	54,921	56,457
Interest income	439	433	5,429	2,115
Reconciled to the Group's interests in the joint ventures				
Gross amounts of the joint ventures' net assets	119,541	84,539	664,608	638,156
Carrying amounts in the consolidated financial statements	58,575	41,424	325,659	312,696

Aggregate information of joints ventures and associates that are not individually material are listed below:

	2019 HK\$'000	2018 HK\$'000
Aggregate carrying amount of individually immaterial joint ventures and associates in the consolidated financial statements	78,453	59,346
Aggregate amounts of the Group's share of those joint ventures and associates' profit from continuing operation	(7,619)	(6,780)

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

16 OTHER FINANCIAL ASSETS

	2019 HK\$'000	2018 HK\$'000
Financial assets measured at FVPL – unlisted debt investments	169,680	74,983

The Group's unlisted debt investments on wealth management products issued by financial institutions with guaranteed principal amounts plus variable returns was accounted for as other financial assets measured at FVPL.

17 INVENTORIES AND OTHER CONTRACT COSTS

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

	2019 HK\$'000	2018 HK\$'000
Application solution related software, hardware and spare parts	455,278	61,129
Materials to be assigned to services contracts	47,211	17,898
	502,489	79,027

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

	2019 HK\$'000	2018 HK\$'000
Carrying amount of inventories sold	513,946	128,053
Write-down of inventories	10,177	–
	524,123	128,053

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

18 CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	2019 HK\$'000	2018 HK\$'000
Contract assets		
Arising from performance under contracts with customers	451,566	335,441
Less: loss allowance	(26,845)	(8,715)
	424,721	326,726
Receivables from contracts with customers within the scope of IFRS 15, which are included in "Trade and other receivables" (Note 19)	471,001	268,212

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

The Group's service contracts include payment schedules which require stage payments over the service period once milestones are reached. These payment schedules prevent the build-up of significant contract assets. The Group typically agrees to a one to three years retention period after the performance of sales contracts, during which credit term may be granted to customers for retentions receivable, depending on the market practice of the industry and credit assessment carried out by management on an individual customer basis.

The amount of contract assets that is expected to be recovered after more than one year is HK\$57,473,000 (2018: HK\$38,617,000), all of which relates to retentions.

(b) Contract liabilities

	2019 HK\$'000	2018 HK\$'000
Contract liabilities		
Service contracts		
– Billings in advance of performance	31,568	66,045

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

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

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

18 CONTRACT ASSETS AND CONTRACT LIABILITIES (CONTINUED)

(b) Contract liabilities (continued)

MOVEMENTS IN CONTRACT LIABILITIES

	2019 HK\$'000	2018 HK\$'000
Balance at 1 January	66,045	33,312
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the period	(60,671)	(32,899)
Increase through business combinations (Note 30)	476	–
Increase in contract liabilities as a result of billing in advance of service	28,087	68,370
Exchange adjustments	(2,369)	(2,738)
Balance at 31 December	31,568	66,045

The amount of billings in advance of performance and forward sales deposits received expected to be recognised as income within one year is HK\$31,568,000 (2018: HK\$66,045,000).

Notes to the Financial Statements (continued)
(Expressed in HK\$ unless otherwise indicated)

19 TRADE AND OTHER RECEIVABLES

	Note	2019 HK\$'000	2018 HK\$'000
Trade receivables due from:			
– third parties		271,343	228,208
– affiliates of an equity shareholder of the Company		26,227	28,376
– an associate of the Group		3,019	–
– an equity holder of the non-controlling equity holder of a subsidiary of the Group		–	22,182
Bills receivable		184,582	–
		485,171	278,766
<hr/>			
Amounts due from related parties:	19(b)		
– equity shareholders of the Company and their affiliates		244	215
– a joint venture of the Group		1,116	1,141
– non-controlling equity holders of a subsidiary of the Group		2,598	–
– an affiliate of an equity holder of the non-controlling equity holder of a subsidiary of the Group		–	1,826
		3,958	3,182
<hr/>			
Less: loss allowance		(14,170)	(10,554)
<hr/>			
Prepayments, deposits and other receivables		62,744	41,269
VAT recoverable		18,752	–
Earnest deposit for acquisition		–	477,060
<hr/>			
Financial assets measured at amortised cost		556,455	789,723
<hr/>			
Fair value of put-options in connection with acquisition of Litmus	19(c)	1,139	–
		557,594	789,723

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

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

19 TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Ageing analysis

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

	2019 HK\$'000	2018 HK\$'000
Within 1 year	410,511	191,232
Over 1 year	74,660	87,534
	485,171	278,766

Further details on the Group's credit policy and credit risk arising from trade debtors and bills receivable are set out in Note 32(a).

(b) Amounts due from related parties

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

(c) Put-options in connection with acquisition of Litmus

Pursuant to the acquisition agreements of Litmus (see Note 30(b)), the former equity holders of Litmus granted 3 put-options to the Group. Each put-option gives the Group the right to put back its equity interests in Litmus to the former equity holders. The exercise price of these put-options are determined based on the highest amount among calculation results of pre-determined formulae and valuation report issued by qualified valuation firm.

Put-options were granted under vesting conditions with reference to financial performance of Litmus during the years ending 31 December 2020, 2021 and 2022. The commencement date of the vesting conditions varies and is separately determined for each put-option granted upon the grant date. These put-options will be lapsed after 31 December 2022.

