THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in BII Railway Transportation Technology Holdings Company Limited (the "**Company**"), you should at once hand this circular with the accompanying form of proxy to the purchaser or transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities.

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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1522)

VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE PROPOSED ACQUISITION OF 95% EQUITY INTERESTS IN HUAQI INTELLIGENT AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular. A letter from the Board is set out on pages 6 to 24 of this circular.

A notice convening the EGM to be held at Conference Room, 9/F., 3rd Building, Jingtou Plaza, No. 6 Xiaoying North Road, Chaoyang District, Beijing, the People's Republic of China on Monday, 25 February 2019 at 2:00 p.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is also enclosed.

Whether or not you intend to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit the same with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the appointed time for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM and any adjournment thereof (as the case may be) should you so wish.

31 January 2019

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In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"2019 Actual Performance"	the audited consolidated net profit after taxation arising from the ordinary course of business of Huaqi Intelligent based on the 2019 Audited Accounts, after deducting extraordinary items and one-off items
"2019 Audited Accounts"	the audited consolidated financial statements of Huaqi Intelligent for the year ending 31 December 2019 prepared in accordance with IFRS and reported by the auditors appointed by the Company
"2020 Actual Performance"	the audited consolidated net profit after taxation arising from the ordinary course of business of Huaqi Intelligent based on the 2020 Audited Accounts, after deducting extraordinary items and one-off items
"2020 Audited Accounts"	the audited consolidated financial statements of Huaqi Intelligent for the year ending 31 December 2020 prepared in accordance with IFRS and reported by the auditors appointed by the Company
"2021 Actual Performance"	the audited consolidated net profit after taxation arising from the ordinary course of business of Huaqi Intelligent based on the 2021 Audited Accounts, after deducting extraordinary items and one-off items
"2021 Audited Accounts"	the audited consolidated financial statements of Huaqi Intelligent for the year ending 31 December 2021 prepared in accordance with IFRS and reported by the auditors appointed by the Company
"ACC"	Automatic Fare Clearing System
"Acquisition"	the sale and purchase of the Sale Equity from NetPosa to the Company
"Acquisition Agreements"	the conditional equity transfer agreements dated 29 November 2018 and entered into among the Company, NetPosa, Huaqi Intelligent and Mr. Liu, together with its ancillary agreements, including but not limited to agreements such as the acquisition framework agreement and the Expected Performance Guarantee Agreement, in relation to the Acquisition

"Acquisition Conditions Precedent"	the conditions precedent in relation to the transfer of the Sale Equity from NetPosa to the Company (or its nominee) in accordance with the terms of the Acquisition Agreements
"AFC"	Automatic Fare Collection System
"Announcement"	the announcement of the Company dated 29 November 2018 in relation to, among other matters, the Acquisition Agreements
"BII"	北京市基礎設施投資有限公司 (Beijing Infrastructure Investment Co., Ltd.*), a controlling shareholder of the Company
"BII Zhuoyue"	北京京投卓越科技發展有限公司 (BII Technology Development Co., Ltd.*), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
"Board"	the board of Directors
"Business Day(s)"	a day(s) excluding Saturday, Sunday or public holiday as announced by the PRC government from time to time
"Company"	BII Railway Transportation Technology Holdings Company Limited, a company incorporated in the Cayman Islands with limited liability, and the Shares of which are listed on the Stock Exchange
"Completion"	completion of the Acquisition in accordance with the terms and conditions of the Acquisition Agreements
"connected person"	has the meaning ascribed to it under the Listing Rules and the word "connected" shall be construed accordingly
"Consideration"	the consideration payable for the Sale Equity under the Acquisition Agreements
"Deposit"	the deposit in the amount of RMB418,000,000 payable by the Company through BII Zhuoyue to NetPosa pursuant to the Acquisition Agreements
"Director(s)"	the director(s) of the Company

"EGM"	the extraordinary general meeting of the Company to be convened for the purpose of, among others, approving the Acquisition
"Enlarged Group"	the Company and its subsidiaries upon Completion
"Expected Performance Guarantee"	collectively, the 2019 Guaranteed Performance, the 2020 Guaranteed Performance and the 2021 Guaranteed Performance
"Expected Performance Guarantee Agreement"	the agreement dated 29 November 2018 and entered into among the Company, NetPosa, Huaqi Intelligent, Mr. Liu and Huaqi Management Team in relation to the Expected Performance Guarantee
"FY2016"	the financial year ended 31 December 2016
"FY2017"	the financial year ended 31 December 2017
"FY2019"	the financial year ending 31 December 2019
"FY2020"	the financial year ending 31 December 2020
"FY2021"	the financial year ending 31 December 2021
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Huaqi Group"	Huaqi Intelligent and its subsidiaries
"Huaqi Intelligent"	蘇州華啟智能科技有限公司 (Suzhou Huaqi Intelligent Technology Co., Ltd.*), a company established in the PRC with limited liability

"Huaqi Management Team"	collectively, 長興天越企業管理合夥企業(有限合夥) (Changxing Tianyue Corporate Management Partnership (Limited Partnership)*) and 長興祥悅企業管理合夥企業(有限合夥) (Changxing Xiangyue Corporate Management Partnership (Limited Partnership)*), both are limited partnership established in the PRC by the management staff of Huaqi Intelligent as at the Latest Practicable Date
"IFRS"	International Financial Reporting Standards issued by International Accounting Standard Board
"independent third party(ies)"	person(s) or company(ies) who/which is/are third party(ies) independent of the Company and its connected person
"Latest Practicable Date"	25 January 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Liu"	Mr. Liu Guang* (劉光), a shareholder who directly and indirectly held approximately 27.99% of equity interests in NetPosa as at the Latest Practicable Date
"NetPosa"	東方網力科技股份有限公司 (NetPosa Technologies Limited*), a company established in the PRC with limited liability, and the shares of which are listed on the Shenzhen Stock Exchange (SZSE: 300367)
"Net Profit"	the audited consolidated net profit after taxation arising from the ordinary course of business of Huaqi Intelligent based on the 2019 Audited Accounts, 2020 Audited Accounts or the 2021 Audited Accounts (as the case may be), after deducting extraordinary items and one-off items
"PIS"	the Passenger Information System
"PRC"	the People's Republic of China, for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

"PRC GAAP"	generally accepted accounting principles of the PRC
"Registration"	the registration of the Company (or its nominee) as the registered equity holder of Huaqi Intelligent at the relevant regulatories in the PRC
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Equity"	95% of the equity interests in Huaqi Intelligent
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	the shareholder(s) of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Term Sheet"	the non-legally binding (other than the provisions relating to exclusivity and confidentiality) term sheet dated 22 October 2018 and entered into among the Company, NetPosa, Huaqi Intelligent and Mr. Liu in relation to the Acquisition
"%"	per cent

For the purpose of this circular, unless otherwise specified, conversions of RMB into HK$ are based on the approximate exchange rate of RMB1.00 to HK$1.14.

* *For identification purposes only*

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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1522)

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
Mr. Huang Lixin

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Principal place of business in Hong Kong
Unit 4407, 44/F, COSCO Tower
183 Queen's Road Central
Sheung Wan, Hong Kong

31 January 2019

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE PROPOSED ACQUISITION OF 95% EQUITY INTERESTS IN HUAQI INTELLIGENT

1. INTRODUCTION

Reference is made to the Announcement in relation to the Acquisition.

The purpose of this circular is to provide you with, among other things, (i) details of the Acquisition; (ii) financial information of the Huaqi Group; (iii) notice of EGM; and (iv) other information as required under the Listing Rules.

2. THE ACQUISITION AGREEMENTS

As set out in the Announcement, on 29 November 2018 (after trading hours), among others, the Company, NetPosa, Huaqi Intelligent and Mr. Liu entered into the Acquisition Agreements pursuant to which the Company has conditionally agreed to acquire and NetPosa has conditionally agreed to sell the Sale Equity, being 95% of equity interests in Huaqi Intelligent, at the Consideration of RMB1,045,000,000 (equivalent to approximately HK$1,191,300,000).

The principal terms of the Acquisition Agreements are set out as follows:

Date:	29 November 2018 (after trading hours)
Principal parties:	(1) the Company, as the purchaser;
	(2) NetPosa, as the vendor;
	(3) Huaqi Intelligent; and
	(4) Mr. Liu.

NetPosa is a company established in the PRC with limited liability, and the shares of which are listed on the Shenzhen Stock Exchange (SZSE: 300367). It is principally engaged in research and development, manufacturing and sale of video monitoring and management platforms and provision of related technology services.

As at the Latest Practicable Date, Huaqi Intelligent was a wholly-owned subsidiary of NetPosa, and Mr. Liu is a shareholder who directly and indirectly held approximately 27.99% of equity interests in NetPosa as at the Latest Practicable Date.

The Company may nominate any of its subsidiaries to act as the purchaser in relation to the Acquisition.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of Huaqi Intelligent, NetPosa, its substantial shareholders and their respective beneficial owners (including Mr. Liu) is an independent third party and is not a connected person of the Company and its connected persons.

Subject matter and assets to be acquired

Pursuant to the Acquisition Agreements, the Company has conditionally agreed to acquire and NetPosa has conditionally agreed to sell the Sale Equity, being 95% of equity interests in Huaqi Intelligent, at the Consideration of RMB1,045,000,000 (equivalent to approximately HK$1,191,300,000). Huaqi Intelligent is a company established in the PRC with limited liability. The Huaqi Group is principally engaged in the provision of solutions of automation and information-based systems for transportation applications. It offers products, techniques, system integration, operation services and consultancy for high-speed railway, train, urban rail transit, interurban railway and urban railway in the PRC. Details of the Huaqi Group are set out in the paragraph headed "Information on the Huaqi Group" below.

The Acquisition Agreements do not provide for any change in the composition of the Board after Completion.

Consideration

Pursuant to the Acquisition Agreements, on 29 November 2018 (after trading hours), the Company, BII Zhuoyue, NetPosa, Huaqi Intelligent and Mr. Liu entered into a framework agreement pursuant to which the Company has conditionally agreed to pay NetPosa through BII Zhuoyue a refundable Deposit amounting to RMB418,000,000 (equivalent to approximately HK$476,520,000), subject to the fulfilment of the following conditions:

(i) the Company having completed due diligence review in relation to accounts, valuation, legal compliance and operation of Huaqi Intelligent;

(ii) the execution and delivery of the Acquisition Agreements and ancillary agreements in relation to the Acquisition;

(iii) the Board having passed the relevant resolutions to approve the Acquisition;

(iv) the board of directors of 北京市基礎設施投資有限公司 (Beijing Infrastructure Investment Company Limited*, the controlling Shareholder of the Company) having passed the relevant resolutions to approve the Acquisition;

(v) the Stock Exchange having approved the circular in relation to the Acquisition and determined the Acquisition constituting a very substantial acquisition for the Company under the Listing Rules (and not a reverse takeover);

(vi) NetPosa having registered the charge against the entire equity interests in Huaqi Intelligent in favour of the Company, and such original registration document having been delivered to the Company and BII Zhuoyue; and

(vii) NetPosa having completed all internal procedures in respect of the Acquisition as required in accordance with its articles of association.

In any event if the above condition (iv) has been fulfilled regardless of other conditions having been fulfilled or not, BII Zhuoyue shall pay the Deposit to NetPosa by 7 December 2018. If the Deposit has not been paid to NetPosa by 7 December 2018, the exclusivity clause in the Term Sheet shall terminate. The Deposit was paid by BII Zhuoyue to NetPosa by 7 December 2018.

Pursuant to the Acquisition Agreements, the Deposit shall be refunded to the Company through BII Zhuoyue by NetPosa on the earliest of:

(i) 180 days from the date of payment of the Deposit;

(ii) 10 Business Days from the date on which NetPosa receiving the 1st Payment (as defined below) of the Consideration;

(iii) 20 Business Days from the date on which the Company delivered notice to NetPosa, Huaqi Intelligent or Mr. Liu if NetPosa, Huaqi Intelligent or Mr. Liu has breached any terms in the Acquisition Agreements;

(iv) 180 days from the date of signing of the Acquisition Agreements and Completion has not taken place; and

(v) 20 Business Days from the date of termination of the Acquisition Agreements.

The amount of the Deposit was arrived at after commercial negotiations between the Company and NetPosa in order to secure the exclusive opportunity for the Group to acquire the Sale Equity. The Deposit is fully refundable after the prescribed period, or in any event where the Acquisition has been terminated or Completion has not taken place.

In view of the above, and taking into account that (i) the Deposit is fully refundable after the prescribed period, or in any event where the Acquisition has been terminated or Completion has not taken place; and (ii) the credibility of NetPosa based on its listing status on the Shenzhen Stock Exchange and its latest financial information available to the public, the Board considers that the Deposit will secure the exclusive opportunity for the Group to acquire the Sale Equity which would be beneficial to the Group based on the reasons and benefits as stated under the paragraph headed "Reasons for and benefits of the Acquisition" in this circular. Thus, the Board considers that the Deposit is fair and reasonable, and in the interests of the Company and the Shareholders as a whole. As at the Latest Practicable Date, the Deposit has not been refunded to the Company.

Pursuant to the Acquisition Agreements, the Consideration for the sale and purchase of the Sale Equity is RMB1,045,000,000 (equivalent to approximately HK$1,191,300,000) (subject to downward adjustment), which shall be satisfied by way of cash by the Company to NetPosa in following manners:

(i) as to RMB365,750,000 (equivalent to approximately HK$416,955,000) (the "**1st Payment**"), being 35% of the Consideration, shall be payable to NetPosa within 10 Business Days after, among others, Completion;

(ii) as to RMB418,000,000 (equivalent to approximately HK$476,520,000) (the "**2nd Payment**"), being 40% of the Consideration, shall be payable to NetPosa within 10 Business Days after, among others, the refund of the Deposit by NetPosa to the Company through BII Zhuoyue;

(iii) subject to adjustment, as to RMB73,150,000 (equivalent to approximately HK$83,391,000) (the "**3rd Payment**"), being 7% of the Consideration, shall be payable to NetPosa within 10 Business Days after, among others, the 2019 Audited Accounts with unqualified auditors' opinion shall have been issued;

(iv) subject to adjustment, as to RMB83,600,000 (equivalent to approximately HK$95,304,000) (the "**4th Payment**"), being 8% of the Consideration, shall be payable to NetPosa within 10 Business Days after, among others, the 2020 Audited Accounts with unqualified auditors' opinion shall have been issued; and

(v) subject to adjustment, as to RMB104,500,000 (equivalent to approximately HK$119,130,000) (the "**5th Payment**"), being 10% of the Consideration, shall be payable to NetPosa within 10 Business Days after, among others, the 2021 Audited Accounts with unqualified auditors' opinion shall have been issued.

The above Consideration is subject to adjustment in the following events:

(i) the aggregate amount of the Consideration shall be subject to downward adjustment if the Consideration is greater than the valuation of the Sale Equity which was approved by the State Asset Supervision and Administration Commission of People's Government of Beijing Municipality (北京市人民政府國有資產監督管理委員會) ("**Approved Value**") by more than 10%. Under this situation, the Consideration will be adjusted to 110% of the Approved Value. The Approved Value was RMB1,068.75 million (being 95% of the appraised value of the total equity interests of shareholders of Huaqi Intelligent), hence the aggregate amount of the Consideration would not be adjusted pursuant to this event.

(ii) the 3rd Payment, the 4th Payment and the 5th Payment will be subject to downward adjustment if the Net Profit of Huaqi Intelligent falls short of the Expected Performance Guarantee. Details of the expected performance guarantee and adjustment mechanism are described under the paragraph headed "Expected performance guarantee" in this circular.

The Consideration was determined after arm's length negotiations between the Company and NetPosa after taking into consideration by the Company, among other things, (i) the Expected Performance Guarantee; (ii) the valuation of the Sale Equity; (iii) the reasons and benefits of the Acquisition as stated under the paragraph headed "Reasons for and benefits of the Acquisition" in this circular; and (iv) the prospects of the businesses operated by Huaqi Intelligent. As disclosed above, in the event that the Consideration is greater than the valuation of the Sale Equity as approved by the relevant state-owned assets authority in the PRC by more than 10%, the Consideration will be adjusted downwards to 110% of the valuation of the Sale Equity. The Consideration is agreed to be 10% higher than the valuation of the Sale Equity as the Directors also take into account the Expected Performance Guarantee (as disclosed below) and prospects of the business of the Huaqi Group with its technological capability of producing on-board PIS products which complements the Group's business on PIS control centre system. In the event that the Consideration is lower than the valuation of the Sale Equity, the Group will acquire the Sale Equity at a cost lower than its actual value.

According to the valuation report, the Approved Value amounts to RMB1,068.75 million. The valuation report is prepared and issued by 北京中同華資產評估有限公司 (China Alliance Appraisal Co., Ltd*), the text of which is set out in Appendix V to this circular. In order to select a suitable valuer, the Company has obtained description of experiences and qualifications, introduction materials and fee quotations from several valuers for the purpose of deciding on the appointment of valuer for the Acquisition. The Board took into account factors such as the scope of work of the valuers and their fee quotations, and also considered past work experiences with the Company. The Board considers that China Alliance Appraisal Co., Ltd is suitable to be appointed as the valuer for the Acquisition because they possess relevant qualification and experiences, and with a reasonable and competitive fee quote. China Alliance Appraisal Co., Ltd obtained 證券期貨相關業務評估資格證書 (Securities and Futures Related Business Evaluation Qualification Certificate*) jointly issued by Ministry of Finance and China Securities Regulatory Commission of the PRC in January 2009. The valuers who prepared the valuation report have obtained 資產評估師職業資格證書登記卡 (Asset Appraiser Professional Qualification Certificate Registration Card*) issued by China Appraisal Society. The valuers have more than 10 years of experience in appraisal industry and were involved in many appraisal projects that were relevant to the railway industry. During the past two years, the valuers had worked with the Group and other companies in the railway industry involving asset and share transfer transactions. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the valuers who prepared the valuation report are independent third parties and are not connected persons of the Company and its connected persons.

The valuation was performed by using income approach, as the period and the amount of expected future income of the Huaqi Group can be predicted and measured in monetary terms, and the risk exposure for obtaining the expected future income can also be quantified. The calculations of the valuation involved, among others, (i) discount rate determined by weighted average cost of capital; and (ii) expected free cash flow of the Huaqi Group which was arrived from the sum of net profit, depreciation/amortisation and interest expense after tax, deducting incremental working capital and capitalised expenses. The appraised value of the Sale Equity amounted to RMB1,068.75 million, which was arrived based on, among others, the assumptions that (i) on top of the existing management mode and management level of the Huaqi Group, there will be no material adverse impacts on the Huaqi Group arising from other force majeure and unforeseeable factors; (ii) the existing mode, scope and approach of the Huaqi Group's business management are maintained as present; (iii) the assets of the Huaqi Group are in continuous use according to the present use as well as the mode, size, frequency and circumstances of use; and (iv) the Huaqi Group records a net cashflow during the relevant year. For further details of the valuation report, please refer to Appendix V to this circular.

There was a significant premium of the valuation result compared to the book value of the Huaqi Group because the book value of the Huaqi Group only reflects the value of the Huaqi Group in the accounting perspective including the auditing result of the assets and liabilities of the Huaqi Group. The book value of the Huaqi Group does not take into account (i) the influences which the assets of the Huaqi Group might contribute to its earnings; and (ii) the value of the intangible assets of the Huaqi Group derived from the sales capability, research and development capability, customer resources, leading position in the market, etc.. Based on the above, although there is a premium of the valuation result compared to the book value of the Huaqi Group, the Board considers that the valuation report and the appraised value are fair and reasonable. Given that the Consideration will be determined based on the appraised value of the Sale Equity, the Board considers that the Consideration is fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

Expected performance guarantee

Pursuant to the Acquisition Agreements, on 29 November 2018 (after trading hours), the Company, NetPosa, Huaqi Intelligent, Huaqi Management Team and Mr. Liu entered into the Expected Performance Guarantee Agreement pursuant to which NetPosa and Mr. Liu have irrevocably and unconditionally guaranteed to the Company that the Net Profit of Huaqi Intelligent:

(i) for FY2019 shall be no less than RMB108,000,000 (the "**2019 Guaranteed Performance**");

(ii) for FY2020 shall be no less than RMB129,000,000 (the "**2020 Guaranteed Performance**"); and

(iii) for FY2021 shall be no less than RMB155,000,000 (the "**2021 Guaranteed Performance**").

FY2019:

In the event the 2019 Actual Performance shall be less than 90% of the 2019 Guaranteed Performance, the 3rd Payment payable by the Company to NetPosa shall be adjusted by off-setting the compensation amount payable by NetPosa to the Company in respect of the 2019 Guaranteed Performance (the "**2019 Compensation Amount**"), which will be calculated as follows:

$$\textbf{2019 Compensation Amount} = \frac{\textbf{(2019 Guaranteed Performance – 2019 Actual Performance)}}{\textbf{(2019 Guaranteed Performance + 2020 Guaranteed Performance + 2021 Guaranteed Performance)}} \times \textbf{Consideration}$$

After FY2019, the Company has the right to appoint the auditors to perform impairment testing on the Sale Equity as at the end of FY2019. If the impairment amount of the Sale Equity as at such reference date as determined by the auditors shall be greater than the 2019 Compensation Amount, NetPosa and Mr. Liu shall compensate the Company by cash the amount of such impairment that is in excess of the 2019 Compensation Amount within 30 Business Days from the issuance of such report.

In the event the 2019 Actual Performance shall be equal to or more than 90%, but is less than 100% of the 2019 Guaranteed Performance, the 2019 Guaranteed Performance shall be treated as being fulfilled, but payment of a portion of the 3rd Payment (the "**Deferred 3rd Payment**") shall be deferred to the time when the 5th Payment is payable. The amount of Deferred 3rd Payment shall be calculated as follows:

$$\textbf{Deferred 3rd Payment} = \textbf{3rd Payment} \times \left(1 - \frac{\textbf{2019 Actual Performance}}{\textbf{2019 Guaranteed Performance}}\right)$$

FY2020:

In the event the 2020 Actual Performance shall be less than 90% of the 2020 Guaranteed Performance, the 4th Payment payable by the Company to NetPosa shall be adjusted by off-setting the compensation amount payable by NetPosa to the Company in respect of the 2020 Guaranteed Performance (the "**2020 Compensation Amount**"), which will be calculated as follows:

$$\textbf{2020 Compensation Amount} = \frac{\textbf{(2020 Guaranteed Performance – 2020 Actual Performance)}}{\textbf{(2019 Guaranteed Performance + 2020 Guaranteed Performance + 2021 Guaranteed Performance)}} \times \textbf{Consideration}$$

After FY2020, the Company has the right to appoint the auditors to perform impairment testing on the Sale Equity as at the end of FY2020. If the impairment amount of the Sale Equity as at such reference date as determined by the auditors shall be greater than the 2019 Compensation Amount and the 2020 Compensation Amount in aggregate, NetPosa and Mr. Liu shall compensate the Company by cash the amount of such shortfall within 30 Business Days from the issuance of such report.

In the event the 2020 Actual Performance shall be equal to or more than 90%, but is less than 100% of the 2020 Guaranteed Performance, the 2020 Guaranteed Performance shall be treated as being fulfilled, but payment of a portion of the 4th Payment (the "**Deferred 4th Payment**") shall be deferred to the time when the 5th Payment is payable. The amount of the Deferred 4th Payment shall be calculated as follows:

$$\textbf{Deferred 4th Payment} = \textbf{4th Payment} \times \left(1 - \frac{\textbf{2020 Actual Performance}}{\textbf{2020 Guaranteed Performance}}\right)$$

FY2021:

In the event the 2019 Actual Performance, the 2020 Actual Performance and the 2021 Actual Performance (in aggregate) shall be less than the 2019 Guaranteed Performance, the 2020 Guaranteed Performance and the 2021 Guaranteed Performance (in aggregate), then the 5th Payment payable by the Company to NetPosa shall be adjusted by off-setting the compensation amount payable by NetPosa to the Company (the "**2021 Compensation Amount**"), which will be calculated as follows:

$$\textbf{2021 Compensation Amount} = \frac{\textbf{((2019 Guaranteed Performance + 2020 Guaranteed Performance + 2021 Guaranteed Performance) − (2019 Actual Performance + 2020 Actual Performance + 2021 Actual Performance))}}{\textbf{(2019 Guaranteed Performance + 2020 Guaranteed Performance + 2021 Guaranteed Performance)}} \times \textbf{Consideration}$$

After FY2021, the Company has the right to appoint the auditors to perform impairment testing on the Sale Equity as at the end of FY2021. If the impairment amount of the Sale Equity as at such reference date as determined by the auditors shall be greater than the 2019 Compensation Amount, the 2020 Compensation Amount and the 2021 Compensation Amount in aggregate, NetPosa and Mr. Liu shall compensate the Company by cash the amount of such shortfall within 30 Business Days from the issuance of such report.

For the avoidance of doubt, should the 2019 Compensation Amount and the 2020 Compensation Amount be greater than the 3rd Payment and the 4th Payment, respectively, the Company shall not be required to make payment of the 3rd Payment and the 4th Payment (as the case may be) at the relevant period, and Mr. Liu shall compensate the Company the shortfall. Should the 2021 Compensation Amount be greater than the sum of the 5th Payment, the Deferred 3rd Payment and the Deferred 4th Payment (if any), the Company shall not be required to make payment of the 5th Payment, the Deferred 3rd Payment and the Deferred 4th Payment at the relevant time, and Mr. Liu shall compensate the Company in cash the difference between (i) the 2021 Compensation Amount; and (ii) the sum of 5th Payment, the Deferred 3rd Payment and the Deferred 4th Payment (if any) at the relevant time.

All amount(s) payable to the Company by NetPosa as compensation as set out above shall not exceed the outstanding amount of the Consideration at the relevant time. All amount(s) payable to the Company by Mr. Liu and NetPosa as compensation as set out above in aggregate shall not exceed the Consideration.

The amount of Consideration was arrived at taking into account of, among other things, the guarantee given by NetPosa and Mr. Liu under the Acquisition Agreements that Huaqi Intelligent will achieve certain expected performance in FY2019, FY2020 and FY2021, which could significantly strengthen the income stream of the Group. If Huaqi Intelligent could not achieve the guaranteed performance in FY2019, FY2020 and FY2021, the adjustments to the Consideration by the 2019 Compensation Amount, the 2020 Compensation Amount and the 2021 Compensation Amount will provide mechanisms to reduce the Consideration payable by the Company in proportion to the shortfall of the actual performance from the expected performance of the Huaqi Group at the relevant period. In other words, if the actual performance shall fall short of the Expected Performance Guarantee, the Consideration will be adjusted downwards.

As disclosed above, in the event the 2019 Actual Performance or the 2020 Actual Performance (where applicable) shall be less than the 2019 Guaranteed Performance or the 2020 Guaranteed Performance (where applicable) by 10% or less, the 2019 Guaranteed Performance or the 2020 Guaranteed Performance (where applicable) shall be treated as being fulfilled, but payment of the Deferred 3rd Payment and the Deferred 4th Payment (where applicable) shall be deferred to the time when the 5th Payment is payable. The 10% threshold of profit shortfall was arrived at based on commercial decisions between the parties to the Acquisition Agreements and the expected income of the Huaqi Group during FY2019 and FY2020 based on the Huaqi Group’s existing sale orders. The actual delivery of products/services under the sale orders may be different from the expected time of placement of the sale orders. Considering such factor and through commercial negotiations between the parties to the Acquisition Agreements, the parties arrived at the 10% threshold of profit shortfall for FY2019 and FY2020, and will consider the Expected Guaranteed Performance for FY2019, FY2020 and FY2021 as a whole.

In light of the above and taking into account the factors mentioned under the paragraph headed “Consideration” above in this circular, the Directors consider that the Expected Performance Guarantee and the compensation arrangements are fair and reasonable, and in the interests of the Group and the Shareholders as a whole.

