THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in China ITS (Holdings) Co., Ltd., you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

China ITS (Holdings) Co., Ltd.

中国智能交通系统(控股)有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1900)

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF THE ENTIRE EQUITY INTERESTS IN THE TARGET COMPANIES AND CONTINUING CONNECTED TRANSACTIONS

Financial Adviser to the Company

中國銀河國際
CHINA GALAXY INTERNATIONAL

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

信溢投資策劃有限公司
CHALLENGE CAPITAL MANAGEMENT LIMITED

A letter from the Board is set out on pages 12 to 47 of this circular. A letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders is set out on pages 48 to 49 of this circular. A letter from Challenge Capital Management Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 50 to 89 of this circular.

A notice convening the EGM to be held on 27 April, 2016 at 1:30 p.m. at Room VI, 6/F Building 204, No. A10 Jiuxianqiao North Road, Chaoyang District, Beijing, is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use by the Shareholders at the EGM is enclosed herein.

Whether or not you are able to attend the extraordinary general meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Union Registrars Limited at A18/F., Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong (which will be relocated to Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong with effect from 5 April 2016), as soon as possible but in any event not less than 48 hours before the time appointed for the holding of such meeting or any adjournment thereof.

24 March 2016

CONTENTS

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

"Aproud Technology"	北京亞邦偉業技術有限公司 (Beijing Aproud Technology Co., Ltd.)*, a Sino-foreign equity joint venture incorporated in the PRC on 15 February 2001 and an indirect wholly-owned subsidiary of the Company
"Beijing Aproud"	北京亞邦偉業交通技術有限公司 (Beijing Aproud Transportation Technology Co., Ltd.)*, a company incorporated in the PRC on 11 July 2007 and an indirect substantially owned subsidiary of China Expressway
"Beijing Huading"	北京華鼎嘉業技術有限公司 (Beijing Huading Jiaye Technology Co., Ltd.)*, a company incorporated in the PRC on 19 July 2013 and an indirect substantially owned subsidiary of China Expressway
"Beijing Intelligent Shixun"	北京智能實訊信息技術有限責任公司 (Beijing Intelligent Shixun Information Technology Co., Ltd.)*, a company incorporated in the PRC on 23 October 2000 and an associate of Hugecom
"Beijing Jingwei"	北京經緯智通科技有限公司 (Beijing Jingwei Zhitong Technology Co., Ltd.)*, a foreign-invested enterprise incorporated in the PRC on 16 March 2011 and an indirect substantially owned subsidiary of Hugecom
"Beijing Lihe Datong"	北京利和達通科技有限公司 (Beijing Lihe Datong Technology Co., Ltd.)*, a wholly-foreign-owned enterprise incorporated in the PRC on 20 April 2011 and a direct wholly-owned subsidiary of Hugecom
"Beijing Newcom Anhui"	北京航天智通交通科技安徽有限公司 (Beijing Newcom Traffic Technology Anhui Co., Ltd.)*, a company incorporated in the PRC on 18 November 2011 and an indirect wholly-owned subsidiary of China Traffic
"Beijing Newcom"	北京航天智通交通科技有限公司 (Beijing Newcom Traffic Technology Co., Ltd.)*, a company incorporated in the PRC on 14 June 2002 and an indirect wholly-owned subsidiary of China Traffic
"Beijing RHY"	北京瑞華贏科技發展有限公司 (Beijing RHY Technology Development Co., Ltd.)*, a Sino-foreign equity joint venture incorporated in the PRC on 16 February 2001 and an indirect substantially owned subsidiary of China Expressway

"Beijing STONE"	北京四通智能交通系統集成有限公司 (Beijing STONE Intelligent Transportation System Integration Co., Ltd.)*, a company incorporated in the PRC on 10 February 1999 and an indirect substantially owned subsidiary of Hugecom
"Beijing Univaid"	北京百聯智達科技發展有限公司 (Beijing Univaid Technology Development Co., Ltd.)*, a wholly foreign-owned enterprise incorporated in the PRC on 18 April 2007 and an indirect wholly-owned subsidiary of Hugecom
"Beijing Wancheng"	北京萬城互聯投資有限公司 (Beijing Wancheng Internet Investment Co., Ltd.)*, a company incorporated in the PRC on 4 December 2015 and a direct wholly-owned subsidiary of Beijing RHY
"Beijing Wuzhouzhitong"	北京五洲智通交通科技有限公司 (Beijing Wuzhouzhitong Traffic Technology Co., Ltd.)*, a wholly-foreign-owned enterprise incorporated in the PRC on 28 August 2008 and a direct wholly-owned subsidiary of China Traffic
"Beijing Zhixun"	北京智訊天成技術有限公司 (Beijing Zhixun Tiancheng Technology Co., Ltd.), a company incorporated in the PRC on 25 June 2007 and an indirect wholly-owned subsidiary of the Company
"Beijing Zhongzhi"	北京中智潤邦科技有限公司 (Beijing Zhongzhi Runbang Technology Co., Ltd.*), a company incorporated in the PRC on 3 September 2004 and an indirect wholly-owned subsidiary of the Company
"Board"	the board of Directors
"Business Day(s)"	a day, not being a Saturday or a Sunday, on which banks are open for business (including for dealings in foreign currency deposits and exchange) in Hong Kong
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"Chengdu Zhida"	成都智達威路特科技有限公司 (Chengdu Zhida Weilute Technology Co., Ltd.)*, a company incorporated in the PRC on 9 December 2009 and an indirect joint venture of the Company

"Chengzhi Ruibang"	北京誠智瑞邦科技有限公司 (Beijing Chengzhi Ruibang Technology Co., Ltd.)*, a company incorporated in the PRC on 30 April 2014 and an indirect wholly-owned subsidiary of the Company
"China Aviation"	China Aviation Communication Technology Company Limited, a company incorporated in Hong Kong and a direct wholly-owned subsidiary of the Company
"China eSOON"	China eSOON Limited, a company incorporated in the Cayman Islands and an available-for-sale investment of the Company
"China Expressway"	China Expressway Intelligent Transportation Technology Group Ltd., a company incorporated in the BVI and a direct wholly-owned subsidiary of the Company prior to the Offshore Closing
"China ITS"	China ITS (Holdings) Co., Ltd., a company incorporated in the BVI and a direct wholly-owned subsidiary of the Company
"China Toprise"	China Toprise Limited, a company incorporated in BVI and a direct wholly-owned subsidiary of China Expressway
"China Traffic"	China Traffic Holding Limited, a company incorporated in the Cayman Islands and a direct wholly-owned subsidiary of the Company prior to the Offshore Closing
"Company"	China ITS (Holdings) Co., Ltd. (中国智能交通系统(控股)有限公司), a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Main Board of the Stock Exchange
"connected person"	has the same meaning ascribed to it under the Listing Rules
"Consideration"	RMB979,840,000 (subject to adjustment), comprising (i) the sum of the Offshore Consideration and the Onshore Consideration of approximately RMB858.67 million for the purchase of the entire equity interests of the Target Companies by the Purchaser from the Company; and (ii) the Receivables Consideration of approximately RMB121,170,039.64 for the assignment of the Receivables to the Purchaser by the Company
"controlling shareholder"	has the same meaning ascribed to it under the Listing Rules

"Disposal"	the disposal of the Target Companies by the Company to the Purchaser, comprising the Offshore Disposal and the Onshore Disposal
"EGM"	the extraordinary general meeting of the Company to be convened to, among others, considering and if thought fit, approving the Master Sale and Purchase Agreement and the transactions contemplated thereunder, and the Non-exempt Continuing Connected Transactions
"E-port Management"	廣州電子口岸管理有限公司 (Guangzhou E-port Management Co., Ltd.)*, a company incorporated in the PRC on 8 February 2005 and an indirect associate of the Company
"Fairstar Success"	Fairstar Success Holdings Limited, a company incorporated in BVI and a direct wholly-owned subsidiary of the Company
"Final Net Asset"	the aggregate combined net asset of the Offshore Target Companies and Beijing RHY as at 31 December 2015 based on the unaudited pro forma combined statement of financial position of the Offshore Target Companies and Beijing RHY as at 31 December 2015 reflecting the financial effect of the Pre-disposal Restructuring
"Framework Agreement Suppliers"	the suppliers under the Framework Sales Agreement, being Beijing Zhixun, Beijing Zhongzhi and Zhongtian Runbang
"Framework Sales Agreement"	a framework sales agreement entered into between the Framework Agreement Suppliers and Beijing RHY dated 17 February 2016
"Group"	the Company and its subsidiaries
"Guangdong Aproud"	廣東亞邦鑫程交通技術有限公司 (Guangdong Aproud Xincheng Traffic Technology Co., Ltd.)*, a company incorporated in the PRC on 19 September 2011 and an indirect substantially owned subsidiary of the Company
"Guangdong Nanyuetong"	廣東南粵通客運聯網中心有限公司, a company incorporated in the PRC on 28 November 2014 and an indirect associate of the Company
"Guangzhou Customer Centre"	廣州市交通信息客戶服務中心有限公司 (Guangzhou Traffic Information Customer Service Centre Co., Ltd.)*, a company incorporated in the PRC on 28 December 2002 and a subsidiary of Traffic Information

"Haotian Jiajie"	北京昊天佳捷科技有限公司 (Beijing Haotian Jiajie Technology Co., Ltd.)*, a Sino-foreign equity joint venture incorporated in the PRC on 30 March 2007 and an indirect wholly-owned subsidiary of the Company
"HIBOR"	the Hong Kong Interbank Offered Rate
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"Holdco"	China ITS Co., Ltd.
"Hong Kong"	the Hong Kong Special Administrative of the PRC
"Hongrui Dake"	北京宏瑞達科科技有限公司 (Beijing Hongrui Dake Technology Co., Ltd.)*, a company incorporated in the PRC on 17 October 2014 and an indirect wholly-owned subsidiary of the Company
"Hongrui Properties"	certain premises to be leased to Beijing RHY by Hongrui Dake pursuant to the RHY Lease
"Hugecom"	Hugecom Limited, a company incorporated in the BVI and a direct wholly-owned subsidiary of the Company prior to the Offshore Closing
"Independent Board Committee"	an independent board committee of the Board comprising all the independent non-executive Directors, who have no material interest in the Disposal, namely, Mr. Zhou Chunsheng, Mr. Choi Onward and Mr. Sun Lu
"Independent Financial Adviser" or "Challenge Capital"	Challenge Capital Management Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Disposal and the Non-exempt Continuing Connected Transactions
"Independent Shareholders"	the Shareholders who are not interested in or involved in the Master Sale and Purchase Agreement and the transactions contemplated thereunder and the Non-exempt Continuing Connected Transactions

"Intelligent Aviation"	智能航空系統有限公司 (Intelligent Aviation System Co., Ltd.)*, a wholly-foreign-owned enterprise incorporated in the PRC on 23 November 2012 and an indirect wholly-owned subsidiary of the Company
"Intelligent Traffic"	智能交通有限公司 (Intelligent Traffic Co., Ltd.)*, a wholly-foreign-owned enterprise incorporated in the PRC on 13 July 2012 and a direct wholly-owned subsidiary of the Company
"Jiangsu Zhixun"	江蘇智訊天成技術有限公司 (Jiangsu Zhixun Tiancheng Technology Co., Ltd.)*, a company incorporated in the PRC on 19 November 2009 and an indirect wholly-owned subsidiary of the Company
"Jiangsu Zhongzhi"	江蘇中智交通科技有限公司 (Jiangsu Zhongzhi Traffic Technology Co., Ltd.)*, a wholly-foreign-owned enterprise incorporated in the PRC on 15 December 2011 and an indirect wholly-owned subsidiary of the Company
"Jiangsu Zhongzhi Jiaye"	江蘇中智嘉業電子科技有限公司 (Jiangsu Zhongzhi Jiaye Electronic Technology Co., Ltd.)*, a company incorporated in the PRC on 20 April 2012 and an indirect substantially owned subsidiary of China Expressway
"Jiangsu Zhongzhi Ruixin"	江蘇中智瑞信物聯科技有限公司 (Jiangsu Zhongzhi Ruixin IOT Technology Co., Ltd.)*, a company incorporated in the PRC on 19 November 2013 and an indirect wholly-owned subsidiary of the Company
"km"	kilometers
"Latest Practicable Date"	22 March 2016
"Leases"	the RHY Lease and the Newcom Lease
"Leria Investment"	Leria Investments Limited, a company incorporated in the BVI and a direct wholly-owned subsidiary of the Company
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Lvtong Changda"	北京綠通暢達交通技術有限公司 (Beijing Lvtong Changda Traffic Technology Co., Ltd.)*, a company incorporated in the PRC on 21 August 2013 and an indirect associate of the Company

"Master Sale and Purchase Agreement"	a master sale and purchase agreement dated 17 February 2016 entered into between the Purchaser and the Company in relation to the proposed disposal of the entire equity interests in the Target Companies and the assignment of the Receivables
"Nanjing Intelligent"	南京智慧交通信息有限公司 (Nanjing Intelligent Transportation Information Co., Ltd.)*, a company incorporated in the PRC on 24 November 2010 and an indirect joint venture of China Traffic
"Newcom Lease"	a lease agreement dated 7 January 2016 entered into between Hongrui Dake as lessor and Beijing Newcom as lessee
"Newcom Properties"	certain premises to be leased to Beijing Newcom by Hongrui Dake pursuant to the Newcom Lease
"Non-exempt Continuing Connected Transactions"	the transactions contemplated under the Framework Sales Agreement, the RHY Lease, the Newcom Lease, the Post-closing Loan Agreements and the Post-closing Guarantees
"Offshore Closing"	the carrying out by the Company and the Purchaser of their obligations regarding the transfer of the Offshore Target Shares under the Master Sale and Purchase Agreement
"Offshore Closing Date"	the date of the Offshore Closing
"Offshore Consideration"	the consideration for the purchase of the shares of Hugecom, China Traffic and China Expressway, by the Purchaser from the Company pursuant to the Master Sale and Purchase Agreement and as part of the Disposal
"Offshore Disposal"	the proposed disposal by the Company of the entire equity interests in the Offshore Target Companies and the assignment of the Receivables to the Purchaser pursuant to the Master Sale and Purchase Agreement
"Offshore Target Companies"	Hugecom, China Traffic and China Expressway
"Offshore Target Shares"	ordinary shares in the capital of Hugecom, China Traffic and China Expressway representing the entire issued share capital of Hugecom, China Traffic and China Expressway, respectively
"Onshore Closing"	the completion of the transfer of the Onshore Target Equity from Beijing Zhongzhi to Beijing Wuzhouzhitong pursuant to the PRC Sale and Purchase Agreement

"Onshore Closing Date"	the date when the Onshore Target Equity has been registered under Beijing Wuzhouzhitong at the relevant governmental authorities
"Onshore Consideration"	the consideration for the purchase of the Onshore Target Equity by Beijing Wuzhouzhitong from Beijing Zhongzhi pursuant to the PRC Sale and Purchase Agreement
"Onshore Disposal"	the proposed disposal by Beijing Zhongzhi of the 25% equity interest of Beijing RHY to Beijing Wuzhouzhitong pursuant to the PRC Sale and Purchase Agreement and as part of the Disposal
"Onshore Target Equity"	the 25% equity interest of Beijing RHY to be purchased by Beijing Wuzhouzhitong from Beijing Zhongzhi pursuant to the PRC Sale and Purchase Agreement
"PBOC"	the People's Bank of China
"PRC"	the People's Republic of China
"PRC Sale and Purchase Agreement"	being part of the Disposal, the sale and purchase agreement to be entered into between Beijing Zhongzhi and Beijing Wuzhouzhitong in relation to the proposed disposal of the Onshore Target Equity owned by Beijing Zhongzhi
"Pre-disposal Restructuring"	the transactions contemplated in the condition precedent as disclosed under item (i) of the paragraph headed "Letter from the Board — THE MASTER SALE AND PURCHASE AGREEMENT — Conditions Precedent" in this circular
"Preliminary Net Asset"	the aggregate combined net asset of the Offshore Target Companies and Beijing RHY based on the unaudited combined statement of financial position of the Offshore Target Companies and Beijing RHY as at 30 September 2015
"Purchaser"	King Victory Holdings Limited, a company incorporated under the laws of the BVI on 18 January 2016
"Purchaser Shareholders"	shareholders of the Purchaser

"Receivables"	means the following amounts receivable by the Company from China Toprise and China Traffic as at the date of the Master Sale and Purchase Agreement: (i) a loan with an outstanding principal amount of HK$69,236,601.15 (equivalent to approximately RMB58,435,691.37) pursuant to a loan agreement between the Company and China Toprise dated 31 December 2015 owed by China Toprise to the Company; (ii) a part of a dividend declared by China Toprise to the Company pursuant to a board resolution of China Toprise dated 3 November 2009 in the amount of HK$58,739,749.14 (equivalent to approximately RMB49,576,348.27) which is unpaid; and (iii) a loan in the principal amount of US$2,000,000 (equivalent to approximately RMB13,158,000) pursuant to a loan agreement between the Company and China Traffic dated 31 December 2015 owed by China Traffic to the Company
"Receivables Consideration"	the consideration for the assignment of the Receivables payable by the Purchaser to the Company, being approximately RMB121,170,039.64
"Remaining Group"	the Company and its subsidiaries immediately after completion of the Disposal
"RHY Lease"	a lease agreement dated 7 January 2016 entered into between Hongrui Dake as lessor and Beijing RHY as lessee
"Shanxi Lvqin"	陝西綠秦新能源科技有限公司 (Shanxi Lvqin New-energy Technology Co.,Ltd.), a company incorporated in the PRC on 11 December 2015 and an indirect associate of China Expressway
"Shareholders(s)"	the holder(s) of the shares of the Company
"Southwest Intelligent"	西南智能交通有限公司 (Southwest Intelligent Transportation Co., Ltd.)*, a company incorporated in the PRC on 6 November 2012 and an indirect subsidiary of China Expressway
"Star Power"	Star Power Development Limited (威衡發展有限公司), a company incorporated in the BVI and a direct wholly-owned subsidiary of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary"	has the meaning ascribed to it in section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)

"Taizheng Technology"	廣州泰正科技有限公司 (Guangzhou Taizheng Technology Co., Ltd.)*, a company incorporated in the PRC on 30 May 2003 and an indirect substantially owned subsidiary of China Expressway
"Target Companies"	Hugecom, China Traffic, China Expressway and Beijing RHY
"Target Group"	the Target Companies, their subsidiaries, joint ventures and associates immediately after the Pre-disposal Restructuring
"Tianjin Communication"	天津航天智通交通信息投資運營有限公司 (Tianjin Communication Information Co., Ltd.)*, a company incorporated in the PRC on 2 February 2010 and an indirect wholly-owned subsidiary of China Traffic
"Tianjin Univaid"	天津百聯智達技術有限公司 (Tianjin Univaid Technology Co., Ltd.)*, a company incorporated in the PRC on 15 April 2015 and an indirect substantially owned subsidiary of Hugecom
"Traffic Information"	廣州交通信息化建設投資營運有限公司 (Guangzhou Traffic Information Construction Investment and Operation Co., Ltd.)*, a company incorporated in the PRC on 8 August 2003 and an indirect associate of the Company
"Traffic Multi-media"	廣州市交建多媒體信息技術有限公司 (Guangzhou Traffic Construction Multi-media IT Co., Ltd.)*, a company incorporated in the PRC on 30 September 2007 and an indirect associate of the Company
"Well Score International"	Well Score International Limited, a company incorporated in Hong Kong on 27 March 2009 and a direct wholly-owned subsidiary of the Company
"Wuhan Chenguang"	武漢辰光交通科技發展有限公司 (Wuhan Chenguang Traffic Technology Development Co., Ltd.)*, a company incorporated in the PRC on 22 April 2005 and an indirect joint venture of China Expressway
"Wuhan Optics Valley"	武漢光谷智能交通科技有限公司 (Wuhan Optics Valley Intelligent Traffic Technology Co., Ltd.)*, a company incorporated in the PRC on 12 July 2012 and an associate of the Company
"Xi'an Communication"	西安交通信息投資營運有限公司 (Xi'an Communication Information Co., Ltd.)*, a company incorporated in the PRC on 11 May 2007 and an associate of China Traffic

"Xining Communication"	西寧交通信息化建設投資運營有限公司 (Xining Communication Information Co., Ltd.), a company incorporated in the PRC on 18 December 2015 and a joint venture of the Company
"Xinjiang In Building"	新疆交建智能交通信息科技有限公司 (Xinjiang In Building Intelligent Transportation Information Technology Co., Ltd.)*, a company incorporated in the PRC on 4 November 2013 and an associate of China Expressway
"Xinjiang RHY"	新疆瑞華贏機電工程有限公司 (Xinjiang RHY M&E Engineering Co., Ltd.)*, a company incorporated in the PRC on 24 October 2005
"Zhihang Tuoyu"	智航拓宇信息系統(北京)有限公司 (Zhihang Tuoyu Information System (Beijing) Co., Ltd.)*, a company incorporated in the PRC on 12 April 2013 and an indirect wholly-owned subsidiary of the Company
"Zhongtian Runbang"	中天潤邦信息技術有限公司 (Zhongtian Runbang Information Technology Co., Ltd.)*, a company incorporated in the PRC on 8 December 2014 and an indirect wholly-owned subsidiary of the Company
"%"	per cent

* *The English names of the PRC entities referred to in this circular are transliterations from their Chinese names and are for identification purposes only, and should not be regarded as the official English name(s) of such Chinese name(s). If there is any inconsistency, the Chinese name shall prevail.*

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

Executive Directors:
Mr. Liao Jie *(Chairman of the Board)*
Mr. Jiang Hailin *(Chief Executive Officer)*

Non-executive Director:
Mr. Tim Tianwei Zhang

Independent Non-executive Directors:
Mr. Zhou Chunsheng
Mr. Choi Onward
Mr. Sun Lu

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

Place of Business in Hong Kong:
Room 1004
Tung Wah Mansion
199–203 Hennessy Road
Wanchai, Hong Kong

24 March 2016

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO DISPOSAL OF THE ENTIRE EQUITY INTERESTS IN TARGET COMPANIES AND CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the announcement of the Company dated 17 February 2016. As set out in the announcement, on 17 February 2016, the Company and the Purchaser entered into the Master Sale and Purchase Agreement, pursuant to which, subject to, among others, the completion of the Pre-disposal Restructuring, the Company conditionally agreed to sell and the Purchaser conditionally agreed to purchase the entire issued share capital of each of the Target Companies and the Receivables at the total consideration of RMB979,840,000 (subject to adjustment), subject to the terms and conditions of the Master Sale and Purchase Agreement. Upon completion of the Offshore Disposal, each of the Target Companies will cease to be a subsidiary of the Company and, except for the Onshore Target Equity, the Company will cease to hold any equity interests in Hugecom, China Traffic and China Expressway and their respective subsidiaries (including those which will become their subsidiaries after completion of the Pre-disposal Restructuring).

