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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.

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京投轨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)

CONTINUING CONNECTED TRANSACTION
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders



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 5 to 18 of this circular.

A notice convening the EGM to be held at Conference Room, 4/F., 4th Building, Jingtou Plaza, No. 6 Xiaoying North Road, Chaoyang District, Beijing, the People’s Republic of China on 18 September 2019 at 2:30 p.m. is set out on pages 50 to 51 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 54, 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.

30 August 2019

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DEFINITIONS

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

“ACC”	the automatic fare collection clearing centre system, which is an automated system mainly used for the clearing and settlement of the railway ticket fares
“AFC”	the automatic fare collection system, which is an automated system mainly used for, among others, coordinating sale of railway tickets, calculating and collecting ticket fares
“Announcement”	the announcement of the Company dated 2 August 2019 in relation to, among other matters, the Services Framework Agreement and the transactions contemplated thereunder
“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Beijing Metro Network”	北京軌道交通路網管理有限公司 (Beijing Metro Network Administration Co., Ltd*), a company established in the PRC with limited liability whose entire issued share capital is owned by BII as at the Latest Practicable Date
“BII”	北京市基礎設施投資有限公司 (Beijing Infrastructure Investment Co., Ltd.*), a company established in the PRC with limited liability and the ultimate controlling Shareholder as at the Latest Practicable Date
“BII HK”	Beijing Infrastructure Investment (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and the controlling Shareholder which held approximately 55.12% of the total issued Shares as at the Latest Practicable Date
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“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

DEFINITIONS

“connected person”	has the meaning ascribed to it under the Listing Rules and the word “connected” shall be construed accordingly
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held for the Independent Shareholders to consider and, if thought fit, to approve, among other matters, (i) the Services Framework Agreement and the transactions contemplated thereunder; and (ii) the proposed annual caps in respect of the transactions contemplated under the Services Framework Agreement
“Former BMN Framework Agreement”	the framework agreement dated 11 May 2016 and entered into between the Company and Beijing Metro Network in relation to the provision of certain services by the Company, which is of a term between 1 July 2016 and 30 June 2019
“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 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 and a non-wholly owned subsidiary of the Company as at the Latest Practicable Date
“Independent Board Committee”	the independent board committee of the Board, comprising all the independent non-executive Directors, namely Mr. Bai Jinrong, Mr. Luo Zhenbang and Mr. Huang Lixin, established for the purpose of advising the Independent Shareholders on the Services Framework Agreement and the transactions contemplated thereunder
“Independent Financial Adviser”	VC Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser of the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Services Framework Agreement and the transactions contemplated thereunder

DEFINITIONS

“Independent Shareholder(s)”	the Shareholder(s) other than BII and its associates
“independent third party(ies)”	person(s) who or company(ies) which is/are third party(ies) independent of the Company and its connected person
“Latest Practicable Date”	24 August 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
“PIS”	the passenger information system, which acts as a communication medium between railway passengers and railway stations, and is mainly used for, among others, displaying information to passengers
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Services”	means consultation and technical support services, information technology support services, technology services, technology development, software development, software procurement, hardware design and development, hardware procurement, system integration, system procurement, operations and maintenance, construction of projects and other types of ancillary services to be agreed by parties in writing from time to time
“Services Framework Agreement”	the framework agreement dated 2 August 2019 and entered into between the Company and BII in relation to the provision of the Services
“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

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“TCC”	the traffic control centre system, which is the control system behind railway network to manage and control, among others, electricity supply to trains, train traffic, emergency alarms, etc.
“%”	per cent

* *For identification purposes only*

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.

京投轨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:

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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

30 August 2019

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTION

1. INTRODUCTION

Reference is made to the Announcement in relation to the Services Framework Agreement and the transactions contemplated thereunder.

The purpose of this circular is to provide you with, among other things, (i) details of the Services Framework Agreement and the transactions contemplated thereunder; (ii) the recommendation from the Independent Board Committee and the recommendation from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders with regards to the Services Framework Agreement and the transactions contemplated thereunder; and (iii) the notice of EGM.

LETTER FROM THE BOARD

2. THE SERVICES FRAMEWORK AGREEMENT

On 2 August 2019, the Company entered into the Services Framework Agreement with BII, pursuant to which the Group would provide BII, its subsidiaries and/or its associates with the Services. The principal terms of the Services Framework Agreement are set out as follows:

Date

2 August 2019

Parties

- (i) The Company; and
- (ii) BII

Provision of the Services

Pursuant to the Services Framework Agreement, the Group agrees to provide the Services to BII, its subsidiaries and/or its associates during the term of the Services Framework Agreement, provided that (i) the member of the Group is awarded with the relevant contract in accordance with the stipulated procedures under the relevant PRC laws and regulations (if required); and (ii) the parties thereto negotiate at arm's length regarding the commercial terms to be set out in the individual agreements for the Services.

Transaction principles

Pursuant to the Services Framework Agreement, the Group and BII, its subsidiaries and/or its associates will enter into individual agreements for the provision of the Services. Pursuant to the Services Framework Agreement, the terms (including the service fees) of the individual agreements to be entered into will be negotiated by the parties at arm's length and will be determined by the parties from time to time on normal commercial terms in the ordinary course of business.

LETTER FROM THE BOARD

Pricing principles

Pursuant to the Services Framework Agreement, the price of the transactions contemplated thereunder will be determined as follows:

- (1) where there is government-prescribed price, the government-prescribed price shall be executed;

“government-prescribed price” refers to the price prescribed for certain services or services determined under the laws, regulations, decisions, orders or focuses by the central and provincial governments or relevant regulatory authorities in the PRC;

- (2) where there is no government-prescribed price, but there is government-guided price, the government-guided price shall be executed by considering the market factors;

“government-guided price” refers to the price range prescribed for certain services or services determined under the laws, regulations, decisions, orders or focuses by the central and provincial governments or relevant regulatory authorities in the PRC, which shall be determined by transaction parties within such certain range;

- (3) where there is neither government-prescribed price nor government-guided price, the price determined through tender process or the market price shall be executed;

“market price” shall be determined in the following order: (i) the price charged by at least two independent third parties who offer the same type of services under normal commercial terms in the normal conditions of business transactions at or near the area where such services are provided; or (ii) where (i) above is not available, the price charged by at least two independent third parties who offer the same type of services under normal commercial terms in the normal conditions of business transactions in the PRC; or

- (4) where none of the above three means is available or the above transaction principles are not applicable for use in actual transactions, the agreed price shall be executed;

“agreed price” means the price determined by means of “reasonable cost + reasonable profit”. In an agreement, “reasonable cost” means the cost recognised by both parties after negotiations and permitted by the relevant accounting principles of the PRC (inclusive of sales tax and surcharges); and “reasonable profit” means the profit calculated based on such reasonable cost under market practice.

LETTER FROM THE BOARD

Most historical continuing connected transactions of the Group adopted the third price determination method of the above, i.e. through tender process or the market price, which was obtaining service contracts and determining the contract terms and prices through participation in open bidding. The remaining historical continuing connected transactions of the Group adopted the fourth price determination method of the above, i.e. the agreed price method. According to the 16th order promulgated by the National Development and Reform Commission of the PRC with effect from 1 June 2018, it is stipulated that the construction projects which fulfill certain criteria should adopt open bidding process, for example, if the funds for the construction project are from state-owned capital (國有資金) and the contract value is expected to be above RMB4 million.

During the three years ended 30 June 2019, the Group did not adopt the first and second price determination method to price the historical continuing connected transactions of a similar nature, however, based on the possible changes and reform in the laws and regulations of the PRC, there might be government-prescribed price or government-guided price for the Services in the future, where the Group will be expected to adopt the relevant government-prescribed price or government-guided price for the Services.

According to the historical transactions and practices of the Group during the last three years, where the price was determined based on the fourth price determination method, i.e. reasonable cost + reasonable profit method, the profit generated from service contracts of the Group usually ranged from 10% to 20% of the contract amount. The Board was of the view that such profit range is on normal commercial terms because based on the management's experience, if the profit was more than 20%, it might be difficult for the Group to negotiate or secure the contract with the customers. On the other hand, if the profit was less than 10%, the Group's profitability would be affected. Therefore, in the historical transactions and practices of the Group which were conducted with connected persons and independent third parties during the last three years, the Group would usually secure the service contracts with profit ranging from 10% to 20%.

The above pricing principles are in compliance with the relevant pricing laws in the PRC, and are in line with the market practices and conditions.

Term

The Services Framework Agreement is effective upon fulfillment of the following conditions precedent:

- (i) the Company issuing a circular and obtaining the approval from the Independent Shareholders in relation to the transactions contemplated under the Services Framework Agreement in accordance with the Listing Rules; and
- (ii) the approval from the board of directors of BII in relation to the transactions contemplated under the Services Framework Agreement.

Subject to the fulfilment of the above conditions precedent, the Services Framework Agreement shall be effective between 1 July 2019 and 31 December 2021.

LETTER FROM THE BOARD

The term of the Services Framework Agreement is set to two and a half years in order to be consistent with the financial year end of the Company in both 2020 and 2021.

Settlement method

The service fee shall be paid by BII, its subsidiaries and/or associates to the Group upon completion of relevant services provided within the settlement cycle as agreed under individual agreements entered into in accordance with the Services Framework Agreement. Based on the historical transaction and practices of the Group during the past three years, the service fee under a contract was usually received in the following manner:

- (i) approximately 10% to 30% of the contract sum shall be settled after the contract becomes effective;
- (ii) approximately 70% to 80% of the contract shall be settled after completion of services and confirmation by both parties; and
- (iii) approximately 5% to 10% of the contract sum shall be settled after the expiry of the maintenance period.