Option to sell

In respect of FY2019 or FY2020, if the 2019 Actual Performance or the 2020 Actual Performance is equal to or greater than the 2019 Guaranteed Performance or the 2020 Guaranteed Performance (as the case may be), Huaqi Management Team shall have the right to request the Company to purchase from them 30% of the equity interests in Huaqi Intelligent held by them as at Completion (being 5%), at a price to be determined as follow:

$$\textbf{Price} = 12.22 \times \textbf{2019 Actual Performance or 2020 Actual Performance (as the case may be)} \times \textbf{Percentage of equity interests in Huaqi Intelligent held by Huaqi Management Team as at Completion (being 5\%)} \times 30\%$$

If the 2019 Actual Performance or the 2020 Actual Performance shall reach 90% or more (but less than 100%) of the 2019 Guaranteed Performance or the 2020 Guaranteed Performance (as the case may be), Huaqi Management Team shall have the right to request the Company to purchase from them 30% of the equity interests in Huaqi Intelligent held by them as at Completion (being 5%) times the proportion of the 2019 Actual Performance or the 2020 Actual Performance (as the case may be) to the 2019 Guaranteed Performance or the 2020 Guaranteed Performance (as the case maybe), at a price to be determined as follow:

$$\textbf{Price} = 12.22 \times \textbf{2019 Actual Performance or 2020 Actual Performance (as the case may be)} \times \textbf{Percentage of equity interests in Huaqi Intelligent held by Huaqi Management Team as at Completion (being 5\%)} \times 30\% \times \frac{\textbf{2019 Actual Performance or 2020 Actual Performance (as the case may be)}}{\textbf{2019 Guaranteed Performance or 2020 Guaranteed Performance (as the case may be)}}$$

If the aggregate of the 2019 Actual Performance, the 2020 Actual Performance and the 2021 Actual Performance is equal to or greater than the 2019 Guaranteed Performance, the 2020 Guaranteed Performance and the 2021 Guaranteed Performance (in aggregate), Huaqi Management Team shall have the right to request the Company to purchase from them all of the remaining equity interests in Huaqi Intelligent then held by them ("**Option A**") at a price to be determined as follows:

$$\textbf{Price} = 12.22 \times \textbf{2021 Actual Performance} \times \textbf{Percentage of equity interests in Huaqi Intelligent then held by Huaqi Management Team}$$

If Huaqi Management Team did not exercise its option to sell as set out above before 31 December 2022, such right to sell can be deferred for one year subject to the fulfilment of performance target to be determined by the board of directors of Huaqi Intelligent in 2022. If Huaqi Management Team did not exercise such option before 31 December 2023, such right to sell can be deferred subject to the fulfilment of performance target to be determined by the board of directors of Huaqi Intelligent in 2022 and 2023, but the latest time to exercise such right shall be 31 December 2024.

If, within six years from Completion, Huaqi Intelligent has not been listed on any of the stock exchanges in the PRC or overseas, and subject to satisfaction of certain financial performance targets including the 2019 Actual Performance, the 2020 Actual Performance and the 2021 Actual Performance in aggregate is equal to or greater than the 2019 Guaranteed Performance, the 2020 Guaranteed Performance and the 2021 Guaranteed Performance in aggregate, the Huaqi Management Team shall have the right to request the Company to purchase all of the equity interests in Huaqi Intelligent held by Huaqi Management Team ("**Option B**") at a price to be determined by the following:

Price	**=**	**12.22**	**x**	**Actual consolidated net profit of Huaqi Intelligent during the year which is the sixth financial year from Completion**	**x**	**Percentage of equity interests in Huaqi Intelligent then held by Huaqi Management Team**

Notwithstanding the above arrangement in relation to the options, the parties agreed that in the event that the 2021 Actual Performance is less than 90% of the 2021 Guaranteed Performance, then Huaqi Management Team shall not be entitled to exercise Option A and Option B.

The 2019 Actual Performance, the 2020 Actual Performance, the 2021 Actual Performance shall be determined according to the audited financial statements of Huaqi Intelligent for each of FY2019, FY2020 and FY2021, which shall be prepared in accordance with IFRS and reported by auditors appointed by the Company.

The parameter of "12.22" in the above formulas was the price-to-earnings multiple of the Huaqi Group which was determined by arm's length commercial negotiation among the parties to the Acquisition Agreements based on, among others, the financial performance of the Huaqi Group. Having discussed with the management of Huaqi Intelligent during the negotiation of the Acquisition, the Board acknowledged (i) the current and potential business performance of the Huaqi Group, including sale contracts and/or memoranda of understanding documents; (ii) sales target of the Huaqi Group for FY2019, FY2020 and FY2021; and (iii) the technological capability of the Huaqi Group for producing high-tech products such as on-board passenger information system. As such, the Directors consider that the abovementioned expected performance guarantee, impairment testing and options were determined after arm's length negotiations between the parties of the Acquisition after taking into account those factors.

The exercise of the abovementioned options are at Huaqi Management Team's discretion subject to the fulfilment of the Expected Performance Guarantee and/or other performance target(s) for the relevant period(s). The granting of such options as part of the Acquisition contemplated under the Acquisition Agreements constitutes a notifiable transaction for the Company under Chapter 14 of the Listing Rules, hence, is subject to Shareholders' approval at the EGM. The Company will by way of announcement update the Shareholders and investors whether the Expected Performance Guarantee is fulfilled as and where appropriate.

Acquisition Conditions Precedent

Completion of the Acquisition shall be conditional upon satisfaction (or where applicable, waiver by the parties to the Acquisition Agreements) of, among other things, the following conditions:

(i) the Company having completed due diligence review in relation to legal compliance, finance and operation of Huaqi Intelligent, and the Company has an extensive knowledge in relation to Huaqi Intelligent;

(ii) NetPosa having passed the resolutions of the board of directors in respect of the Acquisition;

(iii) the sole equity holder of Huaqi Intelligent, namely NetPosa, having passed the relevant resolutions to approve the Acquisition;

(iv) the Company having completed all internal procedures required in accordance with its articles of association, internal regulations and applicable laws and regulations in respect of the Acquisition, including the Board having passed the relevant resolutions to approve the Acquisition;

(v) BII having approved the Acquisition Agreements and the transactions contemplated thereunder;

(vi) the valuation in relation to the Sale Equity having been approved and filed with the relevant state-owned assets authority in the PRC;

(vii) the Company having obtained all necessary approvals and consents from relevant regulatory authorities, including the relevant state-owned assets supervision and administration authority in the PRC and the Stock Exchange, in respect of the Acquisition Agreements and the transaction contemplated thereunder (if applicable); and

(viii) the Shareholders having approved the Acquisition at the EGM in accordance with the Listing Rules and its articles of association.

None of the above Acquisition Conditions Precedent could be waived under the Acquisition Agreements. As at the Latest Practicable Date, conditions (i), (ii), (iii), (iv), (v) and (vi) have been fulfilled.

Completion

Completion shall take place within 20 Business Days after all the Acquisition Conditions Precedent to the Acquisition Agreements have been fulfilled (or, if applicable, waived by the parties to the Acquisition Agreements).

Upon completion of the Registration, the Company will indirectly own 95% equity interest in Huaqi Intelligent. As a result, Huaqi Intelligent will become a non-wholly owned subsidiary of the Company and the financial results of which will be consolidated into the financial statements of the Company.

3. INFORMATION ON THE HUAQI GROUP

Huaqi Intelligent is a company established in the PRC with limited liability in 2010. As at the Latest Practicable Date, NetPosa beneficially owns the entire equity interests of Huaqi Intelligent. Pursuant to the Acquisition Agreements, the Company has conditionally agreed to acquire 95% of the equity interests in Huaqi Intelligent from NetPosa.

Headquartered in Suzhou, the PRC, the Huaqi Group was founded in 2010 and is principally engaged in the provision of solutions of automation and information-based systems for transportation applications. It offers products, techniques, system integration, operation services and consultancy for high-speed railway, train, urban rail transit, interurban railway and urban railway in the PRC. Since 2016, the Huaqi Group has expanded its customer coverage to other countries such as India. As at 30 September 2018, the products of the Huaqi Group were equipped in railways covering more than 20 cities around the world. As at 30 September 2018, there were over 400 employees in the Huaqi Group.

The Huaqi Group operates in the railway transit industry and the railway transit information system market. It possesses the technology to produce on-board passenger information system (車載乘客信息系統) ("**on-board PIS**"), train control and remote diagnosis system and train network control system which are used on trains and railway transits. The on-board PIS is one of the six major information systems used in railway transportation. It acts as a communication medium between passengers and train stations or trains. Other than on-board PIS, the Huaqi Group has developed a variety of high-tech products such as train control and remote diagnosis system, train network control system, subway ground passenger information system, etc.. The Huaqi Group is the market leader in the on-board PIS market in the PRC.

Set out below are the major features of the on-board PIS, which is the major product of the Huaqi Group:

(i) monitoring and surveillance system: which is used for real-time monitoring and surveillance system inside train compartments by surveillance camera. The data obtained from the surveillance system is important for public security purpose and for ensuring passenger safety throughout the train journey;

(ii) broadcast system: which is mainly used for internal communication system inside the train through loudspeakers and phones, and for the control of emergency alarms from passengers;

(iii) passenger information display system: which is mainly used for display system of certain information for passengers inside train compartments and on exterior display screens on the train. The information displayed includes the destination of the journey, temperature outside train, speed of train, etc.; and

(iv) entertainment system: which is mainly used for audio and video playing system of entertainment facilities in first-class and second-class compartments and business class seats in trains.

The Huaqi Group develops, produces and sells on-board PIS to its customers which consists of different types of railway companies (including high-speed railway, train, urban railway, interurban railway) in the PRC and also abroad, and the Huaqi Group also provides after-sales services to its customers.

Financial information of Huaqi Intelligent

Set out below is the audited consolidated financial information of Huaqi Intelligent for the years ended 31 December 2016 and 31 December 2017:

	For the year ended 31 December 2016 *(RMB'000)*	**For the year ended 31 December 2017** *(RMB'000)*
Net profit before taxation	75,754	95,555
Net profit after taxation	65,374	80,993

The audited consolidated net asset value of Huaqi Intelligent was approximately RMB417,561 as at 30 September 2018.

4. REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group integrates investment and finance, research and development of technologies, intelligent railway transportation business and maintenance of application solution services, and implement the industry layout of "giving priority to intelligent railway transportation services and civil communication transmission services and supplementing with new business development through joint ventures and partnership", thereby building a business layout of providing the whole life-cycle service for the development of urban railway transportation. The Group's intelligent railway transportation services provides design, implementation and sale, and maintenance of application solution services, including related software; and the Group has been aiming for scientific and technological innovations such as rail transit cloud platform construction and big data construction and analysis, so as to promote the development of urban rail transit systems from informationised business to intelligent business.

The Huaqi Group is principally engaged in the provision of solutions of automation and information-based systems for transportation applications. It offers products, techniques, system integration, operation services and consultancy for high-speed railway, train, urban rail transit, interurban railway and urban railway in the PRC.

The Directors are of the view that the businesses and operations of the Huaqi Group and the Group are similar. The Huaqi Group principally engages in development, production and sales of on-board PIS, while the Group principally engages in production and sales of application solutions for railway transportations and related software and hardware systems, including the ground PIS. In terms of the nature of products produced by the Huaqi Group and the Group, the Huaqi Group principally engages in development, production and sales of software and hardware combined products, and the Group principally engages in providing integration services for railway transit system. The products produced by both the Huaqi Group and the Group consist of PIS. Further, in terms of application of products produced by the Huaqi Group and the Group, the products produced by both the Huaqi Group and the Group are systems that were used in railway transportation. In particular, the on-board PIS produced by the Huaqi Group is used inside train compartments of various types of railway transportation including high-speed railway, train, urban railway, interurban railway, and the application solutions and ground PIS produced by the Group is used in train stations of urban railway. In addition, in terms of the end customers of the products produced by the Huaqi Group and the Group, the end customers of both the Huaqi Group and the Group partially overlap as the customers for both the Huaqi Group and the Group include urban railway companies operating in Chengdu city, Shenzhen city and Hong Kong. However, the Huaqi Group also serves customers from different parts of the PRC and overseas such as India. In terms of suppliers, the Huaqi Group mainly purchases electronic components and other assembling components (組成部件) from its suppliers which are mainly components manufacturers in the PRC, and it manufactures most of the structural components (構成部件) in its on-board PIS. The Group mainly purchases components from application solution producers in the PRC for assembling its intelligent railway transportation application solution systems, therefore, these components are purchased in a more advanced form for compilation and assembling into these application solution systems. Upon Completion, the Group will cooperate with the Huaqi Group in respect of the software and hardware products for assembling the intelligent railway transportation application solution systems.

Upon completion of the Acquisition, there will be no fundamental change in the Company's principal business. The Directors believe that the Huaqi Group, being the market leader in the on-board PIS market in the PRC and equipped with technical capabilities, can enhance the Group's competitiveness in its intelligent railway transportation business and enable the Group to offer more comprehensive products and solutions to meet the demands of its existing and potential customers, in particular, the provision of integrated products and services from ground PIS to on-board PIS. The Company believes that the Acquisition will also enable the Group to provide technological capability of producing on-board PIS obtained from the Huaqi Group. The Group considers the Acquisition can complement the Group's development strategy regarding its intelligent railway transportation operations, which is in line with the "13th Five-Year Plan" and the national strategy of the "Belt and Road Initiative". It is expected that the Acquisition will contribute positively to the Group's market share in railway transportation systems in the PRC and enable the Group to expand its business to other countries in the world.

It is expected that upon Completion, the Huaqi Group's business will be integrated into the Group's business in the following aspects:

1. Technological capabilities: the Huaqi Group is a market leader in the on-board PIS market in the PRC and is equipped with strong technical capabilities in this field, while the Group has rich experience and technical capabilities in the production of railway transportation systems including the ground PIS. Therefore, upon Completion, there can be an integration and exchange of technical capabilities between the Huaqi Group and the Group, resulting in improvement and advancement in the technical capabilities of both of them.

2. Products: As set out above, in terms of the nature of products produced by the Huaqi Group and the Group, the Huaqi Group principally engages in development, production and sales of software and hardware combined products, while the Group is principally engaged in providing integration services for railway transit system. Upon Completion, the Group will cooperate with the Huaqi Group in respect of the software and hardware products for assembling the intelligent railway transportation application solution systems. It is expected that the products produced by the Huaqi Group and the Group will be able to cover a wider range along the production chain of application solutions and/or PIS.

3. Customers: As set out above, since both the Huaqi Group and the Group produce systems which are used in railway transportation, they both share similar types of end customers. Upon Completion, the Company believes that the Group's customer base can be expanded to cover different types of railway companies in the PRC and abroad. The Group will be able to provide a larger variety of products to its existing and potential customers with the Group's existing products and the Huaqi Group's products, in particular, the provision of integrated products and services from ground PIS to on-board PIS, thereby increasing the competitiveness of both the Group and the Huaqi Group.

4. After-sales services: As at the Latest Practicable Date, the Huaqi Group has more than 40 after sales service centres in the PRC and abroad, while the Group is engaged in, among others, provision of maintenance of application solutions services to its customers. Upon Completion, it is expected that the Huaqi Group and the Group will be able to share its resources in providing after-sales and maintenance services to their customers, thereby enhancing their efficiency and quality of services to be provided to their customers.

Further, through the Acquisition, the Group can acquire the well-established businesses of the Huaqi Group with positive financial performance during the three years ended 31 December 2017 and nine months ended 30 September 2018. It is expected that income from the Huaqi Group could enrich the Group's income stream and promote growth in its revenue and profits which will be beneficial to the Shareholders. With the above reasons, the Group considers that the Acquisition is beneficial to and in the interests of the Group and the Shareholders as a whole.

5. FINANCIAL EFFECTS OF THE ACQUISITION OF THE HUAQI GROUP

Upon Completion, Huaqi Intelligent will become a controlled subsidiary of the Company. As such, the assets, liabilities and results of the Huaqi Group will be consolidated into the Company after Completion.

Appendix IV to this circular presents the unaudited pro forma financial information of the Enlarged Group and describes the basis of preparation thereof.

(i) Earnings

Assuming that Completion had taken place on 30 June 2018, the unaudited pro forma net profit attributable to equity shareholders of the Company for the year ended 31 December 2017 of the Enlarged Group will increase from approximately HK$38.6 million to HK$108.4 million as indicated in the unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Enlarged Group contained in Appendix IV to this circular. Further details on the unaudited pro forma financial information of the Enlarged Group is set out in Appendix IV to this circular.

(ii) Assets and liabilities

Assuming that Completion had taken place on 30 June 2018, the unaudited pro forma total assets of the Enlarged Group as at 30 June 2018 will increase from approximately HK$2,646.4 million to approximately HK$3,435.6 million and total liabilities will increase from approximately HK$455.1 million to approximately HK$1,217.2 million as indicated in the unaudited pro forma consolidated statement of financial position of the Enlarged Group contained in Appendix IV to this circular.

LISTING RULES IMPLICATIONS

As certain applicable percentage ratios in respect of the Acquisition exceed 100%, the Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and therefore the Company is subject to reporting, announcement and Shareholders' approval requirements.

As set out in the paragraph headed "Option to sell" above, the granting of options as part of the Acquisition contemplated under the Acquisition Agreements constitutes a notifiable transaction for the Company under Chapter 14 of the Listing Rules, hence, is subject to Shareholders' approval at the EGM.

THE EGM

The EGM will be held at Conference Room, 9/F., 3rd Building, Jingtou Plaza, No. 6 Xiaoying North Road, Chaoyang District, Beijing, the People's Republic of China on Monday, 25 February 2019 at 2:00 p.m., during which resolution will be proposed to the Shareholders to consider and, if thought fit, to approve the Acquisition Agreements and the transactions contemplated thereunder.

The notice of the EGM is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is enclosed. Whether or not the Shareholders are able to attend the EGM, the Shareholders are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the office of the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the EGM or any adjournment thereof should the Shareholders so wish.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder is required to abstain from voting on the resolution to be proposed at the EGM.

The resolution proposed to be approved at the EGM will be taken by poll and an announcement will be made by the Company after the EGM on the poll results of the EGM.

RECOMMENDATIONS

The Board is of the opinion that the Acquisition Agreements and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole and recommends the Shareholders to vote in favour of resolution proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By Order of the Board
BII Railway Transportation Technology Holdings Company Limited
Xuan Jing
Executive Director and Chief Executive Officer

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for the year ended 31 December 2015, the year ended 31 December 2016, the year ended 31 December 2017 and the six months ended 30 June 2018 are disclosed on pages 49-116 of the 2015 annual report published on 7 April 2016, pages 64-136 of the 2016 annual report published on 21 April 2017, pages 80-152 of the 2017 annual report published on 26 April 2018, and pages 4-67 of the 2018 interim report published on 7 September 2018 respectively, which are published on both the website of the Stock Exchange (http://www.hkex.com.hk) and the website of the Company (http://english.biitt.cn/Shareholders-5). Please refer to the hyperlinks as stated below:

2015 annual report:

http://www3.hkexnews.hk/listedco/listconews/SEHK/2016/0407/LTN20160407701.pdf

2016 annual report:

http://www3.hkexnews.hk/listedco/listconews/SEHK/2017/0421/LTN201704211356.pdf

2017 annual report:

http://www3.hkexnews.hk/listedco/listconews/SEHK/2018/0426/LTN201804261321.pdf

2018 interim report:

http://www3.hkexnews.hk/listedco/listconews/SEHK/2018/0907/LTN20180907515.pdf

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 30 November 2018, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group had outstanding indebtedness totaling HK$485,352,000 as set out below:

	HK$'000
Bank loans	
Guaranteed and unsecured *(Note)*	34,294
Unguaranteed and unsecured	112,763
	147,057
Other borrowing	
Unguaranteed and unsecured	338,295
Total	485,352

Note: These bank loans of the Huaqi Group were guaranteed by 寧波銀行 (Bank of Ningbo*).

Save as disclosed above or as otherwise disclosed herein, the Enlarged Group did not have any debt securities issued and outstanding or agreed to be issued, bank borrowings or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities as at 30 November 2018, being the latest practicable date for the purpose of this indebtedness statement.

3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2017, being the date to which the latest published audited financial statements of the Group were made up.

4. SUFFICIENCY OF WORKING CAPITAL

The Directors, after due and careful enquiries, are of the opinion that following the Completion and after taking into account the Enlarged Group's internal resources, cash flow from operations, facilities available to the Enlarged Group, the Enlarged Group has sufficient working capital to satisfy its requirements for at least the next 12 months following the date of the Latest Practicable Date, in the absence of unforeseeable circumstances.

5. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

As set out in the 2018 interim report of the Company, the Group will continue to sharpen its own core competitiveness and with the aim of scientific and technological innovation, to increase research and development efforts, and actively develop businesses such as rail transit cloud platform construction, big data construction and analysis, and biometric system construction so as to promote the development of urban rail transit systems from informationised business to intelligent business and strive to provide professional technical support and services for the network operation of urban rail transit in Beijing and the entire nation. At the same time, the Group will use the subway civil communication transmission network to promote the new era of interconnected metro information technology. The Group will improve its profitability and risk resistance through a diversified business structure and continue to expand its customer base.

In view of the potential future prospects offered by the Acquisition as set out in the section headed "Reasons for and benefits of the Acquisition" in the "Letter from the Board" in this circular, the Directors are optimistic regarding the potential benefits and business synergies that the Acquisition will bring to the Enlarged Group. It is expected that the income from the Huaqi Group could enrich the Group's income stream and promote growth in its revenue and profits which will be beneficial to the Shareholders.

6. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis of the results of the Group for each of the financial years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2018. The information is extracted from the annual reports and interim report of the Company for the relevant financial years. The management discussion and analysis should be read in conjunction with the financial information of the Group included in the respective annual reports and interim report of the Company.

A. Management discussion and analysis for the six months ended 30 June 2018

BUSINESS REVIEW

The year of 2018 is the year of the implementation of the 13th Five-Year Plan, and it is also a crucial year for the vigorous development of rail transit. According to the statistics of China Rail Transit Network, as of the first half of 2018, the number of urban rail transit projects under construction in the PRC reached 233, distributed in 69 cities including Chengdu, Beijing, Guangzhou and Hangzhou, with a total mileage of 6,018.29 kilometres and 4,003 stations. The total investment amount is as high as RMB3.62 trillion. In the first half of 2018, the total passenger flow of Beijing railway transit network was approximately 1.838 billion, representing an increase of 14 million or approximately 0.76% as compared to 1.824 billion in the corresponding period of 2017, and the average daily passenger flow reached 10,154,400.

In the first half of 2018, the Group firmly grasped the development opportunity of urban rail transit construction, and solidified its basic business to actively expand the line system service projects such as Beijing subway Line 6, Line 9, Line 14, Pinggu Line, Xijiao Line and the others and the maintenance of AFC of the Kowloon Motor Bus Co. (1933) Ltd (九龍巴士（一九三三）有限公司) ("**KMB**"). The Group also actively explored new business and successively won the Beijing World Expo Association Gallery Support System Project, the New Airport Line Expressway Toll System Project, the PIS Project of Nanning Metro Line 3, and the Zhengzhou Rail Transit Project of Automatic Fare Collection Network Control Centre System.

During the first half of 2018, the Group's businesses mainly focused on three business segments: firstly, intelligent railway transportation services; secondly, civil communication transmission services; thirdly, business development investment. The respective descriptions of the three related business segments are set out as follows:

Intelligent railway transportation services

Intelligent railway transportation services mainly represent, among others, design, testing, installation, debugging, integration, upgrading and replacement of railway transportation application solutions and associated systems; sale of self-developed software products relating to railway transportation application solutions; sale of hardware and spare parts relating to railway transportation application solution systems; repair and maintenance of application solution systems developed by the Group as well as other software developers. During the six months ended 30 June 2018, the Group's revenue from intelligent railway transportation was mainly derived from the intelligent card maintenance project for Citybus Limited (城巴有限公司) ("**CTB**") and New World First Bus Services Limited (新世界第一巴士服務有限公司) ("**NWFB**"), Surveillance Centre Project of Phase II Beijing Fare Renovation Project of Beijing Metro Network Administration Co., Ltd* (北京軌道交通路網管理有限公司) ("**Beijing Metro Network**"), the Automatic Fare Collection System Clearing Centre Project for Phase I of the No.1 line of Changchun Subway, the operation and maintenance of production systems and technology service project for Beijing Metro Network, the project of replacing the AFC Ticket Checking Machines in the stations and platforms of Light Rail of MTR Corporation Limited (香港鐵路有限公司), and the suburb railway project in Beijing.

Civil communication and transmission services

Civil communication transmission services mainly represent the provision of communication information transmission services to mobile operators. During the first half of 2018, the Group's revenue from the business of civil communication transmission services was mainly derived from the 2G, 3G and 4G transmission services of civil communication transmission systems set up in 180 stations of 17 subway lines of the Beijing Subway and the 4G transmission services of the new subway line – Phase II of Changping line. Civil communication transmission services business will continue to bring stable income to the Group in the future.

Business development investment

Business development investment mainly represents equity investment, new business development through investing in joint ventures and associates and the acquisition of investment income through equity participation. During the first half of 2018, the Group's revenue from business development investment was mainly derived from 北京京城地鐵有限公司 (Beijing Metro Co., Ltd.*) ("**Beijing Metro**") and 北京地鐵科技發展有限公司 (Beijing Metro Science and Technology Development Co., Ltd.*) ("**Metro Science and Technology**"), both are joint ventures of the Group. Beijing Metro, a joint venture, completed the acquisition of the 30-year operating income right of the Beijing Subway Airport Express Line and floors two to six of Dongzhimen Terminal, and recorded a substantial increase in revenue as compared to the corresponding period of the previous year while Metro Science and Technology also posted a significant increase in revenue as compared to the corresponding period of previous year due to the further development of business.

FINANCIAL REVIEW

The Group's revenue decreased by approximately 36% from approximately HK$214.7 million for the six months ended 30 June 2017 to approximately HK$137.2 million for the six months ended 30 June 2018, while the Group's cost of sales decreased by approximately 37% from approximately HK$159.2 million for the six months ended 30 June 2017 to approximately HK$99.9 million for the six months ended 30 June 2018, resulting in a decrease in the Group's gross profit by approximately 33% from approximately HK$55.5 million for the six months ended 30 June 2017 to approximately HK$37.3 million for the six months ended 30 June 2018.

Taking into account the effects of other revenue, other net loss, overhead expenses, investment gain and loss, income tax and non-controlling interests, the net profit attributable to equity shareholders of the Company increased by approximately 10% from approximately HK$17.5 million for the six months ended 30 June 2017 to approximately HK$19.3 million for the six months ended 30 June 2018.

Revenue

The Group recorded revenue of approximately HK$68.1 million from intelligent railway transportation services for the six months ended 30 June 2018, representing a decrease of approximately 57% as compared to approximately HK$158.5 million for the six months ended 30 June 2017. Certain projects which will greatly affect the revenue of the Group will be centrally recognised during the second half year of 2018 based on the specific progress requirements of the projects, including, among others, Smart Card Renovation Project of Beijing-Tianjin-Hebei, Phase III of AFC Project of Beijing Line No. 8 of Beijing Subway Project and Inspection Centre Renovation Project.

The Group recorded revenue of approximately HK$69.0 million from civil communication transmission service for the six months ended 30 June 2018, representing an increase of approximately 23% as compared to approximately HK$56.2 million for the six months ended 30 June 2017. The increase was mainly attributable to fluctuation of exchange rate and the revenue contributed by the additional 4G transmission service from the civil communication assets of four subway lines acquired by the Group in November 2016.

Cost of sales

The Group's cost of sales decreased by approximately 37% from approximately HK$159.2 million for the six months ended 30 June 2017 to approximately HK$99.9 million for the six months ended 30 June 2018. The Group's revenue was mainly generated from the provision of system integration related application solution services, and provision of operation and maintenance and civil communication transmission services, of which the costs were mainly related to equipment procurement, direct labour force, and maintenance cost and depreciation of civil communication transmission systems. The decrease in cost of sales was mainly due to the decrease in sales revenue.

Gross profit

The Group's gross profit decreased by approximately 33% from approximately HK$55.5 million for the six months ended 30 June 2017 to approximately HK$37.3 million for the six months ended 30 June 2018. The decrease in gross profit for the six months ended 30 June 2018 as compared to the corresponding period in 2017 was mainly due to the decrease in revenue while change in the overall gross profit margin was minor as compared to the corresponding period of the previous year.

Investment income

The Group recorded an increase in investment income of approximately HK$9.6 million from a loss of approximately HK$5.9 million for the six months ended 30 June 2017 to approximately HK$3.7 million for the six months ended 30 June 2018. The investment income was mainly derived from the joint ventures, namely Beijing Metro and Metro Science and Technology. The increase in investment income of Beijing Metro as compared to the corresponding period of the previous year was mainly attributable to the fact that Beijing Metro completed the acquisition of the 30-year operating income right of the Beijing Subway Airport Express Line and floors two to six of Dongzhimen Terminal, which brought significant increase in income, and Metro Science and Technology recorded a significant increase in income as compared to the corresponding period of the previous year, which was due to the further development of its businesses.

Selling, general and administrative expenses

The Group's selling, general and administrative expenses increased by approximately 37% from approximately HK$31.1 million for the six months ended 30 June 2017 to approximately HK$42.5 million for the six months ended 30 June 2018. Such increase was mainly attributable to the increase in investment in research and development.

Profit attributable to equity shareholders of the Company

The Group's profit attributable to equity shareholders of the Company increased by approximately 10% from approximately HK$17.5 million for the six months ended 30 June 2017 to approximately HK$19.3 million for the six months ended 30 June 2018.

Liquidity, financial and capital resources

Capital structure

As at 30 June 2018, the Company's total number of issued shares was 2,104,786,727 ordinary shares of HK$0.01 each (31 December 2017: 2,104,786,727 ordinary shares of HK$0.01 each).

Cash position

As at 30 June 2018, the Group's cash and cash equivalents amounted to approximately HK$1,106.0 million (31 December 2017: approximately HK$1,128.8 million).