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2019 HK\$'000	2018 HK\$'000
Cash on hand and at bank	821,569	1,053,269
Restricted bank deposits	29,322	16,292
Cash and cash equivalents in the consolidated statement of financial position	850,891	1,069,561
Less: restricted bank deposits	(29,322)	(16,292)
Cash and cash equivalents in the consolidated cash flow statement	821,569	1,053,269

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

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

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

(b) Reconciliation of liabilities arising from financing activities

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

	Loans from a related party HK\$'000	Bank and other borrowings HK\$'000 (Note 22)	Lease liabilities HK\$'000 (Note 24)	Interest payable HK\$'000	Total HK\$'000
At 31 December 2018	342,388	–	–	886	343,274
Impact on initial application of IFRS 16	–	–	4,857	–	4,857
At 1 January 2019	342,388	–	4,857	886	348,131
Changes from financing cash flows for 2019:					
Proceeds of bank and other borrowings	–	559,742	–	–	559,742
Repayment of bank and other borrowings	–	(147,162)	–	–	(147,162)
Repayments of loans from a related party	(346,500)	–	–	–	(346,500)
Capital element of lease rentals paid	–	–	(7,436)	–	(7,436)
Interest element of lease rentals paid	–	–	(649)	–	(649)
Interest paid	–	–	–	(26,545)	(26,545)
Total changes from financing cash flows	(346,500)	412,580	(8,085)	(26,545)	31,450
Other changes:					
Business combination (Note 30)(a)	–	151,573	1,114	816	153,503
Increase in lease liabilities from entering into new leases during the year	–	–	18,492	–	18,492
Interest expense	–	–	649	26,765	27,414
Exchange adjustments	4,112	(4,277)	144	(568)	(589)
Total other changes	4,112	147,296	20,399	27,013	198,820
At 31 December 2019	–	559,876	17,171	1,354	578,401

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

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

(b) Reconciliation of liabilities arising from financing activities (continued)

	Loans from a related party HK\$'000	Interest payable HK\$'000	Total HK\$'000
At 1 January 2018	–	–	–
Changes from financing cash flows for 2018:			
Proceeds from loans from a related party	338,295	–	338,295
Interest paid	–	(1,791)	(1,791)
Total changes from financing cash flows	338,295	(1,791)	336,504
Other changes:			
Interest expense	–	2,747	2,747
Exchange adjustments	4,093	(70)	4,023
Total other changes	4,093	2,677	6,770
At 31 December 2018	342,388	886	343,274

(c) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2019 HK\$'000	2018 (Note) HK\$'000
Within operating cash flows	(9,101)	(9,363)
Within financing cash flows	(8,085)	–
	(17,186)	(9,363)

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Previously, cash payments under operating leases made by the Group as a lessee were classified as operating activities in the consolidated cash flow statement. Under IFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element (see Note 20(b)) and classified as financing cash outflows. The adoption of IFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. Under the modified retrospective approach, the comparative information is not restated.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

21 TRADE AND OTHER PAYABLES

	2019 HK\$'000	2018 HK\$'000
Trade payables due to:		
– third parties	540,776	301,797
– an equity holder of the non-controlling equity holder of a subsidiary of the Group	–	236
– a joint venture of the Group	5,628	2,377
– an associate of the Group	123	–
Bills payable	133,569	20,071
	680,096	324,481
Amounts due to an affiliate of an equity shareholder of the Company	234	240
Accrued expenses and other payables	87,141	46,161
Financial liabilities measured at amortised cost	767,471	370,882
Other taxes payables	16,364	23,562
Put-options in connection with cash-settled share-based transactions (Note 27(b))	505	–
	784,340	394,444

Ageing analysis

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

	2019 HK\$'000	2018 HK\$'000
Due within 1 month or on demand	568,855	304,916
Due after 1 month but within 6 months	74,928	19,565
Due after 6 months but within 1 year	36,313	–
	680,096	324,481

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

22 BANK AND OTHER BORROWINGS

The analysis of the carrying amount of bank and other borrowings is as follows:

	Note	2019 HK\$'000	2018 HK\$'000
Bank loans			
– Guaranteed and unsecured	(i)	34,201	–
– Unguaranteed and unsecured		25,675	–
Borrowings from a related party		500,000	–
		559,876	–

Notes:

- (i) As at 31 December 2019, the bank loans were guaranteed by Bank of Ningbo, a third party.
- (ii) Some of the Group's bank loans are subject to fulfilment of covenants commonly found in lending agreements with financial institutions. If the Group were to breach the covenants, the drawn down loans would become payable on demand. The Group's management regularly monitors its compliance with these covenants. As at 31 December 2019, none of the covenants relating to the drawn down facilities has been breached.

All of the bank and other borrowings are carried at amortised cost and repayable as follows:

	2019 HK\$'000	2018 HK\$'000
Bank loans:		
– Within 1 year	59,876	–
Borrowings from a related party:		
– After 1 year but within 2 years	500,000	–
	559,876	–
Less: amounts due within 1 year shown under current liabilities	(59,876)	–
Amounts shown under non-current liabilities	500,000	–

23 LOANS FROM A RELATED PARTY

On 30 November 2018, the ultimate holding company of the Company granted a loan of RMB300,000,000 (equivalent to approximately HK\$338,295,000) to a subsidiary of the Company, which bears an interest rate of 9% per annum. The loan is unsecured and repayable within 6 months. As of 31 December 2019, the loan has been fully repaid by the subsidiary of the Company.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

24 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current reporting periods and at the date of transition to IFRS 16:

	At 31 December 2019		At 1 January 2019	
	Present value of the minimum lease payments HK\$'000	Total minimum lease payments HK\$'000	Present value of the minimum lease payments HK\$'000	Total minimum lease payments HK\$'000
Within 1 year	5,634	6,281	3,157	3,245
After 1 year but within 2 years	3,950	4,462	1,700	1,820
After 2 years but within 5 years	7,587	7,992	–	–
	11,537	12,454	1,700	1,820
	<u>17,171</u>	<u>18,735</u>	<u>4,857</u>	<u>5,065</u>
Less: total future interest expenses		(1,564)		(208)
Present value of lease liabilities		<u>17,171</u>		<u>4,857</u>

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Comparative information as at 31 December 2018 is not restated. Further details on the impact of the transition to IFRS 16 are set out in Note 2(c).