In addition, pursuant to the Master Sale and Purchase Agreement and as part of the Disposal, Beijing Zhongzhi and Beijing Wuzhouzhitong will enter into the PRC Sale and Purchase Agreement in the form as prescribed under the Master Sale and Purchase Agreement before the Offshore Closing. The transfer of the Onshore Target Equity to the Purchaser will be effected through the transfer of the Onshore Target Equity from Beijing Zhongzhi to Beijing Wuzhouzhitong pursuant to the PRC Sale and Purchase Agreement. The completion of the Onshore Disposal is conditional on the completion of the Offshore Disposal. Upon completion of the Onshore Disposal, the Company will cease to hold any equity interest in Beijing RHY. The principal terms of the PRC Sale and Purchase Agreement are set out in the section headed "Letter from the Board — THE PRC SALE AND PURCHASE AGREEMENT" in this circular.

Upon completion of the Offshore Disposal, the Non-exempt Continuing Connected Transactions between the Target Group and the Remaining Group will constitute continuing connected transactions of the Company. Pursuant to the relevant requirements under the Listing Rules, the Non-exempt Continuing Connected Transactions are subject to approval by the Independent Shareholders.

The purpose of this circular is to provide the Shareholders with information in respect of the details of the Disposal and the Non-exempt Continuing Connected Transactions. The EGM will be convened to consider, and if thought fit, approving the Master Sale and Purchase Agreement, the transactions contemplated thereunder and the Non-exempt Continuing Connected Transactions.

THE DISPOSAL

THE MASTER SALE AND PURCHASE AGREEMENT

The principal terms of the Master Sale and Purchase Agreement are as follows.

Date: 17 February 2016

Parties:

(1) the Company as the seller; and

(2) King Victory Holdings Limited as the Purchaser.

Subject Matter: Pursuant to the Master Sale and Purchase Agreement, (i) the Company conditionally agreed to sell and the Purchaser conditionally agreed to purchase the entire issued share capital of each of the Target Companies; and (ii) the Company shall assign the Receivables to the Purchaser, subject to the terms and conditions of the Master Sale and Purchase Agreement.

Conditions Precedent: The Master Sale and Purchase Agreement is subject to, among other things, the satisfaction (or waiver by each of the parties hereto, as the case may be) of each of the following conditions:

(a) the PRC Sale and Purchase Agreement shall have been duly entered into between and executed by the parties thereto;

(b) all conditions precedent under the PRC Sale and Purchase Agreement, other than the consummation of the Offshore Closing and the conditions set out in paragraphs (g) and (h) in the section headed "Letter from the Board — THE PRC SALE AND PURCHASE AGREEMENT — Conditions Precedent" in this circular, shall have been satisfied (or waived by each of the parties thereto, as the case may be) in the manners as prescribed under it;

(c) the Company shall have delivered the unaudited pro forma combined statement of financial position of the Target Companies as at 31 December 2015 reflecting the financial effect of the Pre-disposal Restructuring to the Purchaser;

(d) the representations and warranties set forth in the Master Sale and Purchase Agreement shall be true and correct as of the Offshore Closing Date;

(e) no notice, order, judgment, action or proceeding of any court, arbitrator, governmental authority, statutory or regulatory body having been served, issued or made which restrains, prohibits or makes unlawful any transaction contemplated by the Master Sale and Purchase Agreement or which is reasonably likely to materially and adversely affect the right of the Purchaser to own the legal and beneficial title to the Offshore Target Shares or the right of Beijing Wuzhouzhitong to own the Onshore Target Equity, all free from encumbrances, following the Offshore Closing Date and the Onshore Closing Date, respectively;

(f) the Company shall have obtained the affirmative approvals of the Independent Shareholders in the EGM and the Board in respect of the Master Sale and Purchase Agreement and the transactions contemplated thereto in accordance with the applicable requirements under the Listing Rules and the articles of association of the Company;

(g) the Company shall have obtained the affirmative approvals from the Independent Shareholders in the EGM in respect of the Non-exempt Continuing Connected Transactions to the extent such approval is required for the Company to comply with the Listing Rules;

(h) the Purchaser shall have obtained the affirmative approvals of its shareholders and board of directors in respect of the Master Sale and Purchase Agreement and the transactions contemplated thereto;

(i) no material adverse changes of any Target Company shall occur before the Offshore Closing; and

(j) the following transactions shall have been completed:

    (i) the transfer of 70% equity interest of Guangdong Aproud from Aproud Technology to Beijing Aproud;

    (ii) the transfer of 50% equity interest of Xi'an Communication from Beijing Newcom to Beijing Wancheng;

    (iii) the transfer of 50% equity interest of Nanjing Intelligent from Beijing Newcom to Beijing Wancheng;

    (iv) the transfer of 25% equity interest of Wuhan Optics Valley from Jiangsu Zhongzhi to Beijing Wancheng;

    (v) the transfer of 100% equity interest of Taizheng Technology from Haotian Jiajie to Beijing Wancheng; and

    (vi) the transfer of 33% equity interest of Traffic Information from Haotian Jiajie to Beijing Wancheng.

Conditions (d) and (e) may be waived by the Purchaser and the Seller.

Consideration:

The initial total Consideration under the Master Sale and Purchase Agreement shall be RMB979,840,000 (subject to adjustment), comprising (i) the aggregate sum of the Offshore Consideration and the Onshore Consideration of approximately RMB858.67 million for the purchase of the entire issued share capital of the Target Companies by the Purchaser from the Company, respresenting the Preliminary Net Asset; and (ii) the consideration for the assignment of the Receivables of approximately RMB121,170,039.64.

The Consideration is subject to the following adjustment:

(a) if the Preliminary Net Asset is greater than the Final Net Asset, the Consideration shall be reduced by such amount of the Preliminary Net Asset that exceeds the Final Net Asset; and

(b) if the Preliminary Net Asset is less than the Final Net Asset, the Consideration shall be increased by such amount of the Final Net Asset that exceeds the Preliminary Net Asset.

Thus, after the abovementioned adjustment, if any, the final Consideration shall be the sum of (1) the Final Net Asset, which is the aggregate combined net asset of the Offshore Target Companies and Beijing RHY as at 31 December 2015 based on the unaudited pro forma combined statement of financial position of the Offshore Target Companies and Beijing RHY as at 31 December 2015 reflecting the financial effect of the Pre-disposal Restructuring; and (2) the consideration for the assignment of the Receivables of approximately RMB121,170,039.64.

The Consideration was determined after arm's length negotiations between the Company and the Purchaser on normal commercial terms and was based on the Preliminary Net Asset (with adjustment mechanism to adjust the final Consideration to be based on the Final Net Asset) and the outstanding sum of the Receivables as at the date of the Master Sale and Purchase Agreement. As the Target Group has recorded loss since the financial year ended 31 December 2014, the Company and the Purchaser are of the view that it is more appropriate to determine the Consideration with reference to the net asset instead of earnings of the Target Group. After taking into account (1) the loss making track record of the Target Group as disclosed in "Appendix III — Financial Information of the Target Group" in this circular; (2) the uncertain prospect of the Target Group as discussed in the paragraph headed "Letter from the Board — REASONS FOR AND BENEFITS OF THE DISPOSAL" in this circular; and (3) the Shares have been consistently trading at prices below the net asset value per Share throughout the period from 1 January 2014 to the date of the Master Sale and Purchase Agreement, the Directors (other than the independent non-executive Directors whose view is expressed in the "Letter from the Independent Board Committee" in this circular) are of the view that the Consideration, which is based on the net asset of the Target Group and the outstanding sum of the Receivables as at the date of the Master Sale and Purchase Agreement, is fair and reasonable.

Beijing RHY declared dividends to its shareholders on 31 December 2015, including a dividend of RMB37,500,000 (the "**Beijing RHY Dividend**") to Beijing Zhongzhi; and China Expressway declared a dividend of RMB101,250,000 (the "**China Expressway Dividend**") to the Company on 31 December 2015. Thus it is expected that the Final Net Asset will reflect the abovementioned declaration of dividends. As at the Latest Practicable Date, the Beijing RHY Dividend has not been paid to Beijing Zhongzhi and the China Expressway Dividend has not been paid to the Company. Beijing RHY has undertaken to pay the Beijing RHY Dividend to Beijing Zhongzhi no later than six months after the Onshore Closing and each of Mr. Jiang Hailin and Mr. Liao Jie has guaranteed such undertaking given by Beijing RHY in favour of Beijing Zhongzhi, subject to the completion of the Onshore Disposal. China Expressway has undertaken to pay the China Expressway Dividend to the Company no later than six months after the Offshore Closing and each of Mr. Jiang Hailin and Mr. Liao Jie has guaranteed such undertaking given by China Expressway in favour of the Company, subject to the completion of the Offshore Disposal.

The Onshore Consideration shall be determined by reference to 25% of the combined net asset of Beijing RHY as at 31 December 2015 based on the unaudited pro forma combined statement of financial position of Beijing RHY as at 31 December 2015 reflecting the financial effect of the Pre-disposal Restructuring.

The Offshore Consideration shall be determined by reference to the difference between (i) the Consideration (as adjusted pursuant to the above where applicable) and (ii) the sum of the Onshore Consideration and the Receivables Consideration.

The Receivables Consideration shall be approximately RMB121,170,039.64, being the outstanding amount of the Receivables as at the date of the Master Sale and Purchase Agreement.

Payment Terms: Pursuant to the Master Sale and Purchase Agreement, the Offshore Consideration shall be settled by the Purchaser in the following manner:

(a) 50% of the Offshore Consideration shall be payable by the Purchaser to the Company (or such person as designated by the Company) in cash at the Offshore Closing; and

(b) 50% of the Offshore Consideration shall be payable by the Purchaser to the Company (or such person as designated by the Company) on or before the first anniversary of the Offshore Closing with interest accrued at the rate of one-year HIBOR as at the Offshore Closing Date.

Pursuant to the Master Sale and Purchase Agreement and the PRC Sale and Purchase Agreement, the Onshore Consideration shall be settled by the Purchaser in the following manner:

(a) 50% of the Onshore Consideration shall be payable by Beijing Wuzhouzhitong to Beijing Zhongzhi in cash within ten (10) Business Days from the Onshore Closing in accordance with the PRC Sale and Purchase Agreement; and

(b) 50% of the Onshore Consideration shall be payable by Beijing Wuzhouzhitong to Beijing Zhongzhi on or before the first anniversary of the Onshore Closing with cost of capital accrued at the rate of PBOC one-year lending rate as at the Onshore Closing Date.

Pursuant to the Master Sale and Purchase Agreement, the Receivables Consideration shall be payable in full by the Purchaser within six months from the Offshore Closing Date with interest accrued at the rate of six-month HIBOR as at the Offshore Closing Date.

Offshore Closing: Subject to the satisfaction or waiver of all the conditions set forth in the Master Sale and Purchase Agreement, the Offshore Closing is to take place on the last day of the calendar month in which the conditions precedent of the Master Sale and Purchase Agreement are fulfilled (or, where applicable, waived) or at later time as shall be mutually agreed upon by the Purchaser and the Company.

Upon the Offshore Closing, each of the Target Companies will cease to be a subsidiary of the Company and, except for the Onshore Target Equity, the Company will cease to hold any equity interests in Hugecom, China Traffic and China Expressway and their respective subsidiaries (including those which will become their subsidiaries after completion of the Pre-disposal Restructuring).

PRC Sale and Purchase Agreement: The Onshore Target Equity is currently directly held by Beijing Zhongzhi, a domestic enterprise established under the laws of the PRC and an indirect subsidiary of the Company. The transfer of the Onshore Target Equity to the Purchaser will be effected through the transfer of the Onshore Target Equity from Beijing Zhongzhi to Beijing Wuzhouzhitong pursuant to the PRC Sale and Purchase Agreement after the Offshore Closing. The entering into of the PRC Sale and Purchase Agreement, in the form as prescribed under the Master Sale and Purchase Agreement, and the satisfaction (or wavier by each of the parties thereto, as the case may be) of all conditions precedent under the PRC Sale and Purchase Agreement in a manner as prescribed thereto, are conditions precedent to the Offshore Closing. The principal terms of the PRC Sale and Purchase Agreement are set out in the section headed "Letter from the Board — THE PRC SALE AND PURCHASE AGREEMENT" in this circular.

THE PRC SALE AND PURCHASE AGREEMENT

The principal terms of the PRC Sale and Purchase Agreement are as follows:

Date: Beijing Zhongzhi and Beijing Wuzhouzhitong will enter into the PRC Sale and Purchase Agreement before the Offshore Closing.

Parties:

(1) Beijing Zhongzhi as the seller; and

(2) Beijing Wuzhouzhitong as the purchaser.

Subject Matter: Pursuant to the PRC Sale and Purchase Agreement, Beijing Zhongzhi, an indirect subsidiary of the Company, will conditionally agree to sell and Beijing Wuzhouzhitong, a direct wholly-owned subsidiary of China Traffic, will conditionally agree to purchase the Onshore Target Equity directly held by Beijing Zhongzhi, subject to the terms and conditions of the PRC Sale and Purchase Agreement.

Conditions Precedent: The PRC Sale and Purchase Agreement is subject to, among other things, the satisfaction of each of the following conditions:

(a) Beijing RHY shall have obtained the affirmative approvals of its board of directors in respect of the PRC Sale and Purchase Agreement and the transactions contemplated thereunder;

(b) Beijing Zhongzhi shall have duly conducted the relevant procedures as required under the PRC law, including obtainment of the affirmative approvals of its board of directors and shareholders in respect of the execution, delivery and performance of the transaction documents of which Beijing Zhongzhi is a party and the transactions contemplated thereto;

(c) China Toprise, a direct wholly-owned subsidiary of China Expressway, which holds 75% equity interest of Beijing RHY, shall have agreed in writing not to exercise its pre-emptive right;

(d) the competent commerce authority of the PRC shall have duly approved the transactions contemplated under the PRC Sale and Purchase Agreement and such approvals shall have been effective;

(e) the Company shall have obtained the affirmative approvals of the Independent Shareholders in the EGM in respect of the Master Sale and Purchase Agreement and the transactions contemplated thereunder and the Offshore Closing shall have been consummated;

(f) the PRC Sale and Purchase Agreement, the Master Sale and Purchase Agreement and all the other necessary transaction documents have all been duly signed and all such transaction documents shall have been effective according to the conditions and terms contemplated thereunder;

(g) the representations and warranties set forth in the PRC Sale and Purchase Agreement by Beijing Zhongzhi and Beijing Wuzhouzhitong shall be true and correct as of the Onshore Closing Date;

(h) no material adverse changes of Beijing RHY shall occur during the period commencing from the date of signing of the PRC Sale and Purchase Agreement by the parties thereto to the date of the Onshore Closing; and

(i) there is no temporary restraining order, preliminary injunction or permanent injunction, or any judgment, law, regulation, legal restriction or injunction which would impede the completion of the Onshore Closing.

In the event that conditions (g) and (h) above have not been satisfied but all other conditions precedent to the Onshore Closing have been satisfied, Beijing Zhongzhi and Beijing Wuzhouzhitong shall proceed to consummate the Onshore Closing, provided that Beijing Wuzhouzhitong reserves all rights to make claims against Beijing Zhongzhi for any loss arising from any breach of representations, warranties and/or undertaking by Beijing Zhongzhi.

Consideration: Pursuant to the Master Sale and Purchase Agreement, the Onshore Consideration shall be fixed at an amount which is equal to 25% of the combined net asset of Beijing RHY as at 31 December 2015 based on the unaudited pro forma combined statement of financial position of Beijing RHY as at 31 December 2015 reflecting the financial effect of the Pre-disposal Restructuring.

Payment Terms: Pursuant to the PRC Sale and Purchase Agreement, the Onshore Consideration shall be settled by Beijing Wuzhouzhitong in the following manner:

(a) 50% of the Onshore Consideration shall be payable by Beijing Wuzhouzhitong to Beijing Zhongzhi in cash within ten (10) Business Days from the Onshore Closing in accordance with the PRC Sale and Purchase Agreement; and

(b) 50% of the Onshore Consideration shall be payable by Beijing Wuzhouzhitong to Beijing Zhongzhi on or before the first anniversary of the Onshore Closing with cost of capital accrued at the rate of PBOC one-year lending rate as at the Onshore Closing Date.

Onshore Closing: Upon satisfaction of all conditions precedent to the Onshore Closing, Beijing Wuzhouzhitong and Beijing Zhongzhi shall submit an application to the relevant administration for industry and commerce for registration of the transfer of the Onshore Target Equity within 30 days. Subject to the satisfaction or waiver of all the conditions set forth in the PRC Sale and Purchase Agreement, the Onshore Closing is to take place on the date when the Onshore Target Equity has been registered under Beijing Wuzhouzhitong at the relevant governmental authorities.

Upon the Onshore Closing, Beijing Zhongzhi will cease to hold any equity interest in Beijing RHY.

THE RECEIVABLES

As at the date of the Master Sale and Purchase Agreement, a loan with an outstanding principal amount of HK$69,236,601.15 (equivalent to approximately RMB58,435,691.37) was owed by China Toprise to the Company pursuant to a loan agreement between the Company and China Toprise dated 31 December 2015. In addition, a part of a dividend declared by China Toprise to the Company pursuant to a board resolution of China Toprise dated 3 November 2009 in the amount of HK$58,739,749.14 (equivalent to approximately RMB49,576,348.27) was still outstanding.

As at the date of the Master Sale and Purchase Agreement, a loan in the principal amount of US$2,000,000 (equivalent to approximately RMB13,158,000) was owed by China Traffic to the Company pursuant to a loan agreement between the Company and China Traffic dated 31 December 2015.

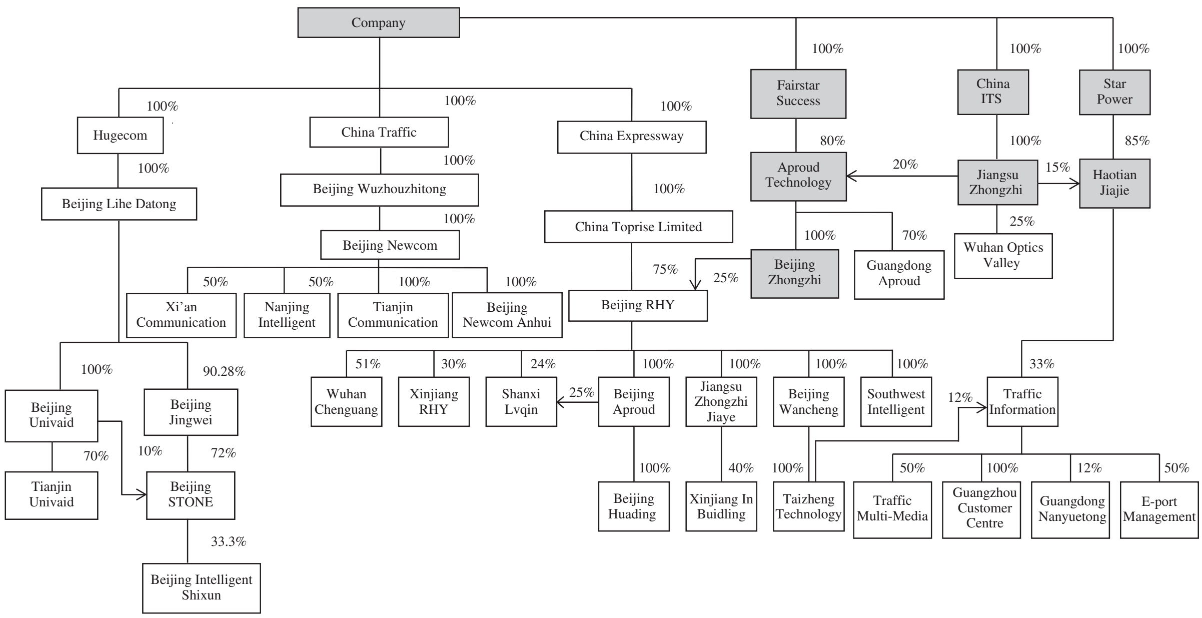
According to the Master Sale and Purchase Agreement, subject to the Offshore Closing, the Company as legal and beneficial owner of the Receivables shall assign to the Purchaser the rights, titles, benefits and interest in the Receivables and the full benefit and advantage thereof to hold the same unto the Purchaser at a consideration of approximately RMB121,170,039.64, being the Receivables Consideration, absolutely in accordance with and subject to the terms of the Master Sale and Purchase Agreement.