Bank borrowings and charges on the Group's assets

As at 30 June 2018, the Group had no bank borrowings or charges on assets (31 December 2017: Nil).

Working capital and gearing ratio

As at 30 June 2018, the Group had current assets of approximately HK$1,915.6 million (31 December 2017: HK$1,981.9 million), while its current liabilities were approximately HK$434.7 million (31 December 2017: HK$474.8 million), resulting in net current assets of approximately HK$1,480.9 million (31 December 2017: HK$1,507.1 million). As at 30 June 2018, current ratio, calculated based on current assets divided by current liabilities, was approximately 4.4 (31 December 2017: approximately 4.2). As at 30 June 2018, the Group had neither bank borrowings, long term debts nor trade payables incurred in the ordinary course of business, thus the gearing ratio was nil (31 December 2017: Nil).

Foreign exchange exposure

The Group has four main operating subsidiaries, among which, one main operating subsidiary is located in Hong Kong and the other three main operating subsidiaries are located in the PRC. All subsidiaries earn revenue in their local currencies. The Directors consider the impact of foreign exchange exposure of the Group is minimal.

Contingent liabilities

As at 30 June 2018, the Group had no material contingent liabilities (31 December 2017: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2018, the Group had 298 employees (30 June 2017: 301). As at 30 June 2018, the total staff costs, including Directors' remuneration, were approximately HK$46.8 million (for the six months ended 30 June 2017: HK$38.5 million).

Remuneration package is reviewed by the Group annually with reference to market conditions and the performance, qualification and experience of individual employee. In addition to basic salaries, bonuses will be paid based on the Group's performance and the contribution of individual employee. Other staff benefits include share options, contributions to the PRC social insurance scheme, contributions to Hong Kong Mandatory Provident Fund scheme and insurance. The Group also organises professional and vocational training for its employees.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES, AND PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

On 28 February 2018, BII Zhuoyue, a subsidiary of the Company, jointly established a joint venture, namely 北京京投信安科技發展有限公司 (BII Xin An Technology Development Company Limited*) ("**BII Xin An**"), with 珠海市同海科技股份有限公司 (Zhuhai Tonghai Technology Holdings Company Limited*) ("**Tonghai Technology**") and 北京通建泰利特智能系統工程技術有限公司 (Beijing Tong Jian Tai Li Te Intelligence System Engineering Technology Company Limited*) ("**Tong Jian Tai Li Te**"), with a registered capital of RMB10 million. BII Zhuoyue contributed RMB5.1 million with a shareholding of 51.0% while each of Tonghai Technology and Tong Jian Tai Li Te contributed RMB2.45 million with shareholding of 24.5% respectively. The establishment of BII Xin An will assist the Group in commencing information security and intelligent businesses, thereby accelerating the construction of intelligent railway transportation.

Save as disclosed above, there were no other significant investments, material acquisitions or disposals of subsidiaries and affiliated companies, or other plans for material investments or capital assets during the six months ended 30 June 2018.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (for the six months ended 30 June 2017: Nil). The Group will retain cash to finance the continuing development of its business as well as prospective investment opportunities.

BUSINESS PROSPECTS

In the second half of 2018, Beijing will continue to promote the construction of the public transportation system which mainly focused on rail transit, and plans to open three new rail transit lines during the year. The total operating mileage is expected to reach 630 kilometres or more and the total mileage of suburban railway is expected to reach 238 kilometres.

In the second half of 2018, the Group will continue to adhere to the market expansion direction that anchored in Beijing and Hong Kong while extending throughout the nation and gradually implementing the industry layout of "Giving Priority to Intelligent Railway Transportation Services and Civil Communication Transmission Services and Supplementing by New Business Development Through Joint Ventures and Partnership". While the Group further enhances the construction of Beijing rail transit network services and new lines as the base, it continues to expand Beijing's underground utility tunnel business and expressway business with rail transit construction. Based on the experience of Beijing rail transit, the Group will also carry out in-depth information exchange with partners across the country, open up the national business layout, and contribute to the innovation and development of urban rail transit technology.

In the future, the Group will continue to sharpen its own core competitiveness and with the aim of scientific and technological innovation, to increase research and development efforts, and actively develop businesses such as rail transit cloud platform construction, big data construction and analysis, and biometric system construction so as to promote the development of urban rail transit systems from informationised business to intelligent business and strive to provide professional technical support and services for the network operation of urban rail transit in Beijing and the entire nation. At the same time, the Group will use the subway civil communication transmission network to promote the new era of interconnected metro information technology. The Group will improve its profitability and risk resistance through a diversified business structure and continue to expand its customer base.

B. Management discussion and analysis for the year ended 31 December 2017

OPERATION REVIEW

During FY2017, the Group's businesses mainly focused on three business segments: firstly, intelligent railway transportation services; secondly, civil communication transmission services; thirdly, business development investment. The respective descriptions of the three related business segments are set out as follows:

Intelligent railway transportation services

Intelligent railway transportation services mainly represent, among others, design, testing, installation, debugging, integration, upgrading and replacement of railway transportation application solutions and associated systems; sale of self-developed software products relating to railway transportation application solutions; sales of hardware and spare parts relating to railway transportation application solution systems; repair and maintenance of application solution systems developed by the Group as well as other software developers. During FY2017, in addition to projects which have started to develop since the previous financial years, the Group's revenue from intelligent railway transportation was also derived from several new projects, which mainly include the Multiple Line Centre ("**MLC**") Project under the Phase II Technical Renovation Project of the AFC) of Railway Transportation in Beijing ("**Phase II Beijing Fare Renovation Project**"), Rail Transit Ticket Processing Unit Renewal Project, Smart Card Renovation Project of Beijing-Tianjin-Hebei, the Surveillance Centre Construction Project and ACC Renovation Project of Beijing Metro Network.

Civil communication transmission services

Civil communication transmission services mainly represent the provision of communication information transmission services to mobile operators. During FY2017, the Group's revenue from the business of civil communication transmission services was mainly derived from the 2G, 3G and 4G transmission services of civil communication transmission systems set up in 180 stations of 17 subway lines of the Beijing Subway. The Group has successfully entered into 4G information transmission service agreements for the existing lines with China Mobile Group Beijing Co., Ltd (中國移動通信集團北京有限公司) and China United Network Communications Corporation, Beijing Branch (中國聯合網絡通信有限公司北京市分公司) and successfully signed the 4G communication transmission service agreements for the new subway line, the Phase II Changping Line, with the above two telecommunication operators. In terms of new areas of development, by taking advantage of the highly secured and comprehensive coverage of the subway fiber optic, the Group has entered into information transmission service agreement with Beijing Information Construction in 2017. Civil communication transmission services business will continue to bring continuous stable income to the Group in the future.

Business development investment

Business development investment mainly represents equity investment, new business development through investing in joint ventures and associates and the acquisition of investment income through equity participation. During FY2017, the Group's revenue from business development investment was mainly derived from Beijing Metro and Metro Science and Technology, both are joint ventures of the Group. During this financial year, Beijing Metro, a joint venture, completed the acquisition of the 30-year operating income right of the Beijing Subway Airport Express Line and floors two to six of Dongzhimen Terminal, and recorded a substantial increase in revenue as compared to the previous financial year while Metro Science and Technology also posted a significant increase in revenue as compared to the previous financial year due to the further development of business.

FINANCIAL REVIEW

Revenue

The Group recorded an increase in revenue by approximately 17.8% from approximately HK$479.3 million for FY2016 to approximately HK$564.6 million for FY2017. Such increase in revenue was mainly attributable to the inclusion of revenue from Phase II Beijing Fare Renovation Project, Surveillance Centre Project of Beijing Metro

Network, ACC System Renovation project, Chengdu Subway Lines Coordination and Command Centre ("**COCC**") Project, Beijing S1 Line Station Platform Door Project and Line No. 2 Platform Door Project.

Revenue derived from the provision of system integration and operation and maintenance of application solution services by intelligent railway transportation services recorded an increase of approximately 22.3%, from approximately HK$368.1 million for FY2016 to approximately HK$450.1 million for FY2017. The increase was mainly due to the recognition of revenue in stage of certain projects under intelligent railway transportation services including recognition of revenue from Phase II Beijing Fare Renovation Project, Chengdu Subway COCC project, Beijing S1 Line Station Platform Door Project and Line No. 2 Platform Door Project.

Revenue arising from civil communication transmission services recorded an increase of approximately 3.0% from approximately HK$111.2 million for FY2016 to approximately HK$114.5 million for FY2017. The increase of this segment was mainly due to the revenue derived from the provision of transmission services from the civil communication assets acquired by the Group in November 2016.

Cost of sales

The Group recorded an increase in cost of sales by approximately 20.3% from approximately HK$375.3 million for FY2016 to approximately HK$451.3 million for FY2017. During the period under review, the Group generated its revenue mainly from the provision of intelligent railway transportation services and civil communication transmission services and costs of the two business segments were mainly related to equipment procurement cost, direct labour cost, maintenance cost and depreciation of civil communication equipment. The increase in cost of sales during the year was mainly due to the increase in the relevant cost of intelligent railway transportation services business which is in line with the increase in revenue, and the full-year recognition of the operating cost of the civil communication assets acquired in November 2016 during FY2017.

Gross profit

The Group recorded an increase in gross profit by approximately 8.9% from approximately HK$104.0 million for FY2016 to approximately HK$113.3 million for FY2017. The increase in gross profit as compared to the corresponding period of 2016 was mainly due to increase in revenue.

Investment income

The Group recorded an increase in income investment of approximately HK$11.4 million from approximately HK$0.1 million for FY2016 to approximately HK$11.5 million for FY2017. The investment income was mainly derived from the joint ventures, namely Beijing Metro and Metro Science and Technology, and the increase in investment income as compared to the corresponding period of 2016 was mainly attributable to the fact that these two joint ventures were both officially incorporated in February 2016 and underwent further development in 2017. Beijing Metro completed the acquisition of the

30-year operating income right of the Beijing Subway Airport Express Line and floors two to six of Dongzhimen Terminal during the year which brought significant increase in income to Beijing Metro, and Metro Science and Technology recorded a significant increase in income due to the further development of its businesses.

Selling, general and administrative expenses

The Group's selling, general and administrative expenses increased by approximately 9.9% from approximately HK$77.8 million for FY2016 to approximately HK$85.5 million for FY2017. Such increase was mainly due to the increase in labour cost.

Profit attributable to equity shareholders of the Company

The Company's profit attributable to equity shareholders of the Company increased by approximately 50.2% from approximately HK$25.7 million for FY2016 to approximately HK$38.6 million for FY2017. Such increase was mainly due to the relevant increase in revenue and investment income as compared to the corresponding period of 2016.

Liquidity, financial and capital resources

Capital structure

As at 31 December 2017, the Company's issued share capital consisted of 2,104,786,727 ordinary shares of HK$0.01 each (31 December 2016: 2,106,154,727 ordinary shares of HK$0.01 each).

Cash position

As at 31 December 2017, the Group's cash and cash equivalents were approximately HK$1,128.8 million (31 December 2016: approximately HK$1,118.4 million).

Bank borrowings and charges on the Group's assets

During FY2017, the Group has no bank borrowings and charges on assets (2016: Nil).

Working capital and gearing ratio

As at 31 December 2017, the Group had current assets of approximately HK$1,981.9 million (31 December 2016: approximately HK$1,840.6 million), while its current liabilities were approximately HK$474.8 million (31 December 2016: approximately HK$354.1 million), resulting in net current assets of approximately HK$1,507.1 million (31 December 2016: approximately HK$1,486.5 million). As at 31 December 2017, the current ratio, calculated based on current assets divided by current liabilities, was approximately 4.2 (31 December 2016: approximately 5.2).

Gearing ratio is calculated based on total debts at the end of a period divided by total assets at the end of such period multiplied by 100%. As at 31 December 2017, as the Group had no bank borrowings, long term debts or trade payables incurred not in the ordinary course of business and the gearing ratio was nil (31 December 2016: Nil).

Foreign exchange exposure

The Group has four main operating subsidiaries, among which, one main operating subsidiary is located in Hong Kong and the other three main operating subsidiaries are located in the PRC. All subsidiaries earn revenue in their local currencies. The Directors consider the impact of foreign exchange exposure of the Group is minimal.

Contingent liabilities

As at 31 December 2017, the Group did not have any material contingent liabilities (31 December 2016: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, the Group employed a total of 292 employees (31 December 2016: 297). The total staff costs, including Directors' remuneration, were approximately HK$101.0 million (FY2016: HK$80.8 million). The increase in total staff cost in 2017 is mainly attributable to the rise in salary of staff and the increase in bonus and other benefits due to the improvement in results.

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 option, contribution to social insurance scheme in China, contribution to the Mandatory Provident Fund scheme and insurances in Hong Kong. The Group also organised professional and vocational trainings for its employees.

SIGNIFICANT INVESTMENTS HELD AND FUTURE PLANS

Beijing Metro, a joint venture of the Company, is a new exploration of the Group to expand the operation and management business of city railway transportation network. Beijing Metro contributed a net profit of HK$8.1 million to the Group during FY2017, representing an increase of HK$9.0 million as compared to a net loss of HK$0.9 million during FY2016, achieving a turnaround. Beijing Metro successfully acquired the 30-year operating income right of the Beijing Subway Airport Express Line and floors two to six of Dongzhimen Terminal in May 2017 and became the official operator of Beijing Subway Airport Express Line. In June 2017, the Company secured the Public-Private Partnership ("**PPP**") project of Line T2 of tramcar in Shunyi District, Beijing, by way of joint bid; in February 2018, the Company secured the PPP project of Line 4 of Dalian Metro. Beijing Metro is the subway operator jointly established by the Company and Beijing Subway Operation, which strives to enhance its comprehensive strength and market competitiveness through advanced technology and scientific management, aiming to become an outstanding domestic provider of metro operation and management with investment and financing capabilities.

Metro Science and Technology, a joint venture of the Company, represents a new attempt of the Group to expand the business of operation security, maintenance and repair management of city railway transportation. Metro Science and Technology contributed a net profit of HK$6.4 million to the Group for FY2017, representing an increase of HK$5.4 million as compared to HK$1.0 million for FY2016, through active expansion of business and annual increase in overall income and level of profitability. The improvement in results is mainly derived from the maintenance and substantial repair services for a total of 15 routes, including Beijing Railway Line 1 and Line 2. Jointly established by China City Railway Transportation Technology Investment Company Limited (中國城市軌道交通科技投資有限公司) ("**CCRTT Investments**"), a subsidiary held as to 70% indirectly by the Company, and Beijing Subway Operation Co., Ltd, Metro Science and Technology is a provider of Beijing subway operation security, maintenance and repair services.

北京基石創盈投資中心(有限合夥) (Beijing Cornerstone Chuangying Investment Centre (Limited Liability Partnership*) ("**Cornerstone Chuangying**"), a joint venture of the Company, is a new experience for the Group to expand the business of city railway transportation internet ticketing service. As its investment in internet projects is still at the early stage and the input is relatively substantial during the start-up period, Cornerstone Chuangying caused a loss of approximately HK$3.1 million to the Group in 2017. The "Easy Pass" (易通行) Application ("**Easy Pass APP**") introduced by Beijing Ruubypay Science and Technology Co., Ltd* (北京如易行科技有限公司), which was invested by Cornerstone Chuangying, was put into trial operation in Beijing Subway Airport Express Line on 20 August 2017, where online ticket purchase and in-station ticket collection services were made available in four stations of the Airport Express Line. On 1 September 2017, the trial operation of online ticket purchase and in-station ticket collection services was extended to 20 subway stations with large passenger flow. On 20 September 2017, station entry and exit services with a QR code scan was on trial at Beijing Subway Airport Express Line. On 23 December 2017, online ticket purchase, in-station ticket collection services were made available at all subway lines, offering a new experience of using internet ticket and convenient services to citizens and passengers. As of March 2018, the Easy Pass APP had been downloaded 6.29 million times with registered users reaching 1.5 million. Cornerstone Chuangying was established on 10 January 2017 as a private equity investment fund jointly set up by BII Zhuoyue, a subsidiary of the Company, ICBC Credit Suisse Investment Management Co., Ltd. ("**ICBC Credit Suisse**"), 鵬博士電信傳媒集團股份有限公司 (Dr. Peng Telecom & Media Group Co., Ltd.*) ("**Dr. Peng Group**"), Shenzhen Ever-Rising Industrial Group Co., Ltd. ("**Ever-Rising Industrial**"), 北京通靈通電訊技術有限公司 (Beijing Tonglingtong Telecom Technodogy Co., Ltd.*) ("**Tonglingtong**") and 北京基石創盈投資管理中心(有限合夥) (Beijing Cornerstone Chuangying Investment Management Centre (Limited Liability Partnership)*) ("**Cornerstone Chuangying Centre**") with a total contribution of RMB201.0 million, among which, BII Zhuoyue (as a limited partner) contributed RMB50.0 million and owns approximately 24.9% of the partnership. The contribution of RMB50.0 million was fully paid up in February 2017. Cornerstone Chuangying focuses its investment in the field of urban intelligent transportation and internet services with a principal business scope in investment management and asset management.

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**"), an associate of the Company, is an incubator platform for the Group to develop the quality enterprises of city railway transportation-related businesses in the industries including information technology, energysaving and environmental protection and advanced equipment manufacture. Cornerstone Lianying was established on 15 November 2017 as a private equity investment fund jointly set up by 14 limited partners and one general partner, including BII Zhuoyue and BII contributing a total of RMB313.0 million, among which, BII Zhuoyue (as a limited partner) contributed RMB25.0 million and owns approximately 7.99% of the partnership. The initial contribution of RMB10.0 million was paid in December 2017. Cornerstone Lianying is the third phase of "Cornerstone Fund", the fund for railway transportation-related business, with an emphasis on railway transportation-related businesses. It focuses on the equity investment of growth enterprises in target industries including information technology, energysaving and environmental protection and advanced equipment manufacture.

On 28 February 2018, BII Zhuoyue, a subsidiary of the Company, jointly established a joint venture, namely BII Xin An, with Tonghai Technology and Tong Jian Tai Li Te, with a registered capital of RMB10 million. BII Zhuoyue contributed RMB5.1 million with a shareholding of 51.0% while each of Tonghai Technology and Tong Jian Tai Li Te contributed RMB2.45 million with shareholding of 24.5% respectively. The establishment of BII Xin An will assist the Group in commencing information security and intelligent businesses, boosting the construction of intelligent railway transportation.

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 FY2017.

FINAL DIVIDEND

In view of the business growth of the Group and in response to the long term support of the shareholders of the Company, the Board recommended the declaration of a final dividend of HK$0.01 per share for FY2017 (FY2016: Nil).

C. Management discussion and analysis for the year ended 31 December 2016

OPERATION REVIEW

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

System integration related application solution service

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

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

Application solution maintenance service

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

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

Civil communication transmission system leasing service

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

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

FINANCIAL REVIEW

Revenue

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

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

Provision of design, implementation and sale of application solution service

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

Application solution maintenance service

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

Civil communication transmission system leasing service

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

Cost of sales

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

Gross profit

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

Selling, general and administrative expenses

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

Profit attributable to equity shareholders of the Company

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

Liquidity, financial and capital resources

Capital structure

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

Cash position

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

Bank borrowings and charges on the Group's assets

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

Working capital and gearing ratio

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

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

Foreign exchange exposure

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

Contingent liability

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

EMPLOYEES AND REMUNERATION POLICIES

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

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

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As disclosed in the announcements of the Company dated 20 May 2015 and 5 November 2015, the Company and 北京市地鐵運營有限公司 (Beijing Mass Transit Railway Operation Corp., Ltd.*) ("**Beijing MTR Corporation**") established a joint venture, namely

Beijing Metro, which was owned by Beijing MTR Corporation and the Company as to 51% and 49%, respectively. Beijing Metro was officially incorporated on 15 February 2016 with registered capital of RMB500 million, for which Beijing MTR Corporation and the Company made capital injection of RMB255 million and RMB245 million respectively according to their respective proportions of shareholding in Beijing Metro.

中國城市軌道交通科技投資有限公司 (China City Railway Transportation Technology Investment Company Limited*) ("**CCRTTI**") and Beijing MTR Corporation established a joint venture, named Beijing Metro Technology Development Co., Ltd.* (北京地鐵科技發展有限公司) ("**Metro Technology Development**"), which was owned by Beijing MTR Corporation and CCRTTI as to 51% and 49%, respectively. Metro Technology Development was officially incorporated on 18 February 2016 with registered capital of RMB30 million, for which, Beijing MTR Corporation and CCRTTI made capital injection of RMB15.3 million and RMB14.7 million respectively according to their respective proportions of shareholding in Metro Technology Development.

BII Zhuoyue, Beijing Cornerstone Entrepreneurial Investment Administration Centre ("**Cornerstone Administration Centre**") and Suqian Chuangweiying Investment Management Centre* (宿遷創為盈投資管理中心) ("**Chuangweiying**") jointly established Cornerstone Chuangying Centre. As a limited liability partnership, Cornerstone Chuangying Centre was owned as to 20% by BII Zhuoyue, 30% by Cornerstone Administration Centre and 50% by Chuangweiying. Cornerstone Chuangying Centre was incorporated on 25 February 2016, subject to subscription of a total capital injection of RMB1 million, for which, BII Zhuoyue, Cornerstone Administration Centre and Chuangweiying made capital contribution of RMB200,000, RMB300,000 and RMB500,000 respectively by reference to their respective proportions of holding in Cornerstone Chuangying Centre.

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

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

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

DIVIDEND

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

D. Management discussion and analysis for the year ended 31 December 2015

OPERATION REVIEW

For the twelve months ended 31 December 2015, our business operation focused on five business segments namely, 1) design and implementation of application solution service; 2) maintenance of application solution service; 3) sales of application solution software; 4) sales of application solution related hardware and spare parts; and 5) civil communication transmission system leasing service. Discussion on each of the five business segments is set out below:

Design and implementation of application solution service

Design and implementation of application solution service mainly represents, among others, the design, testing, installation, debugging, integration, upgrading and replacement of railway transportation application solution and associated systems.

For the twelve months ended 31 December 2015, the Group's revenue arising from the design and implementation of application solution was mainly generated from the projects that had commenced in previous financial years (mainly the MTR LR ticket issuing machines replacement project) while the percentage of revenue generated from new projects was relatively small. The fewer new projects were mainly attributable to the fact that projects available for tender process for the twelve months ended 31 December 2015 were fewer as compared with that of the previous years due to the recent general slowdown of urban railway construction in Beijing. Although the performance of this segment for the twelve months ended 31 December 2015 was unsatisfactory, it is expected that the performance of this segment will be improved with the support of development plans in relation to inter-city railway and urban railway transport, including "Collaborative Development Plan Outline for Beijing-Tianjin-Hebei (《京津冀協調發展規劃綱要》)", the "Second Phase of the Construction Plan of the Urban Railway Transport Project in Beijing (2015–2021)" (《北京市城市軌道交通第二期建設規劃(2015–2021年)》) and the draft of "13th Five-Year Plan" (《十三五規劃綱要草案》).

Maintenance of application solution service

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

For the twelve months ended 31 December 2015, our Group continued to provide the Octopus system maintenance service to KMB, CTB, NWFB and New World First Ferry Services Limited in Hong Kong. While in Beijing, the Group continued to provide ACC system, Traffic Control Centre system and assessment center maintenance services to Beijing Subway. Most of the existing maintenance service contracts that the Group entered into with its customers do not expire until the end of 2016 and will bring stable income to the Group during the contract period.

Sales of application solution software

Sales of application solution software mainly represent, among others, the sales of self-developed railway transportation application solution software products.

For the twelve months ended 31 December 2015, the Group's revenue arising from the sales of application solution software was mainly generated from the sales of self-developed ticketing software. The Group will continue to develop more high value-added software products, striving to increase market share.

Sales of application solution related hardware and spare parts

Sales of application solution related hardware and spare parts mainly represent, among others, the sales of railway transportation application solution systems related hardware and spare parts.

For the twelve months ended 31 December 2015, the Group's revenue arising from the sales of application solution related hardware and spare parts was mainly generated from the projects that had commenced in previous financial years (mainly the safety door procurement project of Beijing Subway Line 14 and the PIS addition project of Line 10) while the percentage of revenue generated from new projects was relatively small. The fewer new projects were mainly attributable to the fact that projects available for tender process for the twelve months ended 31 December 2015 were fewer as compared with that of the previous years due to the recent general slowdown of urban railway construction in Beijing. Although the performance of this segment for the twelve months ended 31 December 2015 was unsatisfactory, it is expected that the performance of this segment will be improved with the support of development plans in relation to inter-city railway and urban railway transport, including "Collaborative Development Plan Outline for Beijing-Tianjin-Hebei (《京津冀協調發展規劃綱要》)", the "Second Phase of the Construction Plan of the Urban Railway Transport Project in Beijing (2015–2021)" (《北京市城市軌道交通第二期建設規劃(2015–2021年)》) and the draft of "13th Five-Year Plan" (《十三五規劃綱要草案》).

Civil communication transmission system leasing service

Civil communication transmission system leasing service mainly represents, among others, the leasing of communication transmission system to mobile operators.

For the twelve months ended 31 December 2015, the Group's revenue arising from the civil communication transmission system leasing service was mainly generated from providing 2G, 3G and partly 4G civil communication transmission system leasing service to 134 stations of 11 subway lines of Beijing Subway. Since the acquisition of the related systems of the 49 stations of 3 subway lines of the civil communication transmission system of the said 134 stations of 11 subway lines was completed on 11 August 2015, only over four months' revenue were accounted for during the twelve months ended 31 December 2015. In addition, for the twelve months ended 31 December 2015, the 4G service was not in full operation yet. The revenue from civil communication transmission system leasing service is expected to increase in the future and will contribute a continuous leasing income from leasing to the Group.

FINANCIAL REVIEW

Revenue

The Group recorded a decrease in revenue for the year ended 31 December 2015 of HK$336.4 million, or 51.2%, to HK$320.8 million (eighteen months ended 31 December 2014: HK$657.2 million). The decrease was mainly attributable to the difference in the duration of accounting periods between the current (twelve months ended 31 December 2015) and the last (eighteen months ended 31 December 2014) financial years due to the change of financial year end date from 30 June to 31 December during the last financial year as set out in the Company's announcement dated 25 February 2014. For the last financial year, the accounting period was extended to eighteen months, while the accounting period for the current financial year was twelve months.

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

Design and implementation of application solution service

The Group's revenue arising from design and implementation of application solution service segment decreased by approximately 82.5% from approximately HK$291.4 million for the eighteen months ended 31 December 2014 to approximately HK$51.1 million for the year ended 31 December 2015. Such decrease was largely attributable to i) the accounting period was extended to eighteen months for the last financial year (eighteen months ended 31 December 2014), while the accounting period for the current financial year (twelve months ended 31 December 2015) was twelve months, therefore, the revenue accounted for the current financial year was six months fewer than that of the last financial year; and ii) the tender process for certain major design and implementation of application solution service projects was postponed due to the general slowdown of urban railway construction in Beijing during the twelve months ended 31 December 2015.

Maintenance of application solution service

The Group's revenue arising from maintenance of application solution service segment decreased by approximately 42.2% from approximately HK$99.3 million for the eighteen months ended 31 December 2014 to approximately HK$57.4 million for the year ended 31 December 2015. Such decrease was primarily attributable to i) the accounting period was extended to eighteen months for the last financial year (eighteen months ended 31 December 2014), while the accounting period for the current financial year (twelve months ended 31 December 2015) was twelve months, therefore, the revenue accounted for the current financial year was six months fewer than that of the last financial year; and ii) certain non-recurring maintenance contracts had already been completed during the eighteen months ended 31 December 2014.

Sales of application solution software

The Group's revenue arising from the sales of application solution software segment increased by approximately 77.1% from approximately HK$36.7 million for the eighteen months ended 31 December 2014 to approximately HK$65.0 million for the year ended 31 December 2015. Such increase was primarily arising from the sale of the self-developed ticketing software and the automatic fare clearing system software during the twelve months ended 31 December 2015.

Sales of application solution hardware and spare parts

The Group's revenue arising from the sales of application solution related hardware and spare parts segment decreased by approximately 69.9% from approximately HK$214.9 million for the eighteen months ended 31 December 2014 to approximately HK$64.6 million for the year ended 31 December 2015. Such decrease was mostly attributable to i) the accounting period was extended to eighteen months for the last financial year (eighteen months ended 31 December 2014), while the accounting period for the current financial year (year ended 31 December 2015) was twelve months, therefore, the revenue accounted for the current financial year was six months fewer than that of the last financial year; and ii) the general slowdown of urban railway construction in Beijing during the twelve months ended 31 December 2015 adversely affected the sales in related hardware and spare parts.