3. THE PROPOSED ANNUAL CAPS

Reference is made to the announcement of the Company dated 11 May 2016 and the circular of the Company dated 1 June 2016 in relation to, among others, the Former BMN Framework Agreement. The Former BMN Framework Agreement was entered into between the Company and Beijing Metro Network on 11 May 2016 in relation to the provision of certain services by the Company to Beijing Metro Network during the term commencing from 1 July 2016 to 30 June 2019. As (i) the term of the Former BMN Framework Agreement had ended; (ii) the Group is contemplating to enter into continuing connected transactions with BII, its subsidiaries and/or its associates; and (iii) Beijing Metro Network is one of the subsidiaries of BII, it was agreed by the Company and BII that the Services Framework Agreement shall include the renewal of term of the Former BMN Framework Agreement.

The approved annual cap in respect of the transactions contemplated under the Former BMN Framework Agreement for each of the three years ended 30 June 2019 was HK\$430 million, HK\$290 million and HK\$760 million respectively.

The historical transaction amounts in respect of the transactions contemplated under the Former BMN Framework Agreement for each of the two years ended 30 June 2018 and the six months ended 31 December 2018 were approximately HK\$76 million, HK\$118 million and HK\$47 million respectively. As far as the Directors are aware, the annual cap in respect of the transactions contemplated under the Former BMN Framework Agreement for the year ended 30 June 2019 has not been exceeded as at the Latest Practicable Date. Since the expiry of the term of the Form BMN Framework Agreement on 30 June 2019, and up to the Latest Practicable Date, the Group did not conduct any transactions contemplated under the Former BMN Framework Agreement or the Services Framework Agreement.

LETTER FROM THE BOARD

The proposed annual cap in respect of the transactions contemplated under the Services Framework Agreement for each of the six months ending 31 December 2019 and the years ending 31 December 2020 and 2021 is RMB240 million, RMB870 million and RMB1,210 million, respectively (equivalent to HK\$274 million, HK\$992 million and HK\$1,379 million, respectively).

Basis of the proposed annual caps

The proposed annual caps for the Services Framework Agreement for the six months ending 31 December 2019 and the years ending 31 December 2020 and 2021 are determined with reference to, among others, the following:

- (i) the historical transaction amount under the various agreements entered into between the Group and Beijing Metro Network, being a subsidiary of BII, in relation to provision of the Services;
- (ii) the outstanding contract amount of various agreements entered into between the Group and Beijing Metro Network, being a subsidiary of BII;
- (iii) the estimated number of projects for the provision of the Services to be offered by BII, its subsidiaries and/or its associates for tender for the six months ending 31 December 2019 and the two years ending 31 December 2020 and 2021;
- (iv) the development outlook of the city railway transportation industry, in particular Beijing, including but not limited to the following factors:
 - (1) pursuant to the “Second-phase Construction Plan of Beijing’s Urban Rail Network (2015-2021)” (北京市城市軌道交通第二期建設規劃 (2015年–2021年)) approved by the National Development and Reform Commission and the adjustment scheme for second phase construction plan which is currently being prepared by BII, the operating mileage of railway transit in Beijing is expected to reach approximately 1,000 kilometres. Such large scale of new line construction which may lead to steady growth of existing businesses of the Group including AFC, PIS, ACC and TCC businesses;
 - (2) pursuant to the “Development Action Plan of Beijing’s Intelligent Railway Transportation (2019-2021)” (北京智慧軌道交通發展行動計劃 (2019年–2021年)) which is currently under formulation, it is expected that the Group will deploy large amount of new investments in intelligent adjustment command, intelligent operation and maintenance, intelligent services for passengers, intelligent vehicles and other relevant aspects. Such investments and upgrade of intelligent railway transportation systems will accelerate the growth of new businesses including the construction of big data centre for railway transportation, Automatic Fare Collection System cloud platform, and internet ticketing system with face and biometric recognitions; and

LETTER FROM THE BOARD

- (3) the development of the city railway transportation public-private partnership projects in other regions beyond Beijing by BII, which may bring better business opportunities to the Group;
- (v) the acquisition of Huaqi Intelligent by the Group which was completed in March 2019, and resulted in substantial increase in the scale of operations of the Group after the acquisition; and
- (vi) the Group's intention to expand its scope of business from mainly AFC into five main business areas, namely AFC, PIS, Integrated Supervision and Control System, Security Protection and Alarm System, and Communication System.

In addition, according to statistical analysis conducted by the Group, if the services contracts with BII, its subsidiaries and/or its associates under the Services Framework Agreement will be obtained by way of open tender in 2019, 2020 and 2021, it is expected that the number of projects to be obtained will be more than 50, taking into account, among others, the following:

- (i) the outstanding contract amount of certain agreements entered into between the Group and Beijing Metro Network is approximately RMB59 million;
- (ii) Daily operation and maintenance

the Group continues to provide services of information centre operation and maintenance, mainframe network operation and maintenance, integrated management and control operation and maintenance. The term of such operation projects will expire in 2019 and it is necessary to renew through open tender in the market. If bidding is successful, it is expected that the aggregated contract value attributable to such operation and maintenance service for the six months ending 31 December 2019 and the years ending 31 December 2020 and 2021 will be approximately RMB22 million, RMB44 million and RMB44 million, respectively (based on an assumption of 7 contracts with attributable contract value ranging from approximately RMB1 million to RMB24 million);

- (iii) Projects in Beijing

pursuant to the "Second-phase Construction Plan of Beijing's Urban Rail Network (2015-2021)" (北京市城市轨道交通第二期建设规划(2015年2021年)) approved by the National Development and Reform Commission and the adjustment scheme for second phase construction plan which is currently being prepared by BII, it is expected that the plan will include construction of Beijing Underground Line 3, Second Phase of Line 7 (east extension), Fourth Phase of Line 8, Line 12, Line 17, First Phase of Line 19, Line 22 (Pinggu Line), Second Phase of Line 25 (Fangshan Line North Extension), Second Phase of Line 27 (Changping Line South Extension), Second Phase of Batong Line

LETTER FROM THE BOARD

(South Extension), Second Phase of Capital Airport Line (West Extension), Central Business District (CBD) Line, and New Airport Line, it is also expected that the operating mileage of railway transit in Beijing will reach approximately 1,000 kilometres. With the construction of new lines in Beijing Subway, it is expected that the Group will obtain contracts regarding provision of services, construction, subsequent updates of AFC, PIS, ACC, TCC, big data centre, cloud platform, internet ticketing systems of numerous Beijing Subway lines, as well as services related to network security and information system technology. If the Group can secure relevant projects by open tender, it is expected that the aggregated contract value attributable to such projects for the six months ending 31 December 2019 and the years ending 31 December 2020 and 2021 will be approximately RMB58 million, RMB504 million, RMB759 million, respectively (based on an assumption of 36 contracts with attributable contract value ranging from approximately RMB1.7 million to RMB150 million);

(iv) Projects beyond Beijing

with the “to go public” development strategy of BII and implementation of the “Public-private partnership (“PPP”) to go public”, the Group will closely cooperate with BII for PPP projects, such as the PPP project of Shaoxing Underground Line 1 and the PPP project of Urumqi Railway Transportation Line 2. It is expected that the Group will engage in projects relating to AFC, PIS and T1 Line in Huangshan by tender. If the Group can secure the relevant projects by open tender, the aggregated contract value attributable to such projects for the six months ending 31 December 2019 and the years ending 31 December 2020 and 2021 will be approximately RMB83 million, RMB230 million, RMB244 million, respectively (based on an assumption of 4 contracts with attributable contract value ranging from approximately RMB22 million to RMB200 million); and

(v) Other potential projects

as the national and local governments further support the construction of intelligent cities and encourage to launch relevant policies and subsidy system, the Company, being the sole offshore listing platform and the most important high technology enterprise of BII, is responsible for the important mission of empowering urban railway transportation with intelligent technology. Focusing on the new development direction of “three transformations” of BII, the Group will actively engage in the construction of intelligent management systems, such as, integrated utility tunnels, highway and transit-oriented development (“TOD”) in Beijing. If the Group can secure the relevant projects by open tender, it is expected that the aggregated contract value attributable to such projects for the six months ending 31 December 2019 and the years ending 31 December 2020 and 2021 will be approximately RMB18 million, RMB92 million, RMB163 million, respectively (based on an assumption of 13 contracts with attributable contract value ranging from approximately RMB8 million to RMB40 million).

LETTER FROM THE BOARD

The above assumptions of contract values of potential projects were determined based on the Group's expectations from the discussions and negotiations between the Group and BII.

Further, the transactions conducted under the Former BMN Service Agreement contributed to approximately 16%, 21% and 10% of the total revenue of the Group for the three years ended 31 December 2018. As disclosed above, Beijing is currently one of the largest railway transportation markets in the PRC, pursuant to the "Second-phase Construction Plan of Beijing's Urban Rail Network (2015-2021)" approved by the National Development and Reform Commission and the adjustment scheme for second phase construction plan which is currently being prepared by BII, it is expected that the operating mileage of railway transit in Beijing will reach approximately 1,000 kilometres. Such large scale of new line construction can lead to growth of existing businesses of the Group. As set out in the 2018 annual report of the Company, it is expected that the Company will strive to become the leader of Chinese intelligent railway transportation by benefiting from the support from the controlling shareholder of the Company (i.e. BII) which is expected to focus its efforts to develop itself as the comprehensive service provider of the innovative railway transportation equipment industry. Through collaborative development projects with external partners, the Company will further strengthen the presence of Beijing Subway throughout the nation. Besides, in March 2019, the Group completed the acquisition of Huaqi Intelligent and the scale of operations of the Group has been enlarged after the acquisition. According to a voluntary business update announcement of the Company dated 20 June 2019, the total amount of projects on hand as at 31 May 2019 of the Group was approximately RMB1.6 billion (compared to the audited revenue of the Group for the year ended 31 December 2018 being approximately RMB453 million).

The Company noted that the maximum annual cap of the Services Framework Agreement represented approximately 304% of the Company's total revenue for the year ended 31 December 2018. However, due to the above reasons, it is expected that the Company's revenue will increase substantially in the future due to, among others, the expected positive market outlook and the strong support from the controlling shareholder of the Company. Based on the preliminary forecast of the Board, it is expected that the transactions contemplated under the Services Framework Agreement will contribute approximately 10% to 30% of the revenue of the Group for the three years ending 31 December 2021. Hence, the Board is of the view that the proposed transactions contemplated under the Services Framework Agreement will not contribute substantially to the future revenue of the Company and the Company's business and operations does not rely materially on its connected persons.