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

25 CONTINGENT CONSIDERATIONS

	Note	2019 HK\$'000
Contingent considerations representing:		
Non-current assets	(a)	181
Non-current liabilities		207,076
Current liabilities		73,309
	(b)	280,385

Notes:

- (a) The long-term receivables, which is part of consideration in connection with acquisition of Litmus (see Note 30(b)), represent fair value of expected payments from former equity holders of Litmus. Pursuant to the acquisition agreements, the former equity holders was liable to compensate the shortfalls between net profits and pre-set targets of Litmus for the years ended 31 December 2020, 2021 and 2022, respectively.
- (b) These payables represent fair value of deferred considerations arising from acquisition of Huaqi Intelligent (see Note 30(a)). Pursuant to the acquisition agreements, part of total consideration was deferred into three batches, and conditional on achievement of financial targets set for Huaqi Intelligent for the years ended 31 December 2019, 2020 and 2021, which was pre-determined in the acquisition agreements.

28%, 32% and 40% of deferred considerations will be paid upon the achievement of the respective year's financial target. Partial achievement on the financial targets will result in the reduction in the payment amounts, calculated in accordance with the pre-determined formulae as set out in the acquisition agreements.

26 PROVISION FOR WARRANTIES

	2019 HK\$'000
At 1 January	–
Addition from business combinations (Note 30(a))	8,781
Addition in provision	9,280
Utilised	(7,126)
Exchange adjustments	(44)
	10,891
Less: provision within one year	(8,628)
	2,263

The above represents the warranty costs for repairs, which are estimated based on prevailing after-sales service policies, the sales volume and the past experience of the level of repairs and replacement. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

27 SHARE-BASED TRANSACTIONS

(a) Equity-settled share-based transaction

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

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

(I) THE TERMS AND CONDITIONS OF THE GRANTS ARE AS FOLLOWS:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
– on 5 December 2014	100,000	One year from the date of grant	5 years
– on 5 December 2014	250,000	Two years from the date of grant	5 years
– on 5 December 2014	150,000	Three years from the date of grant	5 years
Options granted to equity shareholder:			
– on 5 December 2014	260,000	One year from the date of grant	5 years
– on 5 December 2014	650,000	Two years from the date of grant	5 years
– on 5 December 2014	390,000	Three years from the date of grant	5 years
Options granted to employees:			
– on 31 December 2013	4,000,000	One year from the date of grant	5 years
– on 31 December 2013	10,000,000	Two years from the date of grant	5 years
– on 31 December 2013	6,000,000	Three years from the date of grant	5 years
– on 5 December 2014	3,640,000	One year from the date of grant	5 years
– on 5 December 2014	9,100,000	Two years from the date of grant	5 years
– on 5 December 2014	5,460,000	Three years from the date of grant	5 years
Total share options granted	40,000,000		

As of 31 December 2019, all share options granted under the Share Option Scheme have lapsed.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

27 SHARE-BASED TRANSACTIONS (CONTINUED)

(a) Equity-settled share-based transaction (continued)

(II) THE NUMBER AND WEIGHTED AVERAGE EXERCISE PRICE OF SHARE OPTIONS ARE AS FOLLOWS:

	2019		2018	
	Weighted average exercise price	Number of share options '000	Weighted average exercise price	Number of share options '000
Outstanding at the beginning of the year	HK\$2.690	15,250	HK\$1.966	28,900
Forfeited during the year	HK\$2.690	(15,250)	HK\$1.157	(13,650)
Outstanding at the end of the year	–	–	HK\$2.690	15,250
Exercisable at the end of the year	–	–	HK\$2.690	15,250

(b) Cash-settled share-based transaction

On 1 March 2019, the Group completed the acquisition of 95% equity interests of Huaqi Intelligent (Note 30(a)). Six put-options were granted to two limited partnerships (the "Holders"), which are collectively owned by management personnel of Huaqi Intelligent. Each put-option gives the Holders the right to put part/all of their owned equity interests in Huaqi Intelligent (the "Underlying Assets") to the Group.

Notes to the Financial Statements (continued)
(Expressed in HK\$ unless otherwise indicated)

27 SHARE-BASED TRANSACTIONS (CONTINUED)

(b) Cash-settled share-based transaction (continued)

(i) MAJOR TERMS AND CONDITIONS OF THE GRANTS ARE AS FOLLOWS:

Put-options	The Underlying Assets, which are puttable	Conditions	Contractual life
No. 1	Up to 1.5% equity interests in Huaqi Intelligent	Both performance and non-vesting conditions apply (Note)	Expired up to 31 December 2022
No. 2	Up to 1.5% equity interests in Huaqi Intelligent		Expired up to 31 December 2022
No. 3	All the Underlying Assets		Expired up to 31 December 2022
No. 4	All the Underlying Assets	Both performance and non-vesting conditions apply	Expired up to 31 December 2023
No. 5	All the Underlying Assets		Expired up to 31 December 2024
No. 6	All the Underlying Assets		Expired up to 31 December 2024
			Expired up to 31 December 2024

Put-options were granted under vesting conditions with reference to financial performance of Huaqi Intelligent (the “Financial KPIs”) and non-vesting condition. The commencement date of the vesting conditions varies and is separately determined for each put-option granted upon the grant date.