Civil communication transmission system leasing service

The Group's revenue arising from civil communication transmission system leasing service segment increased by approximately 455.0% from approximately HK$14.9 million for the eighteen months ended 31 December 2014 to approximately HK$82.7 million for the year ended 31 December 2015. Such increase was mostly attributable to i) the Group only commenced this business since September 2014 following the acquisition of the civil communication assets as disclosed in the announcement of the Company dated 8 July 2014 and 29 September 2014 and the circular of the Company dated 8 August 2014, therefore only four months' revenue were accounted for during the eighteen months ended 31 December 2014 in contrary to twelve months' revenue during the twelve months ended 31 December 2015; and ii) the Group had acquired additional civil communication assets during the twelve months ended 31 December 2015 as disclosed in the announcement of the Company dated 29 June 2015 and 11 August 2015, and the circular of the Company dated 27 July 2015, thus generated more revenue as compared to the eighteen months ended 31 December 2014.

Cost of sales

The Group's cost of sales decreased by approximately 53.0% from approximately HK$423.9 million for the eighteen months ended 31 December 2014 to approximately

HK$199.3 million for the year ended 31 December 2015. The reduction in cost of sales was primarily attributable to i) the accounting period was extended to eighteen months for the last financial year (eighteen months ended 31 December 2014), while the accounting period for the current financial year (twelve months ended 31 December 2015) was twelve months, therefore, the cost of sales accounted for the current financial year was six months fewer than that of the last financial year; and ii) for the twelve months ended 31 December 2015, the Group's revenue was mainly generated from the provision of maintenance service, sale of application solution software and leasing of civil communication transmission system, of which the main cost was direct labour. While for the eighteen months ended 31 December 2014, the Group's revenue was mainly generated from the provision of hardware oriented projects like platform screen doors installation projects of which the main cost was hardware procurement. As such, the cost of sales for the twelve months ended 31 December 2015 was fundamentally lower as compared to the eighteen months ended 31 December 2014, regardless of the contract values.

Gross profit

The Group's gross profit decreased by approximately 47.9% from approximately HK$233.4 million for the eighteen months ended 31 December 2014 to approximately HK$121.5 million for the year ended 31 December 2015. The decline in gross profit was largely attributable to i) the accounting period was extended to eighteen months for the last financial year (eighteen months ended 31 December 2014), while the accounting period for the current financial year (twelve months ended 31 December 2015) was twelve months, therefore, the gross profit accounted for the current financial year was six months fewer than that of the last financial year; and ii) the drop in revenue as a result of the slowdown in urban railway construction in Beijing during the twelve months ended 31 December 2015.

Selling, general and administrative expenses

The Group's selling, general and administrative expenses decreased by approximately 29.3% from approximately HK$133.3 million for the eighteen months ended 31 December 2014 to approximately HK$94.3 million for the year ended 31 December 2015. The reduction in selling, general and administrative expenses was mainly attributable to the difference in the duration of reporting periods between last financial year (eighteen months ended 31 December 2014) and the current financial year (twelve months ended 31 December 2015). For the last financial year, the selling, general and administrative expenses represented eighteen months' expenses, while for the current financial year, the selling, general and administrative expenses represented twelve months' expenses only.

Profit attributable to equity shareholders of the company

The Group's profit attributable to equity shareholders of the Company decreased by approximately 64.8% from approximately HK$65.0 million for the eighteen months ended 31 December 2014 to approximately HK$22.9 million for the year ended 31 December 2015. Such decrease was mainly attributable to i) the accounting period was extended to eighteen months for the last financial year (eighteen months ended 31 December 2014), while the accounting period for the current financial year (twelve months ended 31 December 2015) was twelve months, therefore the profit attributable to equity shareholders of the Company accounted for the current financial year was six months fewer than that of the last financial twelve months; and ii) the general drop in revenue due to the slowdown in urban railway construction in Beijing during the twelve months ended 31 December 2015.

Liquidity, financial and capital resources

Capital structure

As at 31 December 2015, the Company's total number of issued shares was 1,423,321,203 ordinary shares of HK$0.01 each (31 December 2014: 1,305,975,669 ordinary shares of HK$0.01 each). Details of the changes in the share capital and capital risk management of the Company for the year ended 31 December 2015 are set out in Note 22 to the financial statements.

Cash position

As at 31 December 2015, the Group's cash and bank balances were approximately HK$626.8 million (31 December 2014: approximately HK$528.0 million).

Bank borrowing and charges on the Group's assets

As at 31 December 2015, the Group has no bank borrowings and charges on assets.

Working capital and gearing ratio

As at 31 December 2015, the Group had current assets of approximately HK$1,231.1 million (31 December 2014: approximately HK$1,165.6 million), while its current liabilities was approximately HK$299.7 million (31 December 2014: approximately HK$408.8 million), resulting in net current assets of approximately HK$931.4 million (31 December 2014: approximately HK$756.8 million). Current ratio as at 31 December 2014, calculated based on current assets divided by current liabilities was approximately 4.1 (31 December 2014: approximately 2.9).

Gearing ratio is calculated based on total debt at the end of the year divided by total assets at the end of the year multiplied by 100%. As at 31 December 2015, as the Group was at a net cash position without any bank borrowings, long term debts or payables incurred not in the ordinary course of business, the gearing ratio was nil (31 December 2014: Nil).

Foreign exchange exposure

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

Contingent liability

As at 31 December 2015, the Group did not have any material contingent liability.

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

Save for the establishment of Beijing Metro, a joint venture with Beijing MTR Corporation and the proposed acquisition of the operating income rights of the airport express line of the Beijing Subway as disclosed in the announcement of the Company dated 20 May 2015 and 5 November 2015 as well as the acquisition of the civil communication assets (民用通信資產) as disclosed in the announcement of the Company dated 29 June 2015 and 11 August 2015, and the circular of the Company dated 27 July 2015, there were no other significant investments held, material acquisition or disposal of subsidiaries and affiliated companies, and other plans for material investments or capital assets during the year ended 31 December 2015.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2015, the Group employed a total of 291 (31 December 2014: 270) employees. The staff costs, including Directors' remuneration, were approximately HK$92.6 million (eighteen months ended 31 December 2014: HK$111.2 million).

The salaries and benefits of the Group's employees are kept at a competitive level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. The emoluments payable to the Directors were determined with reference to the prevailing market conditions and the anticipated effort and expertise to be exercised by the Directors on the Company's affairs. The Group also operates a share option scheme adopted by the Company on 8 December 2011 and revised on 24 September 2013, where options to subscribe for shares may be granted to the Directors and employees of the Group. The aim of the Share Option Scheme is to recognise outstanding performance of the staff in order to retain key staff members and for the benefits of the future business development of the Group.

In addition, the Group contributes to the PRC social insurance scheme in accordance to the relevant PRC laws and regulations for its employees in the PRC. The social insurance scheme in the PRC includes retirement, work injury, medical care, unemployment and other insurance coverage for the employees. The Group also maintains the Mandatory Provident Fund scheme and insurance as required by the employment laws in Hong Kong for its employees in Hong Kong.

DIVIDEND

The Board did not recommend the payment of any dividend for the year ended 31 December 2015 (eighteen months ended 31 December 2014: Nil). The Group will retain cash to finance the continuing development of its business as well as prospective investment opportunities.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE HUAQI GROUP

Set out below is the management discussion and analysis of the Huaqi Group for the three years ended 31 December 2015, 31 December 2016, 31 December 2017 and the nine months ended 30 September 2018. The following financial information is based on the accountant's report of the Huaqi Group set out in Appendix III to this circular.

Business of the Huaqi Group

The Huaqi Group is principally engaged in the provision of solutions of automation and information-based systems for transportation applications. It offers products, techniques, system integration, operation services and consultancy for high-speed railway, train, urban rail transit, interurban railway and urban railway in the PRC.

Financial review

Revenue

For each of the financial years ended 31 December 2015, 2016 and 2017 and the nine months ended 30 September 2018, the Huaqi Group recorded revenue of approximately RMB220.2 million, RMB265.3 million, RMB342.6 million and RMB297.9 million, respectively. The revenue mainly comprised sales revenue from contracts with customers.

Profit

For each of the financial years ended 31 December 2015, 2016 and 2017 and the nine months ended 30 September 2018, the Huaqi Group recorded gross profit of approximately RMB135.2 million, RMB167.0 million, RMB215.5 million and RMB168.7 million, respectively.

For each of the financial years ended 31 December 2015, 2016 and 2017 and the nine months ended 30 September 2018, the Huaqi Group recorded profit after taxation of approximately RMB58.3 million, RMB65.4 million, RMB81.0 million and RMB49.4 million, respectively.

The decrease in profit after taxation of the Huaqi Group from approximately RMB74.8 million for the nine months ended 30 September 2017 to approximately RMB49.4 million for the nine months ended 30 September 2018 was mainly attributable to (i) a decrease in unit selling price of existing products to its major customers; and (ii) an increase in research and development costs, during the nine months ended 30 September 2018. The decrease in unit selling price of existing products to the major customers of the Huaqi Group was in line with the industry practice where customers would request for downward adjustment in unit selling price of existing products due to technological advancement, optimisation of production processes and increase in production scale. The increase in research and development costs during the nine months ended 30 September 2018 was mainly for the purpose of development of new products and refinement of production process of existing products of the Huaqi Group, as the Huaqi Group has always devoted great effort in its research and development activities.

The Board considers that the increase in research and development activities of the Huaqi Group during the nine months ended 30 September 2018 had temporarily led to a decrease in net profit of the Huaqi Group for the same period, however, the research and development efforts made by the Huaqi Group may improve its cost efficiency in the production of existing products, and promote development of new products with higher profit margin, which may in turn improve the income stream of the Huaqi Group. In addition, the Board considers that the long-standing commercial connections between the Huaqi Group and its major customers, and the research and development capabilities of the Huaqi Group will enable the Huaqi Group to develop and expand its business. Given the above reasons, although there was a decrease in net profit of the Huaqi Group for the nine months ended 30 September 2018 compared to the corresponding period in 2017, the Board considers that the Acquisition is fair and reasonable.

Selling, general and administrative expenses

For each of the financial years ended 31 December 2015, 2016 and 2017 and the nine months ended 30 September 2018, the Huaqi Group recorded selling, general and administrative expenses of approximately RMB49.9 million, RMB59.2 million, RMB83.6 million and RMB61.2 million, respectively, which mainly comprised salaries paid to employees and office rental expenses.

Liquidity and financial resources

As at 31 December 2015, 2016 and 2017 and 30 September 2018, the Huaqi Group had (i) cash and cash equivalents of approximately RMB71.5 million, RMB44.9 million, RMB34.4 million and RMB36.6 million, respectively; (ii) net current assets of approximately RMB210.3 million, RMB271.2 million, RMB348.5 million and RMB395.7 million, respectively; and (iii) bank borrowings of approximately nil, nil, RMB20.0 million and RMB130.8 million, respectively.

The gearing ratio of the Huaqi Group as at 31 December 2015, 2016 and 2017 and 30 September 2018 was approximately 0.3, 0.3, 0.4 and 0.5, respectively. The gearing ratio was calculated by total debts at the end of a period divided by total assets at the end of a period multiplied by 100%.

Foreign currency exposure

As at 31 December 2015, 2016 and 2017, the Huaqi Group was not exposed to any currency risk. As at 30 September 2018, the Huaqi Group was exposed to currency risk primarily from cash balances and bank loans which were denominated in a foreign currency other than the functional currency of the operations (i.e. Renminbi). The currency giving rise to this risk was primarily Euros.

As at the Latest Practicable Date, the Huaqi Group does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Pledge of assets

As at 31 December 2017 and 30 September 2018, the Huaqi Group pledged bills receivable for issuance of bills payable of approximately RMB5 million and RMB18.8 million, respectively.

Contingent liabilities

As at 31 December 2015, 2016 and 2017 and 30 September 2018, the Huaqi Group did not have any contingent liabilities.

Trade and other receivables

The trade and other receivables of the Huaqi Group represented a substantial amount of its total assets as at 31 December 2015, 2016 and 2017 and 30 September 2018 since the production of the Huaqi Group did not require much capital expenditure so the amount of property, plant and equipment was relatively small. In particular, the major customers of the Huaqi Group were high-speed trains and trains manufacturer, which were mainly state-owned enterprises, and the turnover days of the relevant trade receivables were usually between 90 and 360 days.

There was a significant increase in the trade and other receivables of the Huaqi Group as at 30 September 2018 when compared to that as at 31 December 2017 because (i) the major customers of the Huaqi Group were high-speed trains and trains manufacturer, which were mainly state-owned enterprises, the turnover days of trade receivables were usually around between 90 and 360 days, and usually the Huaqi Group would devote more effort to urge for the payment of trade receivables in the last one or two months of the year; (ii) the increase in other receivables due from its immediate holding company amounted to approximately RMB68 million as at 30 September 2018; and (iii) during the nine months ended 30 September 2018, the revenue of the Huaqi Group had increased as compared to the same period in 2017, which had led to an increase in trade and other receivables.

Low impairment loss was recognised regardless of the high amount of trade and other receivables throughout the years ended 31 December 2015, 2016 and 2017 and the nine months ended 30 September 2018 because the credit risks of the Huaqi Group are relatively low when taking into account individual characteristics of its customers and their past history of making payments. Most customers of the Huaqi Group are state-owned enterprises which have strong financial capability, thus the impairment loss is relatively small although the amount of trade and other receivables is large.

Credit policies of the Huaqi Group

The Huaqi Group generally allows a credit period of 90 days to its customers, however, in practice, as its major customers were mainly state-owned enterprises, they usually pay for the debt after they have collected from their end users, which is in line with the industry practice. The state-owned enterprises usually take a long period of time to settle payment and they may not fully comply with the payment terms in the contract. As such, the turnover days of trade receivables from the major customers of the Huaqi Group were usually approximately between 90 and 360 days.

Information on employees

As at 31 December 2015, 2016 and 2017 and 30 September 2018, the Huaqi Group employed a total of 264, 320, 366 and 409 employees, respectively. Staff recruitment and promotion of the Huaqi Group are primarily based on the employee's experience, potential and performance. The remuneration and staff benefit policies are with reference to the competitive market salary levels.

Significant investment, material acquisitions and disposals

As at 31 December 2015, 2016 and 2017 and 30 September 2018, the Huaqi Group did not hold any significant investment.

During each of the financial years ended 31 December 2015, 2016 and 2017 and the nine months ended 30 September 2018, the Huaqi Group had no material acquisitions and disposals of subsidiaries and associated companies.

As at the Latest Practicable Date, the Huaqi Group does not have any future plans for material investments or acquisitions of capital assets.

The Board engaged KPMG Advisory (China) Limited to perform financial due diligence ("**FDD**"). Together with the Company, the FDD team interviewed the management of the Huaqi Group (including the general manager, the chief financial officer, financial manager, marketing manager, purchasing manager, etc.) to understand its business pattern and significant accounting policies. Based on the consolidated financial statements of the Huaqi Group for the years ended 31 December 2015, 2016 and 2017 and the nine months ended 30 September 2018, the FDD team analysed each financial item including assets, liabilities, sales and purchase, expenses, related party transactions, cash flow, working capital, net debt, human resources, etc., of the Huaqi Group.

In respect of the trade and other receivables of the Huaqi Group, the FDD team analysed the customer by examining the breakdown of accounts receivable, reviewed the full list of customers and analysed the accounts receivable of the top 10 customers of the Huaqi Group, nature and ageing of each item, obtained relevant supporting documents from the management of the Huaqi Group, reassess the bad debt provision and the loss allowance the Huaqi Group recognised according to its accounting policies, and also interviewed most of the major customers of the Huaqi Group to obtain relevant information from them directly. The trade receivables have a high level of customer concentration, with top ten customers occupying about 90% of the trade receivables of the Huaqi Group and most of them are subsidiaries of CRRC Corporation Limited (the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1766)). Customers of the Huaqi Group purchase the PIS from the Huaqi Group and install the system to their vehicle, and make payment to the Huaqi Group after the installation process of the entire vehicle has been completed. As there are usually different specifications required by different projects, most of the PIS products were designed and produced on a project-by-project basis catering specific needs. Since the customers of the Huaqi Group are mainly state-owned enterprises, they usually take a long period of time to settle payment and they may not fully comply with the payment terms in the contract, thus the turnover days of the trade receivables of the Huaqi Group is generally larger.

There was a significant increase of trade receivables of the Huaqi Group as at 30 September 2018 because (i) the Huaqi Group expanded its business and obtained more orders amounting to approximately RMB40 million from a client which is a subsidiary of CRRC Corporation Limited; and (ii) the Huaqi Group will usually make efforts in recovering outstanding amounts of trade receivables during the last two months of each financial year. These efforts include (i) dedicating the customers service team of the Huaqi Group to closely follow up with the major customers regarding the payment of outstanding amounts; (ii) monitoring the ageing of trade receivables monthly and making payment requests to its customers which had overdue balances; and (iii) revisiting its credit policy based on historical payment patterns of its customers. The above actions taken by the Huaqi Group to recover outstanding amounts of trade receivables were in line with its credit policy.

The other receivables due from the Huaqi Group's immediate holding company amounted to approximately RMB67 million as at 30 September 2018 consisted of cash advances to the Huaqi Group's immediate holding company, and it was non-trade in nature. Such amount will be repaid by the Huaqi Group's immediate holding company to the Huaqi Group prior to Completion.

Based on the analysis and interview conducted by the Company and the FDD team, the Company found that the Huaqi Group's customers are mostly state-owned enterprises which usually take a longer period of time to process payments, and taking into account the former experience of the Huaqi Group in relation to subsequent settlement of trade receivables from customers which were state-owned enterprises, the Company is not aware of any recoverability issue of the trade receivables. Based on historical credit loss experience and future expectation, as well as good reputation of these customers, taking into account the telephone interviews conducted by the FDD team with major customers of the Huaqi Group together with the presence of the Huaqi Group's management, the FDD team is of the view that the bad debt risk of trade receivables is low which was confirmed with the Board.

The Board has reviewed the abovementioned due diligence work conducted on the Huaqi Group and, in particular, the trade and other receivables accounts and analysis including the impairment assessment, recoverability, ageing analysis and subsequent settlement of the trade and other receivables of the Huaqi Group. Taking into account that the trade and other receivables accounts and credit policy of the Huaqi Group are consistent with the practices in the railway industry which the Company has always been familiar with, the Board considers that the analysis on the trade and other receivables of the Huaqi Group is objective and reasonable. In light of the above reasons, the Board considered that the Acquisition is fair and reasonable.

The Board has engaged KPMG as the reporting accountants for the Acquisition. The Company has obtained fee quotations and description of experiences and qualifications from several auditing firms in Hong Kong for the purpose of deciding on the appointment of reporting accountants for the Acquisition. The Board has conducted an internal meeting comparing the above information, and taking into account that KPMG has always been the auditors appointed by the Group, the Board considers that KPMG is suitable to be appointed as the reporting accountants for the Acquisition as they possess relevant qualifications and experiences, and they can conduct audit work on the Huaqi Group's financial information in a manner which will be consistent with the Group's audit work performed in the past.

The following is the text of a report received from the Company's reporting accountant, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

KPMG

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF SUZHOU HUAQI INTELLIGENT TECHNOLOGY CO., LTD. TO THE DIRECTORS OF BII RAILWAY TRANSPORTATION TECHNOLOGY HOLDINGS COMPANY LIMITED

INTRODUCTION

We report on the historical financial information of 蘇州華啟智能科技有限公司 (Suzhou Huaqi Intelligent Technology Co., Ltd.#) (the "**Target Company**") and its subsidiaries (hereinafter collectively referred to as the "**Target Group**") set out on pages III-4 to III-49, which comprises the consolidated statements of financial position of the Target Group as at 31 December 2015, 2016 and 2017 and 30 September 2018 and the consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows, for each of the years ended 31 December 2015, 2016 and 2017 and the nine months ended 30 September 2018 (the "**Relevant Periods**"), and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages III-4 to III-49 forms an integral part of this report, which has been prepared for inclusion in the circular of BII Railway Transportation Technology Holdings Company Limited ("**BIITT**" or the "**Company**") dated 31 January 2019 in connection with the acquisition of 95% equity interests in the Target Group (the "**Transaction**").

DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong

English translation for identification only.

Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Target Group's financial position as at 31 December 2015, 2016 and 2017 and 30 September 2018 and of the Target Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

REVIEW OF STUB PERIOD CORRESPONDING FINANCIAL INFORMATION

We have reviewed the stub period corresponding financial information of the Target Group which comprises 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 statement of cash flows for the nine months ended 30 September 2017 and other explanatory information (the "**Stub Period Corresponding Financial Information**"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page III-4 have been made.

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

31 January 2019

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("**Underlying Financial Statements**").

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

(Expressed in "Renminbi")

		Years ended 31 December			Nine months ended 30 September	
	Note	**2015**	**2016**	**2017**	**2017**	**2018**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Revenue	*4*	220,194	265,339	342,559	279,936	297,876
Cost of sales		(85,021)	(98,304)	(127,019)	(104,327)	(129,146)
Gross profit		135,173	167,035	215,540	175,609	168,730
Other income	*5*	16,442	18,707	20,601	13,666	11,753
Selling, general and administrative expenses		(49,903)	(59,216)	(83,552)	(56,204)	(61,240)
Research expense		(36,552)	(47,035)	(52,065)	(33,556)	(43,019)
Other expense and losses		(1,019)	(2,660)	(2,447)	(8,301)	(14,452)
Profit from operations		64,141	76,831	98,077	91,214	61,772
Finance costs	*6(a)*	–	–	(356)	(129)	(1,419)
Share of profits less losses of associates		–	(1,077)	(2,166)	(2,376)	(2,070)
Profit before taxation	*6*	64,141	75,754	95,555	88,709	58,283
Income tax	*7*	(5,865)	(10,380)	(14,562)	(13,944)	(8,861)
Profit for the year/period		58,276	65,374	80,993	74,765	49,422
Attributable to:						
Equity shareholders of the Target Company		58,276	65,782	81,013	74,902	49,340
Non-controlling interests		–	(408)	(20)	(137)	82
Total profit for the year/period		58,276	65,374	80,993	74,765	49,422

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Expressed in "Renminbi")

	Years ended 31 December			Nine months ended 30 September	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit for the year/period	58,276	65,374	80,993	74,765	49,422
Other comprehensive income for the year/period (after tax)	–	–	–	–	–
Total comprehensive income for the year/period	58,276	65,374	80,993	74,765	49,422
Attributable to:					
Equity shareholders of the Target Company	58,276	65,782	81,013	74,902	49,340
Non-controlling interests	–	(408)	(20)	(137)	82
Total comprehensive income for the year/period	58,276	65,374	80,993	74,765	49,422

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Renminbi)

	Note	At 31 December 2015	At 31 December 2016	At 31 December 2017	At 30 September 2018
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment	10	2,621	2,406	10,627	10,959
Lease prepayments	11	6,518	–	–	–
Intangible assets		185	505	421	364
Prepayments for acquisition of property, plant and equipment		–	6,621	4,576	4,576
Interests in associates	13	–	7,293	6,157	7,042
Deferred tax assets	20	814	1,211	1,604	4,497
		10,138	18,036	23,385	27,438
Current assets					
Inventories	14	116,881	150,618	234,839	295,830
Trade and other receivables	15	121,012	133,691	282,008	422,739
Cash and cash equivalents	16	71,471	44,892	34,372	36,602
Restricted bank deposits		2,318	38,528	6,187	4,548
		311,682	367,729	557,406	759,719
Current liabilities					
Trade and other payables	17	95,297	94,170	182,422	226,462
Contract liabilities		46	20	4,962	190
Current taxation	20(a)	5,992	2,386	1,557	1,941
Bank loans	18	–	–	20,000	130,843
Provision for warranties		–	–	–	4,633
		101,335	96,576	208,941	364,069
Net current assets		210,347	271,153	348,465	395,650
Total assets less current liabilities		220,485	289,189	371,850	423,088

		At 31 December			At 30 September
	Note	**2015**	**2016**	**2017**	**2018**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current liabilities					
Deferred income	*19*	1,000	2,500	3,665	3,340
Provision for warranties		–	–	–	2,187
		1,000	2,500	3,665	5,527
NET ASSETS		219,485	286,689	368,185	417,561
CAPITAL AND RESERVES	*21*				
Paid-in capital		60,000	60,000	60,000	60,000
Reserves		159,485	225,267	306,358	355,652
Total equity attributable to equity shareholders of the Target Company		219,485	285,267	366,358	415,652
Non-controlling interests		–	1,422	1,827	1,909
TOTAL EQUITY		219,485	286,689	368,185	417,561

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in Renminbi)

	Attributable to equity shareholders of the Target Company						
	Paid-in capital	**Capital reserve**	**Statutory reserve**	**Retained profits**	**Total**	**Non-controlling interests**	**Total equity**
	RMB'000	*RMB'000* (Note 21(a))	*RMB'000* (Note 21(b))	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2015	60,000	83,458	1,687	16,064	161,209	–	161,209
Changes in equity for 2015:							
Profit and total comprehensive income for the year	–	–	–	58,276	58,276	–	58,276
Appropriation to reserves	–	–	3,784	(3,784)	–	–	–
	–	–	3,784	54,492	58,276	–	58,276
Balance at 31 December 2015 and 1 January 2016	60,000	83,458	5,471	70,556	219,485	–	219,485
Changes in equity for 2016:							
Profit and total comprehensive income for the year	–	–	–	65,782	65,782	(408)	65,374
Capital injection by a non-controlling shareholder of a subsidiary of the Target Group	–	–	–	–	–	1,830	1,830
Appropriation to reserves	–	–	4,593	(4,593)	–	–	–
	–	–	4,593	61,189	65,782	1,422	67,204
Balance at 31 December 2016	60,000	83,458	10,064	131,745	285,267	1,422	286,689

	Attributable to equity shareholders of the Target Company						
	Paid-in capital *RMB'000*	Capital reserve *RMB'000* *(Note 21(a))*	Statutory reserve *RMB'000* *(Note 21(b))*	Retained profits *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2017	60,000	83,458	10,064	131,745	285,267	1,422	286,689
Changes in equity for 2017:							
Profit and total comprehensive income for the year	–	–	–	81,013	81,013	(20)	80,993
Capital injection by a non-controlling shareholder of a subsidiary of the Target Group	–	78	–	–	78	425	503
Appropriation to reserves	–	–	9,233	(9,233)	–	–	–
	–	78	9,233	71,780	81,091	405	81,496
Balance at 31 December 2017 and 1 January 2018	60,000	83,536	19,297	203,525	366,358	1,827	368,185
Changes in equity for the nine months ended 30 September 2018:							
Profit and total comprehensive income for the period	–	–	–	49,340	49,340	82	49,422
Change in capital reserve of an associate of the Target Group	–	(46)	–	–	(46)	–	(46)
Appropriation to reserves	–	–	2,246	(2,246)	–	–	–
	–	(46)	2,246	47,094	49,294	82	49,376
Balance at 30 September 2018	60,000	83,490	21,543	250,619	415,652	1,909	417,561

	Attributable to equity shareholders of the Target Company						
	Paid-in capital *RMB'000*	**Capital reserve** *RMB'000* *(Note 21(a))*	**Statutory reserve** *RMB'000* *(Note 21(b))*	**Retained profits** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
(unaudited)							
Balance at 1 January 2017	60,000	83,458	10,064	131,745	285,267	1,422	286,689
Changes in equity for the nine months ended 30 September 2017							
Profit and total comprehensive income for the period	–	–	–	74,902	74,902	(137)	74,765
Capital injection by a non-controlling shareholder of a subsidiary of the Target Group	–	78	–	–	78	425	503
Appropriation to reserves	–	–	7,085	(7,085)	–	–	–
	–	78	7,085	67,817	74,980	288	75,268
Balance at 30 September 2017	60,000	83,536	17,149	199,562	360,247	1,710	361,957

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Renminbi)

	Years ended 31 December			Nine months ended 30 September	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Operating activities					
Profit before taxation	64,141	75,754	95,555	88,709	58,283
Adjustments for:					
Impairment on trade and other receivables	284	1,149	2,058	8,035	11,163
Write down of inventories	481	–	–	–	2,460
Depreciation of property, plant and equipment	893	731	3,210	2,015	1,456
Amortisation of lease prepayments	136	–	–	–	–
Amortisation of intangible assets	16	23	84	64	64
Loss/(gain) on disposal of property, plant and equipment	–	1,313	(7)	–	–
Amortisation of deferred income	–	–	(435)	(325)	(325)
Share of losses of associates	–	1,077	2,166	2,376	2,070
Gains on disposal of investments	(1,719)	–	–	–	–
Interest expenses	–	–	356	129	1,419
Operating cash flows before changes in working capital	64,232	80,047	102,987	101,003	76,590
Increase in inventories	(19,652)	(33,737)	(84,221)	(52,929)	(63,451)
Increase in trade and other receivables	(37,060)	(13,828)	(150,374)	(173,012)	(84,896)
(Decrease)/increase in contract liabilities	(101)	(26)	4,942	2,870	(4,772)
Increase in deferred income	1,000	1,500	1,600	1,600	–
Increase in provisions for products warranty	–	–	–	–	6,820
Increase/(decrease) in trade and other payables	3,985	(1,127)	88,252	73,653	44,039
Decrease/(increase) in restricted bank deposits	11,472	(36,210)	32,341	34,648	1,639
Cash generated from/(used in) operations	23,876	(3,381)	(4,473)	(12,167)	(24,031)
Income tax paid	(8,958)	(14,383)	(15,784)	(13,075)	(11,370)
Net cash generated from/(used in) operating activities	14,918	(17,764)	(20,257)	(25,242)	(35,401)

	Years ended 31 December			Nine months ended 30 September	
	2015	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Investing activities					
Payments for purchase of property, plant and equipment	(560)	(8,232)	(9,393)	(3,729)	(1,793)
Capital injection to associates	–	(8,370)	(1,030)	(1,030)	(3,000)
Proceeds from disposals of property, plant and equipment	–	5,957	13	–	–
Proceeds from disposals of investments	3,719	–	–	–	–
Cash advances to related parties	–	(22,000)	(34,300)	(34,300)	(70,000)
Repayment of cash advances from related parties	–	22,000	34,300	34,300	3,000
Net cash generated from/(used in) in investing activities	3,159	(10,645)	(10,410)	(4,759)	(71,793)
Financing activities					
Capital injection from non-controlling shareholders	–	1,830	503	503	–
Proceeds from new bank loans	–	–	20,000	20,000	130,985
Repayments of bank loans	–	–	–	–	(20,000)
Interests paid	–	–	(356)	(129)	(1,419)
Net cash generated from financing activities	–	1,830	20,147	20,374	109,566
Net increase/(decrease) in cash and cash equivalents	18,077	(26,579)	(10,520)	(9,627)	2,372
Cash and cash equivalents at 1 January	53,394	71,471	44,892	44,892	34,372
Effect of foreign exchange rate changes	–	–	–	–	(142)
Cash and cash equivalents at 31 December/30 September	71,471	44,892	34,372	35,265	36,602

The accompanying notes form part of the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION AND PRESENTATION OF THE HISTORICAL FINANCIAL INFORMATION

蘇州華啟智能科技有限公司 (Suzhou Huaqi Intelligent Technology Co., Ltd.,# referred to herein as the "**Target Company**") is a limited liabilities company established in the People's Republic of China (the "**PRC**") on 2 December 2010. Its registered office is located at Suzhou City, Jiangsu Province, the PRC.