SHAREHOLDING STRUCTURE AND GROUP STRUCTURE

Changes in the Shareholding Structure of the Target Group

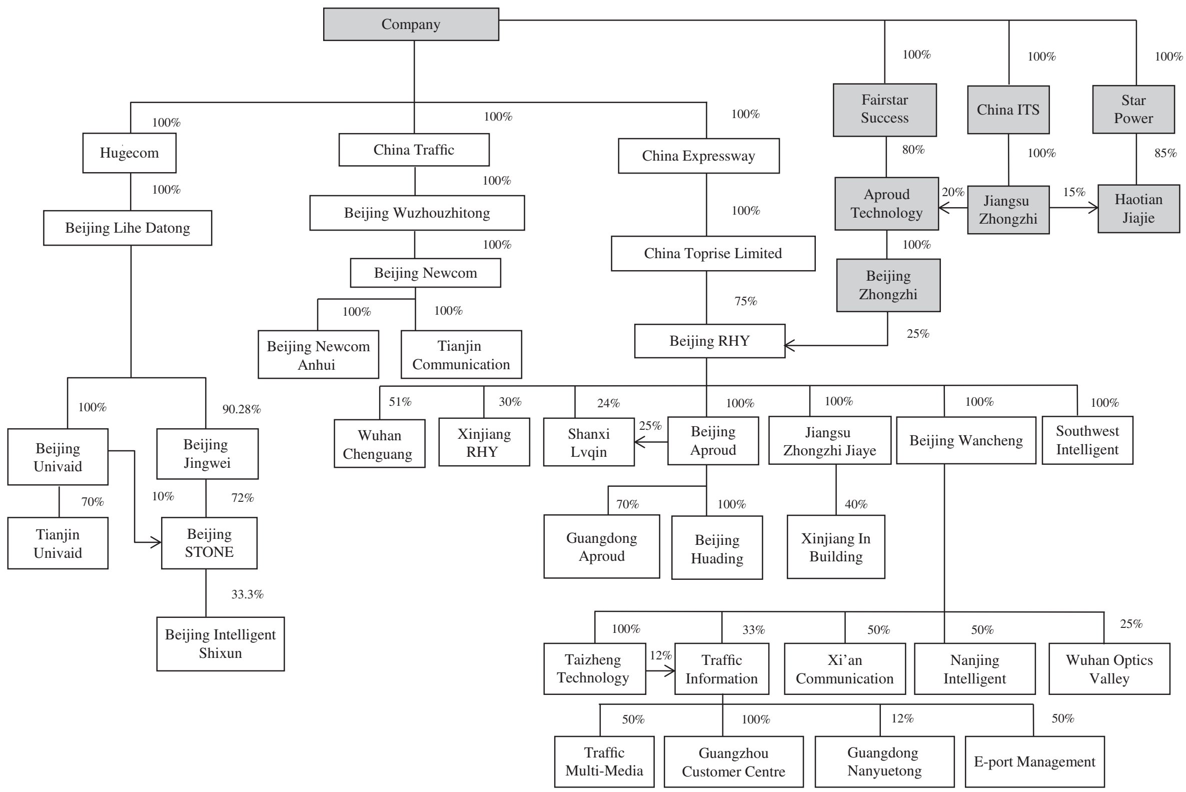
The changes in the shareholding structure of the Target Group are set out below:

As at the Latest Practicable Date



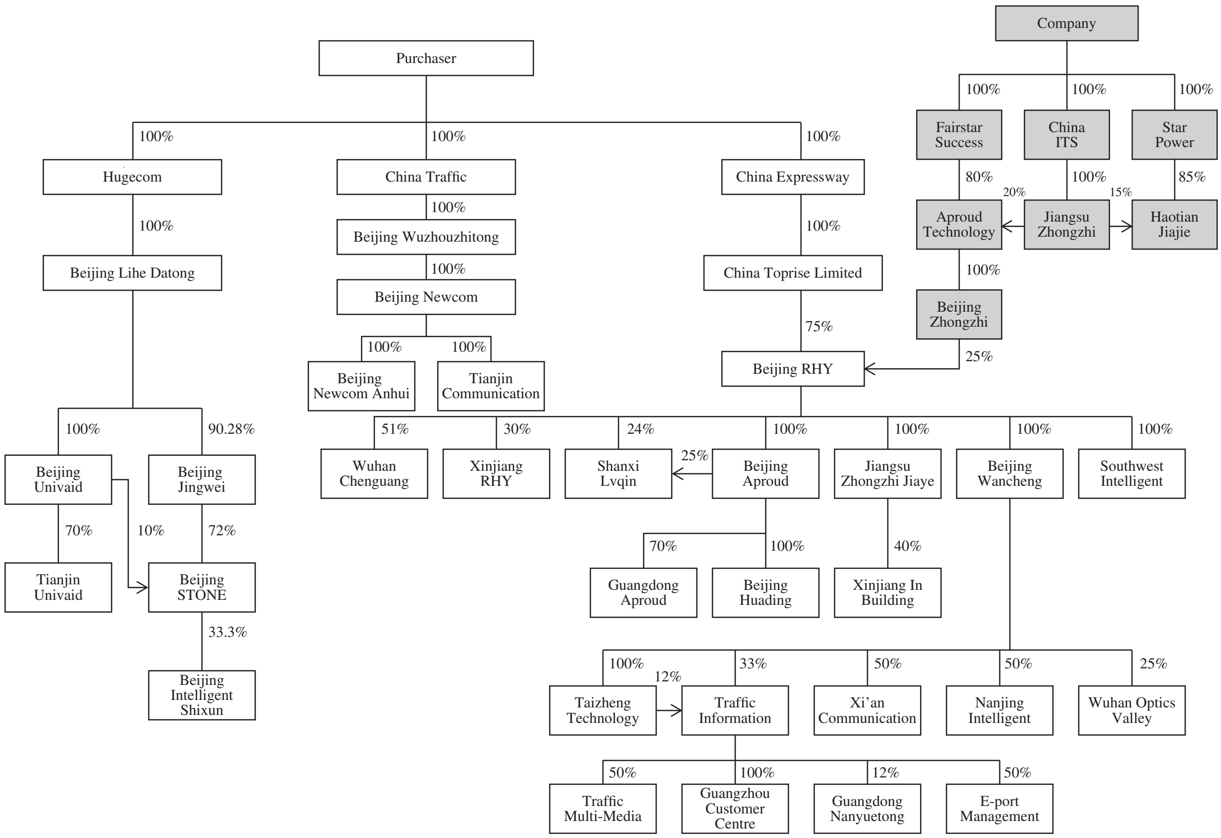
The Company and companies which will remain subsidiaries of the Company after the completion of the Disposal.

Immediately after completion of the Pre-disposal Restructuring but before the Offshore Closing:



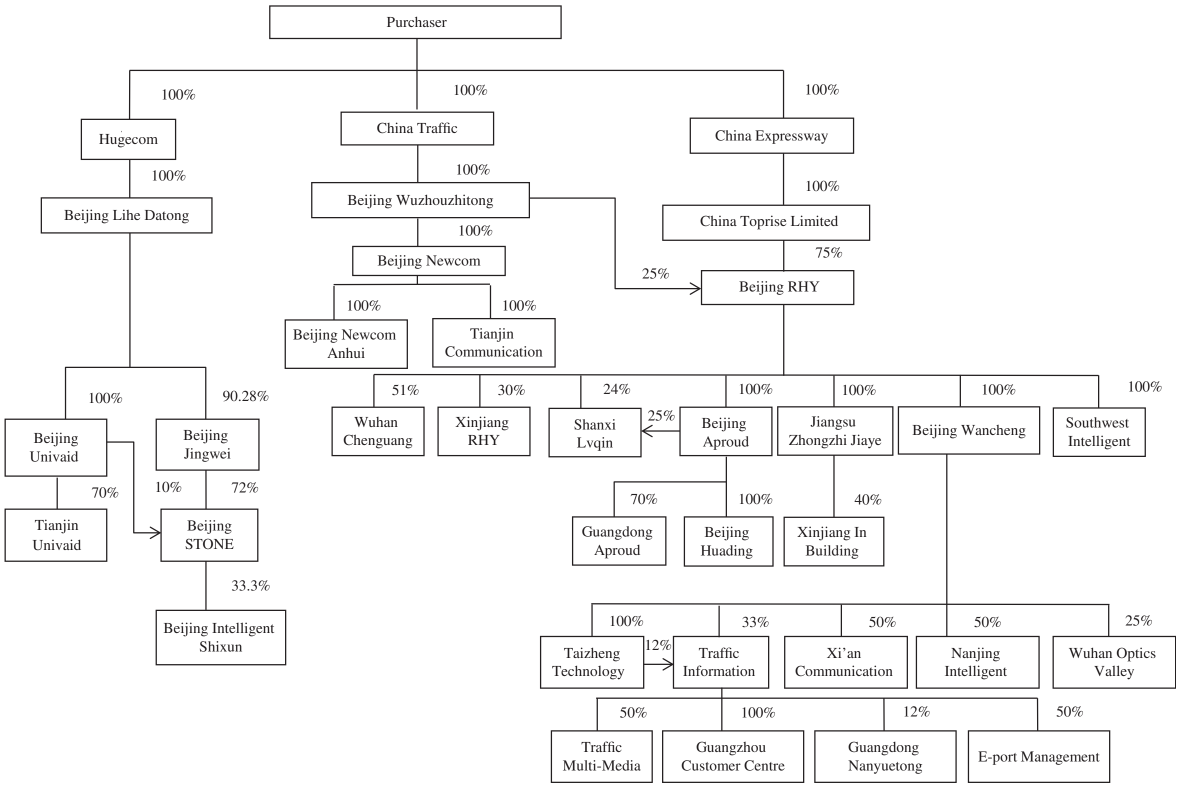
The Company and companies which will remain subsidiaries of the Company after the completion of the Disposal.

Immediately after the Offshore Closing but before the Onshore Closing



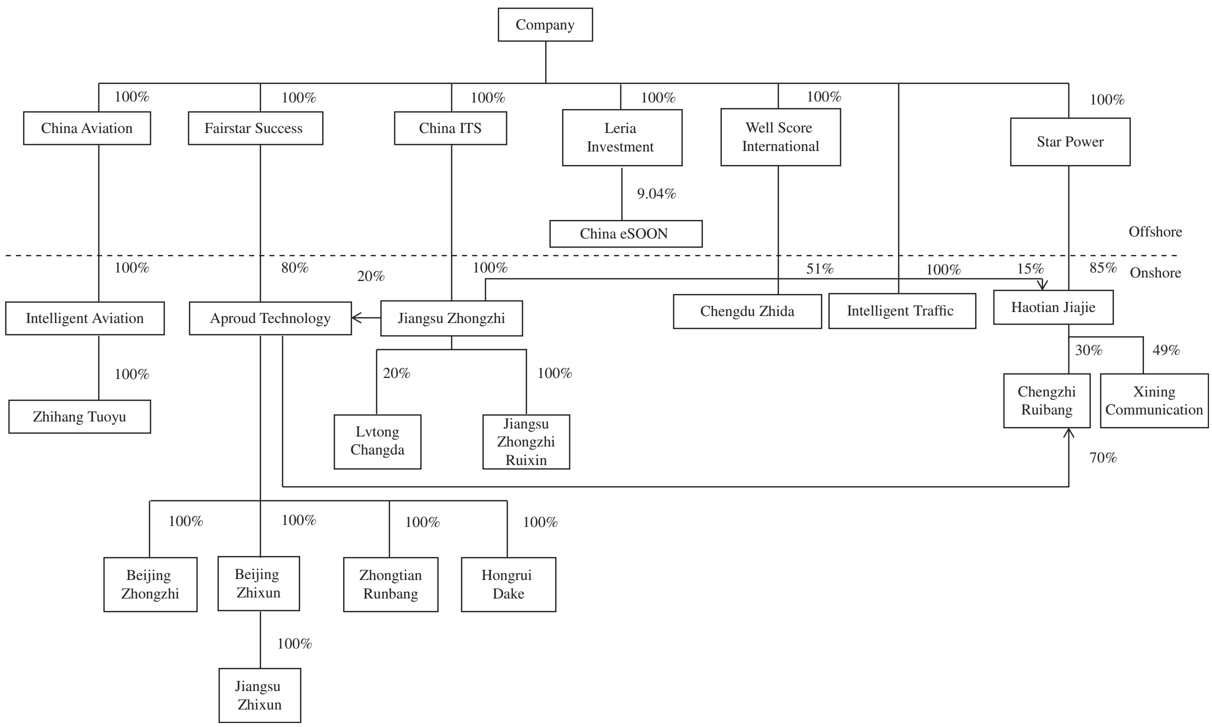
The Company and companies which will remain subsidiaries of the Company after the completion of the Disposal.

Immediately upon the Onshore Closing



Structure of the Remaining Group after the Offshore Closing and the Onshore Closing

The chart below illustrates the structure of the Remaining Group immediately upon the completion of the Pre-disposal Restructuring, the Offshore Disposal and the Onshore Disposal:



INFORMATION OF THE TARGET COMPANIES

(i) China Traffic

China Traffic is a company incorporated in the Cayman Islands with limited liability. It is an investment holding company and the Company is and will remain as the sole shareholder of China Traffic prior to the Offshore Closing. Upon the Offshore Closing, the Company will cease to hold any equity interest in China Traffic.

(ii) China Expressway

China Expressway is a company incorporated in the BVI with limited liability. It is an investment holding company and the Company is and will remain as the sole shareholder of China Expressway prior to the Offshore Closing. Upon the Offshore Closing, the Company will cease to hold any equity interest in China Expressway.

(iii) Hugecom

Hugecom is a company incorporated in the BVI with limited liability. It is an investment holding company and the Company is and will remain as the sole shareholder of Hugecom prior to the Offshore Closing. Upon the Offshore Closing, the Company will cease to hold any equity interest in Hugecom.

(iv) Beijing RHY

Beijing RHY is a company incorporated under the laws of the PRC with limited liability on 16 February 2001 with a registered share capital of RMB500,000,000. Beijing RHY is principally engaged in the technology development and training of mechatronics engineering, technology consultation of mechatronics engineering and application solutions of computer and security system.

As at the date of the Master Sale and Purchase Agreement, 75% of the equity interest of Beijing RHY is held by China Toprise, a wholly-owned subsidiary of China Expressway and 25% of the equity interest of Beijing RHY is held by Beijing Zhongzhi, a wholly-owned subsidiary of the Company. Upon the Offshore Closing, the entire issued share capital of China Expressway will be transferred from the Company to the Purchaser and accordingly, the Company will cease to be interested in 75% of the equity interest of Beijing RHY held by China Toprise and Beijing RHY will cease to be a subsidiary of the Company.

Pursuant to the PRC Sale and Purchase Agreement, Beijing Wuzhouzhitong, a wholly-owned subsidiary of China Traffic, will acquire the Onshore Target Equity from Beijing Zhongzhi after the Offshore Closing. Upon the Onshore Closing, Beijing Zhongzhi and the Company will cease to hold any equity interest in Beijing RHY.

(v) Business information of the Target Group

The Target Companies and their subsidiaries, being the Target Group, are principally engaged in the provision of intelligent transportation system solutions and services to expressway and urban traffic segments in the PRC. Upon completion of the Disposal, the Group will no longer be engaged in expressway and urban traffic segments.

(vi) Financial information of the Target Group

Set out below is the unaudited combined financial information of the Target Group prepared in accordance with International Financial Reporting Standard for each of the two years ended 31 December 2013 and 2014 and the nine months ended 30 September 2015:

	For the year ended 31 December 2013 unaudited *(RMB'000)*	**For the year ended 31 December 2014** unaudited *(RMB'000)*	**For the nine months ended 30 September 2015** unaudited *(RMB'000)*
Net profit/(loss) before tax	108,302	(49,445)	(99,084)
Net profit/(loss) for the year/period (excluding non-controlling interests)	76,261	(39,797)	(103,671)

	As at 31 December 2013 unaudited *(RMB'000)*	As at 31 December 2014 unaudited *(RMB'000)*	As at 30 September 2015 unaudited *(RMB'000)*
Net asset value (excluding non-controlling interests)	950,558	960,749	858,669

Please refer to "Appendix III — Financial Information of the Target Group" in this circular for more details of the financial information of the Target Group.

Upon the Offshore Closing and Onshore Closing, each of the Target Companies will cease to be subsidiaries of the Company and the financial results of the Target Group will no longer be consolidated into the consolidated financial statements of the Group.

History of the Target Group

The Target Group is principally engaged in the provision of intelligent transportation system solutions and services to two segments: (i) the expressway segment and (ii) the urban traffic segment in the PRC.

The expressway segment

The Target Group's business in the expressway segment is primarily conducted through China Expressway and its subsidiaries. The history of this segment can be traced back to the establishment of Beijing RHY in February 2001 and through a series of reorganization, such business constituted part of the Group before the initial public offering of the Company's Shares on the Stock Exchange in 2010. For further details of the history of the expressway segment of the Target Group, please refer to the prospectus of the Company dated 30 June 2010.

While the expressway business had previously enjoyed growth, since 2014, the overall growth trend of the expressway segment appeared to be flat and mature. The financial performance of the expressway segment has showed signs of deterioration since 2014 with declining profit as a result of the lack of growth of the overall industry environment and changes in the modes of business to mitigate market pressure.

As at the Latest Practicable Date, the Company estimated that its total investment (including the initial capital investment and subsequent cash injection) in the expressway segment of the Target Group was approximately RMB220.54 million.

The urban traffic segment

The Target Group's business in the urban traffic segment is primarily conducted through Hugecom, China Traffic and their respective subsidiaries.

As disclosed in the announcements of the Company dated 25 August 2011 and 6 September 2011, on 25 August 2011, the Group entered into a share purchase agreement with the then shareholders of China Traffic to acquire the entire issued share capital of China Traffic for a total consideration of US$45,000,000 (equivalent to approximately RMB287,563,500 based on the closing exchange rate of US$1=RMB6.3903 on 6 September 2011 as quoted by Bloomberg). Upon the completion of the acquisition in September 2011, China Traffic has become a wholly-owned subsidiary of the Company.

As disclosed in the announcements of the Company dated 20 June 2012 and 28 June 2012, on 20 June 2012, the Group entered into certain share purchase agreements pursuant to which the Group acquired the entire issued share capital in Hugecom and 10% of the equity interests in Beijing STONE for a total consideration of RMB137,300,000. Upon completion of the acquisition in August 2012, Hugecom has become a wholly-owned subsidiary of the Company and the Company has been indirectly interested in 75% of the equity interest of Beijing STONE.

Since the Group's acquisition of China Traffic in 2011, the urban traffic segment had recorded increases in its revenue prior to 2014 due to the growth in the industry and the Group's acquisition of Hugecom and Beijing STONE in 2012. In 2014, the urban traffic segment began to experience deterioration of performance and started to record loss due to macro environment factors and the overall slowdown in the urban traffic industry. Such deterioration continued in the first half of 2015 due to cutting back on urban traffic investment of local government budget.

As at the Latest Practicable Date, the Company estimated that its total investment (representing the total consideration for the abovementioned acquisitions) in the urban traffic segment of the Target Group was approximately RMB424.86 million.

Based on the above, as at the Latest Practicable Date, the Company estimated that the aggregate total investment in the Target Group was approximately RMB645.40 million. For illustrative purposes, assuming the Consideration is RMB979,840,000, the Group would make an overall gain of approximately RMB213.27 million by deducting the estimated total investment amount of RMB645.40 million and the outstanding sum of the Receivables of approximately RMB121,170,000 from the Consideration.

INFORMATION OF THE PURCHASER

The Purchaser is a company incorporated in the BVI with limited liability and is principally engaged in investment holding. The shareholding of the Purchaser as at the Latest Practicable Date was as follows:

Name	**Percentage of shareholding**
Mr. Jiang Hailin	33.48%
Mr. Liao Jie	15.00%
Mr. Liao Daoxun	17.86%
Ms. Wu Yurui	17.36%
Others[1]	16.30%
Total	100.00%

Note:

1. Each of the other shareholders of the Purchaser holds less than 10% of the issued share capital of the Purchaser.

Among the Purchaser Shareholders, (i) each of Mr. Jiang Hailin and Mr. Liao Jie is an executive Director; (ii) Mr. Liao Daoxun, Ms. Wu Yurui, Mr. Liang Shiping, Mr. Wu Chunhong and Mr. Yuan Chuang are beneficiaries of a trust which controls more than 30% of the issued share capital of the Holdco, the controlling shareholder of the Company. Since the Purchaser is an associate of Mr. Jiang Hailin, Mr. Liao Jie and Holdco pursuant to Rules 14A.12 and 14A.13 of the Listing Rules, each of which being a connected person of the Company, the Purchaser is a connected person of the Company pursuant to Rule 14A.07(4) of the Listing Rules.