LETTER FROM THE BOARD

4. INFORMATION ON THE PARTIES

The Company and the Group

The Company is an investment holding company. The Group integrates investment and finance, research and development of technologies, intelligent railway transportation business and maintenance, 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 lifecycle service for the development of urban railway transportation. The Group’s intelligent railway transportation services provide 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 to promote the development of urban rail transit systems from informationised business to intelligent business.

BII

BII is a company established in the PRC as at the Latest Practicable Date. BII held approximately 55.12% of the Shares through its wholly-owned subsidiary, namely BII HK, thus BII is an ultimate controlling shareholder of the Company. To the best of the Directors’ knowledge, information and belief, BII is principally engaged in the investment, financing and management of rail transit infrastructure, rail transit equipment manufacturing as well as information technology, and the development and operation of land and estates.

5. REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

The transactions contemplated under the Services Framework Agreement will be conducted in the ordinary and usual course of business of the Group.

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

Taking into account the above factors, the Directors consider that:

- (i) the terms and conditions of the Services Framework Agreement were negotiated among the parties on an arm’s length basis and are normal commercial terms that are fair and reasonable;

LETTER FROM THE BOARD

- (ii) the proposed annual caps in respect of the transactions contemplated under the Services Framework Agreement for the six months ending 31 December 2019 and the years ending 31 December 2020 and 2021 are fair and reasonable; and
- (iii) the transactions contemplated under the Services Framework Agreement are in the interest of the Company and the Shareholders as a whole.

6. INTERNAL CONTROL MEASURES

To ensure that the terms of the transactions and the pricing mechanisms under the Services Framework Agreement are fair and open and the transactions are conducted in accordance with the requirements under the Listing Rules, the Group adopted a policy regarding the management of continuing connected transactions, which was formulated pursuant to the actual day-to-day business operations of the Group and the relevant requirements, laws and regulations including the Listing Rules and the articles of association of the Company. The policy will ensure compliance of the Listing Rules regarding continuing connected transactions of the Group under the Services Framework Agreement through strict requirements and measures in relation to identification of connected persons and connected transactions, internal review and approval procedures of connected transactions, monitoring disclosure requirements under the Listing Rules, and supervision, management and disclosure of connected transactions.

Set out below is a summary of the internal control measures of the Group to ensure the Services provided by the Company under the Services Framework Agreement are (i) on normal commercial terms; and (ii) in accordance with the terms of the Services Framework Agreement:

1. when possible connected transaction arises during the course of business of the Group which falls under the Services Framework Agreement, relevant staff will report to the finance department and the legal and audit department of the Group regarding the details of the connected party and the possible transaction with such connected party;
2. the business department of the Group will prepare an estimate of costs and price of the possible connected transaction based on the relevant rules and regulations announced by the government and/or the industry association(s), as well as the market price which is expected to be payable by independent third party in respect of the provision of similar services by the Group;
3. based on the information of the possible connected transaction and the estimates of the costs and price, the business management department, business department, finance department, legal and audit department and the Company's external advisers will review and confirm the terms of the possible connected transaction, including but not limited to whether the terms and price are fair and reasonable, and the settlement terms and compliance matters;

LETTER FROM THE BOARD

4. if the possible connected transaction is approved by the internal departments of the Group, the management of the Group will consider the possible connected transaction based on the internal assessment results, and approve/reject the transaction;
5. if the possible connected transaction is approved by the management of the Group, the finance department and the legal and audit department of the Group will continuously monitor the performance of the transaction to ensure that the transaction falls within the terms of the Services Framework Agreement; and
6. the connected transaction of the Group will also be subject to annual review by the independent non-executive Directors and auditors in accordance with the Listing Rules.

7. LISTING RULES IMPLICATIONS

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

As certain applicable percentage ratios of the transactions contemplated under the Services Framework Agreement are more than 25% and the annual caps in respect of the transactions contemplated under the Services Framework Agreement are expected to be higher than HK\$10 million, such transactions are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. As such, the Company will seek the Independent Shareholders' approval for the transactions contemplated under the Services Framework Agreement and the proposed annual caps for the six months ending 31 December 2019 and the years ending 31 December 2020 and 2021 at the EGM.

As (i) Mr. Zhang Yanyou serves as the chairman of the board of directors of BII; (ii) Mr. Guan Jifa serves as the deputy general manager of BII; (iii) Mr. Zheng Yi serves as an assistant general manager and a general manager of the railway transportation business department of BII; and (iv) Mr. Ren Yuhang serves as the board secretary and the general manager of investment development headquarters of BII, each of Mr. Zhang Yanyou, Mr. Guan Jifa, Mr. Zheng Yi and Mr. Ren Yuhang is deemed to be materially interested in the Services Framework Agreement by virtue of their senior management position held in BII respectively, and therefore, each of Mr. Zhang Yanyou, Mr. Guan Jifa, Mr. Zheng Yi and Mr. Ren Yuhang has abstained from voting on the relevant resolutions at the relevant Board meeting.

LETTER FROM THE BOARD

8. FORMATION OF THE INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising Mr. Bai Jinrong, Mr. Luo Zhenbang and Mr. Huang Lixin, being all the independent non-executive Directors, has been formed to advise the Independent Shareholders in connection with the transactions contemplated under the Services Framework Agreement and the related proposed annual caps. The Independent Board Committee has approved the appointment of VC Capital Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the transactions contemplated under the Services Framework Agreement and the related proposed annual caps.

9. THE EGM

The EGM will be held at Conference Room, 4/F, 4th Building, Jingtou Plaza, No. 6 Xiaoying North Road, Chaoyang District, Beijing, the People's Republic of China on 18 September 2019 at 2:30 p.m., during which an ordinary resolution will be proposed to the Shareholders to consider and, if thought fit, to approve the Services Framework Agreement and the transactions contemplated thereunder and the related proposed annual caps by way of poll, the results of which will be announced after the EGM.

The notice of the EGM is set out on pages 50 to 51 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 54, 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.

As at the Latest Practicable Date, BII held approximately 55.12% of the Shares through its wholly-owned subsidiary, namely BII HK, thus BII is the ultimate holding company of the Company and is therefore a connected person of the Company under the Listing Rules. BII HK will be required to abstain from voting on the resolution(s) to approve the Services Framework Agreement and the transactions contemplated thereunder and the related proposed annual caps at the EGM. Save as disclosed, to the best of the knowledge, information and belief of the Directors, no other Shareholder has a material interest in the transactions contemplated under the Services Framework Agreement and the related proposed annual caps and will be required to abstain from voting on the resolution to approve the Services Framework Agreement and the transactions contemplated thereunder and the related proposed annual caps at the EGM.

LETTER FROM THE BOARD

10. RECOMMENDATIONS

The Directors are of the opinion that the terms of the Services Framework Agreement and the related proposed annual caps are fair and reasonable and are in the interests of the Company and the Shareholders as a whole, and accordingly recommend the Independent Shareholders to vote in favour of the relevant resolution proposed at the EGM.

An Independent Board Committee has been formed to advise the Independent Shareholders in connection with the Services Framework Agreement and the transactions contemplated thereunder and the related proposed annual caps, and VC Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. The text of the letter of advice from the Independent Financial Adviser containing its recommendation in respect of the Service Framework Agreement and the transactions contemplated thereunder and the related proposed annual caps is set out on pages 20 to 44 of this circular.

11. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 19 of this circular, the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 20 to 44 of this circular and the information set out in the appendix of this circular.

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

* For identification purposes only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendation from the Independent Board Committee to the Independent Shareholders prepared for the purpose of inclusion in this circular.

京投轨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)

30 August 2019

To the Independent Shareholders

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTION

We refer to the circular of the Company to the Shareholders dated 30 August 2019 (the “**Circular**”), of which this letter forms part. Unless specified otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as the Independent Board Committee to advise you as to whether, in our opinion, the terms of the Services Framework Agreement and the transactions contemplated thereunder and the related proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned. VC Capital Limited has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this respect. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 20 to 44 of the Circular. Your attention is also drawn to the “Letter from the Board” of the Circular and the additional information set out in the appendix to the Circular.

Having considered the terms of the Services Framework Agreement and the transactions contemplated thereunder and the advice of the Independent Financial Adviser, we consider that the Services Framework Agreement and the transactions contemplated thereunder, are in the ordinary and usual course of business, are entered into on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. We are also of the opinion that the related proposed annual caps under the Services Framework Agreement are fair and reasonable so far as the Shareholders (including the Independent Shareholders) are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Services Framework Agreement and the transactions contemplated thereunder and the related proposed annual caps.

Yours faithfully,

For and on behalf of

The Independent Board Committee of

BII Railway Transportation Technology Holdings Company Limited

Mr. Bai Jinrong

*Independent non-executive
Director*

Mr. Luo Zhenbang

*Independent non-executive
Director*

Mr. Huang Lixin

*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter from VC Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Services Framework Agreement for the purpose of inclusion in this circular.



7/F, Centre Point,
181-185 Gloucester Road,
Wanchai, Hong Kong

30 August 2019

To: the Independent Board Committee and the Independent Shareholders

CONTINUING CONNECTED TRANSACTIONS

Dear Sir / Madam,

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Services Framework Agreement (the “**Continuing Connected Transactions**”) and the related proposed annual caps (the “**Proposed Annual Caps**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 30 August 2019 (the “**Circular**”) issued to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise specified.

SERVICES FRAMEWORK AGREEMENT

On 2 August 2019, the Company entered into the Services Framework Agreement with BII, pursuant to which the Group would provide BII, its subsidiaries and/or its associates with the Services.