The Target Company and its subsidiaries (together, the "**Target Group**") are principally engaged in the railway transit industry and the railway transit information system market. It possesses the technology to produce on-board passenger information system ("**on-board PIS**"), train control and remote diagnosis system and train network control system which are used on trains and railway transits.

The Historical Financial Information set out in this report has been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**"), which collective term includes all individual IFRSs, International Accounting Standards ("**IASs**") and related Interpretations issued by the International Accounting Standards Board (the "**IASB**"). Further details of the significant accounting policies adopted are set out in note 2.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Historical Financial Information, the Target Group has adopted all applicable new and revised IFRSs to the Relevant Periods and early applied IFRS 9 *Financial instruments*, and IFRS 15 *Revenue from contracts with customers* since the beginning of the Relevant Periods, except for any new standards or interpretations that are issued but not yet effective for the accounting periods beginning after 1 January 2018. The revised and new accounting standards and interpretations issued but not yet effective for accounting year beginning on 1 January 2018 are set out in Note 27.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

The Stub Period Corresponding Financial Information for the nine months ended 30 September 2017 has been prepared in accordance with the same basis of preparation and presented adopted in respect of the Historical Financial Information.

The Historical Financial Information is presented in Renminbi ("**RMB**"), rounded to the nearest thousand, which is the functional currency of the Target Group. The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis.

The Historical Financial Information has been prepared assuming the Target Group will continue as a going concern.

2 SIGNIFICANT ACCOUNTING POLICY

(a) Use of estimated judgement

The preparation of the Historical Financial Information 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.

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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 Historical Financial Information and major sources of estimation uncertainty are discussed in Note 3.

(b) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Target Group. The Target 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 Target Group has power, only substantive rights (held by the Target Group and other parties) are considered.

An investment in a subsidiary is consolidated into the Historical Financial Information 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 Historical Financial Information. 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 Target Company, and in respect of which the Target Group has not agreed any additional terms with the holders of those interests which would result in the Target Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Target Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' 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 Target Company. Non-controlling interests in the results of the Target Group are presented on the face of 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/period between non-controlling interests and the equity shareholders of the Target Company.

Changes in the Target 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 Target Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any 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 (see note 2(c)) or joint venture.

In the Target Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(g)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(c) Associates

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

An investment in an associate is accounted for in the Historical Financial Information under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Target 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 that forms part of the Target Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Target Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(g)(ii)). Any acquisition-date excess over cost, the Target 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 Target 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 Target Group's share of losses exceeds its interest in the associate, the Target Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Target Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Target 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 Target Group's net investment in the associate.

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

In all other cases, when the Target Group ceases to have significant influence over an associate, 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 significant influence 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 Target Company's statement of financial position, investments in associates and are stated at cost less impairment losses (see note 2(g)(ii)).

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment loss (see Note 2(g)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(r)).

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. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

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

	Estimated useful life
Leasehold improvements	3 years
Buildings	20 years
Plant, machinery, equipment and 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 useful life of an asset and its residual value, if any, are reviewed annually.

(e) Intangible assets

Intangible assets that are acquired by the Target Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(g)(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 and their estimated useful lives are as follows:

	Estimated useful life
Patents, software and others	5-15 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.

(f) Leased assets

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

(i) Classification of assets leased to the Target Group

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

(ii) Operating lease charges

Where the Target Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments 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.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property or is held for development for sale.

(g) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Target Group recognises a loss allowance for expected credit losses (ECLs) on financial assets measured at amortised cost (including cash and cash equivalents, restricted bank deposits and trade and other receivables).

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 Target Group in accordance with the contract and the cash flows that the Target Group expects to receive).

The expected cash shortfalls are discounted using the following discount rate 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 Target Group is exposed to credit risk.

In measuring ECLs, the Target 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 are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Target 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 Target 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.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Target 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 Target Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Target Group in full, without recourse by the Target Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Target 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:

– 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 technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Target 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 Target 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 fair value through other comprehensive income, for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with note 2(q)(ii) 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 Target Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

– significant financial difficulties of the debtor;

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

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

– significant changes in the technological, 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 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

Target Group determines that the debtor 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.

(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:

– property, plant and equipment;

– intangible assets;

– investments in subsidiaries in the Target Company's statement of financial position; and

– investments in associates in the Target Group's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

– *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 to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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 periods. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

(h) 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 is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion 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 of completion and 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.

(i) Contract liabilities

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

(j) Trade and other receivables

A receivable is recognised when the Target 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 Target Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

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

(k) 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(g)(i).

(l) Trade and other payables

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

(m) 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 Target Group's accounting policy for borrowing costs (see note 2(r)).

(n) Employee benefits

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. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(o) 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 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 period, 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 Target 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 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.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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 Target Company or the Target Group 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 Target Company or the Target Group 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.

(p) Provisions and contingent liabilities

Provisions are recognised when the Target 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.

(q) Revenue and other income

Income is classified by the Target Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Target Group's assets under leases in the ordinary course of the Target 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 Target 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 Target Group's revenue and other income recognition policies are as follows:

(i) 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.

(ii) Interest income

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

(iii) 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 Target Group will comply with the conditions attaching to them. Grants that compensate the Target Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Target Group for the cost of an asset are recognised as deferred income and subsequently recognised in profit or loss over the useful life of the related assets on a reasonable and systematic manner.

(r) 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.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(s) Related parties

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

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of the key management personnel of the Target Group or the Target Group's parent.

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

(i) The entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(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 Target Group or an entity related to the Target 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 Target Group or to the Target 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.

(t) Segment reporting

Operating segments, and the amounts of each segment item reported in the Historical Financial Information, are identified from the financial information provided regularly to the Target Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Target 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 JUDGEMENT AND ESTIMATES

In the process of applying accounting policies, management has made the following accounting judgements.

(a) Provision of inventories

Inventories are stated at the lower of cost or net realisable value. Net realisable value of inventories is the expected selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on current market conditions and the historical experience of manufacturing and selling products of similar nature. These estimates could change significantly as a result of changes in customer preferences and competitor actions in response to severe industry cycles.

(b) Expected credit loss for trade and other receivables

The impairment provisions for trade receivables are based on assumptions about the expected loss rates. The Target Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Target 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 22(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.

4 REVENUE AND SEGMENT REPORTING

(a) Disaggregation of revenue

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

	Years ended 31 December			Nine months ended 30 September	
	2015	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Disaggregated by major products lines					
– High-speed railway	171,386	208,335	271,207	222,227	171,257
– Underground	40,619	44,840	66,292	57,170	115,980
– Urban rail transit	8,189	8,717	4,100	–	9,780
– Others	–	3,447	960	539	859
	220,194	265,339	342,559	279,936	297,876
Disaggregated by geographical location of customers					
– Mainland China	219,800	265,339	338,719	278,950	281,963
– Others	394	–	3,840	986	15,913
	220,194	265,339	342,559	279,936	297,876

All revenue from contracts with customers are recognised at point in time.

The Target Group's customer base includes 2,1,2,2 (unaudited) and 3 customers with whom transactions have exceeded 10% of the Target Group's revenues for the years ended 31 December 2015, 2016 and 2017 and the nine months ended 30 September 2017 and 2018, respectively.

(b) Segment reporting

Management of the Target Group assesses the performance and allocates the resources of the Target Group as a whole. The Target Group's operations are sales of railway transit information systems. Therefore, management considers there to be only one operating segment under the requirements of IFRS 8, *Operating Segments*. In this regard, no segment information is presented for the Relevant Periods.

5 OTHER INCOME

		Years ended 31 December			Nine months ended 30 September	
	Note	**2015**	**2016**	**2017**	**2017**	**2018**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Interest income		370	480	727	690	100
Government grants		14,349	18,199	19,366	12,579	10,725
Amortisation of deferred income	*19*	–	–	435	325	325
Disposal gains on investment		1,719	–	–	–	–
Others		4	28	73	72	603
		16,442	18,707	20,601	13,666	11,753

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	Years ended 31 December			Nine months ended 30 September	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Interest on borrowings	–	–	356	129	1,419

(b) Staff costs

	Years ended 31 December			Nine months ended 30 September	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Salaries, wages and other benefits	42,403	51,670	62,620	39,753	52,974
Contributions to retirement benefit scheme	3,290	3,808	4,013	2,555	3,945
	45,693	55,478	66,633	42,308	56,919

(c) Other items

	Years ended 31 December			Nine months ended 30 September	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Amortisation					
– Lease prepayment	136	–	–	–	–
– Intangible assets	16	23	84	64	64
	152	23	84	64	64
Depreciation *(note 10)*	893	731	3,210	2,015	1,456
Impairment losses					
– trade and other receivables *(note 15)*	284	1,149	2,058	8,035	11,163
Write down of inventories	481	–	–	–	2,460
Cost of inventories	85,021	98,304	127,019	104,327	129,146

7 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Taxation in the consolidated statements of profit or loss and other comprehensive income represents:

		Years ended 31 December			Nine months ended 30 September	
	Note	**2015**	**2016**	**2017**	**2017**	**2018**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Current tax						
Provision for the year/period		6,134	10,777	14,955	15,075	11,754
Deferred tax						
Origination and reversal of temporary differences	20(b)	(269)	(397)	(393)	(1,131)	(2,893)
		5,865	10,380	14,562	13,944	8,861

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

	Years ended 31 December			Nine months ended 30 September	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Profit before taxation	64,141	75,754	95,555	88,709	58,283
Tax calculated at statutory tax rate of 25%	16,035	18,939	23,889	22,177	14,571
Statutory tax concession *(Note (ii), (iv) and (v))*	(9,480)	(8,291)	(10,178)	(9,318)	(6,625)
Super deduction *(Note (iii))*	(724)	(989)	(1,156)	–	–
Tax effect of non-deductible expenses	34	327	808	182	544
Tax effect of unused tax losses not recognised	–	233	874	547	61
Tax effect of share of losses of associates	–	161	325	356	310
Income tax expense for the year/period	5,865	10,380	14,562	13,944	8,861

Note:

(i) The subsidiaries of the Target Group established in the PRC are subject to PRC Corporate Income Tax rate of 25% during the Relevant Periods.

(ii) The Target Company has obtained approvals from the tax bureau to be taxed as enterprises with advanced and new technologies. As a result, the Target Company enjoyed a preferential PRC Corporate Income Tax rate of 15% during the Relevant Periods.

(iii) In addition to the preferential PRC Corporate Income Tax rate, the Target Company is also entitled to an additional deductible tax allowance calculated at 50% of the qualified research and development costs incurred by the Target Company.

(iv) A subsidiary of the Target Group has obtained approvals from the tax bureau to be taxed as enterprises with software products. As a result, such subsidiary enjoyed corporate income tax exemption for the first two years since 2014, and a preferential PRC Corporate Income Tax rate of 12.5% from 2016 to 2018. The effective tax rates are 0%, 12.5%,12.5%, 12.5% (unaudited) and 12.5% for the years ended 31 December 2015, 2016 and 2017 and the nine months ended 30 September 2017 and 2018, respectively.

(v) A subsidiary of the Target Group has obtained approvals from the tax bureau to be taxed as enterprises engaged in encouraged industry and located in western region in the PRC. As a result, such subsidiary enjoyed a preferential PRC Corporate Income Tax rate of 15% during the Relevant Periods.

8 DIRECTORS' EMOLUMENTS

The directors believe the presentation of such information is not meaningful for the purpose of this Historical Financial Information.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The directors believe the presentation of such information is not meaningful for the purpose of this Historical Financial Information.

10 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Buildings	Plant, machinery, equipment and others	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost					
At 1 January 2015	1,401	–	1,463	673	3,537
Additions	–	–	481	78	559
At 31 December 2015 and 1 January 2016	1,401	–	1,944	751	4,096
Additions	–	–	1,267	75	1,342
Disposals	–	–	–	(826)	(826)
At 31 December 2016 and 1 January 2017	1,401	–	3,211	–	4,612
Additions	3,115	6,494	1,829	–	11,438
Disposals	–	–	(108)	–	(108)
At 31 December 2017 and 1 January 2018	4,516	6,494	4,932	–	15,942
Additions	137	–	1,651	–	1,788
At 30 September 2018	4,653	6,494	6,583	–	17,730

	Leasehold improvements *RMB'000*	Buildings *RMB'000*	Plant, machinery, equipment and others *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Accumulated depreciation					
At 1 January 2015	–	–	(582)	–	(582)
Charge for the year	(600)	–	(293)	–	(893)
At 31 December 2015 and 1 January 2016	(600)	–	(875)	–	(1,475)
Charge for the year	(400)	–	(331)	–	(731)
At 31 December 2016 and 1 January 2017	(1,000)	–	(1,206)	–	(2,206)
Charge for the year	(2,166)	(283)	(761)	–	(3,210)
Disposals	–	–	101	–	101
At 31 December 2017 and 1 January 2018	(3,166)	(283)	(1,866)	–	(5,315)
Charge for the period	(433)	(226)	(797)	–	(1,456)
At 30 September 2018	(3,599)	(509)	(2,663)	–	(6,771)
Net book value:					
At 31 December 2015	801	–	1,069	751	2,621
At 31 December 2016	401	–	2,005	–	2,406
At 31 December 2017	1,350	6,211	3,066	–	10,627
At 30 September 2018	1,054	5,985	3,920	–	10,959

As at 31 December 2017 and 30 September 2018, the Target Group was in the process of applying for the title certificates of the buildings with a net book value of approximately RMB6,211,000 and RMB5,985,000, respectively. The directors of the Target Company are of the opinion that the Target Group is entitled to lawfully and validly occupy and use the above-mentioned buildings, and the aforesaid matter did not have any significant impact on the Target Group's financial position as at 31 December 2017 and 30 September 2018.

11 LEASE PREPAYMENTS

	At 31 December			At 30 September
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At 1 January	6,861	6,861	–	–
Disposal	–	(6,861)	–	–
At 31 December/30 September	6,861	–	–	–
Accumulated amortisation:				
At 1 January	(206)	(343)	–	–
Charge for the year/period	(137)	–	–	–
Disposal	–	343	–	–
At 31 December/30 September	(343)	–	–	–
Net book value:				
At 31 December/30 September	6,518	–	–	–

12 INVESTMENTS IN SUBSIDIARIES

As the date of this report, the Target Company has direct or indirect interests in the following subsidiaries, all of which are private companies:

Name of subsidiary	Form of business structure	Place and date of incorporation	Particulars of registered capital	Proportion of owner interest: Group's effective interest	Held by the company	Held by a subsidiary	Principal activity
蘇州交運電子科技有限公司 (Suzhou Jiaoyun Electronic Technology Co., Ltd#)	Limited liabilities company	The PRC 27 March 2013	RMB5,000,000	100.00%	100.00%	–	Research and production of "on-board PIS" products
廣州粵鐵華啟智能科技有限公司 (Guangzhou Yuetie Huaqi Intelligent Technology Co., Ltd#) ("**Guangzhou Yuetie**") *(Note)*	Limited liabilities company	The PRC 14 March 2016	RMB4,730,000	56%	56%	–	Research and production of "on-board PIS" products
成都華啟高科智能科技有限公司 (Chengdu Huaqi Hi-Tech Intelligent Technology Co., Ltd#)	Limited liabilities company	The PRC 1 November 2016	RMB20,000,000	100.00%	100.00%	–	Research and production of "on-board PIS" products

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Name of subsidiary	Form of business structure	Place and date of incorporation	Particulars of registered capital	Proportion of owner interest: Group's effective interest	Held by the company	Held by a subsidiary	Principal activity
成都華啟縱橫智能科技有限公司 (Chengdu Huaqi Zongheng Intelligent Technology Co., Ltd#)	Limited liabilities company	The PRC 17 January 2017	RMB10,000,000	100.00%	100.00%	–	Research and production of "on-board PIS" products
湖南華啟卓爾智能科技有限公司 (Hunan Huaqi Zhuoer Intelligent Technology Co., Ltd#)	Limited liabilities company	The PRC 24 March 2017	RMB10,000,000	100.00%	100.00%	–	Research and production of railway transit communication system
山東華啟科創智能科技有限公司 (Shandong Huaqi Kechuang Intelligent Technology Co., Ltd#)	Limited liabilities company	The PRC 5 June 2017	RMB10,000,000	100.00%	100.00%	–	Research and production of "on-board PIS" products
河南華啟思創智能科技有限公司 (Henan Huaqi Sichuang Intelligent Technology Co., Ltd#)	Limited liabilities company	The PRC 13 March 2017	RMB20,000,000	100.00%	100.00%	–	Research and production of "on-board PIS" products
蘇州奈特力智能科技有限公司 (Suzhou Naiteli Intelligent Technology Co., Ltd#)	Limited liabilities company	The PRC 27 April 2018	RMB10,000,000	100.00%	100.00%	–	Research and production of Electronic Technology products

Note: The Target Company held 61.31%, 56% and 56% equity interests in Guangzhou Yuetie as at 31 December 2016 and 2017 and 30 September 2018, respectively.

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13 INTERESTS IN ASSOCIATES

As at 31 December 2016 and 2017 and 30 September 2018, the particulars of associates of the Target Group are as below, all of which are unlisted corporate entities whose quoted market price is not available:

At 31 December 2016

Name of associate	Form of business structure	Place of incorporation and business	Particulars of registered capital	Proportion of owner interest: The Target Group's effective interest	Held by the Target company	Held by a subsidiary	Principal activity
蘇州易啟康電子科技有限公司 (Suzhou Yiqikang Electronic Technology Co., Ltd. #) ("**Suzhou Yiqikang**")	Limited liabilities company	The PRC	RMB5,000,000	40%	40%	–	Research and production of "on-board PIS" products
蘇州科可瑞爾航空技術有限公司 (Suzhou Cancrieas Aviation Technology Co., Ltd. #) ("**Suzhou Cancrieas**")	Limited liabilities company	The PRC	RMB1,200,000	18.75%	18.75%	–	Research and production of aviation "on-board PIS" products
廣東眾城交通技術有限公司 (Guangdong Zhongcheng Transportation Technology Co.,Ltd. #) ("**Guangdong Zhongcheng**")	Limited liabilities company	The PRC	RMB19,438,000	11.54%	–	11.54%	Production of railway accessories

At 31 December 2017

Name of associate	Form of business structure	Place of incorporation and business	Particulars of registered capital	Proportion of owner interest: The Target Group's effective interest	Held by the Target company	Held by a subsidiary	Principal activity
Suzhou Yiqikang	Limited liabilities company	The PRC	RMB5,000,000	40%	40%	–	Research and production of "on-board PIS" products
Suzhou Cancrieas	Limited liabilities company	The PRC	RMB1,200,000	15%	15%	–	Research and production of aviation "on-board PIS" products
Guangdong Zhongcheng	Limited liabilities company	The PRC	RMB19,438,000	11.54%	–	11.54%	Production of railway accessories

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				At 30 September 2018			
				Proportion of owner interest			
Name of associate	Form of business structure	Place of incorporation and business	Particulars of registered capital	The Target Group's effective interest	Held by the Target company	Held by a subsidiary	Principal activity
Suzhou Yiqikang	Limited liabilities company	The PRC	RMB5,000,000	40%	40%	–	Research and production of "on-board PIS" products
Suzhou Cancrieas	Limited liabilities company	The PRC	RMB1,200,000	20.29%	20.29%	–	Research and production of aviation "on-board PIS" products
Guangdong Zhongcheng	Limited liabilities company	The PRC	RMB19,438,000	11.54%	–	11.54%	Production of railway accessories

All of the above associates are accounted for using the equity method in the Historical Financial Information.

The directors of the Target Company are of the opinion that no associates are individually material to the Target Group. Aggregate information of associates that are not individually material are listed below:

	At 31 December			At 30 September
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Aggregate carrying amount of individually immaterial associates in the Historical Financial Information	–	7,293	6,157	7,042

	Years ended 31 December			Nine months ended 30 September	
	2015	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Aggregate carrying amount of the Target Group's share of those associates' profits less losses from continuing operation	–	(1,077)	(2,166)	(2,376)	(2,070)
Total comprehensive income	–	(1,077)	(2,166)	(2,376)	(2,070)

14 INVENTORIES

Inventories in the consolidated statements of financial position comprise:

	At 31 December			At 30 September
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	30,393	52,271	76,127	99,105
Work in progress	3,354	1,609	6,027	2,725
Finished goods	9,956	15,290	33,393	51,704
Goods in transit	73,178	81,448	119,292	142,296
	116,881	150,618	234,839	295,830

15 TRADE AND OTHER RECEIVABLES

	At 31 December			At 30 September
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables due from				
– Immediate holding company	–	–	–	899
– An associate	–	–	–	935
– Third parties	77,980	100,425	111,049	284,425
	77,980	100,425	111,049	286,259
Less: allowance for doubtful debts of trade receivables *(Note 15(b))*	(3,874)	(4,893)	(7,039)	(18,141)
Bills receivable	44,000	29,590	166,796	74,814
	118,106	125,122	270,806	342,932
Other receivables due from				
– Immediate holding company	–	–	–	67,000
– Third parties	505	602	1,030	2,070
	505	602	1,030	69,070
Less: allowance for doubtful debts of other receivables	(71)	(201)	(113)	(174)
Prepayments and others	2,472	8,168	10,285	10,911
	121,012	133,691	282,008	422,739

All of the other trade and other receivables (including amounts due from related parties) are expected to be recovered or recognised as expense within one year.

15 TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Ageing analysis

The Target Group allows a credit period of 90 days to its customers. As of the end of each reporting period, the aging analysis of trade and bills receivables, based on the invoice date and net of loss allowance, is as follows:

	At 31 December			At 30 September
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	86,691	85,134	122,925	146,145
More than 3 months but within 6 months	25,143	20,063	134,926	150,631
More than 6 months but within 9 months	6,046	17,435	4,356	27,071
More than 9 months but within 12 months	–	2,243	2,897	5,743
Over 12 months	226	247	5,702	13,342
	118,106	125,122	270,806	342,932

(b) Impairment of trade receivables

The movements in the allowance for doubtful debts during the Relevant Periods are as follows:

	At 31 December			At 30 September
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January	3,643	3,874	4,893	7,039
Impairment loss recognised	1,532	1,983	3,819	11,494
Written-off during the year/period	(1,301)	(964)	(1,673)	(392)
Balance at 31 December/ 30 September	3,874	4,893	7,039	18,141

16 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	At 31 December			At 30 September
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank and on hand	71,471	44,892	34,372	36,602

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Target 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 Target Group's consolidated statements of cash flows as cash flows from financing activities.

	Bank Loans	Interests Payables	Total
	RMB'000	*RMB'000*	*RMB'000*
	(Note 18)		
At 1 January 2015, 2016 and 2017	–	–	–
Changes from financing cash flows			
Proceeds from new bank loans	20,000	–	20,000
Interest paid	–	(356)	(356)
Total changes from financing cash flows	20,000	(356)	19,644
Other changes			
Interests on borrowings *(Note 6(a))*	–	356	356
At 31 December 2017 and 1 January 2018	20,000	–	20,000
Changes from financing cash flows			
Proceeds from new bank loans	130,985	–	130,985
Repayments of bank loans	(20,000)	–	(20,000)
Interest paid	–	(1,419)	(1,419)
Total changes from financing cash flows	110,985	(1,419)	109,566
Other changes			
Interests on borrowings *(Note 6(a))*	–	1,419	1,419
Foreign exchange gains	(142)	–	(142)
	(142)	1,419	1,277
At 30 September 2018	130,843	–	130,843
(unaudited)			
At 1 January 2017	–	–	–
Changes from financing cash flows			
Proceeds from new bank loans	20,000	–	20,000
Interest paid	–	(129)	(129)
Total changes from financing cash flows	20,000	(129)	19,871
Other Changes			
Interests on borrowings *(Note 6(a))*	–	129	129
At 30 September 2017	20,000	–	20,000

17 TRADE AND OTHER PAYABLES

	At 31 December			At 30 September
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables due to				
–Immediate holding company	–	14,469	4,469	4,469
–An associate	–	–	751	1,288
–Third parties	43,732	42,224	99,388	144,933
Bills payable	35,310	25,636	54,627	47,936
	79,042	82,329	159,235	198,626
Accrued expenses and other payables	14,083	11,841	23,098	23,015
Other taxes payables	2,172	–	89	4,821
	95,297	94,170	182,422	226,462

All of the other trade and other payables (including amounts due to related parties) are expected to be settled or recognised as income within one year or are repayable on demand.

18 BANK LOANS

The analysis of the carrying amount of bank loans due within one year is as follows:

	At 31 December			At 30 September
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Guaranteed and unsecured *(note (i))*	–	–	–	30,843
Unguaranteed and unsecured	–	–	20,000	100,000
	–	–	20,000	130,843

Notes:

(i) As at 30 September 2018, the bank loans of RMB30,843,000 of the Target Group were guaranteed by 寧波銀行 (Bank of Ningbo#), a third party.

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(ii) Some of the Target Group's banking loans are subject to fulfilment of covenants commonly found in lending agreements with financial institutions. If the Target Group were to breach the covenants, the drawn down loans would become payable on demand. The Target Group's management regularly monitors its compliance with these covenants. Further details of the Target Group's management of liquidity risks are set out in Note 22(b). As at 31 December 2017 and 30 September 2018, none of the covenants relating to the drawn down facilities has been breached.

19 DEFERRED INCOME

		At 31 December		At 30 September
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	1,000	1,000	2,500	3,665
Additions	–	1,500	1,600	–
Recognised in profit or loss	–	–	(435)	(325)
At 31 December/30 September	1,000	2,500	3,665	3,340

Deferred income mainly represents the government grants received from relevant PRC authorities for acquisition of property, plant and equipment of the Target Group. The subsidies are recognised in the statements of profit or loss and other comprehensive income over the estimated useful lives of the respective assets.

20 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(a) Movement of current taxation in the consolidated statements of financial position are as follows:

		At 31 December		At 30 September
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Income tax payable at 1 January	8,816	5,992	2,386	1,557
Provision for the year/period	6,134	10,777	14,955	11,754
Income tax paid	(8,958)	(14,383)	(15,784)	(11,370)
At 31 December/30 September	5,992	2,386	1,557	1,941

(b) Deferred tax assets recognised:

Deferred tax arising from	Impairment loss on trade and other receivables	Write down of inventories	Deferred income	Provision for warranties	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	545	–	–	–	545
Charged to profit or loss	47	72	150	–	269
At 31 December 2015 and 1 January 2016	592	72	150	–	814
Charged to profit or loss	172	–	225	–	397
At 31 December 2016 and 1 January 2017	764	72	375	–	1,211
Charged to profit or loss	230	(12)	175	–	393
At 31 December 2017 and 1 January 2018	994	60	550	–	1,604
Charged to profit or loss	1,550	369	(49)	1,023	2,893
At 30 September 2018	2,544	429	501	1,023	4,497

(c) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 2(o), the Target Group has not recognised deferred tax assets in respect of cumulative tax losses of certain subsidiaries of RMBNil, RMB932,000, RMB4,428,000 and RMB4,672,000 as at 31 December 2015, 2016, 2017 and 30 September 2018, respectively, 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.