Note:

Partial achievement on the Financial KPIs will result in the reduction in the puttable Underlying Assets vested, calculated in accordance with the pre-determined formulae at the date of grant.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

27 SHARE-BASED TRANSACTIONS (CONTINUED)

(b) Cash-settled share-based transaction (continued)

(II) THE NUMBER AND WEIGHTED AVERAGE EXERCISE OF OPTIONS ARE AS FOLLOWS:

	2019 Percentage of the Underlying Assets subject to put-option
Outstanding at the beginning of the period	–
Granted during the period	100%*
Outstanding at the end of the period	100%*
Exercisable at the end of the period	–

* 100% of the Underlying Assets represents 5% equity interests of Huaqi Intelligent.

The exercise price of put-options, which are outstanding at 31 December 2019 is calculated in accordance with the pre-determined formulae at the date of grant. The inputs of the these formulae are mainly Financial KPIs of respective assessment year of the put-option.

(III) FAIR VALUE OF OPTIONS AND ASSUMPTIONS

The fair value of services received in return for put-options granted is measured by reference to the fair value of put-options granted. The estimate of the fair value of the put-options granted is measured based on Black-Scholes model and expected likelihood of occurrence of non-vesting condition. The expected exercise price, expected period, expected volatility of the price of the Underlying Assets, expected dividend yield, the risk free rate and market price of the Underlying Assets are used as the key inputs into the model with reference to the acquisition agreement and comparable companies historical trading information. The expected exercisable price is estimated based on financial forecasts of Huaqi Intelligent, which is prepared by the management of the Group, and calculated in accordance with the pre-determined formulae at the date of grant. Expected dividends are based on historical dividends of Huaqi Intelligent.

Expected fulfilment of vesting conditions is taken into account by adjusting the portion of the puttable Underlying Assets included in the measurement of the liabilities arising from the outstanding put-options.

The fair value of the liabilities arising from the outstanding put-options as at 31 December 2019 was HK\$505,000. Changes in the subjective input assumptions could materially affect the fair value estimation.

Notes to the Financial Statements (continued)
(Expressed in HK\$ unless otherwise indicated)

28 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2019 HK\$'000	2018 HK\$'000
At 1 January	24,887	37,230
Provision for income tax on the estimated taxable profits for the year (Note 7(a))	24,271	(79)
Income tax paid during the year	(29,591)	(12,264)
At 31 December	19,567	24,887
Representing:		
Income tax recoverable	(3,934)	–
Current taxation payable	23,501	24,887
	19,567	24,887

(b) Deferred tax assets and liabilities recognised:

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

Deferred tax arising from:	Assets							Liabilities		
	Amortisation and depreciation expenses in excess of the tax allowances HK\$'000	Accruals HK\$'000	Credit losses allowance HK\$'000	Write-down of inventories HK\$'000	Tax losses HK\$'000	Deferred income HK\$'000	Provision for warranties HK\$'000	Total HK\$'000	Fair value adjustments on intangible assets and related amortisation HK\$'000	Net HK\$'000
Adjusted balance at 1 January 2018	6,469	18,942	4,977	–	–	–	–	30,388	(24,108)	6,280
Effect on deferred tax balances at 1 January resulting from a change in tax rate (Note 7(a))	932	(5,960)	–	–	–	–	–	(5,028)	2,951	(2,077)
Exchange adjustments (Charged)/credited to the consolidated statement of profit or loss (Note 7(a))	(234)	(521)	(179)	–	–	–	–	(934)	732	(202)
Balance at 31 December 2018 and 1 January 2019	7,098	8,117	3,489	–	–	–	–	18,704	(18,016)	688
Exchange adjustments Business combinations (Note 30) (Charged)/credited to the consolidated statement of profit or loss (Note 7(a))	(79)	(284)	(227)	(110)	(35)	(22)	(69)	(826)	2,327	1,501
Balance at 31 December 2019	4,591	13,898	10,187	2,994	1,591	162	1,632	35,055	(52,497)	(17,442)

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

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

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(s), the Group has not recognised deferred tax assets in respect of unused tax losses, impairment provision and accruals arising from certain subsidiaries of the Group of HK\$73,040,000 (2018: HK\$8,879,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Except for the amount of HK\$34,613,000 which will not expire under the relevant tax legislation, the remaining unused tax losses at 31 December 2019 will expire on or before 31 December 2024.