Reference is made to the announcement of the Company dated 11 May 2016 and the circular of the Company dated 1 June 2016 in relation to, among others, the Former BMN Framework Agreement. The Former BMN Framework Agreement was entered into between the Company and Beijing Metro Network on 11 May 2016 in relation to the provision of certain services by the Company to Beijing Metro Network during the term commencing from 1 July 2016 to 30 June 2019. As (i) the term of the Former BMN Framework Agreement had ended; (ii) the Group is contemplating to enter into continuing connected transactions with BII, its subsidiaries and/or its associates; and (iii) Beijing Metro Network is one of the subsidiaries of BII, it was agreed by the Company and BII that the Services Framework Agreement shall include the renewal of term of the Former BMN Framework Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The proposed annual cap in respect of the transactions contemplated under the Services Framework Agreement for each of the six months ending 31 December 2019 and the years ending 31 December 2020 and 2021 is RMB240 million, RMB870 million and RMB1,210 million, respectively (equivalent to HK\$274 million, HK\$992 million and HK\$1,379 million, respectively).

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

As certain applicable percentage ratios of the transactions contemplated under the Services Framework Agreement are more than 25% and the annual caps in respect of the transactions contemplated under the Services Framework Agreement are expected to be higher than HK\$10 million, such transactions are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. As such, the Company will seek the Independent Shareholders' approval for the transactions contemplated under the Services Framework Agreement and the proposed annual caps for the six months ending 31 December 2019 and the years ending 31 December 2020 and 2021 at the EGM.

As (i) Mr. Zhang Yanyou serves as the chairman of the board of directors of BII; (ii) Mr. Guan Jifa serves as the deputy general manager of BII; (iii) Mr. Zheng Yi serves as an assistant general manager and a general manager of the railway transportation business department of BII; and (iv) Mr. Ren Yuhang serves as the board secretary and the general manager of investment development headquarters of BII, each of Mr. Zhang Yanyou, Mr. Guan Jifa, Mr. Zheng Yi and Mr. Ren Yuhang is deemed to be materially interested in the Services Framework Agreement by virtue of their senior management position held in BII respectively, and therefore, each of Mr. Zhang Yanyou, Mr. Guan Jifa, Mr. Zheng Yi and Mr. Ren Yuhang has abstained from voting on the relevant resolutions at the relevant Board meeting.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Mr. Bai Jinrong, Mr. Luo Zhenbang and Mr. Huang Lixin, being all the independent non-executive Directors, has been formed to advise the Independent Shareholders in connection with the transactions contemplated under the Services Framework Agreement and the related proposed annual caps. Our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the transactions contemplated under the Services Framework Agreement and the Proposed Annual Caps has been approved by the Independent Board Committee.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Our role as the Independent Financial Adviser is to advise the Independent Board Committee and the Independent Shareholders as to: (i) whether the terms of the Services Framework Agreement and the Proposed Annual Caps are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole; (ii) whether the Services Framework Agreement and the Proposed Annual Caps were entered into in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote on the resolution in relation to the Services Framework Agreement and the Proposed Annual Caps at the EGM.

OUR INDEPENDENCE

In the past two years, VC Capital Limited has acted as the independent financial adviser to the then independent board committee and the then independent shareholders of the Company in relation to the connected transaction as detailed in the Company's circular dated 21 June 2019. Apart from the normal professional fees paid to us in connection with the aforesaid appointment, no arrangement exists whereby we had received any other fees or benefits from the Company or any other party to the transaction, therefore we consider such relationship would not affect our independence.

As at the Latest Practicable Date, apart from normal professional fees payable to us in connection with our appointment as the Independent Financial Adviser, we did not have any relationship with, or interest in, the Group or other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR ADVICE

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have reviewed, amongst other things:

- (i) the Company's annual reports for the three years ended 31 December 2016 ("FY2016"), 31 December 2017 ("FY2017") and 31 December 2018 ("FY2018") (the "2018 Annual Report", and collectively, the "Annual Reports");
- (ii) the Services Framework Agreement;
- (iii) the Announcement; and
- (iv) other information as set out in the Circular.

We have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided by the Directors and the management of the Company (collectively, the "Management"). We have assumed that the information and representations contained or referred to in the Circular and provided and opinions expressed to us are true, accurate and complete in all respects at the time they were made and will remain so up to the Latest Practicable Date. The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

made all reasonable enquiries, to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading. We have no reason to suspect that any relevant information has been withheld, or to doubt the truth and accuracy of the information provided to us, or the reasonableness of the opinions expressed by the Management to us.

We consider the information we have received is sufficient for us to reach an informed view and to provide a reasonable basis for our recommendation. We have not, however, conducted any independent investigation into the business, financial position and affairs of the Group or its prospects, nor have we carried out any independent verification of the information provided by the Management.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion regarding the Continuing Connected Transactions, we have taken into account the following principal factors and reasons:

I. Information of the Company and the Group

As disclosed in the Letter from the Board, the Company is an investment holding company. The Group integrates investment and finance, research and development of technologies, intelligent railway transportation business and maintenance, 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 lifecycle service for the development of urban railway transportation. The Group’s intelligent railway transportation services provide 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 to promote the development of urban rail transit systems from informationised business to intelligent business.

Set out below is a summary of the consolidated statement of profit or loss of the Group as extracted from the Annual Reports:

	For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ended 31 December 2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Audited)	(Audited)	(Audited)
Revenue	479,309	564,587	453,204
Profit before tax	29,925	51,576	58,639
Profit after tax	28,394	45,240	53,328

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

During FY2016, FY2017 and FY2018, the revenues were mainly generated from the provision of design, implementation and sale, and maintenance, of application solution services. As depicted by the above table, the revenue of the Group amounted to approximately HK\$453.2 million for FY2018, representing a decrease of approximately 19.7% and approximately 5.4% compared to approximately HK\$564.6 million for FY2017 and approximately HK\$479.3 million for FY2016 respectively. As disclosed in 2018 Annual Report and informed by the Management, the decrease was mainly attributable to the finalisation stage of the intelligent railway transportation service business, the Phase II Beijing Fare Renovation Project, and the delay of the progress of some projects.

Despite the decrease of revenue, in FY2018, profit before tax of the Group amounted to approximately HK\$58.6 million, representing an increase of approximately 13.6% and approximately 96.0% compared to approximately HK\$51.6 million for FY2017 and approximately HK\$29.9 million for FY2016 respectively. As disclosed in 2018 Annual Report and informed by the Management, the increase was mainly attributable to the increase in revenue from the 4G service of civil communication transmission service business, and the increase in investment income and other revenue from financial planning as compared to the corresponding period of 2017.

As disclosed in the positive profit alert announcement of the Company dated 24 July 2019, based on the unaudited consolidated management accounts of the Group for the six months ended 30 June 2019 (the “Period”), the profit for the Period of the Group is expected to increase by no less than 180% as compared to the profit recorded in the corresponding period of the last year. Upon our discussion with the Management, the above mentioned expected increase in profit is mainly due to the following factors: (1) completion of the acquisition of Huaqi Intelligent which took place in March 2019 and its financial results have been consolidated into the Group’s financial results. As of 30 June 2019, the performance of Huaqi Intelligent was in line with the expected performance guarantee; and (2) the continuous development of the Group’s civil communication business.

Set out below is a summary of the consolidated statement of financial position of the Group as extracted from the Annual Reports:

	As at 31 December 2016 HK\$’000 (Audited)	As at 31 December 2017 HK\$’000 (Audited)	As at 31 December 2018 HK\$’000 (Audited)
Cash and cash equivalents	1,118,431	1,128,780	1,069,561
Total assets	2,494,897	2,713,027	3,043,432
Total liabilities	378,370	498,918	845,780
Net assets	2,116,527	2,214,109	2,197,652

The total assets of the Group increased by approximately 8.7% from approximately HK\$2,495 million as at 31 December 2016 to approximately HK\$2,713 million as at 31 December 2017, and then further increased by approximately 12.2% to approximately HK\$3,043 million as at 31 December 2018, mainly comprising cash and cash equivalents, trade and other receivables and interests in joint ventures and an associate.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Total liabilities of the Group increased by approximately 32.0% from approximately HK\$378 million as at 31 December 2016 to approximately HK\$499 million as at 31 December 2017, and then further increased by approximately 69.5% to approximately HK\$846 million as at 31 December 2018, which mainly comprises of trade and other payables and loans from a related party.

The Group completed the acquisition of Huaqi Intelligent in March 2019, which is the market leader in the on-board PIS market in the PRC with technological capabilities. This acquisition will enhance the competitiveness of the Group in the intelligent railway transportation business, which will contribute to the Group's market share in railway transportation system of the PRC and help the Group to expand its business to other countries.

As informed by the Management, as at 30 June 2019, the Group had 30 subsidiaries and joint ventures with over 700 employees. The Groups' business covered over 40 cities and overseas regions such as Beijing, Shanghai, Shenzhen and Hong Kong with scope of businesses covering various products and services such as AFC, ACC, PIS, TCC, data centre, energy consumption supervision and control, integrated supervision and control as well as operation and maintenance service.

II. Information on BII

As disclosed in the Letter from the Board, BII is a company established in the PRC as at the Latest Practicable Date. BII held approximately 55.12% of the Shares through its wholly-owned subsidiary, namely BII HK, thus BII is an ultimate controlling shareholder of the Company. To the best of the Directors' knowledge, information and belief, BII is principally engaged in the investment, financing and management of rail transit infrastructure, rail transit equipment manufacturing as well as information technology, and the development and operation of land and estates.

According to the website of BII, as at the end of 2018, the total assets and net assets of BII amounted to approximately RMB558.4 billion and approximately RMB208.9 billion, respectively. The investment of government projects completed by BII in 2018 amounted to approximately RMB63.9 billion.

III. Reasons for the Continuing Connected Transactions

The transactions contemplated under the Services Framework Agreement will be conducted in the ordinary and usual course of business of the Group.

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Taking into account the above factors, the Directors consider that:

- (i) the terms and conditions of the Services Framework Agreement were negotiated among the parties on an arm's length basis and are normal commercial terms that are fair and reasonable;
- (ii) the proposed annual caps in respect of the transactions contemplated under the Services Framework Agreement for the six months ending 31 December 2019 and the years ending 31 December 2020 and 2021 are fair and reasonable; and
- (iii) the transactions contemplated under the Services Framework Agreement are in the interest of the Company and the Shareholders as a whole.