The Board and the senior management of the Group have had regular discussions to improve the long term business prospect and financial performance of the Group. In view of the declining financial performance of the Target Group and the lack of growth momentum as well as the unfavourable macro-environmental industry factors as discussed in the paragraph headed "Letter from the Board — REASONS FOR AND BENEFITS OF THE DISPOSAL" in this circular, Mr. Jiang Hailin and Mr. Liao Jie, the executive Directors and the ultimate beneficial owners of the controlling shareholder of the Company, approached the Board and initiated the idea of acquiring the Target Group in August 2015 with an aim of improving the overall financial performance and share performance of the Group. After considering the potential benefits to the Group resulting from the Disposal, the Board and the senior management of the Group started the negotiation with Mr. Jiang Hailin and Mr. Liao Jie accordingly. The Board confirmed that no other buyer has approached the Company for the acquisition of the Target Group and the Board did not look for other independent buyers as they consider that the proposal of the Disposal are in the interests of the Company and the Shareholders as a whole and it would be difficult and time consuming to look for independent buyers that will be interested in the Target Group after taking into account (1) the unique business nature of the Target Group; (2) the loss making track record of the Target Group since the year ended 31 December 2014; (3) the uncertain prospect of the Target Group; and (4) the high traction between the business of the Target Group and that of the Group in the past, at present and in the future, as disclosed in the section headed "Letter from the Board — THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS" in this circular.

REASONS FOR AND BENEFITS OF THE DISPOSAL

As at the Latest Practicable Date, the principal activities of the Group are to provide intelligent transportation system solutions and services to expressway, railway, urban traffic and civil aviation segments in the PRC.

The Target Group is principally engaged in the provision of intelligent transportation system solutions and services to expressway and urban traffic segments in the PRC. Recently, the Target Group's business has faced challenges. According to Ministry of Transport of the PRC, the total investment amount for expressway construction in the PRC increased from approximately RMB686.2 billion in 2010 to approximately RMB781.8 billion in 2014, representing a CAGR of approximately 3.3%. During the five-year period from 2010 to 2014, the total length of expressway in the PRC increased from approximately 74,100 km in 2010 to approximately 111,900 km in 2014, representing a CAGR of approximately 10.9%. However, on year-on-year basis, the annual growth decreased from approximately 14.6% in 2011 to approximately 7.2% in 2014. Due to the lack of industry growth, the overall growth trend of the expressway segment of the Group is appearing to be flat and mature. For urban traffic segment, as discussed in the interim report of the Group for the six months ended 30 June 2015, the urban traffic segment of the Group experienced a declining trend due to cutting back on urban traffic investment (which covered urban roads only and was separated from investments on metro and other forms of public transportation) of local government budget, which happened in 2014 and has not been improved in the first half of 2015. As a result of the abovementioned, the unaudited combined revenue of the Target Group decreased from approximately RMB1,418.82 million for the year ended 31 December 2013 to approximately RMB1,254.78 million for the year ended 31 December 2014. For the nine months ended 30 September 2015, the unaudited combined revenue of the Target Group was approximately RMB626.83 million. During the same period, the unaudited combined profit for the year of the Target Group (excluding non-controlling interests) decreased from a profit of approximately RMB76.26 million for the year ended 31 December 2013 to a loss of approximately RMB39.80 million for the year ended 31 December 2014. For the nine months ended 30 September 2015, the unaudited combined loss for the period of the Target Group (excluding non-controlling interests) further increased to approximately RMB103.67 million.

Despite the declining financial performance of the Target Group over the recent years, as disclosed in the section headed "Appendix I — Financial Information of the Group — 5. MANAGEMENT DISCUSSION AND ANALYSIS ON THE REMAINING GROUP — 4. For the six months ended 30 June 2015" in this circular, revenue of the Remaining Group in the six months ended 30 June 2015 was approximately RMB698.8 million, representing an increase of approximately 121.8% as compared with the corresponding period in 2014. The increase in revenue of the Remaining Group was mainly contributed by the railway segment, the revenue of which increased by approximately RMB359.8 million to approximately RMB660.4 million in the six months ended 30 June 2015 (representing approximately 94.5%

of the total revenue of the Remaining Group for the six months ended 30 June 2015). Currently, the railway segment of the Remaining Group has been engaged to provide software and hardware solutions in various aspects of railway projects, including the provision of wired and wireless communications solutions tailored to communications systems of high-speed and heavy-haul trains, the provision of railway comprehensive video surveillance solutions and the passenger service system solutions as well as value-added operation and services. Going forward, the Group plan to promote its railway alarming system and railway electronic intelligent operation and management system to further improve the accuracy and punctuality of the railway alarming system and to construct a highly flexible and expandable intelligent railway communication network. In recent years, the railway segment of the Remaining Group has been benefited from the favourable industry environment with huge demand of reforming and upgrading existing local railway network. In addition to maintaining the momentum of high growth in traditional communication solutions, the railway segment has also made remarkable breakthrough during the period by developing new solutions such as passenger service and video surveillance. The Directors believe that the railway segment will be able to seize more business opportunities and will continue to research and develop more competitive products and solutions in the future. For more details on the financial information of the Remaining Group, please refer to "Appendix I — Financial Information of the Group" in this circular.

With the lack of growth of overall environment of PRC expressway industry and the declining revenue contribution of urban traffic segment due to macro-environmental factors in the PRC, the Board is of the view that the Disposal will provide the Company with capital to invest in and enable the Company to reallocate its resources to focus and develop other business segments which have better growth potential, namely the railway segment as discussed above and the civil aviation segment of the Group. The civil aviation segment of the Group is principally engaged in the provision of airport wireless communication specialized solutions, surveillance specialised solutions and value-added operation and services. At present, the airport intelligent wireless command platforms developed by the Remaining Group have been put under trial in certain major airports in the PRC. The airport intelligent wireless command platforms are data exchange platforms of airlines, flights, airports, ground services and air cargoes. The civil aviation segment is relatively new to the Group as compared with other segments and thus it is expected that more resources will be utilized to develop and expand this business. The future development of the civil aviation segment of the Remaining Group will be mainly focusing on the informationization of airport ground services through the establishment of airport wireless solutions and to generate sales revenues from communication services, surveillance services and value-added operation and services. A portion of the proceeds from the Disposal will be invested in the railway segment and the civil aviation segment of the Group for their organic growth. As of the Latest Practicable Date, the railway segment and the civil aviation segment of the Group did not have any material capital commitment nor any targets for merger and acquisition nor any plans for additional financing. The Company intends to use approximately 28% and 8% of the proceeds from the Disposal, being RMB212.32 million and RMB60.66 million, for the railway segment and civil aviation segment, respectively, including the purchase of equipment, research and development, training and hiring of staff, etc. For details of the future plans and use of proceeds of the Group for the railway and civil aviation segments, please refer to the section headed "Appendix I — Financial Information of the Group — 2. FINANCIAL AND TRADING PROSPECTS OF THE

GROUP" and the paragraph headed "Letter from the Board — USE OF PROCEEDS" in this circular. In addition to better resource allocation, upon completion of the Disposal, the results of the Group will no longer be negatively affected by the Target Group, which has been loss-making since the financial year ended 31 December 2014, and thus make the Group more attractive to potential investors by highlighting the Group's business focus on railway and civil aviation segments with better potential.

In view of the above, the Directors (other than the independent non-executive Directors whose view is expressed in the "Letter from the Independent Board Committee" in this circular) are of the view that the terms of the Disposal are fair and reasonable, which have been arrived at after arm's length negotiations and are in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECT OF THE DISPOSAL

As disclosed in the "Appendix II — Unaudited Pro Forma Financial Statement of the Remaining Group" in this circular, for illustrative purposes, assuming the Disposal had taken place on 30 September 2015 and taking into account (i) the net proceeds from the Disposal of approximately RMB758.28 million, the calculation of which is discussed in details in the paragraph headed "Letter from the Board — USE OF PROCEEDS" below; (ii) the adjusted combined net assets of the Target Group as at 30 September 2015 of approximately RMB756.26 million based on the combined net asset of the Target Group as at 30 September 2015 of approximately RMB858.67 million minus (1) the aggregate sum of Beijing RHY Dividend and China Expressway Dividend of RMB138,750,000, (2) the estimated net amount payable by the Target Group to the Remaining Group upon completion of the Pre-disposal Restructuring of approximately RMB55.78 million; and (3) the release of cumulative foreign exchange reserve of the Target Group upon the Disposal of approximately RMB29.05 million, plus the outstanding sum of the Receivables of approximately RMB121,170,000, a gain of approximately RMB2.02 million would arise as a result of the Disposal. Please refer to "Appendix II — Unaudited Pro Forma Financial Statement of the Remaining Group" in this circular for detailed calculation of the gain on Disposal.

Shareholders should note that the exact amount of gain or loss on the Disposal will be calculated based on, among other things, the final Consideration, which will be determined by reference to the Final Net Asset and will reflect any financial effect of the Pre-disposal Restructuring, the actual expenses and taxes incurred, the net asset of the Offshore Target Companies at the Offshore Closing, the net asset of Beijing RHY at the Onshore Closing and the amount of cumulative foreign exchange reserves to be released, and therefore may be different from the amount mentioned above.

USE OF PROCEEDS

Based on the Consideration of RMB979,840,000 (subject to adjustment), after deducting the estimated expenses relating to the Disposal of approximately RMB27.03 million, the aggregate sum of Beijing RHY Dividend and China Expressway Dividend of RMB138,750,000 and the estimated net amount payable by the Target Group to the Remaining Group upon completion of the Pre-disposal Restructuring of approximately RMB55.78 million, it is expected the Company will receive net proceeds from the Disposal of approximately RMB758.28 million[1]. The Company intends to use the proceeds from the Disposal for the purposes and in the amount set forth below:

- approximately 50%, or RMB379.13 million, is expected to be used for the repayment of bank loan. The Disposal represents an opportunity for the Group to generate cash to lower the gearing ratio and provide financial flexibility to the Group;

- approximately 28%, or RMB212.32 million, is expected to be used for the railway segment, including but not limited to RMB150 million for the purchase of equipment, RMB20 million for research and development and RMB20 million for training and hiring of staff;

- approximately 8%, or RMB60.66 million, is expected to be used for the civil aviation segment, including but not limited to RMB35 million for the purchase of equipment, RMB15 million for the research and development and RMB5 million for training and hiring of staff;

- approximately 4%, or RMB30.33 million, is expected to be used for building decoration; and

- approximately 10%, or RMB75.83 million, is expected to be used as general working capital of the Group.

As disclosed above, the Company intends to use approximately 50% of the proceeds from the Disposal, being RMB379.13 million, for the repayment of bank loans with a total principal amount of RMB397 million, which is composed of certain bank loans borrowed by subsidiaries of the Company with different interest rates in the range of fixed rate of 8% and variable rates of 10% to 20% above the relevant PBOC lending rates. Such bank loans will be repaid by the Company through one-time and instalment payments during the year ending 31 December 2016.

As the final Consideration is subject to adjustments and the actual expenses incurred will be different from the estimated expenses as stated above, the Company intends to use the final net proceeds from the Disposal on a pro-rata basis to the proposed usage set forth above.

Note:

1. In the announcement of the Company dated 17 February 2016, it was disclosed that the net proceeds from the Disposal was expected to be approximately RMB811.00 million. Based on the latest information regarding the Pre-disposal Restructuring as at the Latest Practicable Date, the Company expects that the estimated expenses relating to the Disposal would be approximately RMB27.03 million instead of approximately RMB30.09 million and it is estimated that the net amount payable by the Target Group to the Remaining Group upon completion of the Pre-disposal Restructuring would be approximately RMB55.78 million and the expected net proceeds has been updated accordingly.

THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

THE FRAMEWORK SALES AGREEMENT

On 17 February 2016, Beijing Zhixun, Beijing Zhongzhi and Zhongtian Runbang as the Framework Agreement Suppliers, and Beijing RHY entered into the Framework Sales Agreement, pursuant to which the Framework Agreement Suppliers will sell their products to Beijing RHY with effect from the effective date of the Framework Sales Agreement to 31 December 2018.

The principal terms of the Framework Sales Agreement are set out as below:

Date: 17 February 2016.

Parties:

(1) Beijing Zhixun, Beijing Zhongzhi and Zhongtian Runbang as the Framework Agreement Suppliers; and

(2) Beijing RHY.

Each of the Framework Agreement Suppliers under the Framework Sales Agreement is a company incorporated in the PRC and is indirectly wholly-owned by the Company.

Subject Matter: Pursuant to the Framework Sales Agreement, the Framework Agreement Suppliers will sell their products, mainly the equipment used for the projects of the Target Group, to Beijing RHY.

Sales Contracts: In respect of each sale of products by the Framework Agreement Suppliers to Beijing RHY, the parties have entered into separate specific agreements to specify details of products being sold.

Pricing: The price at which the Framework Agreements Suppliers sell their product(s) to Beijing RHY shall be fair and reasonable, and should be set at prices equal to the cost of such products plus a gross profit margin of 5% to 10%. In any event, shall not be less than (i) the price at which the Framework Agreement Suppliers sell the same or similar product(s) to any independent third parties; and (ii) the price at which the Framework Agreement Suppliers provide to any independent third parties to sell the same or similar product(s) to themselves.

Payment terms: The purchase price of any products being sold under the Framework Sales Agreement are paid by Beijing RHY monthly.

	Details of the payment arrangement are determined in separate specific agreements by reference to the kind of product and industry practice.
Term:	The Framework Sales Agreement will be effective upon the fulfillment of the following conditions until 31 December 2018: (i) the Framework Sales Agreement has been duly executed by the parties thereto; (ii) approvals from the Independent Shareholders in the EGM in respect of the Framework Sales Agreement have been obtained; (iii) the transactions contemplated under the Framework Sales Agreement comply with the requirements under the Listing Rules; and (iv) the Offshore Closing has been duly completed.
Annual cap:	The maximum aggregate transaction amount under the Framework Sales Agreement for the years ending 31 December 2016, 2017 and 2018 are RMB24,000,000, RMB6,000,000 and RMB3,000,000, respectively, determined with reference to the outstanding contract sum of the sales contracts already entered into between the Framework Agreement Suppliers and Beijing RHY and the delivery schedules specified by Beijing RHY according to its requirements for the relevant products.

Reasons for and benefits of entering into the Framework Sales Agreement

Beijing RHY is mainly engaged in the technology development and training of mechatronics engineering, technology consultation of mechatronics engineering and application solutions of computer and security system.

As part of business operation of Beijing RHY, it has been purchasing equipment used for the projects of the Target Group from the Framework Agreement Suppliers.

The sales contracts under the Framework Sales Agreement were entered into between the Framework Agreement Suppliers and Beijing RHY in 2015 or before. The Framework Sales Agreement will allow the Framework Agreement Suppliers to continue to sell to Beijing RHY their products after the completion of the Disposal, avoiding any unnecessary disruption to the Framework Agreement Suppliers to fulfill their obligations under contracts already in effect and the immediate loss of sales of the Framework Agreement Suppliers as a result of the Disposal.

The sales contracts under the Framework Sales Agreement were entered into when the Framework Agreement Suppliers and Beijing RHY were within the same Group. The management of the Group decided the price charged by the Framework Agreement Suppliers to Beijing RHY for each contract under the Framework Sales Agreement with reference to (1) the financial position and performance of each of the Framework Agreement Suppliers and Beijing RHY; (2) the nature of the subject contracts; (3) the sum of the subject contracts; and (4) the prevailing market prices of products to be supplied under the subject contracts (or products with similar specifications, as applicable). In determining the profit margin of 5% to 10% under the Framework Sales Agreement when the transactions become connected transactions of the Company upon completion of the Disposal, the Directors made reference to the recent quotations from various independent suppliers for the sales contracts under the Framework Sales Agreement.

In view of the above, the Directors (other than the independent non-executive Directors whose view is expressed in the "Letter from the Independent Board Committee" in this circular) are of the view that the terms of the Framework Sales Agreement are fair and reasonable, which have been arrived at after arm's length negotiations and are in the interests of the Company and the Shareholders as a whole.

THE LEASES

The RHY Lease

On 7 January 2016, Beijing RHY entered into the RHY Lease with Hongrui Dake to lease Hongrui Properties which takes retrospective effect from 1 January 2016 and ends on 31 December 2016 on the conditions and subject to the terms of the RHY Lease.

The principal terms of the RHY Lease are as follows.

Date:	7 January 2016
Parties:	(1) Hongrui Dake as lessor; and
	(2) Beijing RHY as lessee.
Subject matter:	Pursuant to the RHY Lease, Hongrui Dake agreed to lease the Hongrui Properties to Beijing RHY.
Hongrui Properties:	Certain premises with a total floor area of 1,140 sq.m. located at East side of 3/F & Northeast side of 4/F., Building 204, No. A 10, Jiuxianqiao North Road, Chaoyang District, Beijing, the PRC.
Rental and property management fee:	Approximately RMB152,570 per month payable monthly at the 1st day of each month. Such monthly rental and property management fee rate is determined based on arm's length negotiation between the parties and by reference to prevailing market office rental and property management fee rates in nearby areas (i.e., Jiuxianqiao, Beijing).

Term: With effect from 1 January 2016 and ends on 31 December 2016.

Purpose: For office purpose

Annual cap: For the year ending 31 December 2016, the maximum aggregate amount of rental and property management fee under the RHY Lease is RMB1,830,840, determined based on the annual rental and property management fee payable.

The Newcom Lease

On 7 January 2016, Beijing Newcom entered into the Newcom Lease with Hongrui Dake to lease Newcom Properties which takes retrospective effect from 1 January 2016 and ends on 31 December 2016 on the conditions and subject to the terms of the Newcom Lease.

The principal terms of the Newcom Lease are as follows.

Date: 7 January 2016

Parties:

(1) Hongrui Dake as lessor; and

(2) Beijing Newcom as lessee.

Subject matter: Pursuant to the Newcom Lease, Hongrui Dake agreed to lease the Newcom Properties to Beijing Newcom.

Newcom Properties: Certain premises with a total floor area of 1,100 sq.m. located at North side of 1/F & West side of 3/F., Building 204, No. A 10, Jiuxianqiao North Road, Chaoyang District, Beijing, the PRC.

Rental and property management fee: Approximately RMB147,216.67 per month payable monthly at the 1st day of each month. Such monthly rental and property management fee rate is determined based on arm's length negotiation between the parties and by reference to prevailing market office rental and property management fee rates in nearby areas (i.e., Jiuxianqiao, Beijing).

Term: With effect from 1 January 2016 and ends on 31 December 2016.

Purpose:	For office purpose
Annual cap:	For the year ending 31 December 2016, the maximum aggregate amount of rental and property management fee under the Newcom Lease is RMB1,766,600, determined based on the annual rental and property management fee payable.

Reasons for and benefits of entering into the Leases

The premises leased by Hongrui Dake to Beijing RHY and Beijing Newcom have been occupied by Beijing RHY and Beijing Newcom since late November 2015, respectively, as office space. The Group has no immediate alternative use for such premises and no immediate needs to expand its own office. The RHY Lease and the Newcom Lease will allow Hongrui Dake to continue to lease the premises to Beijing RHY and Beijing Newcom at market price after the completion of the Disposal without having to solicit new lessees and avoiding the expenses and fees in connection with arranging for lease of these premises to new tenants. The Leases also provides steady income and cash flow for the Group.

In view of the above, the Directors (other than the independent non-executive Directors whose view is expressed in the "Letter from the Independent Board Committee" in this circular) are of the view that the terms of RHY Lease and the Newcom Lease and the respective rental and property management fee thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

POST-CLOSING FINANCIAL ASSISTANCE

The Post-closing Loan Agreements

Prior to the Disposal, certain subsidiaries of the Company, as lenders, have entered into loan agreements with the Target Companies and/or their subsidiaries (including companies which will become their subsidiaries after completion of the Pre-disposal Restructuring), as borrowers, pursuant to which the lenders have provided loans to the borrowers. Some of these loan agreements (the "**Post-closing Loan Agreements**") are expected to remain in effect after the Offshore Closing. Upon completion of the Offshore Disposal, the Post-closing Loan Agreements and the loans provided under them will constitute financial assistance provided by the Group to its connected persons. The maximum aggregate amount of the Post-closing Loan Agreements for the year ending 31 December 2016 is RMB297,407,320.24. A summary of the Post-closing Loan Agreements is set out below:

Date of the agreement	Lender	Borrower (collectively, the "Borrowers")	Principal amount *(RMB)*	Expiry date
31 December 2015	Jiangsu Zhongzhi Ruixin	Beijing RHY	4,850,000.00	31 December 2016
31 December 2015	Intelligent Traffic	Beijing RHY	5,100,000.00	31 December 2016
31 December 2015	Aproud Technology	Beijing Aproud	22,397,717.92	31 December 2016
31 December 2015	Beijing Zhixun	Beijing Aproud	2,075,230.14	31 December 2016
31 December 2015	Aproud Technology	Beijing Huading	594,700.00	31 December 2016
31 December 2015	Aproud Technology	Beijing STONE	237,794,423.36	31 December 2016
31 December 2015	Beijing Zhixun	Beijing STONE	5,050,000.00	31 December 2016
31 December 2015	Intelligent Aviation	Beijing STONE	1,909,024.12	31 December 2016
31 December 2015	Aproud Technology	Beijing Univaid	11,929,430.11	31 December 2016
31 December 2015	Aproud Technology	Beijing Lihe Datong	5,548,000.00	31 December 2016
31 December 2015	Aproud Technology	Beijing Wuzhouzhitong	45,048.00	31 December 2016
31 December 2015	Aproud Technology	Jiangsu Zhongzhi Jiaye	113,746.59	31 December 2016
		Total	297,407,320.24	

On 17 February 2016, in respect of each of the Post-closing Loan Agreements, the respective parties entered into a supplemental agreement, pursuant to which the term of the loans under such agreements shall expire six months after the Offshore Closing and interest will accrue on such loan at the PBOC six-month lending rate multiplied by 121% from the date of the Offshore Closing, subject to the consummation of the Offshore Closing.