(d) Deferred tax liabilities not recognised

At 31 December 2019, temporary differences relating to the retained profits of the subsidiaries of the Group established in the PRC (excluding Hong Kong) amounted to HK\$821,419,000 (2018: HK\$393,070,000) of which no deferred tax liabilities in respect of the tax that would be payable on the distribution of these profits was provided as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

29 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

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

	Share capital HK\$'000 (Note 29(c))	Share premium HK\$'000 (Note 29(d)(i))	Capital reserve HK\$'000 (Note 29(d)(ii))	Treasury share reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 January 2018	21,048	1,857,566	54,151	–	(80,003)	1,852,762
Changes in equity for 2018:						
Total comprehensive income	–	–	–	–	14,059	14,059
Purchase of own shares	–	–	–	(2,321)	–	(2,321)
Cancellation of shares	(47)	(2,274)	–	2,321	–	–
Dividends declared in respect of the previous year (Note 29(b)(iii))	–	(21,048)	–	–	–	(21,048)
Balance at 31 December 2018	21,001	1,834,244	54,151	–	(65,944)	1,843,452
Changes in equity for 2019:						
Total comprehensive income	–	–	–	–	(9,697)	(9,697)
Dividends declared in respect of the previous year (Note 29(b)(iii))	–	(21,001)	–	–	–	(21,001)
Balance at 31 December 2019	21,001	1,813,243	54,151	–	(75,641)	1,812,754

Notes to the Financial Statements (continued)
(Expressed in HK\$ unless otherwise indicated)

29 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Dividends

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

	2019 HK\$'000	2018 HK\$'000
Final dividend proposed after the end of the reporting period of HK\$2 cents per ordinary share (2018: HK\$1 cent)	42,002	21,001

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

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

	2019 HK\$'000	2018 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$1 cent per ordinary share (2018: HK\$1 cent)	21,001	21,048

(c) Share capital

(I) **AUTHORISED AND ISSUED SHARE CAPITAL**

	2019		2018	
	Number of shares	HK\$'000	Number of shares	HK\$'000
Authorised:				
Ordinary shares of HK\$0.01 each	5,000,000,000	50,000	5,000,000,000	50,000
Issued and fully paid:				
At 1 January	2,100,126,727	21,001	2,104,786,727	21,048
Cancellation of shares	–	–	(4,660,000)	(47)
At 31 December	2,100,126,727	21,001	2,100,126,727	21,001

(II) **SHARES ISSUED UNDER SHARE OPTION SCHEME**

During the year ended 31 December 2019, no share option was exercised.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

29 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(d) Nature and purpose of reserves

(I) SHARE PREMIUM

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

(II) CAPITAL RESERVE

The capital reserve represents (i) the difference between the carrying values of the controlling equity interests in subsidiaries acquired and the considerations paid under the reorganisation took place in 2011; (ii) the portion of the grant date fair value of unexercised share options granted to directors and equity shareholder of the Company and employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 2(r)(ii); and (iii) the share of the investee's net assets changes, other than profit or loss and other comprehensive income and distributions received..

(III) STATUTORY RESERVES

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

(IV) EXCHANGE RESERVE

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

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The capital structure of the Group consists of net debt including borrowings, net of cash and cash equivalents and equity attributable to owners of the Company comprising issued equity, retained profits and other reserves.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends as well as the issue of new debt or the redemption of existing debt.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

30 BUSINESS COMBINATIONS

(a) Huaqi Intelligent

On 29 November 2018, the Group entered into an acquisition agreement with NetPosa, Huaqi Intelligent and Mr. Liu Guang, pursuant to which the Group acquired 95% equity interests of Huaqi Intelligent from NetPosa at the consideration of RMB1,045,000,000 (equivalent to approximately HK\$1,191,300,000). The acquisition was completed on 1 March 2019. As a result, Huaqi Intelligent became a subsidiary of the Company.

For the year ended 31 December 2019, Huaqi Intelligent contributed revenue of HK\$556,069,000 and profit of HK\$110,818,000 to the Group's results. If the acquisition had occurred on 1 January 2019, management estimates that consolidated revenue would have been HK\$593,655,000, and consolidated profit for the year would have been HK\$108,128,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2019.

(i) CONSIDERATION

The following table summarises the acquisition-date fair value of each major class of consideration transferred.

	HK\$'000
Cash/consideration transferred	918,816
Contingent considerations (Note 25(b))	287,910
Total consideration	1,206,726

(ii) ACQUISITION-RELATED COSTS

The Group incurred acquisition-related costs of HK\$7,781,000 relating to external legal fees, due diligence costs, valuation and audit costs. These costs have been included in "Selling, general and administrative expenses" in the consolidated statements of profit or loss during relevant periods

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

30 BUSINESS COMBINATIONS (CONTINUED)

(a) Huaqi Intelligent (continued)

(III) IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES ASSUMED

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

	HK\$'000
Property, plant and equipment	27,301
Intangible assets	162,015
Interests in associates	16,451
Deferred tax assets	5,226
Inventories	368,244
Trade and other receivables	253,949
Cash advances due from NetPosa	225,710
Cash on hand and in bank	98,547
Trade and other payables	(297,559)
Contract liabilities	(18)
Bank loans	(151,573)
Lease liabilities	(1,114)
Current taxation	(640)
Deferred tax liabilities	(40,188)
Deferred income	(3,704)
Provision for warranties	(8,781)
Total identifiable net assets acquired	653,866

The fair values have been measured on a provisional basis. If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

(IV) GOODWILL

Goodwill arising from the acquisition at the date of acquisition has been recognised as follows.

	HK\$'000
Total consideration	1,206,726
Non-controlling interests, based on their proportionate interest in the recognised amounts of the assets and liabilities	34,733
Fair value of identifiable net assets	(653,866)
Goodwill	587,593

- The goodwill is attributable mainly to the skills and technical talents of Huaqi Intelligent's workforce, and the synergies expected to be achieved from integration between the Group's existing intelligent railway transportation business and Huaqi Intelligent. None of the goodwill recognised is expected to be deductible for tax purposes.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

30 BUSINESS COMBINATIONS (CONTINUED)

(b) Litmus

On 2 December 2019, BII Zhongfu Technology Co., Ltd. (“BII Zhongfu”), a subsidiary of the Group entered into an acquisition agreement with Litmus, Litmus and Mr. Song Jifeng, pursuant to which the Group acquired 51% equity interests of Litmus through capital injection of RMB19,202,000 (equivalent to approximately HK\$21,392,000). The acquisition was completed on 2 December 2019. As a result, Litmus became a subsidiary of the Company.