IV. Principal terms of the Services Framework Agreement

A summary of the principal terms of the Services Framework Agreement is set out below:

Date: 2 August 2019

Parties: (i) The Company; and
(ii) BII

Provisions of the Services: Pursuant to the Services Framework Agreement, the Group agrees to provide the Services to BII, its subsidiaries and/or its associates during the term of the Services Framework Agreement, provided that (i) the member of the Group is awarded with the relevant contract in accordance with the stipulated procedures under the relevant PRC laws and regulations (if required); and (ii) the parties thereto negotiate at arm's length regarding the commercial terms to be set out in the individual agreements for the Services.

Transaction principles: Pursuant to the Services Framework Agreement, the Group and BII, its subsidiaries and/or its associates will enter into individual agreements for the provision of the Services. Pursuant to the Services Framework Agreement, the terms (including the service fees) of the individual agreements to be entered into will be negotiated by the parties at arm's length and will be determined by the parties from time to time on normal commercial terms in the ordinary course of business.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Pricing principles:

Pursuant to the Services Framework Agreement, the price of the transactions contemplated thereunder will be determined as follows:

- (1) where there is government-prescribed price, the government-prescribed price shall be executed;

“government-prescribed price” refers to the price prescribed for certain services or services determined under the laws, regulations, decisions, orders or focuses by the central and provincial governments or relevant regulatory authorities in the PRC;

- (2) where there is no government-prescribed price, but there is government-guided price, the government-guided price shall be executed by considering the market factors;

“government-guided price” refers to the price range prescribed for certain services or services determined under the laws, regulations, decisions, orders or focuses by the central and provincial governments or relevant regulatory authorities in the PRC, which shall be determined by transaction parties within such certain range;

- (3) where there is neither government-prescribed price nor government-guided price, the price determined through tender process or the market price shall be executed;

“market price” shall be determined in the following order: (i) the price charged by at least two independent third parties who offer the same type of services under normal commercial terms in the normal conditions of business transactions at or near the area where such services are provided; or (ii) where (i) above is not available, the price charged by at least two independent third parties who offer the same type of services under normal commercial terms in the normal conditions of business transactions in the PRC; or

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (4) where none of the above three means is available or the above transaction principles are not applicable for use in actual transactions, the agreed price shall be executed;

“agreed price” means the price determined by means of “reasonable cost + reasonable profit”. In an agreement, “reasonable cost” means the cost recognised by both parties after negotiations and permitted by the relevant accounting principles of the PRC (inclusive of sales tax and surcharges); and “reasonable profit” means the profit calculated based on such reasonable cost under market practice. Upon our enquiry to the Management, the Company would also refer to profit margin of previous projects of similar nature when determining the reasonable profit.

As disclosed in the Letter from the Board, most historical continuing connected transactions of the Group adopted the third price determination method of the above, i.e. through tender process or the market price, which was obtaining service contracts and determining the contract terms and prices through participation in open bidding. The remaining historical continuing connected transactions of the Group adopted the fourth price determination method of the above, i.e. the agreed price method.

Upon discussion with the Management, we were informed that most of the historical Continuing Connected Transactions were obtained through open bidding. Based on our research, according to the 16th order promulgated by the National Development and Reform Commission of the PRC, Regulation on Construction Projects which must be Open for Bidding (必須招標的工程項目規定) came into effect on 1 June 2018. It is stipulated that the construction projects which fulfill certain criteria should adopt open bidding process, for example, if the funds for the construction project are from state-owned capital (國有資金) which are of a holding or dominant position; and the value of an individual contract under the abovementioned construction project is estimated to be above RMB4 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed in the Letter from the Board, during the three years ended 30 June 2019, the Group did not adopt the first and second price determination method to price the historical continuing connected transactions of a similar nature, however, based on the possible changes and reform in the laws and regulations of the PRC, there might be government-prescribed price or government-guided price for the Services in the future, where the Group will be expected to adopt the relevant government-prescribed price or government-guided price for the Services.

As disclosed in the Letter from the Board, according to the historical transactions and practices of the Group during the last three years, where the price was determined based on the fourth price determination method, i.e. reasonable cost + reasonable profit method, the profit generated from service contracts of the Group usually ranged from 10% to 20% of the contract amount. The Board was of the view that such profit range is on normal commercial terms because based on the management's experience, if the profit was more than 20%, it might be difficult for the Group to negotiate or secure the contract with the customers. On the other hand, if the profit was less than 10%, the Group's profitability would be affected. Therefore, in the historical transactions and practices of the Group which were conducted with connected persons and independent third parties during the last three years, the Group would usually secure the service contracts with profit ranging from 10% to 20%.

In addition, based on our research, the Price Law of the PRC (《中華人民共和國價格法》, the "**Price Law**") stipulates the pricing principles in the PRC.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in Article 3 of the Price Law, pricing should be made to accord with the law of value with most of the merchandises and services to adopt market regulated prices while a very few of them to be put under government-prescribed or guided prices.

As set out in Article 18 of the Price Law, the government may issue government-prescribed or guided prices for the following merchandises and services if necessary:

- (i) The very few merchandises that are of great importance to development of the national economy and the people's livelihood;
- (ii) The few merchandises that are in scarcity of resources;
- (iii) Merchandises of monopoly in nature;
- (iv) Important public utilities;
- (v) Important services of public welfare in nature.

As set out in Article 6 of the Price Law, prices of all merchandises and services, except those as set in Article 18 to adopt government-prescribed or guided prices, shall be subject to market regulation to be fixed by business operators independently according to the provisions of the Price Law.

In view of the above, we consider the pricing principles are in compliance with legal requirements in the PRC.

Term:

The Services Framework Agreement is effective upon fulfillment of the following conditions precedent:

- (i) the Company issuing a circular and obtaining the approval from the Independent Shareholders in relation to the transactions contemplated under the Services Framework Agreement in accordance with the Listing Rules; and
- (ii) the approval from the board of directors of BII in relation to the transactions contemplated under the Services Framework Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Subject to the fulfilment of the above conditions precedent, the Services Framework Agreement shall be effective between 1 July 2019 and 31 December 2021.

The term of the Services Framework Agreement is set to two and a half years in order to be consistent with the financial year end of the Company in both 2020 and 2021.

Settlement method: The service fee shall be paid by BII, its subsidiaries and/or associates to the Group upon completion of relevant services provided within the settlement cycle as agreed under individual agreements entered into in accordance with the Services Framework Agreement.

As disclosed in the Letter from the Board, based on the historical transaction and practices of the Group during the past three years, the service fee under a contract was usually received in the following manner:

- (i) approximately 10% to 30% of the contract sum shall be settled after the contract becomes effective;
- (ii) approximately 70% to 80% of the contract shall be settled after completion of services and confirmation by both parties; and
- (iii) approximately 5% to 10% of the contract sum shall be settled after the expiry of the maintenance period.

V. The Proposed Annual Caps

Historical transaction amounts

The historical transaction amounts in respect of the transactions contemplated under the Former BMN Framework Agreement for each of the two years ended 30 June 2018 and the six months ended 31 December 2018 were approximately HK\$76 million, HK\$118 million and HK\$47 million respectively.

Summary of the Proposed Annual Caps

	For the six months ending 31 December 2019 (HK\$ million)	For the year ending 31 December	
		2020 (HK\$ million)	2021 (HK\$ million)
Annual cap (approximate)	274	992	1,379

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Basis of the Proposed Annual Caps

The proposed annual caps for the Services Framework Agreement for the six months ending 31 December 2019 and the years ending 31 December 2020 and 2021 are determined with reference to, among others, the following:

- (i) the historical transaction amount under the various agreements entered into between the Group and Beijing Metro Network, being a subsidiary of BII, in relation to provision of the Services;
- (ii) the outstanding contract amount of various agreements entered into between the Group and Beijing Metro Network, being a subsidiary of BII;
- (iii) the estimated number of projects for the provision of the Services to be offered by BII, its subsidiaries and/or its associates for tender for the six months ending 31 December 2019 and the two years ending 31 December 2020 and 2021;
- (iv) the development outlook of the city railway transportation industry, in particular Beijing, including but not limited to the following factors:
 - (1) pursuant to the “Second-phase Construction Plan of Beijing’s Urban Rail Network (2015-2021)” (北京市城市軌道交通第二期建設規劃(2015年–2021年)) approved by the National Development and Reform Commission and the adjustment scheme for second phase construction plan which is currently being prepared by BII, the operating mileage of railway transit in Beijing is expected to reach approximately 1,000 kilometres. Such large scale of new line construction which may lead to steady growth of existing businesses of the Group including AFC, PIS, ACC and TCC businesses;
 - (2) pursuant to the “Development Action Plan of Beijing’s Intelligent Railway Transportation (2019-2021)” (北京智慧軌道交通發展行動計劃(2019年–2021年)) which is currently under formulation, it is expected that the Group will deploy large amount of new investments in intelligent adjustment command, intelligent operation and maintenance, intelligent services for passengers, intelligent vehicles and other relevant aspects. Such investments and upgrade of intelligent railway transportation systems will accelerate the growth of new businesses including the construction of big data centre for railway transportation, Automatic Fare Collection System cloud platform, and internet ticketing system with face and biometric recognitions; and
 - (3) the development of the city railway transportation public-private partnership projects in other regions beyond Beijing by BII, which may bring better business opportunities to the Group;

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- (v) the acquisition of Huaqi Intelligent by the Group which was completed in March 2019, and resulted in substantial increase in the scale of operations of the Group after the acquisition; and
- (vi) the Group's intention to expand its scope of business from mainly AFC into five main business areas, namely AFC, PIS, Integrated Supervision and Control System, Security Protection and Alarm System, and Communication System.

As advised by the Management, in determining the contract sum for current and potential projects for the provision of the Services by the Group to BII, the Group would estimate the amount of technical services required by considering the factors including the time, manpower, the hourly rate of the relevant staff to be deployed for those projects which varies according the level of technical expertise, with reference to the prior projects and historical transactions of the Group which provides services of similar nature, size and geographical location. The Group would also take into account the cost estimates for spare parts and other equipment based on the historical market price and the market trend.