21 CAPITAL, RESERVES AND DIVIDENDS

(a) Capital reserve

The capital reserve of the Target Group mainly represents contributions from the shareholders.

(b) Statutory reserve

In accordance with the relevant PRC laws and regulations, the Target Company's subsidiaries established in the PRC required to transfer 10% of their net profit to their respective statutory reserves until the respective reserves reach 50% of the respective registered capital. The transfer to this reserve must be made before distributions to equity holders. This reserve can be utilised in setting off accumulated losses or increasing capital of the respective subsidiaries and is non-distributable other than in liquidation.

(c) Distributions and dividends

No distribution or dividend was made during the Relevant Periods.

22 FINANCIAL RISK MANAGEMENT

The Target Group's exposure to credit, liquidity, interest rate and currency risks and the financial risk management policies and practices used by the Target 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 Target Group. The Target Group's credit risk is primarily attributable to trade and other receivables. The Target Group's exposure to credit risk arising from cash and cash equivalents, restricted bank deposits and bills receivable is limited because the counterparties are banks and financial institutions for which the Target Group considers to have low credit risk.

Trade receivables

The Target Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Target Group has significant exposure to individual customers. At 31 December 2015, 2016 and 2017 and 30 September 2018, 47%, 50%, 31% and 24% of the total trade receivables was due from the Target Group's largest customer, 90%, 90%, 77% and 70% of the total trade receivables was due from the five largest customers respectively.

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. Trade receivables are due within 90-360 days from the date of billing. Normally, the Target Group does not obtain collateral from customers.

The Target Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Target Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Target Group's different customer bases.

The following table provides information about the Target Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2015, 2016 and 2017 and 30 September 2018:

	Expected loss rate	Gross carrying amount	Loss allowance
	%	*RMB'000*	*RMB'000*
At 31 December 2015			
Within 1 year	4.87%	77,729	3,785
More than 1 year but within 2 years	35.31%	251	89
		77,980	3,874
At 31 December 2016			
Within 1 year	4.79%	100,150	4,797
More than 1 year but within 2 years	34.77%	275	96
		100,425	4,893
At 31 December 2017			
Within 1 year	4.65%	104,707	4,869
More than 1 year but within 2 years	33.73%	6,287	2,121
More than 2 years	89.15%	55	49
		111,049	7,039
At 30 September 2018			
Within 1 year	4.67%	271,336	12,672
More than 1 year but within 2 years	33.86%	14,174	4,799
More than 2 years	89.50%	749	670
		286,259	18,141

Expected loss rates are based on actual loss experience over the past 3 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 Target Group's view of economic conditions over the expected lives of the receivables.

(b) Liquidity risk

Individual operating entities within the Target Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Target Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Target Group's financial liabilities and, which are based on contractual undiscounted cash flows and the earliest date the Target Group can be required to pay:

	Contractual undiscounted cash outflow within 1 year or on demand	**Carrying amount**
	RMB'000	*RMB'000*
At 31 December 2015		
Trade and other payables	95,297	95,297
At 31 December 2016		
Trade and other payables	94,170	94,170
At 31 December 2017		
Bank loans	20,361	20,000
Trade and other payables	182,422	182,422
	202,783	202,422
At 30 September 2018		
Bank loans	134,951	130,843
Trade and other payables	226,462	226,462
	361,413	357,305

(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 Target Group's interest rate risk arises primarily from short-term borrowings. Borrowings issued at variable rates and fixed rates expose the Target Group to cash flow interest rate risk and fair value interest rate risk respectively. The Target Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Target Group's borrowings at the end of the reporting period.

	At 31 December						At 30 September	
	2015		**2016**		**2017**		**2018**	
	Effective interest rate	*RMB'000*	*Effective interest rate*	*RMB'000*	*Effective interest rate*	*RMB'000*	*Effective interest rate*	*RMB'000*
Fixed rate borrowings:								
Bank loans	–	–	–	–	4.25%–4.78%	20,000	1.50%–5.60%	120,843
Variable rate borrowings:								
Bank loans	–	–	–	–	–	–	5.21%	10,000
Total borrowings		–		–		20,000		130,843
Fixed rate borrowings as a percentage of total borrowings	–	–	–	–	–	100%	–	92%

(ii) Sensitivity analysis

At 31 December 2015, 2016 and 2017 and 30 September 2018, the Target Group was not exposed to any significant interest rate risk.

(d) Currency risk

At 31 December 2015, 2016 and 2017, the Target Group was not exposed to any currency risk. At 30 September 2018, the Target Group is exposed to currency risk primarily from cash balances and bank loans that are denominated in a foreign currency other than the functional currency of the operations to which the transaction relate. The currency giving rise to this risk is primarily Euros. The following table details the Target Group's exposure as at 30 September 2018 to currency risk arising from recognised assets or liabilities 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 also shown in RMB, translated using the spot rate at the year end date. Differences resulting from the translation of the Historical Financial Information of foreign operations into the Target Group's presentation currency.

	Exposure to foreign currencies (expressed in RMB)
	Euros
	RMB'000
At 30 September 2018	
Cash in bank	20,750
Bank loans	(30,843)
Net exposure arising from recognised assets and liabilities	(10,093)

The instantaneous change in the Target Group's profit after tax and retained profits that would be decreased/increased by RMB429,000 if foreign exchange rates at 30 September 2018 had appreciated/depreciated 5% at that date, assuming all other risk variables remained constant.

23 COMMITMENTS

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 December			**At 30 September**
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	1,027	304	1,083	984
After 1 year but within 2 years	12	–	–	–
After 2 years but within 3 years	5	–	–	–
	1,044	304	1,083	984

24 MATERIAL RELATED PARTY TRANSACTIONS

The major related parties that had transactions with the Target Group during the Relevant Periods were as follows:

Immediate holding company

東方網力科技股份有限公司 (NetPosa Technologies Limited#.)

Associates

Suzhou Yiqikang
Suzhou Cancrieas

Associate of immediate holding company

中盟科技有限公司 (UNIHZ Technologies Co., Ltd.#)

(a) Transactions with related parties

In addition to the transaction disclosed elsewhere in the Historical Financial Information, the Target Group entered into the following significant transactions with its related parties during the Relevant Periods:

	Years ended 31 December			Nine months ended 30 September	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Sales to					
Immediate holding company	–	–	–	–	768
Associates	–	–	51	39	799
Associate of immediate holding company	–	–	24	24	–
Purchases from					
Immediate holding company	3,000	12,367	–	–	–
Associates	–	–	5,470	3,596	8,220
Cash advances to					
Immediate holding company	–	22,000	29,000	29,000	70,000
Associates	–	–	300	300	–
Associate of immediate holding company	–	–	5,000	5,000	–
Repayment of cash advances from					
Immediate holding company	–	22,000	29,000	29,000	3,000
Associates	–	–	300	300	–
Associate of immediate holding company	–	–	5,000	5,000	–

English translation for identification only.

(b) Balances with related parties

	At 31 December			At 30 September
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other receivables due from *(note 15)*				
Immediate holding company	–	–	–	67,899
An associate	–	–	–	2,435
Trade and other payables *(note 17)*				
Immediate holding company	–	14,469	4,469	4,469
An associate	–	–	751	1,288

(c) Key management personnel remuneration

Remuneration for key management personnel of the Target Group are as follows:

	Years ended 31 December			Nine months ended 30 September	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Salaries and other benefits	2,169	2,391	2,410	1,816	1,998
Discretionary bonuses	908	1,015	1,381	–	–
Retirement scheme contributions	209	214	214	160	168
	3,286	3,620	4,005	1,976	2,166

25 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	At 31 December 2015 RMB'000	2016 RMB'000	2017 RMB'000	At 30 September 2018 RMB'000
Non-current assets					
Property, plant and equipment		2,621	3,599	2,922	3,168
Lease prepayments		6,518	–	–	–
Intangible assets		185	169	153	142
Investments in subsidiaries	*12*	5,000	6,555	29,090	55,590
Interests in associates		–	4,180	2,105	2,801
Deferred taxation assets		814	1,211	1,604	4,487
		15,138	15,714	35,874	66,188
Current assets					
Inventories		116,856	150,557	233,484	281,220
Trade and other receivables		120,981	133,589	270,241	398,106
Cash and cash equivalents		69,916	41,534	25,775	28,305
Restricted bank deposits		2,318	38,529	6,187	4,548
		310,071	364,209	535,687	712,179
Current liabilities					
Trade and other payables		120,126	131,825	207,020	279,018
Contract liabilities		46	20	4,095	190
Current taxation		5,873	1,483	1,387	351
Bank loans		–	–	20,000	130,843
Provision for warranties		–	–	–	4,633
		126,045	133,328	232,502	415,035
Net current assets		184,026	230,881	303,185	297,144
Total assets less current liabilities		199,164	246,595	339,059	363,332
Non-current liabilities					
Deferred income		1,000	2,500	3,665	3,340
Provision for warranties		–	–	–	2,187
		1,000	2,500	3,665	5,527
NET ASSETS		198,164	244,095	335,394	357,805
CAPITAL AND RESERVES	*21*				
Paid-in capital		60,000	60,000	60,000	60,000
Reserves		138,164	184,095	275,394	297,805
TOTAL EQUITY		198,164	244,095	335,394	357,805

26 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

As at 31 December 2015, 2016 and 2017 and 30 September 2018, the directors of the Target Company consider the immediate parent company and the ultimate holding company is NetPosa Technologies Limited.

27 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS

Up to the date of issue of this report, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ending 31 December 2018 and which have not been adopted in this Historical Financial Information. These include the following which may be relevant to the Target Group.

	Effective for accounting periods beginning on or after
IFRS 16, *Leases*	1 January 2019
IFRIC 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019

The Target Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far, it has concluded that the adoption of them is unlikely to have a significant impact on the Target Group's results of operations and financial position. The actual impact upon the initial adoption of these amendments, new standard and interpretations may differ as the assessment completed to date is based on the information currently available to the Target Group, and further impacts may be identified before the amendments, standards and interpretations are initially applied.

28 SUBSEQUENT EVENTS

Up to the date of issue of this accountants' report, there were no significant non-adjusting events after the Relevant Periods.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group in respect of any period subsequent to 30 September 2018.

A UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the unaudited pro forma financial information of the Enlarged Group, being the Company and its subsidiaries (collectively, the "**Group**") together with Suzhou Huaqi Intelligent Technology Co., Ltd. (the "**Target Company**") and its subsidiaries (collectively the "**Target Group**"), comprising the unaudited pro forma consolidated statement of financial position as at 30 June 2018, and the unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2017. It has been prepared by the directors of the Company in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), for the purpose of illustrating the effect of the proposed acquisition of 95% equity interests in the Target Company (the "**Proposed Acquisition**") on the Group's financial position as at 30 June 2018 and the Group's financial performance and cash flows for the year ended 31 December 2017, as if the Proposed Acquisition has been completed on 30 June 2018 and 1 January 2017, respectively.

The unaudited pro forma financial information has been prepared using accounting policies consistent with those of the Group and based upon the (i) unaudited consolidated statement of financial position of the Group at 30 June 2018 as extracted from the Company's published interim report for the period then ended, (ii) the consolidated statement of profit or loss, the consolidated statement of profit or losses and other comprehensive income, and the consolidated statement of cash flows of the Group for the year ended 31 December 2017 as extracted from the Company's published annual report for the year then ended, after making certain pro forma adjustments as described below. These pro forma adjustments of the Proposed Acquisition are (i) directly attributable to the Proposed Acquisition concerned and not relating to future events or decisions; and (ii) factually supportable based on the terms of the acquisition agreement.

The unaudited pro forma financial information of the Enlarged Group is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to describe the actual financial position of the Enlarged Group at 30 June 2018 or the actual financial performance and cash flows of the Enlarged Group that would have been attained had the Proposed Acquisition been completed on 30 June 2018 and 1 January 2017, respectively, or any future date. Furthermore, the accompanying unaudited pro forma financial information of the Enlarged Group is for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the financial information of the Enlarged Group or predict the future financial information of the Enlarged Group.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the historical financial information of the Group set out in the Company's published annual report for the year ended 31 December 2017, the Company's published interim report for the six months ended 30 June 2018, the historical financial information of the Target Group set out in Appendix III and other information included elsewhere in this Circular.

1 UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

	The Group as at 30 June 2018	The Target Group as at 30 September 2018	Other Pro Forma Adjustments			The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 5(a)	*Note 5(b)*	*Note 5(c)*	*Note 5(e)*	*Note 5(f)*	
Non-current assets						
Property, plant and equipment	118,731	12,984	–	3,897	–	135,612
Intangible assets	114,595	431	–	164,668	–	279,694
Prepayments for acquisition of property, plant and equipment	–	5,421	–	120	–	5,541
Goodwill	64,839	–	–	622,671	–	687,510
Interest in a subsidiary	–	–	1,213,096	(1,213,096)	–	–
Interests in joint ventures and associates	398,076	8,343	–	26	–	406,445
Deferred tax assets	34,638	5,328	–	–	–	39,966
	730,879	32,507	1,213,096	(421,714)	–	1,554,768
Current assets						
Inventories and other contract costs	99,606	350,486	–	–	–	450,092
Contract assets	401,869	–	–	–	–	401,869
Trade and other receivables	129,226	500,842	–	–	–	630,068
Cash and cash equivalents	1,106,049	43,364	(928,552)	–	(6,250)	214,611
Other financial assets	178,813	–	–	–	–	178,813
Restricted bank deposits	–	5,388	–	–	–	5,388
	1,915,563	900,080	(928,552)	–	(6,250)	1,880,841
Current liabilities						
Trade and other payables	330,675	268,302	–	–	–	598,977
Contract liabilities	69,195	225	–	–	–	69,420
Current taxation	34,801	2,300	–	–	–	37,101
Bank loans	–	155,017	–	–	–	155,017
Provision for warranties	–	5,489	–	–	–	5,489
	434,671	431,333	–	–	–	866,004

	The Group as at 30 June 2018	The Target Group as at 30 September 2018	Other Pro Forma Adjustments			The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 5(a)	*Note 5(b)*	*Note 5(c)*	*Note 5(e)*	*Note 5(f)*	
Net current assets	1,480,892	468,747	(928,552)	–	(6,250)	1,014,837
Total assets less current liabilities	2,211,771	501,254	284,544	(421,714)	(6,250)	2,569,605
Non-current liabilities						
Deferred tax liabilities	20,420	–	–	43,019	–	63,439
Deferred income	–	3,957	–	(3,364)	–	593
Provisions for warranties	–	2,591	–	–	–	2,591
Long-term payables	–	–	284,544	–	–	284,544
	20,420	6,548	284,544	39,655	–	351,167
NET ASSETS	2,191,351	494,706	–	(461,369)	(6,250)	2,218,438
CAPITAL AND RESERVES						
Share capital	21,048	71,085	–	(71,085)	–	21,048
Reserves	2,152,052	421,359	–	(421,359)	(6,250)	2,145,802
Total equity attributable to equity shareholders	2,173,100	492,444	–	(492,444)	(6,250)	2,166,850
Non-controlling interests	18,251	2,262	–	31,075	–	51,588
TOTAL EQUITY	2,191,351	494,706	–	(461,369)	(6,250)	2,218,438

2 UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2017

	The Group	The Target Group	Other Pro Forma Adjustments				The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 5(a)	*Note 5(b)*	*Note 5(c)*	*Note 5 (d)*	*Note 5(e)*	*Note 5(f)*	
Revenue	564,587	396,501	–	–	–	–	961,088
Cost of sales	(451,301)	(147,021)	–	–	–	–	(598,322)
Gross profit	113,286	249,480	–	–	–	–	362,766
Other income	12,308	23,845	–	10,886	–	–	47,039
Selling, general and administrative expenses	(85,500)	(96,709)	–	–	(6,927)	(6,250)	(195,386)
Research expense	–	(60,264)	–	–	–	–	(60,264)
Other expense and losses	–	(2,832)	–	–	–	–	(2,832)
Profit from operations	40,094	113,520	–	10,886	(6,927)	(6,250)	151,323
Finance costs	–	(412)	(11,120)	(7,813)	–	–	(19,345)
Share of profits less losses of associates	11,482	(2,507)	–	–	–	–	8,975
Profit before taxation	51,576	110,601	(11,120)	3,073	(6,927)	(6,250)	140,953
Income tax	(6,336)	(16,855)	–	–	1,732	–	(21,459)
Profit for the year	45,240	93,746	(11,120)	3,073	(5,195)	(6,250)	119,494
Attributable to:							
Equity shareholders	38,554	93,770	(11,120)	3,073	(9,624)	(6,250)	108,403
Non-controlling interests	6,686	(24)	–	–	4,429	–	11,091
Total profit for the year	45,240	93,746	(11,120)	3,073	(5,195)	(6,250)	119,494

3 UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	The Group	The Target Group	Other Pro Forma Adjustments				The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 5(a)	*Note 5(b)*	*Note 5(c)*	*Note 5 (d)*	*Note 5(e)*	*Note 5(f)*	
Profit for the year	45,240	93,746	(11,120)	3,073	(5,195)	(6,250)	119,494
Other comprehensive income for the year (after tax)							
Items that may be reclassified subsequently to profit or loss:							
– Exchange differences on translation of financial statements into presentation currency	54,388	–	–	–	–	–	54,388
Total comprehensive income for the year	99,628	93,746	(11,120)	3,073	(5,195)	(6,250)	173,882
Attributable to:							
Equity shareholders	91,423	93,770	(11,120)	3,073	(9,624)	(6,250)	161,272
Non-controlling interests	8,205	(24)	–	–	4,429	–	12,610
Total comprehensive income for the year	99,628	93,746	(11,120)	3,073	(5,195)	(6,250)	173,882

4 UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

	The Group	The Target Group	Other Pro Forma Adjustments				The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 5(a)	*Note 5(b)*	*Note 5(c)*	*Note 5(d)*	*Note 5(e)*	*Note 5(f)*	
Operating activities							
Profit before taxation	51,576	110,601	(11,120)	3,073	(6,927)	(6,250)	140,953
Adjustments for:							
Impairment on trade and other receivables	–	2,382	–	–	–	–	2,382
Depreciation and amortisation	42,263	3,812	–	–	6,927	–	53,002
Interest income	(3,055)	–	–	(10,886)	–	–	(13,941)
Amortisation of deferred income	–	(503)	–	–	–	–	(503)
Investment income	(4,116)	–	–	–	–	–	(4,116)
Share of profits of joint ventures and associates	(11,482)	2,507	–	–	–	–	(8,975)
Equity-settled share-based payment expenses	563	–	–	–	–	–	563
Net loss/(gain) on disposal of property, plant and equipment and intangible assets	8	(8)	–	–	–	–	–
Interest expense	–	412	11,120	7,813	–	–	19,345
Changes in working capital:							
Increase in inventories	(9,560)	(97,483)	–	–	–	–	(107,043)
Decrease in trade and other receivables	(131,799)	(174,053)	–	–	–	–	(305,852)
Increase in contract liabilities	–	5,720	–	–	–	–	5,720
Increase in deferred income	–	1,852	–	–	–	–	1,852
Increase in trade and other payables	136,527	102,149	–	–	–	–	238,676
Decrease in restricted bank deposits	–	37,434	–	–	–	–	37,434

	The Group	The Target Group	Other Pro Forma Adjustments				The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 5(a)	*Note 5(b)*	*Note 5(c)*	*Note 5(d)*	*Note 5(e)*	*Note 5(f)*	
Cash generated from/(used in) operations	70,925	(5,178)	–	–	–	(6,250)	59,497
Interest received	3,055	–	–	–	–	–	3,055
Income tax paid	(10,910)	(18,269)	–	–	–	–	(29,179)
Net cash generated from/(used in) operating activities	63,070	(23,447)	–	–	–	(6,250)	33,373
Investing activities							
Payments for the purchase of property, plant and equipment and intangible assets	(9,096)	(10,872)	–	–	–	–	(19,968)
Proceeds from disposal of property	–	15	–	–	–	–	15
Capital contributions upon the establishment of joint ventures and an associate	(72,256)	–	–	–	–	–	(72,256)
Capital contribution to associates	–	(1,192)	–	–	–	–	(1,192)
Payments for purchase of available-for-sale debt investments	(818,035)	–	–	–	–	–	(818,035)
Proceeds from sale of available-for-sale debt investments	842,266	–	–	–	–	–	842,266
Cash advances to related parties	–	(39,701)	–	–	–	–	(39,701)
Interests received from NetPosa Technologies Limited ("**NetPosa**")	–	–	–	10,886	–	–	10,886
Deposits paid to Netposa	–	–	–	(483,822)	–	–	(483,822)
Repayment of deposits	–	–	–	483,822	–	–	483,822
Repayment of cash advances from related parties	–	39,701	–	–	–	–	39,701
Payments related to proposed acquisition	–	–	(928,552)	–	–	–	(928,552)

	The Group	The Target Group	Other Pro Forma Adjustments				The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 5(a)	*Note 5(b)*	*Note 5(c)*	*Note 5(d)*	*Note 5(e)*	*Note 5(f)*	
Net cash used in investing activities	(57,121)	(12,049)	(928,552)	10,886	–	–	(986,836)
Financing activities							
Capital contribution from non-controlling shareholders	–	582	–	–	–	–	582
Proceeds from new bank loans	–	23,149	–	347,241	–	–	370,390
Repayments of bank loans	–	–	–	(347,241)	–	–	(347,241)
Interests paid	–	(412)	–	(7,813)	–	–	(8,225)
Proceeds from shares issued under share option scheme	3,239	–	–	–	–	–	3,239
Payment for purchase of own shares	(5,848)	–	–	–	–	–	(5,848)
Net cash generated (used in)/from financing activities	(2,609)	23,319	–	(7,813)	–	–	12,897
Net increase/(decrease) in cash and cash equivalent	3,340	(12,177)	(928,552)	3,073	–	(6,250)	(940,566)
Cash and cash equivalents at 1 January	1,118,431	51,961	–	–	–	–	1,170,392
Effect of foreign exchange rate changes	7,009	–	–	–	–	–	7,009
Cash and cash equivalents at 31 December	1,128,780	39,784	(928,552)	3,073	–	(6,250)	236,835

5 NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(a) The financial position of the Group was extracted from the unaudited consolidated statement of financial position of the Group as at 30 June 2018, as set out in the Company's published interim report for the six months ended 30 June 2018. The financial performance and cash flows of the Group for the year ended 31 December 2017, were extracted from the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows, as set out in the Company's published annual report for the year ended 31 December 2017.

(b) The financial position of the Target Group as at 30 September 2018 and the financial performance and cash flows of the Target Group for the year ended 31 December 2017 were extracted from the Accountants' Report of the Target Group, as set out in the Appendix III to this circular. For the purpose of this unaudited pro forma financial information, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows of the Target Group for the year ended 31 December 2017 are translated into Hong Kong dollars ("**HK$**") using an exchange rate of RMB1 to HK$1.1575, being the average exchange rate adopted by the Group for the year ended 31 December 2017, and the consolidated statement of financial position of the Target Group as at 30 September 2018 is translated into Hong Kong dollars using an exchange rate of RMB1 to HK$1.1848, being the exchange rate adopted by the Group as at 30 June 2018. No representation is made that RMB denominated amounts have been, could have been or could be converted to HK$, or vice versa, at the rates applied or at any other rates or at all.

(c) As more detailed explained in the section headed "Consideration" in the Letter from the Board in this circular, the total consideration for the Proposed Acquisition is RMB1,045,000,000 (equivalent to approximately HK$1,237,635,000) (subject to certain downward adjustments), which shall be satisfied by way of cash by the Company to NetPosa in five instalments.

The first and second payments, as to RMB365,750,000 and RMB418,000,000, respectively (equivalent to approximately HK$433,324,000 and HK$495,228,000, respectively), will be satisfied in cash once the Proposed Acquisition is completed, which will result in an adjustment of HK$928,552,000 in cash and cash equivalents.

The third, fourth and fifth payments, as to RMB73,150,000, RMB83,600,000 and RMB104,500,000, respectively (equivalent to approximately HK$86,310,000, HK$98,705,000 and HK$124,066,000, respectively), will be payable to NetPosa after the relevant audited accounts for each of the years ended 31 December 2019, 2020 and 2021 have been issued respectively. These payments are subject to downward adjustments in respect of certain performance guarantees, details of which are set out in the section "Expected performance guarantee" in this circular. Based on the profit forecast of the Target Group, the Directors expect that the Target Group will almost fulfil the performance guarantees. For the purpose of this pro forma financial information, these three payments are discounted to their aggregate present value of HK$284,544,000 and recognised as long-term payables in the pro forma consolidated statement of financial position at 30 June 2018.

As a result of the foregoing, the fair value of the total considerations is HK$1,213,096,000.

The adjustment of HK$11,120,000 to the finance costs represents the reversal of the discounting effect and is expected to have a continuing effect on the Enlarged Group until the year ending 31 December 2021.

No adjustment has been made to the current taxation for the adjustments above as the directors of the Company determined that effect is insignificant.

(d) Pursuant to the acquisition agreements, the Company has conditionally agreed to pay NetPosa through BII Technology Development Co.,Ltd. ("**BII Zhuoyue**"), a subsidiary of the Company, a refundable deposit amounting to RMB418,000,000 (equivalent to approximately HK$483,822,000) with an interest rate of 9%, and such deposit will be refunded to the Company through BII Zhuoyue by NetPosa.

The adjustment of HK$10,886,000 on other income represent the interest income received from NetPosa and is not expected to have a continuing effect on the Enlarged Group.

In order to pay such deposits, BII Zhuoyue borrowed an entrusted loan from its ultimate holding company Beijing Infrastructure Investment Co., Ltd. through 興業銀行股份有限公司 (Industrial Bank Co., Ltd.#) with a principal of RMB300,000,000 (equivalent to approximately HK$347,241,000) at an interest rate of 9% for the same period in which the deposit is held by NetPosa.

The adjustment of HK$7,813,000 on financial cost represents the interest paid on the entrusted loan and is not expected to have a continuing effect on the Enlarged Group.

The directors of the Company believe that the deposit will be refunded and the entrusted loans will be repaid before the date of completion of the Proposed Acquisition, therefore, there will be no effect on the cash and cash equivalents as at 30 June 2018.

(e) Upon completion of the Proposed Acquisition, the identifiable assets and liabilities of the Target Group will be accounted for in the unaudited pro forma statement of financial position of Enlarged Group at fair values under the acquisition method of accounting in accordance with International Financial Reporting Standard 3 ("**IFRS 3**"), *Business Combinations*, issued by the International Accounting Standards Board.

For the purpose of the unaudited pro forma financial information, the allocation of the purchase price is determined based on the estimates of the fair values of the identifiable assets and liabilities made the by the directors of the Company, and by reference to a preliminary valuation report by an independent qualified valuer, as if the Proposed Acquisition was completed on the 30 June 2018.

The amount of goodwill and fair values of the identifiable assets and liabilities of the Target Group are subject to change upon the completion of the valuation of the fair values of the identifiable assets and liabilities of the Target Group on the date of completion of the Proposed Acquisition. Consequently, the resultant goodwill, the actual allocation of the purchase price and the resultant non-controlling interest at the date of completion, and depreciation and amortisation for subsequent periods, will likely be different amounts from those stated in this pro forma financial information.

Pro forma adjustments made represent:

(i) The consolidation entry to eliminate the share capital of the Target Company and pre-acquisition reserves on consolidation;

English translation for identification only.

(ii) Recognition of fair values of the identifiable assets acquired and liabilities assumed of the Target Group:

	Carrying Amounts	Fair Value Adjustments	Fair Value
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	12,984	3,897	16,881
Intangible assets	431	164,668	165,099
Prepayments for acquisition of property, plant and equipment	5,421	120	5,541
Interest in Joint venture and associates	8,343	26	8,369
Deferred tax assets	5,328	–	5,328
Inventory and other contract costs	350,486	–	350,486
Trade and other receivables	500,842	–	500,842
Cash and cash equivalents	43,364	–	43,364
Restricted bank deposits	5,388	–	5,388
Trade and other payables	(268,302)	–	(268,302)
Contract liabilities	(225)	–	(225)
Current taxations	(2,300)	–	(2,300)
Bank loans	(155,017)	–	(155,017)
Provision for warranties, due within one year	(5,489)	–	(5,489)
Deferred income	(3,957)	3,364	(593)
Provision for warranties, due after one year	(2,591)	–	(2,591)
	494,706	172,075	666,781

(iii) Recognition of non-controlling interests of HK$31,075,000 and goodwill of HK$622,671,000 being the excess of the purchase consideration over the Company's share of the fair value of the net identifiable assets acquired and liabilities assumed of the Target Group.