For the year ended 31 December 2019, Litmus contributed revenue of HK\$9,000,000 and profit of HK\$1,610,000 to the Group’s results. If the acquisition had occurred on 1 January 2019, management estimates that revenue would have been HK\$28,567,000, and profit for the year would have been HK\$4,398,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2019.

(i) CONSIDERATION

The following table summarises the acquisition-date fair value of each major class of consideration transferred.

	HK\$’000
Cash/consideration transferred	21,392
Less: Contingent considerations (Note 25(a))	180
Put-options (Note 19(c))	1,136
Total consideration	20,076

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

30 BUSINESS COMBINATIONS (CONTINUED)

(b) Litmus (continued)

(II) ACQUISITION-RELATED COSTS

The Group incurred acquisition-related costs of HK\$215,000 relating to external legal fees, due diligence costs, valuation and audit costs. These costs have been included in "Selling, general and administrative expenses" in the consolidated statements of profit or loss during relevant periods.

(III) IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES ASSUMED

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

	HK\$'000
Property, plant and equipment	196
Intangible assets	1,796
Deferred tax assets	193
Inventories	25,038
Trade and other receivables	29,284
Cash on hand and in bank	202
Trade and other payables	(19,952)
Contract liabilities	(458)
Deferred tax liabilities	(268)
Total identifiable net assets acquired	36,031

The fair values have been measured on a provisional basis. If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

(IV) GOODWILL

Goodwill arising from the acquisition at the date of acquisition has been recognised as follows.

	HK\$'000
Total consideration	20,076
Non-controlling interests, based on their proportionate interest in the recognised amounts of the assets and liabilities	17,655
Fair value of identifiable net assets	(36,031)
Goodwill	1,700

The goodwill is attributable mainly to the skills and technical talents of Litmus workforce, and the synergies expected to be achieved from integration between the Group's existing intelligent railway transportation business and Litmus. None of the goodwill recognised is expected to be deductible for tax purposes.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

31 COMMITMENTS

(a) Capital commitments

At 31 December 2019, the outstanding capital commitments of the Group not provided for in the consolidated financial statements are as follows:

	2019 HK\$'000	2018 HK\$'000
Authorised and contracted for commitment in respect of investments in equity securities	–	322,453

(b) Operating lease commitments

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

	2018 HK\$'000
Within 1 year	8,680
After 1 year but within 3 years	1,838
	10,518

The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Comparative information as at 31 December 2018 is not restated. Further details on the impact of the transition to IFRS 16 are set out in Note 2(c).

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

TRADE RECEIVABLES AND CONTRACT ASSETS

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At 31 December 2019, 8% (2018: 13%) of the trade receivables and contract assets were due from the Group's largest debtor, and 32% (2018: 47%) of the trade receivables and contract assets were due from the Group's five largest debtors.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, the Group does not obtain collateral from customers.

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

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

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

	As at 31 December 2019		
	Expected loss rate %	Gross carrying amount HK\$'000	Loss allowance HK\$'000
within 1 year	0.86%	409,178	(3,519)
more than 1 year but within 2 years	1.66%	146,339	(2,423)
more than 2 years but within 3 years	7.39%	85,788	(6,337)
more than 3 years	25.92%	110,850	(28,736)
		752,155	(41,015)

	As at 31 December 2018		
	Expected loss rate %	Gross carrying amount HK\$'000	Loss allowance HK\$'000
within 1 year	0.67%	327,327	(2,168)
more than 1 year but within 2 years	2.48%	130,214	(3,225)
more than 2 years but within 3 years	6.00%	16,465	(988)
more than 3 years	9.20%	140,201	(12,888)
		614,207	(19,269)

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

TRADE RECEIVABLES AND CONTRACT ASSETS (CONTINUED)

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

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

	2019 HK\$'000	2018 HK\$'000
Balance at 1 January	19,269	19,934
Exchange adjustments	(795)	(891)
Impairment losses recognised during the year	22,541	226
Balance at 31 December	41,015	19,269

(b) Liquidity risk

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

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk (continued)

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

	2019				Total	Carrying amount	2018	
	Contractual undiscounted cash outflow						Contractual undiscounted cash outflow	Carrying amount
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Within 1 year or on demand				
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Loans from a related party	-	-	-	-	-	355,228	342,388	
Bank and other borrowings	86,157	525,086	-	611,243	559,876	-	-	
Lease Liabilities (Note)	6,281	4,462	7,992	18,735	17,171	-	-	
Trade and other payables measured at amortised cost	767,471	-	-	767,471	767,741	370,882	370,882	
	859,909	529,548	7,992	1,397,449	1,344,518	726,110	713,270	

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Comparative information as at 31 December 2018 is not restated. Further details on the impact of the transition to IFRS 16 are set out in Note 2(c).

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to fair value interest rate risk in relation to loans from related parties with a fixed-rate and other interest bearing borrowings. Cash flow interest rate risk in relation to bank balances and pledged bank deposits is considered insignificant. Interest rate risk is managed by the management of the Group on an ongoing basis with the primary objective of limiting the extent to which interest expense could be affected by adverse movement in interest rates. The Group's interest rate profile as monitored by management is set out in (i) below.