Post-closing Guarantees

Prior to the Disposal, the Target Companies and/or their subsidiaries (including companies which will become their subsidiaries after completion of the Pre-disposal Restructuring), as borrowers, have obtained certain banking facilities from banks, which are guaranteed by certain subsidiaries of the Company. Some of such banking facilities (the "**Post-closing Banking Facilities**") are expected to remain in effect after the Offshore Closing. Upon completion of the Offshore Disposal, the guarantees in favour of the relevant banks given by subsidiaries of the Company in respect of the Post-closing Banking Facilities (the "**Post-closing Guarantees**") will constitute financial assistance provided by the Group to its connected persons. The maximum aggregate amount of the Post-closing Guarantees for the years ending 31 December 2016, 2017 and 2018 are RMB360,000,000, RMB230,000,000 and RMB230,000,000, respectively. A summary of the Post-closing Guarantees is set out below:

Borrower (collectively, the "Bank Borrowers")	**Lender**	**Maximum amount under the facility** *(RMB)*	**Expiry date**	**Guarantor (collectively, the "Guarantors")**	**Date of guarantee**
Beijing RHY	China Development Bank	100,000,000	25 August 2016	Aproud Technology, Beijing Zhixun, Mr. Jiang Hailin	26 August 2015
Beijing STONE	China Minsheng Banking Corporation Limited	20,000,000	5 June 2016	Beijing Zhixun	5 June 2015
Beijing Univaid	Bank of Beijing	10,000,000	23 September 2016	Aproud Technology	24 September 2014
Beijing RHY	Bank of Beijing	230,000,000	12 January 2018	Aproud Technology	13 January 2016

On 17 February 2016, each of Mr. Jiang Hailin and Mr. Liao Jie executed a guarantee in favour of each of the Guarantors (collectively, the "**Counter-guarantees**"), pursuant to which each of Mr. Jiang Hailin and Mr. Liao Jie has provided a counter-guarantee of the performance of the Bank Borrowers' obligation to repay any loan borrowed under the respective Post-closing Banking Facility in favour of the Guarantors and has undertaken to assume the obligation to repay any loan borrowed under such Post-closing Banking Facility in the event

that the relevant Bank Borrower fails to repay such loan and to be responsible for any loss suffered or expenses incurred by the Guarantor as a result of such failure. The Counter-guarantees will constitute financial assistance received by the Group from connected persons of the Company which are fully exempted from the announcement, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules as the Counter-guarantees are provided on normal commercial terms (or better for the Company) and the Counter-guarantees are not secured by any asset of the Group.

Reasons for and benefits of the Post-closing Loan Agreements and the Post-closing Guarantees

The outstanding loans under the Post-closing Loan Agreements and the Post-closing Bank Facilities primarily arise from the Group's historical internal financial management. It is not commercially desirable or practicable for the Group and the relevant parties involved to arrange alternative sources of financing and/or, with respect to the Post-closing Banking Facilities, to obtain the consent of the relevant banks to terminate the Post-closing Guarantees or to arrange for alternative guarantors before the completion of the Disposal. As the relevant parties will need time to rearrange the finances of the relevant companies after the Disposal, the Post-closing Loan Agreements and the Post-closing Guarantees will enable the Company to avoid unnecessary disruptions in the operations and cash flows of the Target Companies and its subsidiaries and any unnecessary cost and delay in rearranging financing before completion of the Disposal. It is expected that the Post-closing Loan Agreements and the Post-closing Guarantees will not be renewed after expiry.

In view of the above and taking into account the interest to be accrued on loans under the Post-closing Loan Agreements and the Counter-guarantees, the Directors (other than the independent non-executive Directors whose view is expressed in the "Letter from the Independent Board Committee" in this circular) are of the view that the terms of Post-closing Loan Agreements and the Post-closing Guarantees are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

The Disposal

As one of the applicable percentage ratios for the transaction contemplated under the Master Sale and Purchase Agreement are more than 75%, the Disposal constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules.

Since the Purchaser is an associate of Mr. Jiang Hailin, Mr. Liao Jie and Holdco pursuant to Rules 14A.12 and 14A.13 of the Listing Rules, each of which being a connected person of the Company, the Purchaser is a connected person of the Company pursuant to Rule 14A.07(4) of the Listing Rules. Accordingly, the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Therefore, the Disposal is subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules and the Disposal will be subject to the approval of the Independent Shareholders taken on poll at the EGM. As required under Rule 14A.36 of the Listing Rules, the Purchaser Shareholders and their respective associates, including Holdco, Kang Yang Holdings Limited, Pride Spirit Company Limited, Joy Bright Success Limited, Rockyjing Investment Limited, Huaxin Investments Limited, Joyful Business Holdings Limited, Speedy Fast Investments Limited and Mr. Lv Xilin shall abstain from voting at the EGM for approving the Master Sale and Purchase Agreement and the transactions contemplated thereunder.

The Non-exempt Continuing Connected Transactions

Upon the Offshore Closing, Beijing RHY, Beijing Newcom, the Borrowers and the Bank Borrowers will become indirect subsidiaries of the Purchaser and thus Beijing RHY, Beijing Newcom, the Borrowers and the Bank Borrowers will be associates of Mr. Jiang Hailin, Mr. Liao Jie and Holdco under Rules 14A.12 and 14A.13 of the Listing Rules. Accordingly, Beijing RHY, Beijing Newcom, the Borrowers and the Bank Borrowers will become connected persons of the Company upon the Offshore Closing and the transactions contemplated under the Framework Sales Agreement, the RHY Lease, the Newcom Lease, the Post-closing Loan Agreements and the Post-closing Guarantees will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the counterparties of the Framework Sales Agreement, the RHY Lease, the Newcom Lease, the Post-closing Loan Agreements and the parties whose obligations are guaranteed under the Post-closing Guarantees will be subsidiaries of the Purchaser upon the Offshore Closing and the Non-exempt Continuing Connected Transactions all arise from the disposal of the Target Companies, the Non-exempt Continuing Connected Transactions are aggregated for the purpose of determining the applicable requirements under Chapter 14A of the Listing Rules regarding continuing connected transactions.

As some of the applicable percentage ratios for the transactions contemplated under the Non-exempt Continuing Connected Transactions are more than 5% and the maximum annual aggregate transaction amount is more than HK$10,000,000, the Non-exempt Continuing Connected Transactions are subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules and the Non-exempt Continuing Connected Transactions will be subject to the approval of the Independent Shareholders taken on poll at the EGM. As required under Rule 14A.36 of the Listing Rules, the Purchaser Shareholders and their respective associates, including Holdco, Kang Yang Holdings Limited, Pride Spirit Company Limited, Joy Bright Success Limited, Rockyjing Investment Limited, Huaxin Investments Limited, Joyful Business Holdings Limited, Speedy Fast Investments Limited and Mr. Lv Xilin shall abstain from voting at the EGM for approving the Non-exempt Continuing Connected Transactions.

EGM

A notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular. The EGM will be convened for the Shareholders to consider, and if thought fit, to approve the Disposal and the Non-exempt Continuing Connected Transactions.

Each of Mr. Liao Jie and Mr. Jiang Hailin has a material interest in the Disposal and the Non-exempt Continuing Connected Transactions and has abstained from voting on the board resolutions for approving the Disposal and the Non-exempt Continuing Connected Transactions. Other than Mr. Liao Jie and Mr. Jiang Hailin, none of the Directors has a material interest in the Disposal or the Non-exempt Continuing Connected Transactions.

Pursuant to Rule 14A.36 of the Listing Rules, at the EGM, the Purchaser Shareholders and their respective associates, including Holdco, Kang Yang Holdings Limited, Pride Spirit Company Limited, Joy Bright Success Limited, Rockyjing Investment Limited, Huaxin Investments Limited, Joyful Business Holdings Limited, Speedy Fast Investments Limited and Mr. Lv Xilin shall abstain from voting at the EGM for approving the Master Sale and Purchase Agreement and the transactions contemplated thereunder and the Non-exempt Continuing Connected Transactions.

A form of proxy for use at the EGM is enclosed with this circular. 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 as soon as possible and in any event not less than 48 hours before the time appointed for the EGM or adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof should the Shareholders so wish.

Pursuant to Rule 13.39(4) of the Listing Rule, any vote of the Shareholders at the EGM must be taken by poll. An announcement will be made by the Company after the EGM regarding the results of the EGM pursuant to the requirements of the Listing Rules.

As completion of the Disposal is subject to the satisfaction of the conditions precedent under the Master Sale and Purchase Agreement and the PRC Sale and Purchase Agreement, the Disposal may or may not be completed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 48 and 49 of this circular and the letter of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 50 to 89 of this circular in connection with the Master Sale and Purchase Agreement, the transactions contemplated thereunder and the Non-exempt Continuing Connected Transactions and the principal factors and reasons considered by the Independent Financial Adviser in arriving at such advice.

The Directors (other than the independent non-executive Directors whose view is expressed in "Letter from the Independent Board Committee" in this circular) consider that the transactions under the Master Sale and Purchase Agreement and the Non-exempt Continuing Connected Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the relevant resolution to be proposed at the EGM.

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

By order of the Board
China ITS (Holdings) Co., Ltd.
Mr. Liao Jie
Chairman

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

24 March 2016

To the Independent Shareholders

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF THE ENTIRE EQUITY INTERESTS IN THE TARGET COMPANIES AND CONTINUING CONNECTED TRANSACTIONS

Dear Sir or Madam,

We refer to the circular of the Company dated 24 March 2016 (the "**Circular**") to the Shareholders, of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

We have been appointed as members of the Independent Board Committee to advise you as to whether, in our opinion, the terms of the Disposal and the Non-exempt Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned. Challenge Capital Management Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Disposal and the Non-exempt Continuing Connected Transactions.

Your attention is drawn to the "Letter from the Board" set out on pages 12 to 47 of the Circular which contains, *inter alia*, information about the terms of the Master Sale and Purchase Agreement and the Non-exempt Continuing Connected Transactions, and the "Letter from Challenge Capital" set out on pages 50 to 89 of the Circular which contains its advice in respect of the Master Sale and Purchase Agreement and the Non-exempt Continuing Connected Transactions together with the principal factors taken into consideration in arriving at such.

Having considered the terms of the Master Sale and Purchase Agreement and the Non-exempt Continuing Connected Transactions and having taken into account the factors and reasons considered by and the advice of the independent financial adviser as stated in their letter dated 24 March 2016, we consider that (i) the entering into of the Master Sale and Purchase Agreement is on normal commercial terms; (ii) the entering into of the Non-exempt Continuing Connected Transactions is on normal commercial terms and in the ordinary and usual course of business of the Company; (iii) the terms of the Master Sale and Purchase

Agreement and the Non-exempt Continuing Connected Transactions are fair and reasonable so far as the interests of the Independent Shareholders are concerned; and (iv) the entering into of the Master Sale and Purchase Agreement and the Non-exempt Continuing Connected Transactions are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to ratify and approve the Master Sale and Purchase Agreement, the transactions contemplated thereunder and the Non-exempt Continuing Connected Transactions.

Yours faithfully,
For and on behalf of
Independent Board Committee

Mr. Zhou Chunsheng **Mr. Choi Onward** **Mr. Sun Lu**

Independent non-executive Directors

The following is the full text of a letter of advice from Challenge Capital Management Limited to the Independent Board Committee and the Independent Shareholders in relation to the Disposal and the transactions contemplated thereunder and the Non-exempt Continuing Connected Transactions, which has been prepared for the purpose of inclusion in this circular.

信溢投資策劃有限公司
CHALLENGE CAPITAL MANAGEMENT LIMITED

3/F, Kailey Tower,
16 Stanley Street,
Central, Hong Kong

24 March 2016

To: The Independent Board Committee and the Independent Shareholders of China ITS (Holdings) Co., Ltd.

Dear Sirs,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF THE ENTIRE EQUITY INTERESTS IN THE TARGET COMPANIES AND CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Disposal and the Non-exempt Continuing Connected Transactions contemplated under the Framework Sales Agreement, the RHY Lease, the Newcom Lease, the Post-closing Loan Agreements and the Post-closing Guarantees (collectively, the "**CCT Agreements**"), details of which are set out in the letter from the Board (the "**Letter from Board**") contained in the circular of the Company to the Shareholders dated 24 March 2016 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined or the context requires otherwise.

On 17 February 2016, the Company and the Purchaser entered into the Master Sale and Purchase Agreement, pursuant to which subject to, among others, the completion of the Pre-disposal Restructuring, the Company conditionally agreed to sell and the Purchaser conditionally agreed to purchase the entire issued share capital of each of the Target Companies and the Receivables at the total consideration of RMB979,840,000 (subject to adjustment), subject to the terms and conditions of the Master Sale and Purchase Agreement. Upon completion of the Offshore Disposal, each of the Target Companies will cease to be a subsidiary of the Company and, except for the Onshore Target Equity, the Company will cease to hold any equity interests in Hugecom, China Traffic and China Expressway and their respective subsidiaries (including those which will become their subsidiaries after completion of the Pre-disposal Restructuring).

In addition, pursuant to the Master Sale and Purchase Agreement and as part of the Disposal, Beijing Zhongzhi and Beijing Wuzhouzhitong will enter into the PRC Sale and Purchase Agreement in the form as prescribed under the Master Sale and Purchase Agreement before the Offshore Closing. The transfer of the Onshore Target Equity to the Purchaser will be effected through the transfer of the Onshore Target Equity from Beijing Zhongzhi to Beijing Wuzhouzhitong pursuant to the PRC Sale and Purchase Agreement. The completion of the Onshore Disposal is conditional on the completion of the Offshore Disposal. Upon completion of the Onshore Disposal, the Company will cease to hold any equity interest in Beijing RHY.

As one or more of the applicable percentage ratios for the transaction contemplated under the Master Sale and Purchase Agreement are more than 75%, the Disposal constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules. Since the Purchaser is an associate of Mr. Jiang Hailin, Mr. Liao Jie and Holdco pursuant to Rules 14A.12 and 14A.13 of the Listing Rules, each of which being a connected person of the Company, the Purchaser is a connected person of the Company pursuant to Rule 14A.07(4) of the Listing Rules. Accordingly, the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Therefore, the Disposal is subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules and the Disposal will be subject to the approval of the Independent Shareholders taken on poll at the EGM. As required under Rule 14A.36 of the Listing Rules, the Purchaser Shareholders and their respective associates, including Holdco, Kang Yang Holdings Limited, Pride Spirit Company Limited, Joy Bright Success Limited, Rockyjing Investment Limited, Huaxin Investments Limited, Joyful Business Holdings Limited, Speedy Fast Investments Limited and Mr. Lv Xilin shall abstain from voting at the EGM for approving the Master Sale and Purchase Agreement and the transactions contemplated thereunder.

Upon the Offshore Closing, Beijing RHY, Beijing Newcom, the Borrowers and the Bank Borrowers will become indirect subsidiaries of the Purchaser and thus Beijing RHY, Beijing Newcom, the Borrowers and the Bank Borrowers will be associates of Mr. Jiang Hailin, Mr. Liao Jie and the Holdco under Rules 14A.12 and 14A.13 of the Listing Rules. Accordingly, Beijing RHY, Beijing Newcom, the Borrowers and the Bank Borrowers will become connected persons of the Company upon the Offshore Closing and the transactions contemplated under the Framework Sales Agreement, the RHY Lease, the Newcom Lease, the Post-closing Loan Agreements and the Post-closing Guarantees will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the counterparties of the Framework Sales Agreement, the RHY Lease, the Newcom Lease, the Post-closing Loan Agreements and the parties whose obligations are guaranteed under the Post-closing Guarantees will be subsidiaries of the Purchaser upon the Offshore Closing and the Non-exempt Continuing Connected Transactions all arise from the Disposal, the Non-exempt Continuing Connected Transactions are aggregated for the purpose of determining the applicable requirements under Chapter 14A of the Listing Rules regarding continuing connected transactions.

As one or more of the applicable percentage ratios for the transactions contemplated under the Non-exempt Continuing Connected Transactions are more than 5% and the maximum annual aggregate transaction amount is more than HK$10,000,000, the Non-exempt Continuing Connected Transactions are subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules and the Non-exempt Continuing Connected Transactions will be subject to the approval of the Independent Shareholders taken on poll at the EGM. As required under Rule 14A.36 of the Listing Rules, the Purchaser Shareholders and their respective associates, including the Holdco, Kang Yang Holdings Limited, Pride Spirit Company Limited, Joy Bright Success Limited, Rockyjing Investment Limited, Huaxin Investments Limited, Joyful Business Holdings Limited, Speedy Fast Investments Limited and Mr. Lv Xilin shall abstain from voting at the EGM for approving the Non-exempt Continuing Connected Transactions.

The Independent Board Committee comprising all the independent non-executive Directors has been formed to consider (i) the terms of the Master Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the Non-exempt Continuing Connected Transactions. We, Challenge Capital Management Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the same transactions.

We are independent from and not connected with the Company, the Purchaser, the parties to the Non-exempt Continuing Connected Transactions, any of their respective substantial shareholders, or any party acting, or presumed to be acting, in concert with any of them. Accordingly, we are considered eligible to give independent advice on the Disposal and the Non-exempt Continuing Connected Transactions. Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company, the Purchaser, the parties to the Non-exempt Continuing Connected Transactions or any of their substantial shareholders or any person acting or deemed to be acting in concert with any of them.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have relied on the accuracy of the information, facts and representations contained or referred to in the Circular, and the information, facts and representations provided, and the opinions expressed by the Company and its management. We have assumed that all information, facts and representations contained or referred to in the Circular, and the information, facts and representations provided, and the opinions expressed by the Company and its management, are true, accurate and complete in all material respects as at the date of the Circular and that they may be relied upon in formulating our opinion.

We also assumed that all views, opinions and statements of intention provided by the advisors and representatives of the Company have been arrived at after due and careful enquiries. The Directors have confirmed to us that no material facts have been withheld or omitted from the information supplied and opinions expressed. We consider that we have been provided with, and have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view to provide a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information provided by the Company and its management, nor have we conducted independent detailed investigation or audit into the businesses or affairs or future prospects of the Group. Our opinion is necessarily based on the financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date.

All Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in the 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 the Circular misleading.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Disposal and the Non-exempt Continuing Connected Transactions (collectively, the "**Transactions**"), and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our advice in respect of the Transactions, we have considered the following principal factors and reasons:

I. The Disposal

A. Overview

As at the Latest Practicable Date, the principal activities of the Group are to provide intelligent transportation system solutions and services to the expressway, railway, urban traffic and civil aviation segments in the PRC. Set out below is a breakdown of revenue and gross profit by industry segments of the Group for the years ended 31 December 2012, 2013 and 2014, and for the six months ended 30 June 2014 and 2015, respectively, as extracted from the relevant annual reports and interim reports of the Company:

	For the year ended 31 December			**For the six months ended 30 June**	
RMB'000	**2012**	**2013**	**2014**	**2014**	**2015**
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Revenue *(Note)*					
Expressway	1,158,428	1,153,241	1,062,150	372,105	332,937
Railway	580,854	742,927	1,012,853	291,540	700,831
Urban traffic	380,191	465,393	191,693	108,672	87,860
Others	26,527	28,707	—	—	—
Total	**2,146,000**	**2,390,268**	**2,266,696**	**772,317**	**1,121,628**
Gross profit/(loss)					
Expressway	231,500	249,760	195,233	83,596	70,211
Railway	162,424	189,948	156,893	75,036	157,769
Urban traffic	112,037	116,784	(2,867)	18,328	(11,611)
Others	10,769	2,494	—	—	—
Total	**516,730**	**558,986**	**349,259**	**176,960**	**216,369**

Note: Excludes intersegment sales.

On 17 February 2016, the Company and the Purchaser entered into the Master Sale and Purchase Agreement, pursuant to which subject to, among others, the completion of the Pre-disposal Restructuring, the Company conditionally agreed to sell and the Purchaser conditionally agreed to purchase the entire issued share capital of each of the Target Companies and the Receivables at the total consideration of RMB979,840,000 (subject to adjustment), subject to the terms and conditions of the Master Sale and Purchase Agreement.

In addition, pursuant to the Master Sale and Purchase Agreement and as part of the Disposal, Beijing Zhongzhi and Beijing Wuzhouzhitong will enter into the PRC Sale and Purchase Agreement in the form as prescribed under the Master Sale and Purchase Agreement before the Offshore Closing. The transfer of the Onshore Target Equity to the Purchaser will be effected through the transfer of the Onshore Target Equity from Beijing Zhongzhi to Beijing Wuzhouzhitong pursuant to the PRC Sale and Purchase Agreement.

Further details of the Master Sale and Purchase Agreement and the PRC Sale and Purchase Agreement are set out in the sections headed "Letter from the Board — The Disposal — The Master Sale and Purchase Agreement" and "Letter from the Board — The Disposal — The PRC Sale and Purchase Agreement" of the Circular.