Taking into account that (i) there has been a long-standing business relationship between BII and the Group; and (ii) the Company has considered the government's plan on Beijing city railway transportation in the near future and the proposed development of city railway transportation public-private partnership projects in other regions beyond Beijing, we are of the view that the anticipated contract amounts for the Services by the Group to BII are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole.

In addition, according to statistical analysis conducted by the Group, if the services contracts with BII, its subsidiaries and/or its associates under the Services Framework Agreement will be obtained by way of open tender in 2019, 2020 and 2021, it is expected that the number of projects to be obtained will be more than 50, taking into account, among others, the following:

- (i) the outstanding contract amount of certain agreements entered into between the Group and Beijing Metro Network is approximately RMB59 million;
- (ii) Daily operation and maintenance

the Group continues to provide services of information centre operation and maintenance, mainframe network operation and maintenance, integrated management and control operation and maintenance. The term of such operation projects will expire in 2019 and it is necessary to renew through open tender in the market. If bidding is successful, it is expected that the aggregated contract value attributable to such operation and maintenance service for the six months ending 31 December 2019 and the years ending 31 December 2020 and 2021 will be approximately RMB22 million, RMB44 million and RMB44 million, respectively (based on an assumption of 7 contracts with attributable contract value ranging from approximately RMB1 million to RMB24 million);

(iii) Projects in Beijing

pursuant to the “Second-phase Construction Plan of Beijing’s Urban Rail Network (2015-2021)” (北京市城市轨道交通第二期建設規劃(2015年2021年)) approved by the National Development and Reform Commission and the adjustment scheme for second phase construction plan which is currently being prepared by BII, it is expected that the plan will include construction of Beijing Underground Line 3, Second Phase of Line 7 (east extension), Fourth Phase of Line 8, Line 12, Line 17, First Phase of Line 19, Line 22 (Pinggu Line), Second Phase of Line 25 (Fangshan Line North Extension), Second Phase of Line 27 (Changping Line South Extension), Second Phase of Batong Line (South Extension), Second Phase of Capital Airport Line (West Extension), Central Business District (CBD) Line, and New Airport Line, it is also expected that the operating mileage of railway transit in Beijing will reach approximately 1,000 kilometres. With the construction of new lines in Beijing Subway, it is expected that the Group will obtain contracts regarding provision of services, construction, subsequent updates of AFC, PIS, ACC, TCC, big data centre, cloud platform, internet ticketing systems of numerous Beijing Subway lines, as well as services related to network security and information system technology. If the Group can secure relevant projects by open tender, it is expected that the aggregated contract value attributable to such projects for the six months ending 31 December 2019 and the years ending 31 December 2020 and 2021 will be approximately RMB58 million, RMB504 million, RMB759 million, respectively (based on an assumption of 36 contracts with attributable contract value ranging from approximately RMB1.7 million to RMB150 million);

(iv) Projects beyond Beijing

with the “to go public” development strategy of BII and implementation of the “Public-private partnership (“PPP”) to go public”, the Group will closely cooperate with BII for PPP projects, such as the PPP project of Shaoxing Underground Line 1 and the PPP project of Urumqi Railway Transportation Line 2. It is expected that the Group will engage in projects relating to AFC, PIS and T1 Line in Huangshan by tender. If the Group can secure the relevant projects by open tender, the aggregated contract value attributable to such projects for the six months ending 31 December 2019 and the years ending 31 December 2020 and 2021 will be approximately RMB83 million, RMB230 million, RMB244 million, respectively (based on an assumption of 4 contracts with attributable contract value ranging from approximately RMB22 million to RMB200 million); and

(v) Other potential projects

as the national and local governments further support the construction of intelligent cities and encourage to launch relevant policies and subsidy system, the Company, being the sole offshore listing platform and the most

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important high technology enterprise of BII, is responsible for the important mission of empowering urban railway transportation with intelligent technology. Focusing on the new development direction of “three transformations” of BII, the Group will actively engage in the construction of intelligent management systems, such as, integrated utility tunnels, highway and transit-oriented development (“TOD”) in Beijing. If the Group can secure the relevant projects by open tender, it is expected that the aggregated contract value attributable to such projects for the six months ending 31 December 2019 and the years ending 31 December 2020 and 2021 will be approximately RMB18 million, RMB92 million, RMB163 million, respectively (based on an assumption of 13 contracts with attributable contract value ranging from approximately RMB8 million to RMB40 million).

As disclosed in the Letter from the Board, the above assumptions of contract values of potential projects were determined based on the Group’s expectations from the discussions and negotiations between the Group and BII.

As disclosed in the Letter from the Board, further, the transactions conducted under the Former BMN Service Agreement contributed to approximately 16%, 21% and 10% of the total revenue of the Group for the three years ended 31 December 2018. As disclosed above, Beijing is currently one of the largest railway transportation markets in the PRC, pursuant to the “Second-phase Construction Plan of Beijing’s Urban Rail Network (2015-2021)” approved by the National Development and Reform Commission and the adjustment scheme for second phase construction plan which is currently being prepared by BII, it is expected that the operating mileage of railway transit in Beijing will reach approximately 1,000 kilometres. Such large scale of new line construction can lead to growth of existing businesses of the Group. As set out in the 2018 annual report of the Company, it is expected that the Company will strive to become the leader of Chinese intelligent railway transportation by benefiting from the support from the controlling shareholder of the Company (i.e. BII) which is expected to focus its efforts to develop itself as the comprehensive service provider of the innovative railway transportation equipment industry. Through collaborative development projects with external partners, the Company will further strengthen the presence of Beijing Subway throughout the nation. Besides, in March 2019, the Group completed the acquisition of Huaqi Intelligent and the scale of operations of the Group has been enlarged after the acquisition. According to a voluntary business update announcement of the Company dated 20 June 2019, the total amount of projects on hand as at 31 May 2019 of the Group was approximately RMB1.6 billion (compared to the audited revenue of the Group for the year ended 31 December 2018 being approximately RMB453 million).

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As disclosed in the Letter from the Board, the Company noted that the maximum annual cap of the Services Framework Agreement represented approximately 304% of the Company's total revenue for the year ended 31 December 2018. However, due to the above reasons, it is expected that the Company's revenue will increase substantially in the future due to, among others, the expected positive market outlook and the strong support from the controlling shareholder of the Company. Based on the preliminary forecast of the Board, it is expected that the transactions contemplated under the Services Framework Agreement will contribute approximately 10% to 30% of the revenue of the Group for the three years ending 31 December 2021. Hence, the Board is of the view that the proposed transactions contemplated under the Services Framework Agreement will not contribute substantially to the future revenue of the Company and the Company's business and operations does not rely materially on its connected persons.

Having considered (i) the outstanding and anticipated contract amounts in relation to the relevant services which is expected to be provided by the Group to BII in the coming six months ending 31 December 2019 and the two years ending 31 December 2020 and 2021; and (ii) that the demand for the relevant services to be provided by the Group to BII would be substantial to cater for the fast-growing metro network in Beijing and other cities where the Group is expanding its business, we are of the view that the setting of the Proposed Annual Cap, after making reference to the aforesaid factors, are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole.

Table 1: Summary of the Former BMN Framework Agreement proposed annual caps

	As at 1 July 2016 to 30 June 2017 HK\$'000	As at 1 July 2017 to 30 June 2018 HK\$'000	As at 1 July 2018 to 30 June 2019 HK\$'000
Proposed annual cap	430,000	290,000	760,000
Actual historical amounts	76,414	118,049	83,072 ^{Note}
Percentage of actual historical amounts to proposed annual cap (" Utilisation Rate ")	17.77%	40.71%	10.93%

Note: The actual historical amounts in respect of the transactions under the Former BMN Framework Agreement for the six months ended 31 December 2018 were audited, while those for the six months ended 30 June 2019 were unaudited.

As illustrated in the Table 1, the Utilisation Rate of the Company is approximately 17.77%, 40.71% and 10.93% for the three years ended 30 June 2017, 2018 and 2019 respectively. To assess the fairness and reasonableness of the estimated amounts of the Proposed Annual Caps and the Services Framework Agreement, we have considered that, as mentioned in the 2018 Annual Report, the Group strives to become the leading service provider of city railway transportation intelligent system in China, by the way of increasing its investment for development of the railway facilities such as PIS system, software and network in 2018. It is expected that the estimated amounts of the Proposed Annual Caps under the Services Framework Agreement will increase. Based on our analysis above, we are of the view that the purpose of increase in the estimated amounts of the Proposed Annual Caps is to cater for business development of the Group, and the Proposed Annual Caps under the Services Framework Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

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Table 2: *The Percentage of actual historical amounts to annual revenue of the Group under the Former BMN Framework Agreement*

	For the year ended 31 December		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Actual historical amounts	73,000	111,420	77,140
Annual revenue of the Group	479,309	564,587	453,204
Percentage of actual historical amounts to annual revenue of the Group	15.23%	19.73%	17.02%

No reliance on its connected persons

Upon our enquiry, the Management informed us that the revenue generated from BII amounted to approximately HK\$73 million, HK\$111 million and HK\$77 million for the three years ended 31 December 2016, 2017 and 2018 respectively, representing only approximately 15.23%, 19.73% and 17.02% of the annual revenue of the Group for the three years ended 31 December 2016, 2017 and 2018 respectively as shown in Table 2. The revenue derived from independent third parties to the annual revenue of the Group for the three years ended 31 December 2016, 2017 and 2018 was approximately 84.77%, 80.27% and 82.98% respectively. As disclosed in 2018 Annual Report, the Group recorded revenue of approximately HK\$453.2 million and its businesses mainly focused on three business segments, namely (i) intelligent railway transportation services; (ii) civil communication transmission services; and (iii) business development investment. In addition, the equity acquisition of Huaqi Intelligent represented an important step in implementing the Group's development strategy as well as a strategic move in strengthening the Group's business sectors, thereby enhancing the Group's core technological strength and market competitiveness. As a result, it is expected that there will be stable revenue generated from independent third parties to the Company.