Notes to the Financial Statements (continued)
(Expressed in HK\$ unless otherwise indicated)

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS
(CONTINUED)

(c) Interest rate risk (continued)

(i) INTEREST RATE PROFILE

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period.

	2019		2018	
	Effective interest rate %	HK\$'000	Effective interest rate %	HK\$'000
Fixed rate borrowings:				
Lease liabilities (Note)	5.14%	17,171	–	–
Bank and other borrowings	1.20%-4.78%	558,760	–	–
Loans from a related party	–	–	9.00%	342,388
		575,931		342,388
Variable rate borrowings:				
Bank and other borrowings	4.56%	1,116	–	–
Total borrowings		577,047		342,388
Fixed rate borrowings as a percentage of total borrowings		99.8%		100.0%

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Under this approach, the comparative information is not restated. See Note 2(c)

(ii) SENSITIVITY ANALYSIS

At 31 December 2019, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately HK\$9,000 (2018:Nil).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. Since the Group has no variable-rate borrowings at 31 December 2018, no sensitivity analysis about interest rates risk is prepared in 2018.

(d) Currency risk

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

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Currency risk (continued)

(i) EXPOSURE TO CURRENCY RISK

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

	Exposure to foreign currencies (expressed in HK\$)			
	2019		2018	
	RMB '000	EUR '000	RMB '000	EUR '000
Cash and cash equivalent	–	1,047	–	–
Other receivables	44,548	–	45,545	–
Bank and other borrowings	–	(34,200)	–	–
Gross exposure arising from recognised assets and liabilities	44,548	(33,153)	45,545	–

(ii) SENSITIVITY ANALYSIS

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

	2019		2018	
	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained profits HK\$'000	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained profits HK\$'000
RMB	10% (10)%	4,455 (4,455)	10% (10)%	4,555 (4,555)
EUR	10% (10)%	(2,818) 2,818	10% (10)%	– –

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

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Currency risk

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company receivables within the Group which are denominated in a currency other than the functional currencies of the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2018.

(e) Financial instruments measured at fair value

(i) FAIR VALUE HIERARCHY

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

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

	Fair value at 31 December 2019 HK\$'000	Fair value measurement as at 31 December 2019 categorised into	
		Level 2 HK\$'000	Level 3 HK\$'000
Recurring fair value measurement			
Financial assets:			
Other financial assets	169,680	169,680	–
Put-options in connection with acquisition of Litmus	1,139	–	1,139
Contingent considerations	181	–	181
Financial liabilities:			
Contingent considerations, current portion	73,309	–	73,309
Contingent considerations, non-current portion	207,076	–	207,076

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Financial instruments measured at fair value (continued)

(i) FAIR VALUE HIERARCHY (CONTINUED)

	Fair value at 31 December 2018 HK\$'000	Fair value measurement as at 31 December 2018 categorised into	
		Level 2 HK\$'000	Level 3 HK\$'000
Recurring fair value measurement			
Financial assets:			
Other financial assets	74,983	74,983	–

During the year ended 31 December 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) VALUATION TECHNIQUES AND INPUTS USED IN LEVEL 2 FAIR VALUE MEASUREMENTS

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

(iii) INFORMATION ABOUT LEVEL 3 FAIR VALUE MEASUREMENTS

Put-options in connection with acquisition of Litmus

The estimate of the fair value of the put-options received is measured based on Black-Scholes model. The expected exercise price, expected period, expected volatility of the price of the option, expected dividend yield, the risk free rate and market price of the option are used as the key inputs into the model with reference to the acquisition agreements and comparable companies historical trading information. The expected exercisable price is estimated based on pre-determined formulae at the date of grant. Expected dividends are based on historical dividends of Litmus.

Contingent considerations:

The fair value of contingent considerations are determined using valuation model considering the present value of expected receivables or payments, discounted using a risk-free discount rate.

The Group is of the opinion that the unobservable inputs used in the fair value measurements of contingent considerations receivable is not significant.

The significant unobservable inputs used in the fair value measurements of contingent considerations payable are expected cash flow payments of HK\$73,744,000, HK\$93,324,000 and HK\$124,571,000 during the years ending 31 December 2020, 2021 and 2022, respectively and the discount rate is 1.30%, 2.10% and 2.75%, respectively. At 31 December 2019, if the risk-free discount rate held constant, a 5% decrease in expected cash flows in each of the years ending 31 December 2020, 2021 and 2022 will result increase of HK\$14,019,000 in the Group's consolidated profits.

Notes to the Financial Statements (continued)
(Expressed in HK\$ unless otherwise indicated)

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS
(CONTINUED)

(e) **Financial instruments measured at fair value** (continued)

(iii) **INFORMATION ABOUT LEVEL 3 FAIR VALUE MEASUREMENTS** (CONTINUED)

Contingent considerations: (continued)

The movement during the period in the balance of Level 3 fair value measurements is as follows:

	2019 HK\$'000
Put-options in connection with acquisition of Litmus	
Balance at 1 January	–
Increase from business combination (Note 30(b))	1,136
Gain included in "Other comprehensive income"	
– Net foreign exchange gain	3
Balance at 31 December	1,139
Contingent considerations receivable:	
Balance at 1 January	–
Increase from business combination (Note 30(b))	180
Gain included in "Fair value change in contingent considerations"	
– Net change in fair value (unrealised)	1
Balance at 31 December	181
Contingent considerations payable:	
Balance at 1 January	–
Increase from business combination (Note 30(a))	287,910
Loss included in "Fair value change in contingent considerations"	
– Net change in fair value (unrealised)	6,305
Gain included in "Other comprehensive income"	
– Net foreign exchange gain	(13,830)
Balance at 31 December	280,385