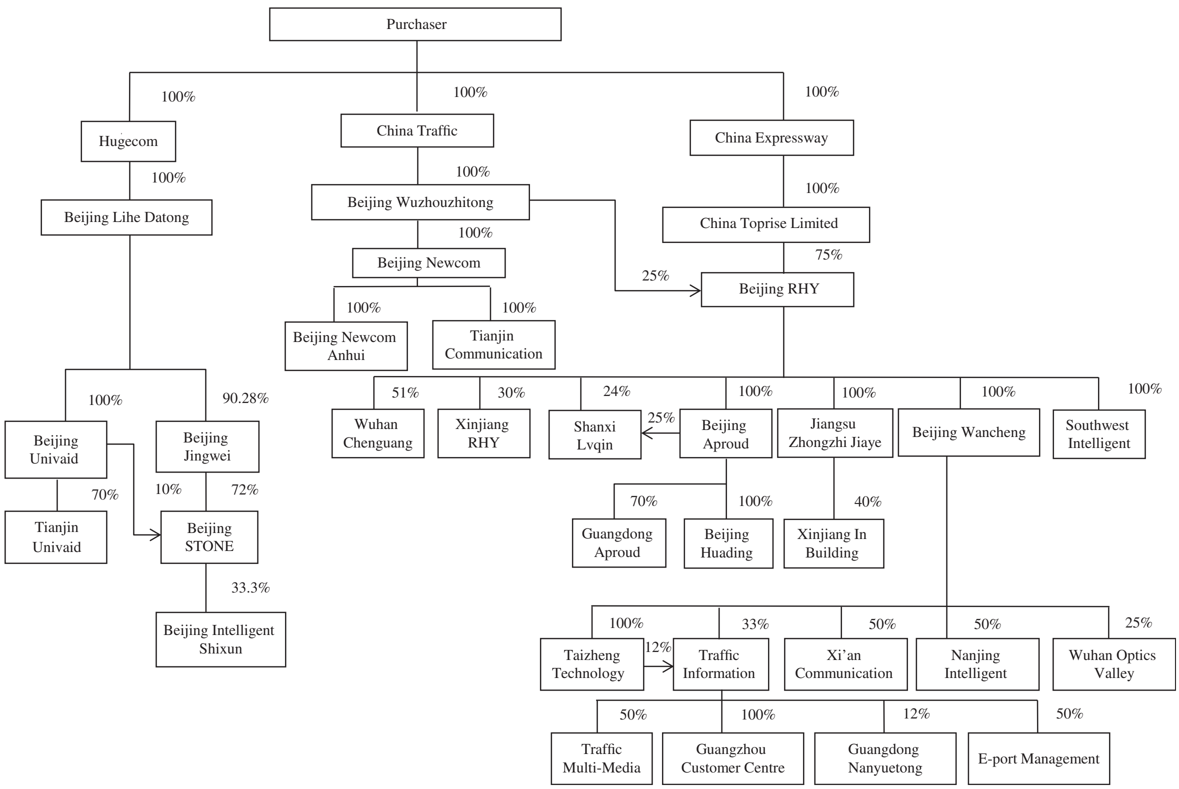
Upon completion of the Disposal, each of the Target Companies will cease to be a subsidiary of the Company and the Company will cease to hold any equity interests in the Target Companies. Further details of the changes in the shareholding structure and group structure of the Group and the Target Group are set out in the section headed "Letter from the Board — The Disposal — Shareholding structure and group structure" of the Circular.

B. Overview of the Target Group and the Remaining Group

1. Overview of the Target Group

The Target Companies and their subsidiaries, being the Target Group, are principally engaged in the provision of intelligent transportation system solutions and services to the expressway and urban traffic segments in the PRC.

Set out below is the shareholding and group structure of the Target Group immediately upon completion of the Disposal:



Set out below is a summary of the unaudited combined financial results of the Target Group for the years ended 31 December 2012, 2013 and 2014, and for the nine months ended 30 September 2014 and 2015, respectively, as extracted from the accountants' report of the Target Group contained in Appendix III to the Circular:

Combined financial results of the Target Group

	For the year ended 31 December			**For the nine months ended 30 September**	
RMB'000	**2012**	**2013**	**2014**	**2014**	**2015**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	1,484,085	1,418,818	1,254,778	774,149	626,829
Gross profit	274,589	270,357	173,147	145,768	73,094
Profit/(Loss) before taxation	239,687	108,302	(49,445)	(17,350)	(99,084)
Net profit/(loss) attributable to shareholders	189,698	76,261	(39,797)	(9,115)	(103,671)

For the year ended 31 December 2014

Revenue of the Target Group decreased from approximately RMB1,418.8 million for the year ended 31 December 2013 to approximately RMB1,254.8 million for the year ended 31 December 2014, representing a decrease of approximately 11.6%. We understand from the Company that the decrease in revenue of the Target Group was mainly attributable to (i) the decrease in revenue from the expressway segment, which in turn was resulted primarily from the delay of certain major projects; and (ii) the decrease in revenue from the urban traffic segment, which in turn was resulted mainly from the overall slowdown in the urban traffic industry and the local governments in the PRC cutting back on their investments in urban traffic projects.

Gross profit of the Target Group decreased by approximately 36.0% from approximately RMB270.4 million for the year ended 31 December 2013 to approximately RMB173.1 million for the year ended 31 December 2014, with gross profit margin declining from approximately 19.1% to approximately 13.8%. As advised by the Company, the decrease in gross profit margin of the Target Group was mainly attributable to (i) the lower margin for specific major projects carried out in 2014 for the expressway segment; and (ii) the overall slowdown in the urban traffic industry leading to a significant decrease in new contracts and the gross profit margin for projects in the urban traffic segment, and a cost incurred for impairment of an electronic monitoring project for the year ended 31 December 2014.

Results of the Target Group swung from a net profit attributable to shareholders of approximately RMB76.3 million for the year ended 31 December 2013 to a net loss attributable to shareholders of approximately RMB39.8 million for the year ended 31 December 2014, which was mainly attributable to the decrease in revenue and gross profit as discussed above.

For the nine months ended 30 September 2015

Revenue of the Target Group decreased from approximately RMB774.1 million for the nine months ended 30 September 2014 to approximately RMB626.8 million for the corresponding period in 2015, representing a decrease of approximately 19.0%. We understand from the Company that the decrease in total revenue of the Target Group was mainly attributable to (i) the decrease in revenue from the expressway segment, which in turn was resulted mainly from the lack of growth of the overall environment and the change in business model of the expressway segment; and (ii) the decrease in revenue from the urban traffic segment, which in turn was resulted mainly from the cutting back on investments in urban traffic projects by the local governments in the PRC, and the Group becoming more cautious in the selection of new projects considering the large amount of capital investment in the implementation of urban traffic projects and the risks of the government delaying in payment.

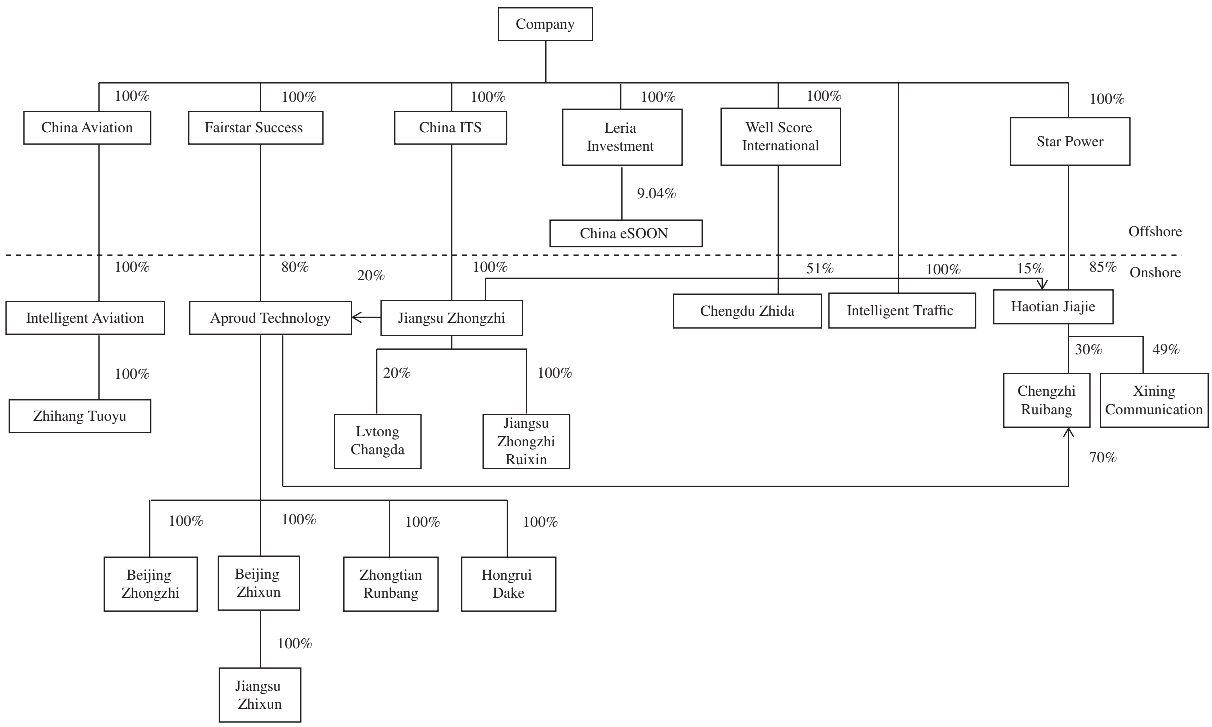
Gross profit of the Target Group decreased by approximately 49.9% from approximately RMB145.8 million for the nine months ended 30 September 2014 to approximately RMB73.1 million for the corresponding period in 2015, with gross profit margin declining from approximately 18.8% to approximately 11.7%. The decrease in gross profit margin of the Target Group was mainly attributable to (i) the lower profit margin for specific major projects carried out in 2015 for the expressway segment; and (ii) the overall slowdown in the urban traffic industry in 2014 and 2015, leading to a significant decrease in new contracts and gross profit margins for urban traffic projects.

Net loss attributable to shareholders of the Target Group widened from approximately RMB9.1 million for nine months ended 30 September 2014 to approximately RMB103.7 million for the corresponding period in 2015, which was mainly attributable to (i) the decrease in revenue and gross profit as discussed above; (ii) the decrease in the share of profits of joint ventures from approximately RMB6.0 million to approximately RMB2.4 million; (iii) the change from a share of profit of associates of approximately RMB4.5 million to a share of loss of associates of approximately RMB8.2 million; and (iv) the loss on disposal of joint ventures of approximately RMB4.0 million incurred for the nine months ended 30 September 2015 but not for the corresponding period in 2014.

2. Overview of the Remaining Group

Upon completion of the Disposal, the Remaining Group will be principally engaged in the provision of intelligent transportation system solutions and services to the railway and civil aviation segments in the PRC, and will no longer be engaged in the expressway and urban traffic segments.

Set out below is the group structure of the Remaining Group immediately upon completion of the Disposal:



Set out below is an extract of the management discussion and analysis on the Remaining Group as disclosed in the section headed "Appendix I — Financial Information of the Group — 5. Management discussion and analysis on the Remaining Group" of the Circular.

For the year ended 31 December 2014

Revenue of the Remaining Group for the year ended 31 December 2014 was approximately RMB1,045.7 million, representing a slight decrease of approximately 1.3% as compared with 2013. The decrease in revenue was mainly attributable to the significant decrease in revenue of the Discontinued Expressway and Urban Traffic Business from approximately RMB304.7 million in 2013 to approximately RMB64.4 million in 2014 as a result of the completion of the contracted projects in 2013 with minimal new contracts being signed during the year. In contrast, the railway segment continued with its growth momentum with revenue increased by approximately RMB226.4 million to approximately RMB966.4 million in 2014 (representing approximately 92.4% of the total revenue in 2014). The revenue from the civil aviation segment remained stable in 2014.

The gross profit margin of the Remaining Group in the year ended 31 December 2014 was approximately 16.8%, which was lower than the gross profit margin of approximately 27.2% in 2013. The decrease was mainly due to the lower gross profit margins of new railway businesses (such as passenger service and video surveillance) started during the year. Despite the decrease in gross profit margin, the Remaining Group was of the view that the introduction of new business was a mean to diversify the business risk for the railway segment and more importantly, it paved way for the potential value added operation and services in the future.

For the year ended 31 December 2014, the net loss attributable to the parent company of the Remaining Group was approximately RMB154.9 million. During the year, the Remaining Group recorded non-recurring expenses including (i) equity-settled share option expenses and amortisation of intangible assets arising from acquisitions of approximately RMB24.3 million; (ii) derecognition loss of call option of acquisition of Beijing STONE of approximately RMB16.8 million; (iii) goodwill impairment of Beijing STONE of approximately RMB48.0 million; (iv) impairment of property and equipment of approximately RMB7.3 million; (v) impairment of other receivables resulting from restructuring of approximately RMB20.4 million; and (vi) losses on disposal of subsidiaries of approximately RMB17.8 million. Save for the non-recurring expenses above, the net loss attributable to the parent company of the Remaining Group was reduced to approximately RMB20.3 million. The loss during the year was mainly attributable to the decrease in gross profit margin as mentioned above and the increase in finance cost of approximately RMB14.5 million mainly due to interest arising from the convertible bonds in the aggregate principal amount of HK$200 million issued in late 2013.

For the six months ended 30 June 2015

Revenue of the Remaining Group in the six months ended 30 June 2015 was approximately RMB698.8 million, representing an increase of approximately 121.8% as compared with six months ended 30 June 2014. The increase in revenue was mainly attributable to the continuous growth of the railway segment with revenue increased by approximately RMB359.8 million to approximately RMB660.4 million in six months ended 30 June 2015 (representing approximately 94.5% of the total revenue in six months ended in 30 June 2015). The remaining approximately 4.6% and 0.9% of the revenue was contributed by Discontinued Expressway and Urban Traffic Business and civil aviation segment, respectively.

The gross profit margin of the Remaining Group for the six month ended 30 June 2015 was approximately 23.5%, which was slightly lower than the gross profit margin of approximately 24.7% for the six months ended 30 June 2014 but increased by 6.7% as compared with the year ended 31 December 2014. The increase in gross profit margin as compared with 2014 full year was mainly due to the growth in traditional and value-added operation and services business in 2015, which had higher gross profit margins than the new businesses introduced in the second half of 2014.

For the six months ended 30 June 2015, the net profit attributable to the parent company of the Remaining Group was approximately RMB26.0 million.

C. Reasons for and benefits of the Disposal

As at the Latest Practicable Date, the principal activities of the Group are to provide intelligent transportation system solutions and services to the expressway, railway, urban traffic and civil aviation segments in the PRC.

The Target Group is principally engaged in the provision of intelligent transportation system solutions and services to the expressway and urban traffic segments in the PRC.

As stated in the annual report of the Company for the year ended 31 December 2014 (the "**2014 Annual Report**"), the Group's business is highly correlated with the macroeconomic policies on infrastructure investment of the PRC central government. According to the Ministry of Transport of the PRC (the "**MOT**"), the total investment amount for expressway construction in the PRC increased from approximately RMB686.2 billion in 2010 to approximately RMB781.8 billion in 2014, representing a CAGR of approximately 3.3%. During the five-year period from 2010 to 2014, the total length of expressway in the PRC increased from approximately 74,100 km in 2010 to approximately 111,900 km in 2014, representing a CAGR of approximately 10.9%. However, on year-on-year basis, the annual growth decreased from approximately 14.6% in 2011 to approximately 7.2% in 2014. Due to the lack of industry growth, the overall growth trend of the expressway segment of the Group is appearing to be flat and mature. For urban traffic segment, as discussed in the interim report of the Group for the six months ended 30 June 2015 (the "**2015 Interim Report**"), the urban traffic segment of the Group experienced a declining trend due to the cutting back on urban traffic investment (which covered urban roads only and was separated from investments on metro and other forms of public transportation) of local government budget, which happened in 2014 and had not improved in the first half of 2015.

The unfavorable macroeconomic environment for the expressway and urban traffic industries was reflected in the new contracts signed and orders secured by the Group for its expressway and urban traffic segments in recent years.

Set out below is a summary of the Group's total amount of new contracts signed and orders secured for the years ended 31 December 2012, 2013, and 2014, and for the six months ended 30 June 2014 and 2015, respectively, as extracted from the relevant annual reports and interim reports of the Company:

	For the year ended 31 December						For the six months ended 30 June			
	2012		2013		2014		2014		2015	
	(RMB'M)	*(% of total)*	*(RMB'M)*	*(% of total)*	*(RMB'M)*	*(% of total)*	*(RMB'M)*	*(% of total)*	*(RMB'M)*	*(% of total)*
New contracts signed and orders secured										
Expressway	1,465.6	56.0%	1,487.6	55.4%	807.0	36.7%	453.4	40.9%	331.5	32.2%
Railway	595.7	22.8%	638.6	23.8%	1,165.4	53.0%	511.0	46.1%	690.4	67.0%
Urban traffic	527.2	20.1%	528.2	19.7%	226.1	10.3%	144.4	13.0%	8.8	0.8%
Others	28.9	1.1%	29.0	1.1%	0.2	0.0%	—	—	—	—
Total	2,617.4	100.0%	2,683.4	100.0%	2,198.7	100.0%	1,108.8	100.0%	1,030.7	100.0%

According to the table above, the total amount of new contracts signed and orders secured for the expressway and urban traffic segments decreased by approximately 45.8% and 57.2% from approximately RMB1,487.6 million and RMB528.2 million for the year ended 31 December 2013 to approximately RMB807.0 million and RMB226.1 million for the year ended 31 December 2014, respectively. It is noted that this downward trend has continued into the first half of 2015, with the total amount of new contracts signed and orders secured for the expressway and urban traffic segments decreased by approximately 26.9% and 93.9% from approximately RMB453.4 million and RMB144.4 million for the six months ended 30 June 2014, to approximately RMB331.5 million and RMB8.8 million for the six months ended 30 June 2015, respectively.

The flattening of growth in the expressway industry and slowdown in the urban traffic industry were also evidenced by the declining financial performance of the Group's expressway and urban traffic segments in recent years. Set out below are the (i) year-on-year/period-on-period changes in revenue; and (ii) revenue contributions of each of the Group's industry segments for the years ended 31 December 2012, 2013, and 2014, and for the six months ended 30 June 2014 and 2015, respectively:

	Year-on-year/ period-on-period change			% of total revenue			
	For the year ended 31 December		For the six months ended 30 June	For the year ended 31 December			For the six months ended 30 June
	2013	2014	2015	2012	2013	2014	2015
Revenue							
Expressway	–0.4%	–7.9%	–10.5%	54.0%	48.2%	46.9%	29.7%
Railway	27.9%	36.3%	140.4%	27.1%	31.1%	44.7%	62.5%
Urban traffic	22.4%	–58.8%	–19.2%	17.7%	19.5%	8.4%	7.8%
Others	8.2%	—	—	1.2%	1.2%	—	—

As shown in the table above, revenue of the Group's expressway segment has been on a declining trend. The year-on-year/period-on-period decrease in the revenue of the Group's expressway segment deepened from approximately 0.4% for the year ended 31 December 2013 to approximately 7.9% for the year ended 31 December 2014, and further to approximately 10.5% for the six months ended 30 June 2015. As for the Group's urban traffic segment, despite an approximately 22.4% increase in revenue being recorded for the year ended 31 December 2013, revenue of the Group's urban traffic segment decreased by approximately 58.8% for the year ended 31 December 2014 and by approximately 19.2% for the six months ended 30 June 2015. As a result of the unsatisfactory performance of the Group's expressway and urban traffic segments, coupled with the strong growth in the Group's railway segment, revenue contributions from the Group's expressway and urban traffic segments, as a percentage of total revenue, also decreased from approximately 54.0% and 17.7% for the year ended 31 December 2012, to approximately 29.7% and 7.8% for the six months ended 30 June 2015, respectively.

Despite the declining financial performance of the Group's expressway and urban traffic segments, the Group's railway segment has demonstrated considerable growth in terms of both new contracts signed and orders secured, as well as revenue contribution to the Group in recent years. As disclosed in the section headed "Letter from the Board — The Disposal — Reasons for and benefits of the Disposal" of the Circular, the Group's railway segment provides software and hardware solutions in various aspects of railway projects, including the provision of wired and wireless communication solutions tailored to communication systems of high-speed and heavy-haul trains, the provision of railway comprehensive video surveillance solutions and the passenger service system solutions as well as value-added operation and services. Going forward, the Group plans to promote its railway alarming system and railway electronic intelligent operation and management system to further improve the accuracy and punctuality of the railway alarming system and to construct a highly flexible and expandable intelligent railway communication network. In recent years, the railway segment has been benefited from the favourable industry environment with huge demand for reforming and upgrading of existing local railway network. In addition to maintaining the momentum of high growth in traditional communication solutions, the railway segment of the Group has also made remarkable breakthrough by developing new solutions such as passenger service and video surveillance. The Directors believe that the railway segment will be able to seize more business opportunities and will continue to research and develop more competitive products and solutions in the future.