As discussed in the section "III. Reasons for the Continuing Connected Transactions", the transactions contemplated under the Services Framework Agreement will be conducted in the ordinary and usual course of business of the Group. As BII is the ultimate holding company of the Company, in light of the secured and steady business relationship between the Company and BII, the level of settlement risk associated with the transactions with the BII is generally lower than those with independent third-party clients.

As discussed in the section "VI. Business Prospects", as the PRC's railway transportation industry is expanding and developing in recent years, the Company possesses strong strength in providing intelligent railway transportation services and civil communication transmission services to expand the infrastructure projects in the areas of urban rail transit and continuously improve its business performance so as to provide better investment returns for its Shareholders. Further, the Group will establish a brand new product system based on big data, cloud computing,

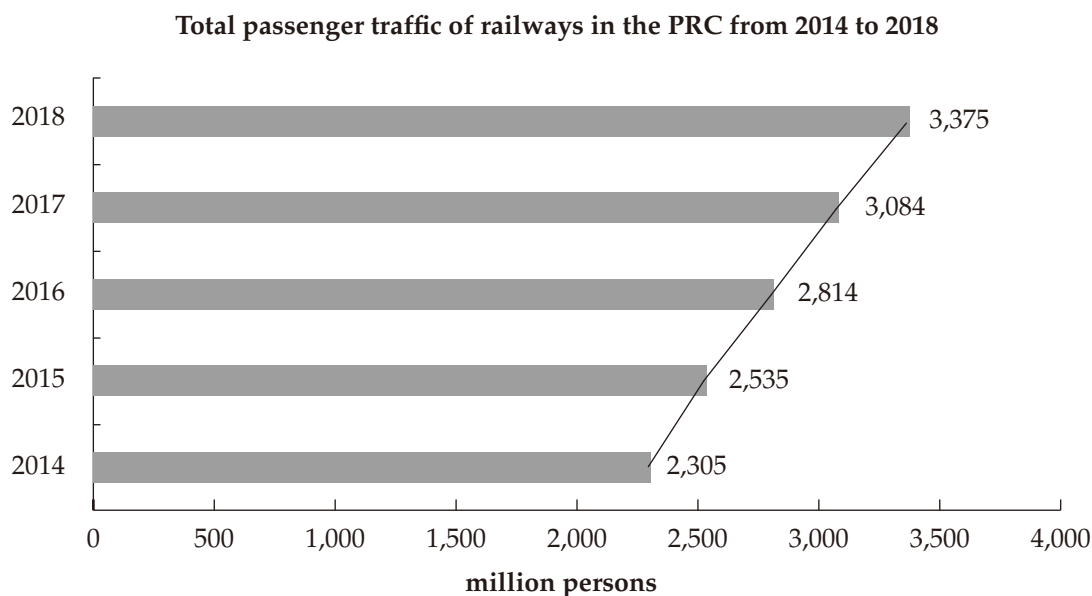
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artificial intelligence so that the related products covering AFC, PIS, TCC can be fully upgraded. Upon discussion with the Management, it is the Company's intention to strengthen and improve its services, which will significantly enhance its market competitiveness and also step up marketing efforts and increase productivity based on the city railway intelligent system.

Having considered that (i) the Company is able to generate a stable revenue stream and substantial income from independent third parties, and with the expansion of its customer base and market share; (ii) there is long established and steady business relationship between the Company and BII; and (iii) the Company will strengthen its principal business in city railway intelligent system and further reinforce its other business in order to provide synergies among the business segments and enhance efficiency in the overall operation of the Group, we concur with the view of the Directors that the proposed transactions contemplated under the Services Framework Agreement will not contribute substantially to the future revenue of the Company and the Company's business and operations does not rely materially on its connected persons.

VI. Business Prospects

As the PRC's railway transportation industry is expanding and developing, we have conducted research on statistics in relation to basic conditions of railway transport growth and the measurement of total passenger traffic of railways in the PRC. Set out below is the number of total passenger traffic of railways in the PRC from 2014 to 2018:



Source: National Bureau of Statistics of the PRC

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As illustrated in the diagram above, the total passenger traffic of railways grew from approximately 2,305 million persons in 2014 to approximately 3,375 million persons in 2018, representing an increase of approximately 46%, which shows the railway usage in the PRC has increased rapidly over the past few years. As stated in the Railway Law of the People's Republic of China (《中華人民共和國鐵路法》), the state shall encourage scientific and technological research on railways in order to heighten their scientific and technical level. The increase was therefore mainly attributable to the overall operation and development strategy of PRC government's policy which leads China's rapidly developing infrastructure market.

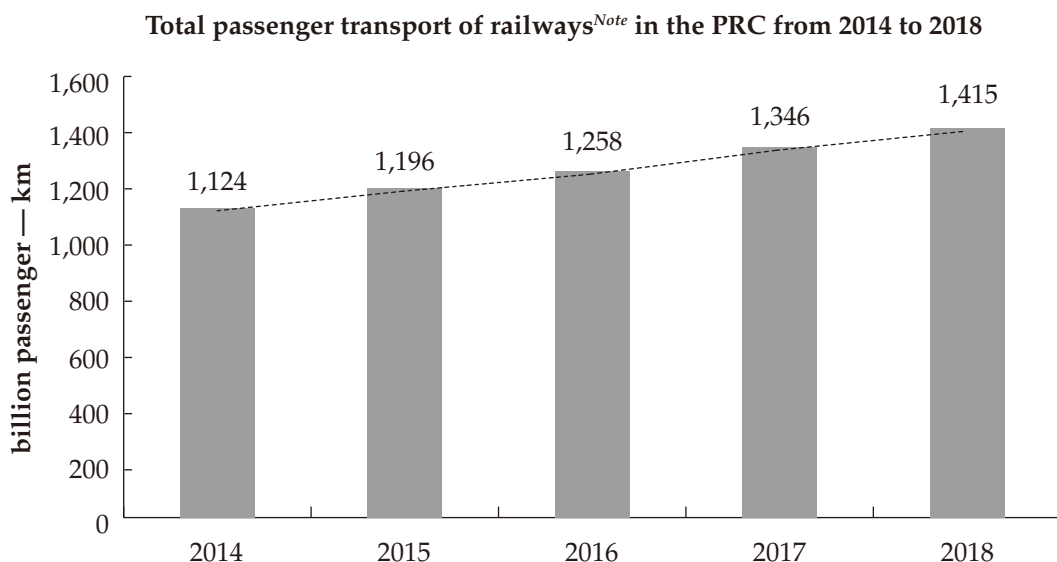
Since the railway transportation in the PRC has been growing steadily and positively in recent years, the investment in development of the railway facilities in the PRC has maintained a stable momentum. In addition, BII is the ultimate controlling Shareholder of the Company, and the Group has had a long-standing business relationship with BII, its subsidiaries and/or its associates, the transactions contemplated under the Services Framework Agreement will be beneficial to and provide a steady income stream to the Group. Moreover, the Company possesses strong strength in providing intelligent railway transportation services and civil communication transmission services to expand the infrastructure projects in the areas of urban rail transit and continuously improve its business performance so as to provide better investment returns for its Shareholders. Further, the Group will establish a brand new product system based on big data, cloud computing, artificial intelligence so that the related products covering AFC, PIS, TCC can be fully upgraded. As such, we concur with the Management that the Services Framework Agreement is in the best interests of the Company and the Shareholders as a whole.

As mentioned in the 2018 Annual Report, the Group strives to become the leading service provider of city railway transportation intelligent system in China. In the coming three years, the Group will adhere to the development strategy of "New journey and remodel 2021" and the Group's three major strategic themes of "one body, one platform, one centre" to accelerate the expansion and development of three scopes: "business realm, industry chain and market segment" focusing on the five major core systems of intelligent railway transportation. The Group will effectively utilise intelligent technology to improve the city railway transportation system.

The Company is committed to its mission "energise the city railway transportation by intelligent technology" and position itself as the "leading service provider of city railway transportation intelligent system in China". As one of the leading industry participants, the Group will continue to follow the principle of technological innovation to strengthen its technological competitiveness and concentrates on the research and development of core product lines such as AFC and PIS. On the basis of the aforesaid background, the Group adheres to market expansion as its core to build up market competitiveness and focuses on providing the whole life-cycle solution for intelligent railway transportation system.

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Set out below is the number of total passenger transport of railways in the PRC from 2014 to 2018:



Note: Total passenger transport of railways = number of passengers transported by railways × transportation distance

Source: National Bureau of Statistics of the PRC

In addition, as illustrated in the diagram above, the total passenger transport of railways in the PRC grew from approximately 1,124 billion passenger-km in 2014 to approximately 1,415 billion passenger-km in 2018, representing an increase of approximately 26%. The total passenger transport of railways in the PRC was on an upward trend from 2014 to 2018, the latest five years of which data are available.

As discussed in the section headed “I. Information of the Company and the Group” above, investment and finance, research and development of technologies, intelligent railway transportation business and maintenance of application solution services have all along been the Group’s ordinary and usual course of business.

We have reviewed the Annual Reports, the year 2018 also marked the strategic transformation and upgrade of the Group. As the sole overseas listed arm of the Company’s ultimate holding company, the Group was committed to fulfilling the key mission of ensuring the networking operation of railway transportation in cities where the Group is expanding its business. Under the guidance of BII, the Group would closely follow the business approaches of BII, actively adopt the intelligent technology to energise the city railway transportation, and continue to strive to develop itself to become the vanguard of world-class city intelligent railway transportation and consolidate its role as a leading system service provider. Steered by its commitment to scientific and technological innovation, the Group would continue to gear up its efforts in research and development, actively widen its scope of development in areas of building a rail transit cloud platform and establish a big data framework and big data analysis to foster the transformation of city railway transportation, thereby realising the high-quality development of the Group.

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As discussed with the Management, the entering into of the Services Framework Agreement can be seen as one of the Group's strategy to expand the income sources of the Group, consolidate and improve the market position and competitiveness of the Group in the urban rail transit industry. Based on the growth in the economy and urban rail transit industry in the PRC in recent years, we concur with the view of the Management that the long-term prospects of the PRC's urban rail transit industry are favourable and the ongoing projects between the Group and BII are expected to present favourable business opportunities and potential capital appreciation for the Group.