	Note	*HK$'000*
Fair value of consideration	*(c)*	1,213,096
Net identifiable assets acquired:		
Carrying amounts of net assets of the Target Group	*(ii)*	494,706
Fair value adjustments	*(ii)*	172,075
Effect of deferred tax liabilities estimated at corporate tax rate of 25%	*(ii)*	(43,019)
Total net assets acquired		623,762
Non-controlling interests in the Target Group		(33,337)
Identifiable assets acquired and liabilities assumed		590,425
Goodwill arising from the Proposed Acquisition:		622,671

For the purpose of the unaudited pro forma financial information of the Enlarged Group, the Group's management has performed an impairment assessment on the provisional intangible assets and goodwill arising from the Proposed Acquisition in accordance with International Accounting Standard 36 ("**IAS 36**") *Impairment of Assets* and concluded that there would have been no impairment of the provisional intangible assets and goodwill if the Proposed Acquisition had been completed on 30 June 2018 for the purpose of unaudited pro forma consolidated statement of financial position and 1 January 2017 for the purpose of unaudited pro forma consolidated statement of profit or loss, unaudited consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows. The recoverable amount under impairment assessment was derived based on the value-in-use calculations. That calculations used cash flows projections based on financial budgets as approved by management of the Target Group covering a five-year period, assuming that (i) there are no material adverse changes in the fair values of the assets and liabilities of the Target Group; and (ii) the identifiable assets and liabilities can be realised at their carrying amounts. However, should there be any adverse changes to the business of the Target Group, including but not limited to, any subsequent adverse changes in the operation, impairment may be required to be recognised against the provisional intangible assets and goodwill in accordance with IAS 36 and the Group's accounting policies.

The directors confirmed that they will adopt consistent approach to assess impairment of the provisional intangible assets and goodwill in subsequent reporting periods in accordance with the requirements of IAS 36 and will disclose in the Group's annual report the basis and assumptions adopted by the directors in the impairment assessment in accordance with the disclosure requirements of IAS 36. The Company has communicated such basis with its current auditors, who will audit and opine on the consolidated financial statements of the Group in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants.

(iv) The adjustment of HK$6,927,000 to selling, general and administrative expenses represents an additional annual depreciation and amortisation of approximately HK$445,000 and HK$6,482,000 arising from the fair value adjustments to property, plant and equipment and intangible assets. As a result, an adjustment of HK$1,732,000 is made to income tax for the reversal of the corresponding deferred tax liabilities. These adjustments are expected to have a continuing effect on the Enlarged Group.

(v) Adjustment on non-controlling interests' share of the Target Group's profit for the year:

	HK$'000
Profit of the Target Group attributable to equity shareholders after adjusting for items in (iv) above	88,575
Profit shared by the 5% non-controlling interests	4,429

The adjustment is expected to have a continuing effect on the Enlarged Group's consolidated statement of profit or loss.

(f) The directors of the Company estimate that acquisition-related costs (including fees to be paid to legal advisers, financial adviser, reporting accountants, valuer, printer and other expenses) is approximately HK$6,250,000. The adjustment is not to expected to have a continuing effect on the Enlarged Group.

(g) No adjustment has been made to the pro forma financial information for option granted to the non-controlling shareholders as the directors of the Company determined the effect is not significant based on the profit forecast of the Target Group.

(h) No adjustments have been made to adjust any trading results or other transaction of the Group and the Target Group subsequent to 30 June 2018 and 30 September 2018, respectively.

B INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this circular.

KPMG

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF BII RAILWAY TRANSPORTATION TECHNOLOGY HOLDINGS COMPANY LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of BII Railway Transportation Technology Holdings Company Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2018, and the unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income, and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2017, and related notes as set out in Part A of Appendix IV to the circular dated 31 January 2019 (the "**Circular**") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix IV to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of 95% equity interests in 蘇州華啟智能科技有限公司 (Suzhou Huaqi Intelligent Technology Co., Ltd.#) (the "**Proposed Acquisition**") on the Group's financial position as at 30 June 2018 and the Group's financial performance and cash flows for the year ended 31 December 2017, as if the Proposed Acquisition has been completed on 30 June 2018 and 1 January 2017 respectively. As part of this process, information about the Group's financial position as at 30 June 2018 has been extracted by the Directors from the unaudited consolidated financial statements of the Company as at 30 June 2018, on which a review report has been published. Information about the Group's financial performance and cash flows for the year ended 31 December 2017 has been extracted by the Directors from the consolidated financial statements of the Company for the year then ended, on which an audit report has been published.

English translation for identification only.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("**HKSAE**") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For the purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 30 June 2018 or 1 January 2017 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

a) the pro forma financial information has been properly compiled on the basis stated;

b) such basis is consistent with the accounting policies of the Group, and

c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

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

31 January 2019

The following is the text of a report received from the valuer, 北京中同華資產評估有限公司 (China Alliance Appraisal Co., Ltd), for the purpose of incorporation in this circular.*

The valuation of the total equity values of shareholders for 蘇州華啟智能科技有限公司 (Suzhou Huaqi Intelligent Technology Co., Ltd.*) involved in the proposed acquisition of 95% of equity interests in Suzhou Huaqi Intelligent Technology Co., Ltd. by BII Railway Transportation Technology Holdings Company Limited Main contents of the asset valuation report

By China Alliance (2018) No. 051273

31 January 2019

China Alliance Appraisal Co., Ltd (hereinafter refers to the "China Alliance" or our Company) accepted an engagement from BII Railway Transportation Technology Holdings Company Limited to appraise the market values of total equity interests of shareholders for Suzhou Huaqi Intelligent Technology Co., Ltd. on valuation benchmark date by adopting the recognised valuation methods in accordance with necessary valuation procedures, pursuant to the relevant laws, regulations and asset valuation standards, asset valuation principles.

1. Valuation purpose:

The purpose of report is to provide a reference value of the proposed acquisition of 95% of equity interests in Suzhou Huaqi Intelligent Technology Co., Ltd. by BII Railway Transportation Technology Holdings Company Limited.

2. Valuation objects:

The total equity values of shareholders for Suzhou Huaqi Intelligent Technology Co., Ltd..

3. Valuation scope:

The total assets and liabilities of Suzhou Huaqi Intelligent Technology Co., Ltd., including current assets, long term equity investments, fixed assets, intangible assets, long term deferred expenses, deferred income tax assets, other non-current assets, current liabilities and non-current liabilities.

4. Valuation benchmark date:

30 September 2018.

5. Value type:

Market value. Market value refers to the estimated value for the valuation objects in an normal and fair transaction between a willing buyer and a willing seller wherein both parties act knowledgeably and without any compulsion as of the valuation benchmark date.

Unless otherwise stated, "market value" in this report refers to the market value of the valuation objects in the (Mainland) China equity (assets) exchange market.

6. Valuation Basis:

(1) Economic activity basis

1. Board resolution of Beijing Infrastructure Investment Co., Ltd. (BII Board Resolution [2018] No. 36);

2. Minutes of board meeting held by BII Railway Transportation Technology Holdings Company Limited on 29 November 2018.

(2) Basis of laws and regulations

1. "The Asset Appraisal Law of the People's Republic of China" (《中華人民共和國資產評估法》), as adopted at the 21st Session of the Standing Committee of the 12th National People's Congress of the People's Republic of China on 2 July, 2016;

2. "Company Law of the People's Republic of China" (《中華人民共和國公司法》), as amended at the 6th Session of the Standing Committee of the 12th National People's Congress on 28 December 2013;

3. "Securities Law of the People's Republic of China" (《中華人民共和國證券法》), as amended at the 10th Session of the Standing Committee of the 12th National People's Congress on 31 August 2014;

4. "Law of the People's Republic of China on the State-Owned Assets of Enterprises" (《中華人民共和國企業國有資產法》), as adopted at the 5th Session of the Standing Committee of the 11th National People's Congress on 28 October 2008;

5. "Enterprise Income Tax Law of the People's Republic of China" (《中華人民共和國企業所得稅法》), as adopted at the 5th Session of the 10th National People's Congress on 16 March 2007, and its implementation regulations;

6. "Rules on the Evaluation and Management of State-owned Assets" (《國有資產評估管理辦法》) (No. 91 of the Order of the State Council, 1991);

7. "Interim Regulation for the Supervision and Administration of State-owned Assets of the Enterprises" (《企業國有資產監督管理暫行條例》) (No. 378 of the Order of the State Council, 2003);

8. "Interim Regulation of the People's Republic of China on Value Added Tax" (《中華人民共和國增值稅暫行條例》) (No. 691 of the Order of the State Council, 2008) and the related amendments (2017 Revision);

9. "Regulations on Certain Issues relating to the Evaluation and Management of State-Owned Assets" (《國有資產評估管理若干問題的規定》) (No. 14 of the Order of the Ministry of Finance, 2001);

10. "Notice on Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax in an All-round Manner" (《關於全面推開營業稅改征增值稅試點的通知》) (Cai Shui [2016] No. 36 of the Ministry of Finance and the State Administration of Taxation);

11. "Notice on Adjusting Value-added Tax Rates" (《關於調整增值稅稅率的通知》) (Cai Shui [2018] No. 32 of the Ministry of Finance and the State Administration of Taxation);

12. "Measures for the Fiscal Supervision and Administration of the Asset Appraisal Industry" (《資產評估行業財政監督管理辦法》) (No. 86 of the Order of the Ministry of Finance, 2017);

13. "Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises" (《企業國有資產評估管理暫行辦法》) (No. 12 of the Order of the State-owned Assets Supervision and Administration Commission, 2005);

14. "Notice on Certain Issues regarding Strengthening State-owned Assets of Enterprises' Asset Appraisal Administration Work" (《關於加強企業國有資產評估管理工作有關問題的通知》) (Chan Quan [2006] No. 274 of SASAC);

15. "Interim Measures for the Administration of the Transfer of Shares of Listed Companies Held by State-owned Shareholders" (《國有股東轉讓所持上市公司股份管理暫行辦法》) (No. 19 of the Order of SASAC and CSRC, 2007);

16. "Notice on Issues concerning the Audit of Valuation Report for State-owned Assets of Enterprises" (《關於企業國有資產評估報告審核工作有關事項的通知》) (Guo Zi Chan Quan [2009] No. 941);

17. "Notice of Issuing the Guidelines for the Filing of the Assessment Projects of State-owned Assets of Enterprises" (《關於印發〈企業國有資產評估項目備案工作指引〉的通知》) (Guo Zi Fa Chan Quan [2013] No. 64);

18. "Measures on the Supervision and Management of the Transactions of State-owned Assets of the Enterprises" (《企業國有資產交易監督管理辦法》) (No. 32 of the Order of SASAC and the Ministry of Finance, 24 June 2016);

19. "Notice on Issues Concerning the Development of Publication System for Assets Valuation Items of the Central Enterprises" (《關於建立中央企業資產評估項目公示制度有關事項的通知》) (Guo Zi Fa Chan Quan [2016] No. 41);

20. "Notice on Issues Concerning Enhancement of Administration of Alternative Pools of Appraisal Institutions for Central Enterprises" (《關於加強中央企業評估機構備選庫管理有關事項的通知》) (Guo Zi Fa Chan Quan [2016] No. 42);

21. "Interim Administrative Measures of Beijing Municipality on the Valuation of the State-owned Assets of Enterprises" (《北京市企業國有資產評估管理暫行辦法》) (Jing Guo Zi Fa [2008] No. 5);

22. Other laws and regulations related to assets valuation.

(3) Basis of valuation principles

1. Notice of the Ministry of Finance of the People's Republic of China on Issuing the "Asset Valuation Basic Standards" (《資產評估基本準則》) (Cai Zi [2017] No.43);

2. "Professional Ethical Standards of Assets Valuation" (《資產評估職業道德準則》) (Zhong Ping Xie [2017] No. 30) published by China Appraisal Society;

3. "Practice Standards on Assets Valuation — Assets Valuation Procedures" (《資產評估執業準則－資產評估程序》) (Zhong Ping Xie [2017] No. 31) published by China Appraisal Society;

4. "Practice Standards on Assets Valuation — Assets Valuation Report" (《資產評估執業準則－資產評估報告》) (Zhong Ping Xie [2017] No. 32) published by China Appraisal Society;

5. "Practice Standards on Assets Valuation — Assets Valuation Engagement Contract" (《資產評估執業準則－資產評估委托合同》) (Zhong Ping Xie [2017] No. 33) published by China Appraisal Society;

6. "Practice Standards on Assets Valuation — Assets Valuation Archive" (《資產評估執業準則－資產評估檔案》) (Zhong Ping Xie [2017] No. 34) published by China Appraisal Society;

7. "Practice Standards on Assets Valuation — Enterprise Value" (《資產評估執業準則－企業價值》) (Zhong Ping Xie [2017] No. 36) published by China Appraisal Society;

8. "Practice Standards on Assets Valuation — Machinery and Equipment" (《資產評估執業準則－機器設備》) (Zhong Ping Xie [2017] No. 39) published by China Appraisal Society;

9. "Guidelines for Valuation Reports on State-owned Assets of Enterprises" (《企業國有資產評估報告指南》) (Zhong Ping Xie [2017] No. 42) published by China Appraisal Society;

10. "Guidelines on Quality Control of Business Operations of Asset Valuation Institutions" (《資產評估機構業務質量控制指南》) (Zhong Ping Xie [2017] No.46) published by China Appraisal Society;

11. "Guiding Opinions on Types of Value under Asset Valuation" (《資產評估價值類型指導意見》) (Zhong Ping Xie [2017] No. 47) published by China Appraisal Society;

12. "Guiding Opinions on Legal Ownership of Asset Valuation Objects" (《資產評估對象法律權屬指導意見》) (Zhong Ping Xie [2017] No. 48) published by China Appraisal Society;

(4) Basis of ownership

1. Ownership Registration Form of State-owned Assets;

2. House Purchase Contract;

3. Patent certificate (certificate of invention patent, certificate of utility model patent, certificate of design patent);

4. Trademark registration certificate;

5. The relevant ownership certificate of copyright (royalty);

6. Motor vehicle driving license;

7. Other title documents provided by the appraised entity.

(5) Basis for pricing

1. Financial statements and audit reports of previous years provided by the appraised entity;

2. Information about strategic plannings of Huaqi (2018-2022) provided by the appraised entity;

3. Financial and operation information regarding agreements, contracts, invoices provided by the appraised entity;

4. Bank deposit and lending benchmark rates and foreign exchange rates on the valuation benchmark date;

5. Analytical information about the national macro industrial statistics;

6. Earning forecast and relevant data provided by the appraised entity;

7. Relevant information about comparable listed companies;

8. WIND Info;

9. Other relevant valuation information and data recorded and acquired by the valuers through onsite survey.

(6) Other basis

1. Various "Assets Valuation Reporting Breakdown"《資產評估申報明細表》provided by the appraised entity;

2. "Asset Valuation Engagement Contract"《資產評估委托合同》entered into between BII Railway Transportation Technology Holdings Company Limited and China Alliance;

3. Interview records of the relevant personnel of the appraised entity;

4. Other relevant information provided by the appraised entity.

7. Valuation approach:

(1) Selection of valuation approaches

According to the basic principles of asset valuation, the valuation approaches to determine the asset value include three basic approaches, namely market approach, income approach and cost approach, as well as their derivative approaches.

Asset valuers should analyse the applicability of the above three basic approaches according to the purpose of valuation, valuation object, value type and data collection, and select valuation approach according to law.

The valuation approaches selected for this valuation are: income approach and market approach. The reasons for selecting these valuation approaches are as follows:

The reasons for selecting the market approach for valuation are: the appraised entity operates in intelligent railway transportation business, which belongs to railway transit industry. Its main products are on-board passenger information system (車載乘客信息系統) (on-board PIS system), train control and remote diagnosis system, train network control system and subway ground passenger information system that used on railway transit industry, such as high-speed railway, train, urban rail transit and interurban railway. The operational and financial data of listed company in the same or similar industries with valuation object is available in the capital market. Therefore, the market approach was adopted for this valuation.

The reasons for selecting the income approach for valuation are: the future income period and the amount of income of the appraised entity can be predicted and can be measured in monetary terms. The risk exposure for obtaining the expected income can also be quantified. Therefore, the income approach was adopted for this valuation.

The reasons for not selecting the asset-based approach for valuation are: Huaqi Intelligent is an asset light enterprise. Although various on-and off-balance sheet assets and liabilities as of the valuation benchmark date can be identified and valued separately by appropriate methods, the asset value in asset-based approach is based on the current replacement cost of the appraised asset. The replacement cost represents the costs required for the reconstruction of the same function of the appraised asset to its brand-new status based on the prevailing market condition, after deducting measurable physical and functional depreciation. Value of intangible assets, such as customer resource, goodwill and human resource is not covered by the asset-based approach. Therefore, the asset-based approach was not applicable to this valuation.

(2) Introduction of the valuation approaches

This asset valuation report chooses to adopt the appraised results from income approach as its valuation conclusion

Income approach represents a valuation approach which capitalises or discounts the expected revenue, in order to determine the value of the valuation object.

The specific approaches commonly used in income approach include dividend discount method, free cash flow of equity discount method and free cash flow of firm discount method.

Dividend discount method refers to the specific method to determine the value of valuation object by discounting the expected dividend, which is usually applicable for appraising the value of partial non-controlling shareholders' interest.

For free cash flow of equity discount method, the accounting of cash flow refers to the cash flow attributable to shareholders, where the corresponding discount rate is the cost of equity capital, and the appraised value refers to the entire equity value of shareholders. The formula for cash flow calculation is:

Free cash flow of equity = net profit + depreciation and amortisation – capitalised expense – incremental working capital – repayment of the principal on interest-bearing debts + the principal of new interest-bearing debts

For free cash flow of firm discount method, the accounting of cash flow refers to the cash flow attributable to all investors including shareholders and creditors on interest-bearing debts, where the corresponding discount rate is the weighted average cost of capital, and the appraised value is the overall value of enterprises. The formula for cash flow calculation is:

Free cash flow of firm = net profit + depreciation/amortisation + interest expense after tax – incremental working capital – capitalised expense

This valuation chooses to adopt free cash flow of firm discount model.

(1) Calculation formula of income approach

Basic formula is:

$$E = B - D$$

where: E refers to the market value of the entire interest of appraised entity's shareholders, D refers to the market value of interest-bearing debts, B refers to the overall market value of enterprises.

$$B = P + \sum C_i$$

where: P refers to the value of operational assets, ΣC_i refers to the value of existing non-operational assets and liabilities (including surplus assets) on valuation benchmark date.

$$P = \sum_{i=1}^{n} \frac{R_i}{(1+r)^i} + \frac{P_n}{(1+r)^n}$$

where: R_i: Expected free cash flow of firm in the i year after the valuation benchmark date; r: discount rate; P_n: ultimate value; n: forecast period.

Parameters are determined as follows:

i. Determination of free cashflow R_i

R_i = net profit + depreciation/amortisation + interest expense after tax – incremental working capital – capitalised expense

ii. Discount rate r is determined by weighted average cost of capital (WACC), and the formula is as follows:

$$WACC = R_e \frac{E}{D+E} + R_d \frac{D}{D+E} (1 - T)$$

where: R_e: cost of equity capital; R_d: cost of interest-bearing debt capital; T: income tax rate.

iii. Cost of equity capital R_e is calculated by the Capital Asset Pricing Model (CAPM), and the formula is as follows:

$R_e = R_f + \beta x ERP + R_s$

where: R_e refers to the return on equity; R_f refers to the risk – free return rate; β refers to risk coefficient; ERP refers to excess return on market risk; R_s refers to the excess return on firm – specific risk.

where：R_f refers to risk – free return rate. The treasury bonds with the remaining period from the valuation benchmark date to the date of its maturity exceeding 10 years are selected from Shanghai stock market and Shenzhen stock market, and their yields to maturity are calculated. The average yield to maturity of all treasury bonds 4.09% is used as the risk – free return rate in this valuation.

ERP refers to excess return on market risk. After calculating the arithmetic mean or geometric mean of annual return of constituent stocks of Hushen 300 Index, the average return rate of the 300 stocks is calculated and used as the arithmetic or geometric mean to calculate the ERP results for the year. Since geometric mean is a better indicator of the growth of yield, and the life expectancy of appraised entity for this valuation is unlimited theoretically, we believed it is more appropriate to use ERP=5.8%, which was derived from geometric mean, including those exceeding 10 years.

β refers to risk coefficient. The β calculator offered by Wind Info is selected to calculate β of the comparable companies, and it is calculated to be β=0.9549.

The selection of comparable companies are as follows:

Since the principal business of the appraised entity is the PIS system production enterprise in the railway transportation equipment manufacturing industry; the appraised entity operates in Mainland China, with earnings recorded in its operating position in recent years; and the appraised entity began to get into the railway transport industry since its establishment in 2010, and its business demonstrated a scaled development in 2013, the selection criteria for comparable companies tends to be in line with the operating position of the appraised entity, where income incurred from PIS system is available among the types of operating income of these comparable listed companies or its subsidiaries. Further, taking into account the feasibility of data collection from the comparable listed companies, the selection criteria should be no less than 24 months. Therefore, the selection criteria formulated are as follows:

- The comparable company should be profit-making in the past two years;
- The comparable company should have been listed for at least two years;
- The comparable company should only issue A shares denominated in RMB;
- The comparable company should be engaged in or its principle operation is railway transit equipment manufacturing industry, or are affected by the same economic factors with such industry. It should also operate in such industry for not less than two years.

Based on the above four principles, we used the Wind Info system and selected following 3 listed companies as comparable companies:

① **Comparable company A:** 神州高鐵技術股份有限公司(China High Speed Railway Technology Co.,ltd.*)

Stock code: 000008.SZ

Abbreviation of stock name: CHSR

Listing date: 1992-05-07

Establishment date: 1989-10-11

Registered capital: RMB2,818.329809 million

Registered address: 1606, 16th Floor, 1 Building, No.59 Gaoliangqiao Byway, Haidian District, Beijing (北京市海淀區高梁橋斜街59號院1號樓16層1606)

Scope of operation: railway transit and computer network's technological development, consultancy, transfer and services; sales of developed products; computer system service; import and export of commodities ; import and export of technology; acting as import and export agency; project investment; and property management. (For projects requiring approval according to law, the operating activities can be commenced according to the approved content after the approval of the relevant departments.)

② **Comparable company B:** 北京千方科技股份有限公司 (China TransInfo Technology Co.,Ltd.*)

Stock code: 002373.SZ

Abbreviation of stock name: CTFO

Listing date: 2010-03-18

Establishment date: 2002-12-20

Registered capital: RMB1,467.612775 million

Registered address: No. 501, Block B, No. 27, 1 Zhongguancun Software Park, No. 8 Dongbeiwang West Road, Haidian District, Beijing (北京市海淀區東北旺西路8號中關村軟件園一期27號樓B座501號)

Scope of operation: technological development; technological promotion; technological transfer; technological consultancy; technological services; computer system service; data processing; software development; computer repairing; sales of computer, software and auxiliary equipment, hardware, alternating current, broadcasting and television equipment, mechanical equipment, cultural properties, metal material, electronical products and self-developed products; import and export of commodities; import and export of technology; acting as import and export agency; professional contracting; exploration and design of engineering; lease of equipment; basic software service; software application service; designing, production, acting as agency and placement of advertisements; Type 2 value-added telecommunications businesses, namely, call centre business and information service business (excluding fixed telephone information service and internet information service) (The operating permits of value-added telecommunications businesses are valid up to 30 September 2019).

③ **Comparable company C:** 佳都新太科技股份有限公司 (PCI-Suntek Technology Co.,Ltd*)

Stock code: 600728.SH

Abbreviation of stock name: PCI – STCL

Listing date: 1996-07-16

Establishment date: 1993-12-28

Registered capital: RMB1,618.789924 million

Registered address: Floor 6, Building 107, IT Industries Park, Dianzicheng, No. 10 Jiuxianqiao North Road Jia, Chaoyang District, Beijing (北京市朝陽區酒仙橋北路甲10號電子城IT產業園107 樓6 層)

Scope of operation: Computer technological development and service; information system integration service; design, installation and maintenance of security prevention system; engineering service on computer network system; research and development on network technology; intelligential installation service; installation of communication network and equipment; installation of broadcasting , television and signaling equipment; wholesale trading of goods (other than goods subject to license and approval); retail trading of goods (other than goods subject to license and approval); import and export of technology and commodities (excluding those operated and controlled exclusively); cross-district value-added telecommunications service (business types based on the content set out in "operating permit of value-added telecommunication business" (《增值電信業務經營許可證》)) (Telecommunications, broadcast and television, and satellite transmission services);

R_s refers to excess return on firm – specific risk. Firm specific risk premium mainly focuses on the risk premium or discount of risks incurred by non-systemic specific factors of a firm. Generally, these specific risks included (but not limited to): high customer concentration risk, single-product risk, market concentration risk, high raw material supply concentration risk, corporate governance risk and management risk. After comprehensively considering the above factors, excess return on firm – specific risk is predicted at 3%.

R_d: cost of interest-bearing debt capital. There are small discrepancies in appraised entity's effective interest rate and 1-year loan interest rate. As such, this valuation adopted 1-year loan interest rate 4.35% as return on debt investment.

According to above calculation, the weighted average returns on total capital of the appraised entity is 11.93%, which was used as the discount rate of the appraised entity.

The parameters and data are summarised as follows:

	Parameters	Data
R_f	Risk – free return rate	4.09%
ERP	Excess return rate on market risk	5.80%
β	Risk coefficient	0.9549
R_s	Excess return rate on firm – specific risk	3.00%
R_e	Return on equity	12.63%
R_d	Cost of interest-bearing debt capital	4.35%
E/(E+D)		7.9%
D/(E+D)		92.1%
T	Income tax rate	14.72%
WACC	Weighted average cost of capital	11.93%

iv. Determination of ultimate value P_n

Pursuant to the requirements of corporate value standard, asset valuers shall select appropriate approach for estimating value in post-forecast period by means of analyzing the income trends over the post-forecast period and treatments after business termination based on the fact that the corporate development is at a stable stage.

In general, corporate ultimate value can be determined by perpetual growth model (fixed growth model), price-to-income ratio approach, carrying amount approach, etc..

v. The value of non-operational assets and liabilities (including surplus assets) ΣCi

Non-operational assets and liabilities (including surplus assets) here refers to the related assets and liabilities not involved in the forecast on free cashflow of firm.

For the non-operational assets and liabilities, this valuation applies the applicable valuation approaches for appraisals.

(2) The accounting of expected income

According to the operation characteristics, management model, control on subsidiaries of Huaqi Intelligent, the accounting of expected income adopts consolidated expected income of Huaqi Intelligent in order to accurately reflect the operation results of Huaqi Intelligent, with specific reasons as follows:

Most of the companies included in the combined scope of Huaqi Intelligent are wholly-owned companies (seven in total, of which six companies are 100% directly held, and one of them is 100% indirectly held), while other subsidiaries are a non-wholly owned holding company and two jointly owned companies. The majority of subsidiaries are controlled by Huaqi Intelligent in substance. Huaqi intelligent is parent company-centered, with establishment of wholly-owned subsidiaries in Chengdu (Sichuan), Qingdao (Shandong), Xingyang (Henan) and Changsha (Hunan) respectively, which can be used for localised tenders and project contracting of PIS systems in local railway transport. The two subsidiaries located in Suzhou are not only for production but also in technical complement to their parent company. As of the valuation benchmark date, the non-wholly owned holding company in Guangzhou has no business operation in substance. There are only a few positions on duty in each subsidiary, and the core staff, research and development and production are all within the parent company. It is not possible for any subsidiary to commence operation activities out of the system of Huaqi Intelligent. The application of combined expected income can fully demonstrate the business flow of Huaqi Intelligent, while precisely demonstrating the operation results of Huaqi Intelligent. Therefore, it is expected the consolidated expected income will be chosen to adopt for expected income in the future.

Confirmation of revenue term:

Based on the consolidated analysis on the cost structure of corporate income, capital structure, capital expenditure, investment gains and risk level, together with the macro policies, industrial cycles and other factors which prevent the enterprise from going towards the stabilisation period, the forecast period is confirmed to be 5 years, and the revenue period is infinite.

The forecast period in this valuation is divided into two stages, where the first stage is from 1 October 2018 to 31 December 2023; and the second stage is from 1 January 2024 to perpetuity.

Revenue prediction:

A. Sales prediction in October to December 2018 and 2019. According to the appraised entity’s orders that have been signed but are not yet completed and those orders to be signed, and with reference to income recognition of appraised entity for the same period past years to determine the sales income in September to December 2018 and 2019.

B. Since 2020, future sales income of appraised entity is predicated in according to the current market share of appraised entity’s on-board PIS system in rail transit sector, such as railway and subway, as well as the construction speed of railway, interurban railway and subway in China in the future.