As shown in the table above, total value of new contracts signed and orders secured for the railway segment increased by approximately 82.5% from approximately RMB638.6 million for the year ended 31 December 2013 to approximately RMB1,165.4 million for the year ended 31 December 2014 and by approximately 35.1% from approximately RMB511.0 million for the six months ended 30 June 2014 to approximately RMB690.4 million for the six months ended 30 June 2015. Total value of new contracts signed and orders secured for the railway segment accounted for approximately 53.0% of the Group's total for the year ended 31 December 2014 and approximately 67.0% for the six months ended 30 June 2015, surpassing the expressway segment as the largest source of new contracts signed and orders secured since 2014.

Revenue of the Group's railway segment has also demonstrated substantial growth. As shown in the table above, the year-on-year/period-on-period increase in revenue of the Group's railway segment accelerated from approximately 27.9% for the year ended 31 December 2013 to approximately 36.3% for the year ended 31 December 2014, and further to approximately 140.4% for the six months ended 30 June 2015. Also, revenue contribution from the Group's railway segment, as a percentage of total revenue, increased significantly from approximately 27.1% for the year ended 31 December 2012, to approximately 62.5% for the six months ended 30 June 2015, surpassing the expressway segment as the Group's largest revenue contributor since 2015.

As further disclosed in the section headed "Letter from the Board — The Disposal — Reasons for and benefits of the Disposal" of the Circular, with the lack of growth of the overall environment of the PRC expressway industry and the declining revenue contribution of the urban traffic segment due to macro-environmental factors in the PRC, the Board is of the view that the Disposal will provide the Company with capital to invest in and enable the Company to reallocate its resources to focus and develop other business segments which have better growth potential, namely, the railway segment and the civil aviation segment of the Group.

According to the MOT, the total investment amount for railway construction in the PRC increased from approximately RMB460.1 billion in 2011 to approximately RMB808.8 billion in 2014, representing a CAGR of approximately 20.7% and surpassing the expressway segment in terms of total investment amount in 2014. On a year-on-year basis, the annual growth of such total investment amount increased from approximately 13.3% in 2012 to approximately 21.5% in 2014. During the four-year period from 2011 to 2014, the total length of railway in the PRC increased from approximately 93,000 km in 2011 to approximately 112,000 km in 2014, representing a CAGR of approximately 6.4%. Furthermore, in 2015, the National Development and Reform Commission of the PRC issued certain guidelines for promoting the development and construction of railway in the PRC, including the "Implementation Opinions on Further Promoting and Expanding Private Capital Investment in Railway Construction (關於進一步鼓勵和擴大社會資本投資建設鐵路的實施意見)" which aimed to promote the participation of private capital in railway construction investment with a view to further diversifying the funding channels and resources for railway construction projects in the PRC. As stated in the section headed "Appendix I — Financial information of the Group — 2. Financial and trading prospects of the Group" of the Circular, the Company expects that demand will remain strong and there will be ample room for growth in the railway segment, in light of the policies of the PRC government under the 13th 5-year Plan of the PRC which promotes further investment in railway in the PRC.

The civil aviation segment of the Group is principally engaged in the provision of airport wireless communication specialised solutions and surveillance specialised solutions and value-added operation and services. At present, the airport intelligent wireless command platforms developed by the Group have been put under trial in certain major airports in the PRC. The airport intelligent wireless command platforms are data exchange platforms for airlines, flights, airports, ground services and air cargoes. The civil aviation segment is relatively new to the Group as compared with other segments and thus it is expected that more resources will be utilized to develop and expand this business. The future development of the civil aviation segment of the Group will be mainly focusing on the informationalisation of airport ground services through the establishment of airport wireless solutions and to generate sales revenues from communication services, surveillance services and value-added operation and services.

According to the Civil Aviation Administration of China (the "**CAAC**"), total investment amount for the construction of civil aviation information system in the PRC grew considerably from approximately RMB750.0 million in 2011 to approximately RMB2.0 billion in 2014, representing a CAGR of approximately 38.2%. Furthermore, according to the "Six Major Tasks for Civil Aviation Works in 2016 (2016年民航工作六大主要任務)" published by CAAC in 2016, application of new technology and construction of aircraft tracking and surveillance systems shall be actively promoted.

In view of the above, we concur with the view of the Board that the railway segment and civil aviation segment shall present better growth potential for the Group.

In addition to better resource allocation, upon completion of the Disposal, the results of the Group will no longer be negatively affected by the Target Group, which has been loss-making since the financial year ended 31 December 2014, and thus making the Group more appealing to potential investors by highlighting the Group's business focus on railway and civil aviation segments with better growth potential.

Having taken into account the above, we concur with the view of the Directors that the Disposal is in the interests of the Company and the Shareholders as a whole.

D. *Principal terms of the Master Sale and Purchase Agreement and the PRC Sale and Purchase Agreement*

1. *The Master Sale and Purchase Agreement*

Pursuant to the Master Sale and Purchase Agreement, (i) the Company conditionally agreed to sell and the Purchaser conditionally agreed to purchase the entire issued share capital of each of the Target Companies; and (ii) the Company shall assign the Receivables to the Purchaser, subject to the terms and conditions of the Master Sale and Purchase Agreement.

Conditions precedent

The entering into of the PRC Sale and Purchase Agreement, in the form as prescribed under the Master Sale and Purchase Agreement, and the satisfaction (or wavier by each of the parties thereto, as the case may be) of all conditions precedent under the PRC Sale and Purchase Agreement in a manner as prescribed thereto, are conditions precedent to the Offshore Closing. The principal terms of the PRC Sale and Purchase Agreement are set out in the section headed "Letter from the Board — The Disposal — The PRC Sale and Purchase Agreement" of the Circular.

Details of the conditions precedent to the Master Sale and Purchase Agreement are set out in the section headed "Letter from the Board — The Disposal — The Master Sale and Purchase Agreement" of the Circular.

Consideration

The initial total Consideration under the Master Sale and Purchase Agreement shall be RMB979,840,000 (subject to adjustment), comprising (i) the aggregate sum of the Offshore Consideration and the Onshore Consideration of approximately RMB858.67 million for the purchase of the entire issued share capital of the Target Companies by the Purchaser from the Company, representing the Preliminary Net Asset; and (ii) the consideration for the assignment of the Receivables of approximately RMB121,170,039.64.

The Consideration is subject to the following adjustment:

(a) if the Preliminary Net Asset is greater than the Final Net Asset, the Consideration shall be reduced by such amount of the Preliminary Net Asset that exceeds the Final Net Asset; and

(b) if the Preliminary Net Asset is less than the Final Net Asset, the Consideration shall be increased by such amount of the Final Net Asset that exceeds the Preliminary Net Asset.

Thus, after the abovementioned adjustments, if any, the final Consideration shall be the sum of (i) the Final Net Asset, which is the aggregate combined net asset of the Offshore Target Companies and Beijing RHY as at 31 December 2015 based on the unaudited pro forma combined statement of financial position of the Offshore Target Companies and Beijing RHY as at 31 December 2015 reflecting the financial effect of the Pre-disposal Restructuring; and (ii) the consideration for the assignment of the Receivables of approximately RMB121,170,039.64.

The Consideration was determined after arm's length negotiations between the Company and the Purchaser on normal commercial terms and was based on the Preliminary Net Asset (with adjustment mechanism to adjust the final Consideration to be based on the Final Net Asset) and the outstanding sum of the Receivables as at the date of the Master Sale and Purchase Agreement. As the Target Group has recorded loss since the financial year ended 31 December 2014, the Company and the Purchaser are of the view that it is more appropriate to determine the Consideration with reference to the net asset instead of earnings of the Target Group. After taking into account (i) the loss making track record of the Target Group as disclosed in "Appendix III — Financial Information of the Target Group" in the Circular; (ii) the uncertain prospect of the Target Group as discussed in the paragraph headed "Letter from the Board — Reasons for and benefits of the Disposal" in the Circular; and (iii) that the Shares have been consistently trading at prices below the net asset value per Share throughout the period from 1 January 2014 to the date of the Master Sale and Purchase Agreement, the Directors (other than the independent non-executive Directors whose view is expressed in the letter from the Independent Board Committee in the Circular) are of the view that the Consideration, which is based on the net asset of the Target Group and the outstanding sum of the Receivables as at the date of the Master Sale and Purchase Agreement, is fair and reasonable.

According to the Letter from the Board, Beijing RHY declared dividends to its shareholders on 31 December 2015, including a dividend of RMB37,500,000 to Beijing Zhongzhi; and China Expressway declared a dividend of RMB101,250,000 to the Company on 31 December 2015. Thus it is expected that the Final Net Asset will reflect the abovementioned declaration of dividends. As at the Latest Practicable Date, the Beijing RHY Dividend has not been paid to Beijing Zhongzhi and the China Expressway Dividend has not been paid to the Company. Beijing RHY has undertaken to pay the Beijing RHY Dividend to Beijing Zhongzhi no later than six months after the Onshore Closing and each of Mr. Jiang Hailin and Mr. Liao Jie has guaranteed such undertaking given by Beijing RHY in favour of Beijing Zhongzhi, subject to the completion of the Onshore Disposal. China Expressway has undertaken to pay the China Expressway Dividend to the Company no later than six months after the Offshore Closing and each of Mr. Jiang Hailin and Mr. Liao Jie has guaranteed such undertaking given by China Expressway in favour of the Company, subject to the completion of the Offshore Disposal.

The Offshore Consideration shall be determined by reference to the difference between (i) the Consideration (as adjusted pursuant to the above where applicable) and (ii) the sum of the Onshore Consideration and the Receivables Consideration.

The Receivables Consideration shall be approximately RMB121,170,039.64, being the outstanding amount of the Receivables as at the date of the Master Sale and Purchase Agreement.

Payment terms

Pursuant to the Master Sale and Purchase Agreement, the Offshore Consideration shall be settled by the Purchaser in the following manner:

(a) 50% of the Offshore Consideration shall be payable by the Purchaser to the Company (or such person as designated by the Company) in cash at the Offshore Closing; and

(b) 50% of the Offshore Consideration shall be payable by the Purchaser to the Company (or such person as designated by the Company) on or before the first anniversary of the Offshore Closing with interest accrued at the rate of one-year HIBOR as at the Offshore Closing Date.

2. *The PRC Sale and Purchase Agreement*

Pursuant to the PRC Sale and Purchase Agreement, Beijing Zhongzhi, an indirect subsidiary of the Company, will conditionally agree to sell and Beijing Wuzhouzhitong, a direct wholly-owned subsidiary of China Traffic, will conditionally agree to purchase the Onshore Target Equity directly held by Beijing Zhongzhi, subject to the terms and conditions of the PRC Sale and Purchase Agreement.

Conditions precedent

Details of the conditions precedent are set out in the section headed "Letter from the Board — The Disposal — The PRC Sale and Purchase Agreement" of the Circular.

Consideration

Pursuant to the Master Sale and Purchase Agreement, the Onshore Consideration shall be fixed at an amount which is equal to 25% of the combined net asset of Beijing RHY as at 31 December 2015, based on the unaudited pro forma combined statement of financial position of Beijing RHY as at 31 December 2015 reflecting the financial effect of the Pre-disposal Restructuring.

Payment terms

Pursuant to the PRC Sale and Purchase Agreement, the Onshore Consideration shall be settled by Beijing Wuzhouzhitong in the following manner:

(a) 50% of the Onshore Consideration shall be payable by Beijing Wuzhouzhitong to Beijing Zhongzhi in cash within ten (10) Business Days from the Onshore Closing in accordance with the PRC Sale and Purchase Agreement; and

(b) 50% of the Onshore Consideration shall by payable by Beijing Wuzhouzhitong to Beijing Zhongzhi on or before the first anniversary of the Onshore Closing with cost of capital accrued at the rate of PBOC one-year lending rate as at the Onshore Closing Date.

3. The Receivables

As at the date of the Master Sale and Purchase Agreement, a loan with an outstanding principal amount of HK$69,236,601.15 (equivalent to approximately RMB58,435,691.37) was owed by China Toprise to the Company pursuant to a loan agreement between the Company and China Toprise dated 31 December 2015. In addition, a part of a dividend declared by China Toprise to the Company pursuant to a board resolution of China Toprise dated 3 November 2009 in the amount of HK$58,739,749.14 (equivalent to approximately RMB49,576,348.27) was still outstanding.

As at the date of the Master Sale and Purchase Agreement, a loan in the principal amount of US$2,000,000 (equivalent to approximately RMB13,158,000) was owed by China Traffic to the Company pursuant to a loan agreement between the Company and China Traffic dated 31 December 2015.

According to the Master Sale and Purchase Agreement, subject to the Offshore Closing, the Company as legal and beneficial owner of the Receivables shall assign to the Purchaser the rights, titles, benefits and interest in the Receivables and the full benefit and advantage thereof to hold the same unto the Purchaser at a consideration of approximately RMB121,170,039.64, being the Receivables Consideration, absolutely in accordance with and subject to the terms of the Master Sale and Purchase Agreement.

Pursuant to the Master Sale and Purchase Agreement, the Receivables Consideration shall be payable in full by the Purchaser within six months from the Offshore Closing Date with interest accrued at the rate of six-month HIBOR as at the Offshore Closing Date.

E. Analysis on the fairness and reasonableness of the Consideration

As stated in the Letter from the Board, the initial total Consideration under the Master Sale and Purchase Agreement shall be RMB979,840,000 (subject to adjustment), comprising:

(a) the aggregate sum of the Offshore Consideration and the Onshore Consideration of approximately RMB858.67 million for the purchase of the entire issued share capital of the Target Companies by the Purchaser from the Company (the "**Disposal Consideration**"), representing the Preliminary Net Asset; and

(b) the consideration for the assignment of the Receivables of approximately RMB121.17 million, representing the outstanding sum of the Receivables as at the date of the Master Sale and Purchase Agreement.

The Consideration is subject to the following adjustment:

(a) if the Preliminary Net Asset is greater than the Final Net Asset, the Consideration shall be reduced by such amount of the Preliminary Net Asset that exceeds the Final Net Asset; and

(b) if the Preliminary Net Asset is less than the Final Net Asset, the Consideration shall be increased by such amount of the Final Net Asset that exceeds the Preliminary Net Asset.

Thus, after the abovementioned adjustments, if any, the final Consideration shall be the sum of (i) the Final Net Asset, which is the aggregate combined net asset of the Offshore Target Companies and Beijing RHY as at 31 December 2015 based on the unaudited pro forma combined statement of financial position of the Offshore Target Companies and Beijing RHY as at 31 December 2015 reflecting the financial effect of the Pre-disposal Restructuring; and (ii) the consideration for the assignment of the Receivables of approximately RMB121,170,039.64.

As further disclosed in the Letter from the Board, as at the Latest Practicable Date, the Company estimated that the aggregate total investment in the Target Group was approximately RMB645.40 million. For illustrative purposes, assuming the Disposal Consideration is approximately RMB858.67 million, the Disposal Consideration represents a premium of approximately RMB213.27 million over the aggregate total investment in the Target Group. Please refer to the section headed "Letter from the Board — The Disposal — Information of the Target Companies — History of the Target Group" of the Circular for further details.

In assessing the fairness and reasonableness of the Disposal Consideration, we have considered various valuation methods commonly adopted for evaluating a company, namely price-to-earnings multiple ("**P/E**"), discounted cash flow method ("**DCF**"), and net asset approach.

Given that the Target Group recorded a net loss for the year ended 31 December 2014, we consider that the P/E multiple (or other similar multiples relating to earnings) is not applicable for evaluating the Target Group.

Regarding the DCF method, we are of the view that, given (i) the Target Group recorded negative cash flow from operating activities for the nine months ended 30 September 2015; and (ii) the DCF method requires adoption of numerous assumptions which are valid only under specific and limited circumstance that may not be suitable in respect of the business nature of the Target Group, we consider that the DCF method is not appropriate for evaluating the Target Group.

Having considered the above and taking into account (i) the loss-making position of the Target Group; and (ii) that most assets of the Target Group were current assets (such as construction contracts, prepayments, deposits and other receivables, and trade and bills receivables which are relatively liquid) which accounted for approximately 94.3% of the total assets of the Target Group as at 30 September 2015, we considered that valuing the Target Group using the net asset approach (which is also a commonly used valuation method for loss-making companies) is appropriate and relevant. From this perspective, we consider that the use of the net asset value of the Target Group as the basis for determining the Disposal Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

It is noted that the Disposal Consideration determined using the net asset approach implies a price-to-book multiple ("**P/B**") of 1.00 time (the "**Implied P/B**"). Given both the Target Group's assets and revenue accounted for a significant portion of those of the Group, it is not unreasonable to presume that the P/B multiple of the shares of the Company (the "**Shares**") reflects, at least to a certain extent, the market valuation of the Target Group. As such, we consider it meaningful to also compare the historical P/B of the Shares against the Implied P/B. Set out below is a list of the historical P/B multiples of the Group for the year ended 31 December 2014, for the six months ended 30 June 2015, and as of the date of the Announcement.

	P/B *(Note)*		
	High *(times)*	**Low** *(times)*	**Average** *(times)*
Historical P/B of the Shares during the year ended 31 December 2014	0.90	0.49	0.70
Historical P/B of the Shares for the six months ended 30 June 2015	0.88	0.49	0.63
Historical P/B of the Shares as of the date of the Announcement			0.32
The Disposal			1.00

Source: Bloomberg

Note: The P/B multiples are extracted from Bloomberg based on the respective closing prices of the Shares

The historical P/B multiples of the Group for the year ended 31 December 2014 range between approximately 0.49 times and approximately 0.90 times with the average being approximately 0.70 times. The historical P/B multiples of the Group for the six months ended 30 June 2015 range between approximately 0.49 times and approximately 0.88 times with the average being approximately 0.63 times. The historical P/B multiple of the Group as of the date of the Announcement is approximately 0.32 times. As such, the Implied P/B multiple of approximately 1.00 time is significantly higher than the range and the average of the historical P/B multiples of the Group during the above periods.

Having considered that (i) the Disposal Consideration was determined based on the net asset approach which is considered to be relevant and appropriate as discussed above; (ii) the consideration for the Receivables was determined based on the outstanding amount of the Receivables as at the date of the Master Sale and Purchase Agreement; and (iii) the Implied P/B multiple of the Disposal Consideration is higher than the range and the average of the historical P/B multiples of the Shares as illustrated above, we consider that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole.

F. Use of proceeds

Based on the Consideration of RMB979,840,000 (subject to adjustment), after deducting the estimated expenses relating to the Disposal of approximately RMB27.03 million, the aggregate sum of Beijing RHY Dividend and China Expressway Dividend of RMB138,750,000 and the estimated net amount payable by the Target Group to the Remaining Group upon completion of the Pre-disposal Restructuring of approximately RMB55.78 million, it is expected the Company will receive net proceeds from the Disposal of approximately RMB758.28 million. The Company intends to use the proceeds from the Disposal for the purposes and in the amount set forth below:

(i) approximately 50%, or RMB379.13 million, is expected to be used for the repayment of bank loan. The Disposal represents an opportunity for the Group to generate cash to lower the gearing ratio and provide financial flexibility to the Group;

(ii) approximately 28%, or RMB212.32 million, is expected to be used for the railway segment, including but not limited to RMB150 million for the purchase of equipment, RMB20 million for research and development and RMB20 million for training and hiring of staff;

(iii) approximately 8%, or RMB60.66 million, is expected to be used for the civil aviation segment, including but not limited to RMB35 million for the purchase of equipment, RMB15 million for research and development and RMB5 million for training and hiring of staff;

(iv) approximately 4%, or RMB30.33 million, is expected to be used for building decoration; and

(v) approximately 10%, or RMB75.83 million, is expected to be used as general working capital of the Group.

As disclosed above, the Company intends to use approximately 50% of the proceeds from the Disposal, being RMB379.13 million, for the repayment of bank loans with a total principal amount of RMB397 million, which is composed of certain bank loans borrowed by subsidiaries of the Company with different interest rates in the range of fixed rate of 8% and variable rates of 10% to 20% above the relevant PBOC lending rates. Such bank loans will be repaid by the Company through one-time and instalment payments during the year ending 31 December 2016.

As the final Consideration is subject to adjustments and the actual expenses incurred may be different from the estimated expenses as stated above, the Company intends to use the final net proceeds from the Disposal on a pro-rata basis to the proposed usage set forth above.

As noted from the 2014 Annual Report, in February 2015, the Company exercised its early redemption right to redeem its convertible bonds with an aggregate principal amount of HK$200,000,000 due 2015 in full prior to their maturity. As further disclosed in the 2014 Annual Report, the redemption was to minimise the Company's capital cost and optimize its capital structure and avoid potential equity dilution, and the Company will continue to seek any further redemption or repurchase opportunities for its outstanding debt securities when appropriate.

In view of the above, we consider that the intended use of the net proceeds from the Disposal is consistent with (i) the Company's existing plan to minimise its capital cost and optimise its capital structure; and (ii) the future plans of the Group to further expand its business in the railway and civil aviation segments as detailed in the section headed "Appendix I — Financial information of the Group — 2. Financial and trading prospects of the Group" of the Circular, and is therefore in the interests of the Company and the Shareholders as a whole.

G. Financial effects of the Disposal

Upon completion of the Disposal, the combined financial statements of the Target Group will no longer be consolidated into the combined financial statements of the Group going forward.