In light of the above, we are of the view that the entering into of the Services Framework Agreement is in the usual and ordinary course of businesses of the Group and is in the interests of the Company and the Shareholders as a whole.

VII. Internal Control Measures

Upon our enquiry to the Management, we have been provided with a manual named the Regulation on the Administration of Connected Transactions of the Company (《關連交易管理規定》, the "Manual"). Upon our review, the Manual comprises chapters, including but not limited to definition of connected person, definition of connected transaction, regulatory requirements by the Stock Exchange relating to connected transactions, proposal and preliminary examination on connected transactions as well as examination on connected transactions by the Board.

As disclosed in the Letter from the Board, to ensure that the terms of the transactions and the pricing mechanisms under the Services Framework Agreement are fair and open and the transactions are conducted in accordance with the requirements under the Listing Rules, the Group adopted a policy regarding the management of continuing connected transactions, which was formulated pursuant to the actual day-to-day business operations of the Group and the relevant requirements, laws and regulations including the Listing Rules and the articles of association of the Company. The policy will ensure compliance of the Listing Rules regarding continuing connected transactions of the Group under the Services Framework Agreement through strict requirements and measures in relation to identification of connected persons and connected transactions, internal review and approval procedures of connected transactions, monitoring disclosure requirements under the Listing Rules, and supervision, management and disclosure of connected transactions.

As disclosed in the Letter from the Board, the internal control measures ("**Internal Control Measures**") of the Group to ensure the Services provided by the Company under the Services Framework Agreement are (i) on normal commercial terms; and (ii) in accordance with the terms of the Services Framework Agreement and are summarised as follows:

1. when possible connected transaction arises during the course of business of the Group which falls under the Services Framework Agreement, relevant staff will report to the finance department and the legal and audit department of the Group regarding the details of the connected party and the possible transaction with such connected party;

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2. the business department of the Group will prepare an estimate of costs and price of the possible connected transaction based on the relevant rules and regulations announced by the government and/or the industry association(s), as well as the market price which is expected to be payable by independent third party in respect of the provision of similar services by the Group;
3. based on the information of the possible connected transaction and the estimates of the costs and price, the business management department, business department, finance department, legal and audit department and the Company's external advisers will review and confirm the terms of the possible connected transaction, including but not limited to whether the terms and price are fair and reasonable, and the settlement terms and compliance matters;
4. if the possible connected transaction is approved by the internal departments of the Group, the management of the Group will consider the possible connected transaction based on the internal assessment results, and approve/reject the transaction;
5. if the possible connected transaction is approved by the management of the Group, the finance department and the legal and audit department of the Group will continuously monitor the performance of the transaction to ensure that the transaction falls within the terms of the Services Framework Agreement; and
6. the connected transaction of the Group will also be subject to annual review by the independent non-executive Directors and auditors in accordance with the Listing Rules.

In relation to step 2 of the Internal Control Measures, upon discussion with the Management, we were given to understand that the market price referred to therein is determined with reference to the Company's historical and current transactions with independent third parties in respect of the provision of similar services by the Group.

The Proposed Annual Caps of the Continuing Connected Transactions will be subject to the annual review by the independent non-executive Directors, details of which must be included in the Company's subsequent published annual report and accounts. In addition, pursuant to the Listing Rules, the auditors of the Company must provide a letter to the Board confirming, among others, that the Continuing Connected Transactions are conducted in accordance with their terms and that the Proposed Annual Caps of the Continuing Connected Transactions have not been exceeded. Moreover, pursuant to the Listing Rules, the Company shall publish an announcement if it knows or has reason to believe that the independent non-executive Directors and/or its auditors will not be able to confirm the terms of such transactions or the Proposed Annual Caps of the Continuing Connected Transactions not being exceeded. In view of the above, we are of the view that there are appropriate measures in place to govern the conduct of the Continuing Connected Transactions and safeguard the interests of the Independent Shareholders.

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Upon our request, the Management has provided a set of walk through documents of the internal control documents (the “**Internal Control Documents**”) of one continuing connected transaction in August 2018 with the amount of approximately HK\$3.92 million. This transaction involved Beijing Metro Network and BII Transportation Technology (Beijing) Co., Ltd. (北京京投億雅捷交通科技有限公司), a subsidiary of the Company which are the parties of the continuing connected transaction under the Former BMN Framework Agreement.

There are certain standard forms in the Internal Control Documents. As informed by the Management, these forms were prepared by the project team members and filed to the finance department and the legal and audit department of the Group. Details of the transaction including but not limited to the background, nature, estimated income, estimated cost, estimated profit and profit margin were shown in the forms. Opinions and approvals of the management of different departments such as the finance department, the legal and audit department, the business management department and the senior management of the Group were recorded. We were also provided an extracted minutes for office meeting of senior management of the Group in which showing the approval of the transaction. The aforementioned demonstrated the Management has followed the procedures of 1 to 4 as set out in the Internal Control Measures.

The Management has also represented that the finance department and the legal and audit department of the Group closely monitor the performance of the continuing connected transactions to ensure these transactions fall within the terms of the Services Framework Agreement. As such, the procedures of 5 as set out in the Internal Control Measures was followed.

We have also reviewed the annual reports of the Group for the years ended 31 December 2016, 2017 and 2018, the disclosure regarding the independent non-executive Directors having confirmed that the continuing connected transactions are in accordance with Rule 14A.55 of the Listing Rules. The independent non-executive Directors have reviewed the continuing connected transactions and the unqualified letter from the auditor and have confirmed that the continuing connected transactions entered into by the Group were in the ordinary and usual course of its business, on normal commercial terms or on terms no less favourable than those available to or from independent third parties, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the Shareholders as a whole. It demonstrated that the procedures of 6 as set out in the Internal Control Measures was executed.

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RECOMMENDATION

Having taken into account the principal factors and reasons as discussed above, we are of the view that the entering into of the Services Framework Agreement and the transactions contemplated thereunder is in the ordinary and usual course of business of the Group, the terms of the Services Framework Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and are in the interest of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we recommend the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Services Framework Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
VC Capital Limited
Ginny Ho
Managing Director

Note: Ms. Ginny Ho is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of VC Capital Limited to carry out type 6 (advising on corporate finance) regulated activity under the SFO. She has over 14 years of experience in the corporate finance industry.

* *For identification purposes only*

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 enquiries, 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 INTERESTS

(a) Directors' and chief executive'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	4,032,000	–	0.19%

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 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, 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 above, 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) 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 Jiangping (“Ms. Wang”)	Long position	Interest of spouse (Note 2)	245,457,815	500,000	11.71%
BII HK	Long position	Beneficial owner (Note 3)	1,157,634,900	1,300,000	55.18%

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
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 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 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

* For identification purposes only

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 owned by China Property and Casualty Reinsurance Company Ltd. and 42,608,000 Shares owned by China Life Reinsurance Company Ltd.

Save as disclosed above, as at the Latest Practicable Date, the Company is not aware of any other person having any interests or short positions in the Shares or underlying shares 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.

3. INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENT SIGNIFICANT TO THE 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 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 Group since 31 December 2018, the date of which the latest published audited consolidated financial statements of the Company were made up.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into a service contract with any member of the Group which does not expire or which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

5. 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 Group.

6. QUALIFICATION AND CONSENTS OF EXPERT

The following sets out the qualifications of the expert who has given its opinions or advice or statements as contained in this circular:

Name	Qualification
VC Capital Limited	A corporation licensed to carry out Type 6 (advising on corporate finance) of the regulated activity under the SFO

As at the Latest Practicable Date, the above expert 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.

As at the Latest Practicable Date, the above expert had no direct or indirect interests in any assets which has been acquired or disposed of by or leased to any member of the Group since 31 December 2018 (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.

As at the Latest Practicable Date, the above expert 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.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2018 (being the date to which the latest published audited consolidated financial statements of the Group had been made up) up to the Latest Practicable Date.

8. 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 at Unit 4407, 44/F, COSCO Tower, 183 Queen's Road Central, Sheung Wan, Hong Kong for 14 days from the date of this circular:

- (a) the Services Framework Agreement;
- (b) the letter from Independent Financial Adviser as set out in this circular;
- (c) the letter from the Independent Board Committee as set out in this circular;
and
- (d) this circular.

NOTICE OF EGM

京投轨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, 4/F., 4th Building, Jingtou Plaza, No. 6 Xiaoying North Road, Chaoyang District, Beijing, the People’s Republic of China on Wednesday, 18 September 2019 at 2:30 p.m., to consider and, if thought fit, pass the following ordinary resolution (with or without modifications):

ORDINARY RESOLUTION

“**THAT**

- (a) the services framework agreement dated 2 August 2019 (the “**Services Framework Agreement**”) (a copy of the Services Framework Agreement 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, and the relevant proposed annual cap amounts of the transactions contemplated under the Services Framework Agreement for the six months ending 31 December 2019 and the years ending 31 December 2020 and 2021 as shown in the Company’s circular dated 30 August 2019 be and are hereby approved, confirmed and ratified; and
- (b) Mr. Zhang Yanyou (the chairman of the board of directors (the “**Director(s)**”) of the Company and a non-executive Director) or Ms. Xuan Jing (an executive Director) 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 Services Framework Agreement 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 Services Framework Agreement and any other transactions contemplated under or incidental to the Services Framework Agreement.”

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

Hong Kong, 30 August 2019

NOTICE OF EGM

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 54, 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 (i.e. before 2:30 p.m. on Monday, 16 September 2019). 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.

As at the date of this notice, the executive directors of the Company are Mr. Cao Wei and Ms. Xuan Jing, the non-executive directors of the Company are Mr. Zhang Yanyou, Mr. Guan Jifa, Mr. Zheng Yi and Mr. Ren Yuhang, the independent non-executive directors of the Company are Mr. Bai Jinrong, Mr. Luo Zhenbang and Mr. Huang Lixin.