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at 31 December 2019 and 2018.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

33 MATERIAL RELATED PARTY TRANSACTIONS

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

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

	2019 HK\$'000	2018 HK\$'000
(Repayment of loans)/proceeds of loans from ultimate holding company	(346,500)	338,295
Interest of loans from ultimate holding company	11,335	2,747
Proceeds of loans from a fellow subsidiary	500,000	–
Interest of loans from a fellow subsidiary	12,472	–
Provision of design, implementation and sale of application solution services	62,639	54,923
Provision of maintenance of application solution services	51,483	45,877
Short-term lease expenses	4,060	5,584
Net (decrease)/increase in contract liabilities	(16,857)	22,343

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

	2019 HK\$'000	2018 HK\$'000
Provision of design, implementation and sale of application solution services	–	27,524
Net decrease in contract liabilities	–	(9,569)

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

	2019 HK\$'000	2018 HK\$'000
Acquisition of non-controlling interest	20,729	–
Repayment of advances	–	5,400
Capital contribution	–	5,400

(d) Transactions with a joint venture and an associate

	2019 HK\$'000	2018 HK\$'000
Purchases of goods and services	16,311	4,111
Advances to a joint venture	–	1,141
Provision of design, implementation and sale of application solution services	2,703	–
Dividend from a joint venture	3,093	–

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

33 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Key management personnel remuneration

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

	2019 HK\$'000	2018 HK\$'000
Short-term employee benefits	13,230	10,238
Retirement scheme contributions	458	441
	13,688	10,679

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

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

The ultimate holding company of the Company, 北京市基礎設施投資有限公司 ("Beijing Infrastructure Investment Co., Ltd.") ("BII"), is a state-controlled enterprise controlled by the PRC government. Apart from transactions with BII and its affiliates which were disclosed in Note 33(a) above, the Group also has transactions with other state-controlled entities, included but not limited to the following:

- provision of design, implementation and sale of application solution services;
- maintenance of application solution services;
- infrastructure information related services;
- bank deposits;
- bank loans; and
- purchase of other financial assets.

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

For the year ended 31 December 2019, the above related party transactions in respect of the provision of design, implementation and sale of application solution services, the provision of maintenance of application solution services and operating leases, with affiliates of equity shareholders of the Company and an equity holder of the non-controlling equity holder of a subsidiary of the Group, where applicable, constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section "Continuing connected transactions" of the Directors' Report.

Notes to the Financial Statements (continued)

(Expressed in HK\$ unless otherwise indicated)

34 THE COMPANY'S STATEMENT OF FINANCIAL POSITION

	Note	2019 HK\$'000	2018 HK\$'000
Non-current assets			
Investments in subsidiaries	14	526,909	526,909
Interest in a joint venture		294,735	294,735
		821,644	821,644
Current assets			
Other receivables		949,025	46,768
Cash and cash equivalents		555,078	985,253
		1,504,103	1,032,021
Current liabilities			
Accrued expenses and other payables		12,993	10,213
		1,491,110	1,021,808
Net current assets			
		2,312,754	1,843,452
Non-current liabilities			
Bank and other borrowings	22	500,000	–
		1,812,754	1,843,452
NET ASSETS			
CAPITAL AND RESERVES			
Share capital	29	21,001	21,001
Reserves		1,791,753	1,822,451
		1,812,754	1,843,452

Approved and authorised for issue by the board of directors on 30 March 2020.

Cao Wei
Director

Xuan Jing
Director

Notes to the Financial Statements (continued)

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35 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Dividends

After the end of the reporting period the directors of the Company proposed a final dividend. Further details are disclosed in Note 29(b).

(b) The impact of COVID-19 Pandemic

The COVID-19 Pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and may impact the Group's operations and financial position.

The Group has been closely monitoring the impact from the COVID-19 Pandemic on the Group's businesses and has commenced to put in place various contingency measures. These contingency measures include but not limited to maintaining good communication with customers and suppliers through offline and remote working model to ensure the normal operation of business; steadily promoting resumption of work and operation and taking various measures within the Group to reduce the cost and increase efficiency. The Group will keep the contingency measures under review as the COVID-19 Pandemic situation evolves. Those impact will be reflected in the financial information in the future periods, and the actual impact may differ from estimates as the coronavirus outbreak situation continues to evolve and when further information may become available.

36 COMPARATIVE FIGURES

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2(c).

37 IMMEDIATE AND ULTIMATE HOLDING COMPANY

At 31 December 2019, the directors of the Company consider the immediate and ultimate controlling party of the Company to be Beijing Infrastructure Investment (Hong Kong) Limited, a company incorporated in Hong Kong, and BII, a company established in the PRC, respectively. Neither of these companies produces financial statements available for public use.

Notes to the Financial Statements (continued)

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38 POSSIBLE IMPACT OF NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and a new standard, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Conceptual Framework for Financial Reporting	1 January 2020
Amendments to IFRS 3, <i>Definition of a business</i>	1 January 2020
Amendments to IAS 1 and IAS 8, <i>Definition of material</i>	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7, <i>Interest Rate Benchmark Reform</i>	1 January 2020
IFRS 17, <i>Insurance contracts</i>	1 January 2022
Amendments to IFRS 10 and IAS 28, <i>Sale or contribution of sales between an investor and its associate or joint venture</i>	To be determined

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

京投轨道交通科技控股有限公司

BII Railway Transportation Technology Holdings Company Limited



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