C. According to the 13th Five-Year Plan of national railway transport, by 2020, the target operation mile of railway will reach 150,000 kilometres, while the target operation mile of high-speed railway will reach 30,000 kilometres and the target operation mile of urban rail transit will reach 6,000 kilometres in China. In the course of “13th Five-Year Plan”, there will be over 80 cities with urban rail transit under construction in China, and it is anticipated that there will be over 50 cities constructing rail transit in China by 2020. For the next 10 years, the average annual demand of vehicles for urban rail transit will exceed 5,000. It is anticipated the annual investment will remain at the high of RMB800 billion during the "13th Five-Year Plan" and the acquisition investment of motor vehicles will retouch the level of RMB100-120 billion.

D. According to the sales planning for the next 5 years devised by the management, it is anticipated that the income growth rate of the appraised entity in the next 5 years will gradually decrease on an annual basis from 24% in 2019 to 4% in 2023. The stabilisation period starts from 1 January 2024, which is based on the prudent considerations with reference to the general income forecast perspectives for acquisition of state-owned enterprises, and the income size remained at the income level in 2023.

Based on the above analysis, as well as the sales planning for the next 5 years devised by Huaqi Intelligent, and taking into account certain competition factors, the consolidated gross profit for future sales will go along the downtrend.

Ultimate value:

According to the above forecast, the ultimate value (value of operational assets) shall be RMB1,160.3494 million (value of operational assets = the sum of the present value of free cash flow of firm for the first 5 years of forecast period + the present value of the free cash flow of firm for the stabilisation period). Such ultimate value, together with the value of non-operational assets and liabilities (including surplus asset) as of the valuation benchmark date, net of the market value of the interest-bearing liabilities, equals to the market value of the entire interest of appraised entity's shareholders.

8. Assumptions of valuation:

(I) General assumptions

1. Transaction assumption: all assets to be valued are assumed to be in the transaction process while asset valuers conduct the valuation according to simulated market conditions such as transaction conditions of the assets to be valued.

2. Open market assumption: both parties for the asset transaction are assumed to be at equal position for the assets to be traded or proposed to be traded in the market, where opportunities and time are available for both of them to acquire adequate market information, in order to make rational judgements for the functions, uses and transaction prices of the assets.

3. Going concern assumption: the appraised entity is assumed to be in full compliance with all relevant laws and regulations, and will operate continually in the foreseeable future.

(II) Special assumptions

1. This valuation regards the specific appraisal purposes listed in this asset valuation report as its premises of basic assumptions;

2. There is no significant change in the relevant existing laws and regulations of the country, or in the macroeconomic conditions of the country, and there is no unforeseeable and significant change in external economic environment such as interest rate, exchange rate, tax basis and tax rate, as well as policy-related levies;

3. This valuation assumes the full accountability of appraised entity's management team in the future, and the existing business mode, scope and approach remain consistent with present direction;

4. This valuation assumes the appraised assets are in continuous use according to the present use and its mode, size, frequency and environment, without taking into account the respective optimal use of each asset;

5. On top of the existing management mode and management level of the company, it is assumed that there will be no material adverse impacts on the enterprise arising from other force majeure and unforeseeable factors;

6. The related basic information and financial information provided by the appraised entity and the principal are true, accurate and complete;

7. The financial report, transaction data of the comparable company relied by the valuers are true and reliable;

8. The scope of valuation is only based on the declaration form for valuation provided by the principal and the appraised entity, without taking into account the possible contingent assets and contingent liabilities out of the list provided by the principal and the appraised entity;

9. This valuation assumes the enterprise to obtain a net cashflow in the year evenly;

10. Huaqi Intelligent is assumed to be able to keep enjoying the Preferential Income Tax for New High-tech Enterprise in the future;

11. The jointly owned patents of Huaqi Intelligent and other parties are assumed to be used continuously by Huaqi Intelligent for corporate business in the future, without causing disputes on ownership, and no assignment and royalty will arise therein in the future;

12. The financial data of the jointly owned subsidiary of Huaqi Intelligent as of the valuation benchmark date is assumed to be accurate, true and effective.

This valuation result will, in general, become invalid when any inconsistent with the abovesaid assumption and conditions occurs.

9. VALUATION CONCLUSIONS

This valuation adopts income approach as valuation conclusion, which appraises the value of total equity interests of Huaqi Intelligent's shareholders. The particular conclusion is set forth as below: as at the valuation benchmark date, i.e., 30 September 2018, the audited book value of Huaqi Intelligent's assets on an aggregated basis stated in the financial statement prepared in accordance with the "Accounting Standards for Enterprises" (《企業會計準則》) of the PRC amounted to RMB788.1830 million, with liabilities of RMB369.5956 million, net assets of RMB418.5874 million, and net assets attributable to the parent company of RMB416.6785 million. The book value of parent company's assets on an unconsolidated basis amounted to RMB779.3930 million, with liabilities of RMB420.5615 million and net assets of RMB358.8315 million.

Under the assumptions and limitations set out in this report, value of total equity interests of shareholders appraised under the income approach is RMB1,125 million.

10. INSTRUCTIONS ON SPECIAL MATTERS

During the valuation process, the valuers have identified some matters which might affect the valuation conclusion but were not taken into account as they were beyond the profession and ability of the valuers. Users of the report are advised to pay attention to the following matters:

(1) Incomplete or defective information on ownership

1. As at the valuation benchmark date, the title certificates of two buildings under this valuation scope have not been obtained, the details are as follow:

Serial No.	Name of company	Name of building	Structure	Year/Month of completion	Building areas (m^2)	Address
1	成都縱橫 (Chengdu Zongheng*)	漢富廠房 (Hanfu factory*)	Reinforced-concrete structure	February 2018	2,760.57	四川成都新津工業園區清雲北路469號8棟 (Building 8, No. 469 Chingyun North Road, Xinjin Industrial Park, Chengdu, Sichuan*)
2	河南華啟 (Henan Huaqi*)	滎陽廠房 (Xingyang factory*)	Reinforced-concrete structure	April 2018	974.10	河南鄭州滎陽市建設路與工業交叉口西南側1號組團第3幢5單元1-4層5號房 (Room 5, 1-4 /F, Unit 5, Block 3, Group 1, Southwest side of the intersection of Jianshe Road and Gongye Road, Xingyang City, Zhengzhou, Henan*)
	Total				3,734.67	

The appraised entity has confirmed that they owned the above buildings and there are no ownership disputes on such buildings. The areas of properties without title certificates shall be the same with those listed on the house purchase contract. The valuer has verified such areas and no notable variances were found. However, as assessment agency is not a statutory surveying agency, valuation conclusion shall be adjusted according to the measurement results of the authoritative agency if the result of such measurement is different from this measurement in the future. The two industrial plants are corporate production building, which belong to operational assets and no appraised value is allocated individually. Although no "House Ownership Certificate" (《房屋所有權證》) was issued in respect of industrial plants, the house purchase contract has been signed, of which the "Contract for the Sale of Commodity Houses" of the plant in Xingyang has been registered to the local housing security and real estate centre. The book value for the two industrial plants amounts to 2.5% of the combined net asset of the appraised entity, which is of small proportion, and thus causes no impact on this valuation conclusion.

2. As at the valuation benchmark date, five patents included in the off-balance sheet intangible assets under this valuation scope are jointly owned with other parties, the details are as follows:

Serial No.	Name of Patent	Patent No.	Types of patent	Status	Application date	Authorization date	Right holders
1	A fire detection method based on using thermographic camera in a narrow environment (一種狹長環境中基於紅外熱像儀的火災預警方法)	201510332538.7	Invention	Application accepted	2015/6/16		Huaqi Intelligent, Beijing Institute of Technology
2	Transport site information indication method and devices (交通站點信息顯示方法及裝置)	201810283221.2	Invention	Application accepted	2018/4/2		Huaqi Intelligent, 寧波市軌道交通集團有限公司 (Ningbo Rail Transit Group Co. Ltd*)
3	A transport site information indication system (一種交通站點信息顯示系統)	ZL 201820452130.2	Utility model	Authorized	2018/4/2	2018/10/19	Huaqi Intelligent, Ningbo Rail Transit Group Co. Ltd
4	In- vehicle LCD TV on G-series trains (高速動車組車載液晶電視)	ZL 201330512680.1	Design	Authorized	2013/10/29	2014/8/6	Huaqi Intelligent,南車青島四方機車車輛股份有限公司 (CSR Qingdao Sifang Co., Ltd. *)
5	In- vehicle LCD TV on interurban train (城際列車車載液晶電視)	ZL 201330529059.6	Design	Authorized	2013/11/6	2014/5/7	Huaqi Intelligent, CSR Qingdao Sifang Co., Ltd. *

Pursuant to Article 15 of "Patent Law of the People's Republic of China" (《中華人民共和國專利法》) (Order No.8 of the President of the People's Republic of China), if there is any agreement between the joint owners of a patent application right or patent right regarding the exercise of the relevant rights, the agreement shall be followed. If there is no such agreement, any of the joint owners may use the patent independently or license others to use such patent by means of ordinary license. In the case of licensing others to use such patent, royalties charged shall be distributed among the joint owners.

Save as provided in the preceding paragraph, the exercise of jointly owned patent application right or patent right shall obtain the approval of all joint owners.

This valuation is conducted by assuming the above jointly owned patents will continuously be used by Huaqi Intelligent during its future operation, no ownership disputes will be arised in the future and others would not be licensed to use such patents.

3. As at the valuation benchmark date, the statements as at the benchmark date of appraised entity's jointly owned subsidiaries, namely 蘇州易啟康電子科技有限公司(Suzhou Yiqikang Electronic Technology Co., Ltd.*), 蘇州科可瑞爾航空技術有限公司(Suzhou Cancrieas Aviation Technology Co., Ltd.*) and 廣東眾城交通技術有限公司(Guangdong Zhongcheng Transportation Technology Co., Ltd.*), are unaudited. This valuation is conducted based on the assumption that the above three companies' financial information as at the benchmark date are accurate, truthful and reliable.

(3) Limitations in valuation process

Due to the restriction of storage place, the stock-taking process has not been conducted during the verification on issurance of goods. With respect to such assets, the valuer will determine the status of such assets based on an indirect understanding developed from reviewing selected major customers, conducting site visit to customers' location and reviewing cooperate's contracts, delivery notes and shipment notes in relation to issurance of goods as well as interviewing customers' management.

(4) Pending legal and economic matters as at the valuation benchmark date

There are no uncertainty regarding pending matters and legal disputes in Huaqi Intelligent.

(5) Matters related to pledges, guarantees, leases and its contingent liabilities (contingent assets)

As at the valuation benchmark date, the status of pledged note involved by the appraised entity are as follow:

Serial No.	Account name (settlement target)	Types of notes	Issue date	Maturity date	Book value
1	中車長春軌道客車股份有限公司 (CRRC Changchun Railway Vehicles Co., Ltd.*)	Banker's acceptance	2018.07.27	2019.01.27	15,000,758.05
2	中車大連機車車輛有限公司(CRRC Dalian Co., Ltd.*)	Commercial acceptance	2018.06.25	2019.06.25	3,000,000.00

Serial No.	Account name (settlement target)	Types of notes	Issue date	Maturity date	Book value
3	杭州中車車輛有限公司(CRRC Hangzhou Co. Ltd.*)	Commercial acceptance	2018.07.30	2019.02.28	800,000.00
	Total				18,800,758.05

(6) Matters occurred during the valuation benchmark date and the asset valuation report date which may affect the valuation conclusion

After the valuation benchmark date, Huaqi Intelligent was listed on the Proposed Recognition of the First Batch of New High-tech Enterprises in Jiangsu Province for the year 2018 on 24 October 2018. The period of public notice has been passed but the Certificate of New High-tech Enterprises has not yet obtained as at the report issue date. This valuation assumes the appraised entity could obtain the Certificate of New High-tech Enterprises and continue to enjoy the 15% preferential income tax rate in the future operation.

On 1 November 2018, Huaqi Intelligent's subsidiary, 蘇州易啟康電子科技有限公司(Suzhou Yiqikang Electronic Technology Co., Ltd.*), increased the registered capital by 0.55 million. The proportion of share among parties after this capital increase is as follow:

Serial No.	Name of shareholders	Amount of capital contribution	Proportion of capital contribution
		RMB ten thousand dollars	%
1	蘇州華啟智能科技有限公司 (Suzhou Huaqi Intelligent Technology Co., Ltd.*)	200	36.04%
2	深圳市易瑞來科技股份有限公司 (Shenzhen Erelia Technology Co.,Ltd.*)	300	54.05%
3	蘇州興承碩企業管理諮詢合夥企業 (Suzhou Xingchengshuo Corporate Management Consultant Partnership Enterprise*)	55	9.91%
	Total	555	100.00

(7) Other matters that need to be explained

1. The valuation conclusion of this valuation report reflects the value of the appraised subject for the purpose of valuation as stated in this report as at the valuation benchmark date, assuming there are no changes on continuous operation and the external macroeconomic environment.

2. The valuation conclusion of this valuation report has not taken into consideration of the potential expenses and taxes from the process of registration or change of titles of the appraised assets. It has not accounted for the impact of the above securities and guarantees on the valuation nor the possible changes of tax obligation arising from the increase or decrease of the appraised value.

3. This valuation report is based on the information related to asset valuation which were provided by the trustor, appraised entity and the relevant parties. It is the responsibility of the trustor and the relevant parties to provide necessary information and ensure the truthfulness, legality and completeness of the information provided. The responsibility of asset valuers is to analyse, estimate and express professional view on the value of the appraised subject for the specific purpose as at the valuation benchmark date. Asset valuers conduct necessary inspection and disclosure on such information and its sources, but not to provide any guarantee as to the truthfulness, legality and completeness of the above information. It is beyond the scope of practice for the asset valuer to ascertain or express opinions on such information and its sources.

4. During the valuation, asset valuers observed the appearance of the appraised buildings, and tried their best to check the internal decoration and usable conditions of the building without any test on structure and material. The checking of equipment mainly relies on the observation of their appearance by valuer the recent testing information provided by the appraised entity and enquiries made to operators due to the limited testing method means and some equipment being in operation.

5. During this valuation, we made references to and adopted appraised entity's historical financial statements and its financial statement as at the valuation benchmark date as well as the financial reports and transaction data of comparable companies we found on Wind Info. Our valuation work relies heavily on financial statement data and transaction data above and we assume above financial statement data and relevant transaction data are reliable and real. The fact that our valuation relies on the data in these financial statements does not represent any guarantee as to the correctness and completeness of such financial information, nor does it represent there are no conflicts between other requirements of such information and our use of such data.

6. The future profit prediction of the appraised entity involved in this valuation is based on the profit prediction of the appraised entity's management. We have conducted necessary inspections on the above profit prediction and make appropriate adjustments according to the information obtained during the valuation.

7. The valuation assumptions adopted in this income approach assessment is a reasonable anticipation on the future operation of the appraised subject under the current conditions. If various unanticipated and unavoidable factors which may affect the materialization of the assumed prerequisites occur in the future, the extent of the realization on profit prediction would be affected. We hereby wish to remind the trustor and other related parties that we do not guarantee the above assumptions would materlise, nor do we assume any obligations of materializing or assisting in materlising the above assumptions.

8. This valuation conclusion does not take into consideration the effect of premium arising from controlling interests.

9. This valuation conclusion does not take into consideration the effect of liquidity.

10. During the effective period after the valuation benchmark date, if the quantity and pricing standard of assets change, treatment should be carried out in accordance with the following principles:

    (1) When the quantity of assets changes, corresponding adjustments should be made on the amount of assets in accordance with the original valuation method;

    (2) When the pricing standard of assets changes, which greatly affects the valuation result of assets, the trustor should engage qualified assets valuation organisation to re-determine the appraised value on a timely basis;

    (3) When determining the actual price of the assets, the trustor should give due consideration to the changes on the quantity and pricing standard of assets after the valuation benchmark date and make corresponding adjustments.

The user of asset valuation report should note the effect of the above special matters on the valuation conclusion.

* *For identification purposes only*

The following is the text of a letter from the Board in relation to the valuation report of China Alliance Appraisal Co., Ltd for inclusion in this circular.

Listing Division
The Stock Exchange of Hong Kong Limited
12/F, Two Exchange Square
8 Connaught Place, Central
Hong Kong

31 January 2019

Dear Sirs,

We have reviewed the discounted future cash flows in the valuation report dated 31 January 2019 and issued by China Alliance Appraisal Co., Ltd, an independent professional valuers, regarding the market value of 100% equity interests in the Huaqi Group as at 30 September 2018 (the "**Valuation Report**").

We have discussed with the valuers about different aspects including the bases and assumptions based upon which the Valuation Report has been prepared, and reviewed the Valuation Report for which the valuer is responsible. We have also reviewed the report dated 31 January 2019 from KPMG, the Reporting Accountants of the Company, so far as the calculations are concerned, whether the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the valuers as set out in the Valuation Report. We have noted that the discounted future cash flows in the Valuation Report are mathematically accurate.

We hereby confirm that the discounted future cash flows under the Valuation Report is made after due and careful enquiry.

Yours faithfully,
For and on behalf of the board of Directors
BII Railway Transportation Technology Holdings Company Limited
Xuan Jing
Executive Director and Chief Executive Officer

The following is the text of a report received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for inclusion in this circular.

KPMG

REPORT ON THE DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF SUZHOU HUAQI INTELLIGENT TECHNOLOGY CO., LTD.

TO THE BOARD OF DIRECTORS OF BII RAILWAY TRANSPORTATION TECHNOLOGY HOLDINGS COMPANY LIMITED

We refer to the discounted future cash flows on which the business valuation ("**the Valuation**") dated 31 January 2019 prepared by China Alliance Appraisal Co., Ltd. in respect of the appraisal of the fair value of Suzhou Huaqi Intelligent Technology Co., Ltd. (the "**Target Company**") as at 30 September 2018 is based. The Valuation is prepared based in part on the discounted future cash flows and is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' Responsibilities

The directors of BII Railway Transportation Technology Holdings Company Limited (the "**Directors**") are responsible for the preparation of the discounted future cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to report, as required by paragraph 14.62(2) of the Listing Rules, on the calculations of the discounted future cash flows used in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

Basis of Opinion

We conducted our engagement in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the calculations are concerned, the Directors have properly compiled the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation. We performed procedures on the arithmetical calculations and the compilations of the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

Other matters

Without qualifying our opinion, we draw to your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of the Target Company or an expression of an audit or review opinion on the Valuation.

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Further, since the discounted future cash flows relates to the future, actual results are likely to be different from the discounted future cash flows because events and circumstances frequently do not occur as expected, and the differences may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

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

31 January 2019

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquires, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTEREST

(a) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests of the Directors and the chief executive in the Shares, underlying Shares and debentures of the Company or its associated corporations, as defined in Part XV of the SFO and as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3, and Divisions 7 and 8 of Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") were as follows:

Name of Director	Long/Short position	Capacity	Number of shares	Number of underlying shares held in respect of share options under the share option scheme	Approximate percentage of the issued shares held as at the Latest Practicable Date
Mr. Cao Wei ("**Mr. Cao**")	Long position	Interest of controlled corporation *(Note 1)*	244,657,815	–	11.65
	Long position	Beneficial owner	800,000	500,000 *(Note 2)*	0.06%
					11.71%
Xuan Jing	Long position	Beneficial owner	2,068,000	–	0.10%

Notes:

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

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

Save as disclosed in this report, as at the Latest Practicable Date, none of the Directors or their associates had any interests and/or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations as defined in Part XV of the SFO and as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3, and Divisions 7 and 8 of Part XV of the SFO and the Model Code.

(b) Director's interests in assets, contracts or arrangement of the Enlarged Group

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement, which was significant in relation to the business of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors had, or has had, any direct or indirect interest in any assets which have been acquired, disposed of by or leased to, or which are proposed to be acquired, disposed of by or leased to, any member of the Enlarged Group since 31 December 2017, the date of which the latest published and audited consolidated financial statements of the Company were made up.

(c) Service contract

As at the Latest Practicable Date, none of the Directors had entered into any existing or proposed service contract with the Company, or any of its subsidiaries or associated companies or Huaqi Intelligent which was not determinable by the employer within one year without payment of compensation (other than statutory compensation).

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, the following persons had interests of 5% or more in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of substantial shareholder	Long/Short position	Capacity	Number of shares	Number of underlying shares held in respect of share options under the share option scheme	Approximate percentage of the issued shares held as at the Latest Practicable Date
More Legend	Long position	Beneficial owner *(Note 1)*	244,657,815	–	11.65%
Ms. Wang Jianping ("**Ms. Wang**")	Long position	Interest of spouse *(Note 2)*	245,457,815	500,000	11.71%
Beijing Infrastructure Investment (Hong Kong) Limited ("**BII HK**")	Long position	Beneficial owner *(Note 3)*	1,157,634,900	1,300,000	55.18%
BII	Long position	Interest of controlled corporation *(Note 3)*	1,157,634,900	1,300,000	55.18%
China Property and Casualty Reinsurance Company Ltd.* (中國財產再保險有限責任公司)	Long position	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)	Long position	Interest of controlled corporation *(Note 4)*	191,193,534	–	9.10%
Central Huijin Investment Ltd	Long position	Interest of controlled corporation *(Note 4)*	191,193,534	–	9.10%

Notes:

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

2. Ms. Wang is the spouse of Mr. Cao and by virtue of the SFO, is deemed to be interested in the 245,457,815 shares and the 500,000 underlying shares of the Company which Mr. Cao is interested in.

3. BII HK is a wholly-owned subsidiary of BII. By virtue of the SFO, BII is deemed to be interested in the 1,157,634,900 shares and the 1,300,000 underlying shares of the Company owned by BII HK.

4. China Property and Casualty Reinsurance Company Ltd. and China Life Reinsurance Company Ltd. which hold 148,585,534 Shares and 42,608,000 Shares, 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, the Company is not aware of any other person having any interests or short positions in the Shares or underlying Shares of the Company as at the Latest Practicable Date as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

4. MATERIAL CONTRACTS

Within the two years immediately preceding the date of the Latest Practicable Date, the following agreements, being contracts not entered into in the ordinary course of business, have been entered into by members of the Enlarged Group and are or may be material:

(i) the Acquisition Agreements;

(ii) the capital injection agreement dated 4 December 2018, entered into between the Company and Beijing Subway Operation Co., Ltd.* (北京市地鐵運營有限公司) ("**Beijing Subway Operation**"), in relation to the capital injection of RMB245.0 million and RMB255.0 million by the Company and Beijing Subway Operation, respectively, into Beijing Metro Co., Ltd.* (北京京城地鐵有限公司); and

(iii) the partnership agreement dated 15 November 2017, entered into among BII Zhuoyue, Beijing Cornerstone Entrepreneurial Investment Administration Centre (Limited Partnership)* (北京基石創業投資管理中心(有限合夥)), Beijing Infrastructure Investment Co., Ltd.* (北京市基礎設施投資有限公司), Metro Land Corporation Ltd.* (京投發展股份有限公司), Cornerstone International Financial Leasing Co., Ltd.* (基石國際融資租賃有限公司), Beijing Cornerstone Fund Administration Company Limited* (北京基石基金管理有限公司) and Beijing Jiuzhouyigui Shock and Vibration Isolation Co., Ltd.* (北京九州一軌隔振技術有限公司), in relation to the establishment and management of the venture capitalist fund. The total capital commitment payable by BII Zhuoyue amounted to RMB25,000,000, representing approximately 7.99% of the interest in the venture capitalist fund.

5. LITIGATION

As at the Latest Practicable Date, the Enlarged Group was not involved in any material litigation or arbitration. Besides, to the best knowledge of the management of the Company, the Enlarged Group had no material litigation or claim which was pending or threatened by or against the Enlarged Group.

6. COMPETING INTERESTS OF DIRECTORS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective close associates had interest in any business which competed or was likely to compete, either directly or indirectly, with the business of the Enlarged Group.

7. QUALIFICATION AND CONSENTS OF EXPERT

(a) The following sets out the qualifications of the experts who have given their opinions or advice or statements as contained in this circular:

Name	Qualification
KPMG	Certified Public Accountants
China Alliance Appraisal Co., Ltd.*	Professional valuer

(b) As at the Latest Practicable Date, the above experts had no shareholding in the Company or any other member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any other member of the Group.

(c) As at the Latest Practicable Date, the above experts had no direct or indirect interests in any assets which has been acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2017 (the date to which the latest published audited consolidated financial statements of the Group were made up) or proposed to be so acquired, disposed of or leased.

(d) As at the Latest Practicable Date, the above experts had given and has not withdrawn its written consent to the issue of this circular with the inclusion of its advice, letters, reports and/or summary of its opinions (as the case may be) and references to its name and logo in the form and context in which they respectively appear.

8. MISCELLANEOUS

(a) The company secretary of the Company is Ms. Cheung Yuet Fan, a Chartered Secretary and an Associate of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

(b) The English text of this circular shall prevail over its Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office and principal place of business of the Company in Hong Kong from the date of this circular up to and including the date of the EGM:

(a) the memorandum of association and the articles of association of the Company;

(b) the annual reports of the Company for the three years ended 31 December 2017 and the interim report of the Company for the six months ended 30 June 2018;

(c) the Accountants' Report on the Huaqi Group prepared by KPMG as set out in Appendix III to this Circular;

(d) the report from KPMG on the pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(e) the consent letters from each of the experts referred to in the paragraph headed "Qualification and consents of expert" in this Appendix;

(f) the letter from the Board as set out on page 6 to 24 of this Circular;

(g) the valuation report prepared by 北京中同華資產評估有限公司 (China Alliance Appraisal Co., Ltd.*), the text of which is set out in Appendix V to this circular;

(h) the material contracts referred to in the paragraph headed "Material contracts" in this Appendix; and

(i) this circular.

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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1522)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of BII Railway Transportation Technology Holdings Company Limited (the "**Company**") will be held at Conference Room, 9/F., 3rd Building, Jingtou Plaza, No. 6 Xiaoying North Road, Chaoyang District, Beijing, the People's Republic of China on Monday, 25 February 2019 at 2:00 p.m., to consider and, if thought fit, pass the following ordinary resolution (with or without modifications):

ORDINARY RESOLUTION

"THAT

(a) the conditional equity transfer agreements dated 29 November 2018 (the "**Acquisition Agreements**"), details of which are disclosed in the circular of the Company dated 31 January 2019 (the "**Circular**"), entered into among the Company, NetPosa Technologies Limited* (東方網力科技股份有限公司) ("**NetPosa**"), Suzhou Huaqi Intelligent Technology Co., Ltd.* (蘇州華啟智能科技有限公司) ("**Huaqi Intelligent**") and Mr. Liu Guang in relation to the sale and purchase of 95% of the equity interests in Huaqi Intelligent from NetPosa to the Company (the "**Acquisition**") for a maximum consideration of RMB1,045,000,000 (equivalent to approximately HK$1,191,300,000), subject to adjustments to be made in accordance with the Acquisition Agreements (a copy of the Acquisition Agreements has been produced at the meeting marked "A" and signed by the chairman of the meeting for identification purpose) the terms and conditions thereof and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(b) the options to be granted to Huaqi Management Team under the Acquisition Agreements to request the Company to purchase from them certain equity interests in Huaqi Intelligent and which are subject to certain conditions (details of these options are set out in the paragraph headed "Option to sell" in the Letter from the Board in the Circular) are hereby approved and confirmed; and

(c) any one of Mr. Zhang Yanyou (the chairman of the board of directors and a non-executive director of the Company) or Ms. Xuan Jing (an executive director of the Company) be and is hereby authorised to do all such acts and things and to sign and execute all such other documents or instrument for and on behalf of the Company (including the affixation of the common seal of the Company where required) as he or she may consider necessary, appropriate, expedient or desirable in connection with, or to give effect to, the Acquisition Agreements and to implement the transactions contemplated thereunder and to agree to such variations, amendments or waivers of matters relating thereto that are of administrative nature and ancillary to the implementation of the Acquisition Agreements and any other transactions contemplated under or incidental to the Acquisition Agreements."

By order of the Board
BII Railway Transportation Technology Holdings Company Limited
Xuan Jing
Executive Director and Chief Executive Officer

Hong Kong, 31 January 2019

Principal place of business:
Unit 4407,
44/F, COSCO Tower,
183 Queen's Road Central,
Sheung Wan, Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the EGM convened by the above notice is entitled to appoint one or if he/she is the holder of two or more shares, more than one proxy to attend and, subject to the provisions of the memorandum of association and articles of association of the Company, to vote on his/her behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the office of the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting. Completion and return of the form of proxy will not preclude a member of the Company from attending and voting in person at the EGM or any adjournment thereof, should he/she so wish.

3. Completion and return of an instrument appointing a proxy will not preclude a member of the Company from attending and voting in person at the meeting and/or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.

4. As required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the above resolution will be decided by way of poll.

5. The form of proxy for use at the EGM is enclosed herewith.

* *For identification purposes only*

As at the date of this notice, the executive Directors are Mr. Cao Wei, Ms. Xuan Jing; the non-executive Directors are Mr. Zhang Yanyou, Mr. Guan Jifa, Mr. Zheng Yi and Mr. Ren Yuhang; and the independent non-executive Directors are Mr. Bai Jinrong, Mr. Luo Zhenbang and Mr. Huang Lixin.