For illustrative purposes, assuming the Disposal had taken place on 30 September 2015 and taking into account (i) the net proceeds from the Disposal of approximately RMB758.28 million, the calculation of which is discussed in details in the paragraph headed "Letter from the Board — The Disposal — Use of proceeds" of the Circular; (ii) the adjusted combined net assets of the Target Group as at 30 September 2015 of approximately RMB756.26 million based on the combined net asset of the Target Group as at 30 September 2015 of approximately RMB858.67 million minus (1) the aggregate sum of Beijing RHY Dividend and China Expressway Dividend of RMB138,750,000; (2) the estimated net amount payable by the Target Group to the Remaining Group upon completion of the Pre-disposal Restructuring of approximately RMB55.78 million; and (3) the release of cumulative foreign exchange reserve of the Target Group upon the Disposal of approximately RMB29.05 million, plus the outstanding sum of the Receivables of approximately RMB121,170,000, a gain of approximately RMB2.02 million would arise as a result of the Disposal.

Shareholders should note that the exact amount of gain or loss on the Disposal will be calculated based on, among other things, the final Consideration, which will be determined by reference to the Final Net Asset and will reflect any financial effect of the Pre-disposal Restructuring, the actual expenses and taxes incurred, the net asset of the Offshore Target Companies at the Offshore Closing, the net asset of Beijing RHY at the Onshore Closing and the amount of cumulative foreign exchange reserves to be released, and therefore may be different from the amount mentioned above.

1. Earnings

As stated in the unaudited pro forma combined statement of profit or loss of the Remaining Group as set out in Appendix II to the Circular, assuming that the Disposal had been completed on 1 January 2014, the loss attributable to Shareholders of approximately RMB194.7 million for the year ended 31 December 2014 would become a loss attributable to Shareholders of approximately RMB483.0 million. We noted from the unaudited pro forma combined financial information that the increase in loss attributable to Shareholders was mainly due to the estimated loss on the Disposal of approximately RMB349.4 million, assuming that the Disposal had been completed on 1 January 2014. For illustrative purposes, if such one-time loss on the Disposal is excluded, the unaudited combined loss attributable to Shareholders would be approximately RMB133.6 million.

According to the unaudited pro forma combined statement of profit or loss of the Remaining Group as set out in Appendix II to the Circular, the estimated loss on the Disposal of approximately RMB349.4 million, assuming that the Disposal had been completed on 1 January 2014 (as compared to an estimated gain on the Disposal of approximately RMB2.0 million, assuming that the Disposal had been completed on 30 September 2015) was mainly resulted from, among other things, (i) the unaudited combined net assets of the Target Group as at 1 January 2014 being higher than the unaudited combined net assets of the Target Group as at 30 September 2015 (with reference to which the Disposal Consideration was determined) by approximately RMB91.9 million; and (ii) the goodwill and other intangible assets attributable to the Target Group of approximately RMB274.9 million as at 1 January 2014 which has been fully impaired as at 30 September 2015 and thus was not included in the estimated gain on the Disposal of approximately RMB2.0 million, assuming the Disposal had been completed on 30 September 2015.

2. Net Assets

As stated in the unaudited pro forma combined statement of financial position of the Remaining Group as set out in Appendix II to the Circular, the net assets of the Group amounted to approximately RMB2,443.5 million as at 31 December 2014. Assuming that the Disposal had been completed on 31 December 2014, the unaudited pro forma combined net assets of the Remaining Group would amount to approximately RMB2,100.8 million. The difference between the unaudited pro forma net assets of the Remaining Group and the net assets of the Group is mainly attributable to the estimated loss on the Disposal of approximately RMB301.6 million, assuming the Disposal had been completed on 31 December 2014.

3. Net gearing

As stated in the unaudited pro forma combined statement of financial position of the Remaining Group as set out in Appendix II to the Circular, as at 31 December 2014, the Group had a net debt position (interest-bearing debts *(Note)* minus total cash and cash equivalents) of approximately RMB304.3 million and a net debt-to-equity ratio (net debt divided by total equity) of approximately 12.5%. Assuming that the Disposal has been completed on 31 December 2014, the Remaining Group's net debt position would result in a net cash position of approximately RMB436.6 million.

Note: The interest-bearing debts includes long term and short term borrowings and convertible and guaranteed bonds.

4. Liquidity

As stated in the unaudited pro forma combined statement of financial position of the Remaining Group as set out in Appendix II to the Circular, assuming that the Disposal had been completed on 31 December 2014, the Group's current ratio (current assets divided by current liabilities) would increase from approximately 1.51 times to approximately 1.72 times as at 31 December 2014.

Please refer to the unaudited pro forma combined financial information of the Remaining Group as set out in Appendix II to the Circular for further details.

H. Conclusion for the Disposal

Having taken into account the above, in particular, (i) the reasons for and benefits of the Disposal; (ii) the principal terms of the Master Sale and Purchase Agreement; (iii) the analysis on the fairness and reasonableness of the consideration for the Disposal; and (iv) the use of proceeds from the Disposal, we are of the view that the terms of the Disposal are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

II. The Non-exempt Continuing Connected Transactions

A. The Framework Sales Agreement

On 17 February 2016, Beijing Zhixun, Beijing Zhongzhi and Zhongtian Runbang, as the Framework Agreement Suppliers, and Beijing RHY entered into the Framework Sales Agreement, pursuant to which the Framework Agreement Suppliers will sell their products, which are mainly equipment used for the projects of the Target Group (the "**Relevant Products**"), to Beijing RHY with effect from the effective date of the Framework Sales Agreement to 31 December 2018.

Reasons for and benefits of entering into the Framework Sales Agreement

As stated in the Letter from the Board, Beijing RHY is mainly engaged in the technology development and training of mechatronics engineering, technology consultation of mechatronics engineering and application solutions of computer and security system. As part of the respective business operations of Beijing RHY and the Framework Agreement Suppliers, Beijing RHY has been sourcing through the Framework Agreement Suppliers, and the Framework Agreement Suppliers have been procuring for Beijing RHY, the Relevant Products. Accordingly, the continuing connected transactions under the Framework Sales Agreement are in the ordinary and usual course of business of Beijing RHY and the Framework Agreement Suppliers, respectively.

As further disclosed in the section headed "Letter from the Board — The Non-exempt Continuing Connected Transactions — The Framework Sales Agreement" of the Circular, in respect of each sale of the Relevant Products by the Framework Agreement Suppliers to Beijing RHY under the Framework Sales Agreement, a separate specific agreement (each, a "**Sales Contract**") has been entered into between the relevant Framework Agreement Supplier and Beijing RHY to specify details of the Relevant Products being sold. The Sales Contracts under the Framework Sales Agreement were all entered into between the Framework Agreement Suppliers and Beijing RHY in 2015 or before. The entering into of the Framework Sales Agreement will therefore allow the Framework Agreement Suppliers to continue to sell to Beijing RHY the Relevant Products after completion of the Disposal, avoiding any unnecessary disruption to the Framework Agreement Suppliers to fulfill their obligations under the Sales Contracts already in effect and the immediate loss of sales of the Framework Agreement Suppliers as a result of the Disposal.

Taking into consideration the above, in particular, that the continuing connected transactions under the Framework Sales Agreement (i) are in fact on-going transactions entered into between the Framework Agreement Suppliers and Beijing RHY before the Disposal; (ii) are in the ordinary and usual course of business of both the Framework Agreement Suppliers and Beijing RHY; and (iii) will allow the Framework Agreement Suppliers to avoid any unnecessary disruption to fulfill their obligations under the Sales Contracts already in effect and avoid the immediate loss of sales of the Framework Agreement Suppliers as a result of the Disposal, we concur with the Directors' view that the entering into of the Framework Sales Agreement is in the interests of the Company and the Shareholders as a whole.

Principal terms of the Framework Sales Agreement

Details of the principal terms of the Framework Sales Agreement are set out in the section headed "Letter from the Board — The Non-exempt Continuing Connected Transactions — The Framework Sales Agreement" of the Circular.

Pursuant to the Framework Sales Agreement, the price at which the Framework Agreement Suppliers sell their products to Beijing RHY shall be fair and reasonable, and should be set at prices equal to the cost of such products plus a gross profit margin of 5% to 10%. In any event, such price shall not be less than (i) the price at which the Framework Agreement Suppliers sell the same or similar products to any independent third parties; and (ii) the price at which the Framework Agreement Suppliers provide to any independent third parties to sell the same or similar products to themselves.

The Sales Contracts under the Framework Sales Agreement were entered into when the Framework Agreement Suppliers and Beijing RHY were within the same Group. The management of the Group decided the price charged by the Framework Agreement Suppliers to Beijing RHY for each Sales Contract under the Framework Sales Agreement with reference to (1) the financial position and performance of each of the Framework Agreement Suppliers and Beijing RHY; (2) the nature of the subject Sales Contract; (3) the sum of the subject Sales Contract; and (4) the prevailing market prices of the Relevant Products to be supplied under the subject Sales Contract (or products with similar specifications, as applicable). In determining the profit margin of 5% to 10% under the Framework Sales Agreement when the transactions become connected transactions of the Company upon completion of the Disposal, the Directors made reference to the recent quotations obtained from various independent suppliers for the Sales Contracts under the Framework Sales Agreement.

In assessing the fairness and reasonableness of the terms of the Framework Sales Agreement, we have obtained and reviewed all of the Sales Contracts under the Framework Sales Agreement. We have also discussed with the management of the Company and were given to understand that historically and before the Disposal, Beijing RHY has been sourcing the Relevant Products under the Sales Contracts for the Target Group's projects through the Framework Agreement Suppliers according to the specifications requested by Beijing RHY. Also, as further advised by the management of the Company, due to the different product specifications and compositions for projects with different nature and as required by the different customer groups, the Framework Agreement Suppliers have not entered into comparable sales transactions to those of the Sales Contracts with its independent third party customers in the past. As such, we have obtained and reviewed sample copies of the procurement contracts entered into between the Framework Agreement Suppliers and independent third party suppliers from 2013 to 2015 (that is, the period during which the Sales Contracts were entered into) for the procurement of the Relevant Products, and noted that (i) the terms offered by (a) the Framework Agreement Suppliers to Beijing RHY under the Sales Contracts; and (b) the independent third party suppliers to the Framework Agreement Suppliers were generally similar; and (ii) the prices charged by the Framework Agreement Suppliers to Beijing RHY under the Sales Contracts were no less favourable to the Framework Agreement Suppliers than the prices charged by the independent third party suppliers to the Framework Agreement Suppliers. In addition, we have also obtained from Beijing RHY recent quotations from various independent third party suppliers for the Relevant Products sold under some of the Sales Contracts. Based on the copies of quotations we received from Beijing RHY, we noted that the prices charged by the Framework Agreement Suppliers to Beijing RHY under the Sales Contracts were no less favourable to the Framework Agreement Suppliers than the prices quoted by such independent third party suppliers.

Having considered the above, we concur with the Directors' view that the terms of the Framework Sales Agreement are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned.

The annual caps

Set out below is the proposed annual caps for the Framework Sales Agreement for the years ending 31 December 2016, 2017 and 2018:

	For the year ending 31 December		
	2016	**2017**	**2018**
	RMB' million	*RMB' million*	*RMB' million*
Proposed annual caps	24.0	6.0	3.0

As stated in the section headed "Letter from the Board — The Non-exempt Continuing Connected Transactions — The Framework Sales Agreement" of the Circular, the maximum aggregate transaction amount under the Framework Sales Agreement was determined with reference to the outstanding contract sum of the Sales Contracts already entered into between the Framework Agreement Suppliers and Beijing RHY and the delivery schedules specified by Beijing RHY according to its requirements for the Relevant Products.

In assessing the fairness and reasonableness of the annual caps for the Framework Sales Agreement, we have obtained and reviewed (i) the Sales Contracts; and (ii) the said delivery schedules specified by Beijing RHY, and noted that the total amount of the annual caps for the three years ending 31 December 2018 is equal to the total outstanding contract sum of the Sales Contracts (rounded up to the nearest million), and the respective annual cap amounts for each of the three years ending 31 December 2018 are in line with the abovementioned delivery schedule specified by Beijing RHY.

Having considered the above and the fact that the annual caps for the Framework Sales Agreement represent only the outstanding contract sum of the Sales Contracts that are already in effect, we are of the view that the annual caps proposed by the Company are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

B. The Leases

On 7 January 2016, (i) Beijing RHY entered into the RHY Lease with Hongrui Dake to lease the Hongrui Properties; and (ii) Beijing Newcom entered into the Newcom Lease with Hongrui Dake to lease the Newcom Properties, which take retrospective effect from 1 January 2016 and ends on 31 December 2016 on the conditions and subject to the terms of the RHY Lease and the Newcom Lease, respectively.

Reasons for and benefits of entering into the Leases

According to the Letter from the Board, the Directors are of the view that the premises leased by Hongrui Dake to Beijing RHY and Beijing Newcom, respectively, have been occupied by Beijing RHY and Beijing Newcom, respectively, since late November 2015 as office space. The Group has no immediate alternative use for such premises and no immediate needs to expand its office. The RHY Lease and the Newcom Lease will allow Hongrui Dake to continue to lease the premises to Beijing RHY and Beijing Newcom at market price after the completion of the Disposal without having to solicit new lessees and avoiding the expenses and fees in connection with arranging for lease of these premises to new tenants. The Leases also provides steady income and cash flow to the Group.

Having considered the above, we concur with the Director's view that the entering into of the Leases is in the interests of the Company and the Shareholders as a whole.

1. Principal terms of the RHY Lease

Details of the principal terms of the RHY Lease are set out in the section headed "Letter from the Board — The Non-exempt Continuing Connected Transactions — The Leases — The RHY Lease" of the Circular.

Pursuant to the RHY Lease, Hongrui Dake agreed to lease the Hongrui Properties, which are located at East side of 3/F & Northeast side of 4/F., Building 204, No. A 10, Jiuxianqiao North Road, Chaoyang District, Beijing, the PRC with a total floor area of 1,140 sq.m, to Beijing RHY. The RHY Lease has a term of one year commencing from 1 January 2016. The monthly rental and property management fee payable by Beijing RHY under the RHY Lease shall be approximately RMB152,570 per month, which was determined based on arm's length negotiation between the parties and with reference to prevailing market office rental and property management fee rates in nearby areas (ie. Jiuxianqiao, Beijing).

In assessing the fairness and reasonableness of the rental and the property management fee under the RHY Lease, we have obtained and reviewed (i) the RHY Lease Agreement; and (ii) the valuation report (the "**Valuation Report**") issued by Savills Real Estate Valuation (Beijing) Company Limited, an independent valuer (the "**Valuer**"), on the market rental and property management fee rate of the Hongrui Properties and Newcom Properties, and noted that the rental and property management fee payable by Beijing RHY to Hongrui Dake under the RHY Lease reflected the prevailing market rates. In addition, we have also reviewed comparable rental transactions provided by the Valuer for similar properties in the vicinity of the Hongrui Properties and noted that the rental and property management fee under the RHY Lease fall within the range of the comparable rental transactions.

Based on the above, we are of the view that the terms of the RHY Lease are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

The annual cap

As stated in the section headed "Letter from the Board — The Non-exempt Continuing Connected Transactions — The Leases — The RHY Lease" of the Circular, the maximum aggregate amount of rental and property management fee under the RHY Lease is RMB1,830,840 for the year ending 31 December 2016, which was determined based on the annual rental and property management fee payable.

Having considered that the annual cap for the RHY Lease represents the annual rental and property management fee payable by Beijing RHY to Hongrui Dake under the RHY Lease, we are of the view that the annual cap for the RHY Lease is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Newcom Lease

Details of the principal terms of the Newcom Lease are set out in the section headed "Letter from the Board — The Non-exempt Continuing Connected Transactions — The Leases — The Newcom Lease" of the Circular.

Pursuant to the Newcom Lease, Hongrui Dake agreed to lease the Newcom Properties, which is located at North side of 1/F & West side of 3/F., Building 204, No. A 10, Jiuxianqiao North Road, Chaoyang District, Beijing, the PRC with a total floor area of 1,100 sq.m., to Beijing Newcom. The Newcom Lease has a term of one year commencing from 1 January 2016. The monthly rental and property management fee payable by Beijing Newcom under the Newcom Lease shall be approximately RMB147,216.67 per month, which was determined based on arm's length negotiation between the parties and with reference to prevailing market office rental and property management fee rates in nearby areas (ie. Jiuxianqiao, Beijing).

In assessing the fairness and reasonableness of the rental and the property management fee under the Newcom Lease, we have obtained and reviewed (i) the Newcom Lease Agreement; and (ii) the Valuation Report, and noted that the rental and property management fee payable by Beijing Newcom to Hongrui Dake under the Newcom Lease reflected the prevailing market rates. In addition, we have also reviewed comparable rental transactions provided by the Valuer for similar properties in the vicinity of the Newcom Properties and noted that the rental and the property management fee under the Newcom Lease fall within the range of the comparable rental transactions.

Based on the above, we are of the view that the key terms of the Newcom Lease are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

The annual cap

As stated in the section headed "Letter from the Board — The Non-exempt Continuing Connected Transactions — The Leases — The Newcom Lease" of the Circular, the maximum aggregate amount of rental and property management fee under the Newcom Lease is RMB1,766,600 for the year ending 31 December 2016, which was determined based on the annual rental and property management fee payable.

Having considered that the annual cap for the Newcom Lease represents the annual rental and property management fee payable by Beijing Newcom to Hongrui Dake under the Newcom Lease, we are of the view that the annual cap for the Newcom Lease is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

C. The post-closing financial assistance

1. The Post-closing Loan Agreements

Prior to the Disposal, certain subsidiaries of the Company, as lenders, have entered into loan agreements with the Target Companies and/or their subsidiaries (including companies which will become their subsidiaries after completion of the Pre-disposal Restructuring), as the Borrowers, pursuant to which the lenders have provided loans to the Borrowers. Some of these loan agreements are expected to remain in effect after the Offshore Closing. Upon completion of the Offshore Disposal, the Post-closing Loan Agreements and the loans provided thereunder will constitute financial assistance provided by the Group to its connected persons.

On 17 February 2016, in respect of each of the Post-closing Loan Agreements, the respective parties further entered into a supplemental agreement, pursuant to which the term of the loan under such agreements shall expire six months after the Offshore Closing and interest will accrue on such loan at the PBOC six-month lending rate multiplied by 121% from the date of the Offshore Closing, subject to the consummation of the Offshore Closing.

Reasons for and benefits of the Post-closing Loan Agreements

As stated in the section headed "Letter from the Board — The Non-exempt Continuing Connected Transactions — Post-closing financial assistance — Reasons for and benefits of the Post-closing Loan Agreements and the Post-closing Guarantees" of the Circular, the outstanding loans under the Post-closing Loan Agreements primarily arise from the Group's historical internal financial management. It is not commercially desirable or practicable for the Group and the relevant parties involved to arrange alternative sources of financing before the completion of the Disposal. As the relevant parties will need time to rearrange the financing of the relevant companies after the Disposal, the Post-closing Loan Agreements will enable the Company to avoid unnecessary disruptions in the operations and cash flows of the Target Group (whose assets and liabilities and results will still be consolidated in those of the Group before completion of the Disposal) and any unnecessary cost and delay in rearranging the financing before completion of the Disposal. It is expected that the Post-closing Loan Agreements will not be renewed after their expiry.

In addition, pursuant to the supplemental agreements entered into between the respective parties to the Post-closing Loan Agreements, the term of the loans shall expire six months after the Offshore Closing and interest will accrue on such loans at the PBOC six-month lending rate multiplied by 121% from the date of the Offshore Closing, subject to the consummation of the Offshore Closing. The Post-closing Loan Agreements (as supplemented by the supplemental agreements) will therefore allow the Group to receive interest income from the loans before their expiry.

Taking into consideration the above, in particular, that the loans under the Post-closing Loan Agreements (as supplemented by the supplemental agreements) (i) primarily arise from the Group's historical internal financial management which were entered into between the respective parties to the Post-closing Loan Agreement before the Disposal; (ii) will expire within six months after the Offshore Closing and it is expected that the Post-closing Loan Agreements will not be renewed after their expiry; (iii) will enable the Company to avoid unnecessary disruptions in the operations and cash flows of the Target Group (whose assets and liabilities and results will still be consolidated in those of the Group before completion of the Disposal) and any unnecessary cost and delay in rearranging the financing before completion of the Disposal; and (iv) will allow the Group to receive interest income from the loans before their expiry, we concur with the Directors' view that the Post-closing Loan Agreements are in the interests of the Company and the Shareholders as a whole.

Principal terms of the Post-closing Loan Agreements

Set out below is a summary of the Post-closing Loan Agreements:

Date of the agreement	**Lender**	**Borrower**	**Principal Amount** *(RMB)*	**Expiry date**
31 December 2015	Jiangsu Zhongzhi Ruixin	Beijing RHY	4,850,000.00	31 December 2016
31 December 2015	Intelligent Traffic	Beijing RHY	5,100,000.00	31 December 2016
31 December 2015	Aproud Technology	Beijing Aproud	22,397,717.92	31 December 2016
31 December 2015	Beijing Zhixun	Beijing Aproud	2,075,230.14	31 December 2016
31 December 2015	Aproud Technology	Beijing Huading	594,700.00	31 December 2016
31 December 2015	Aproud Technology	Beijing STONE	237,794,423.36	31 December 2016
31 December 2015	Beijing Zhixun	Beijing STONE	5,050,000.00	31 December 2016
31 December 2015	Intelligent Aviation	Beijing STONE	1,909,024.12	31 December 2016
31 December 2015	Aproud Technology	Beijing Univaid	11,929,430.11	31 December 2016
31 December 2015	Aproud Technology	Beijing Lihe Datong	5,548,000.00	31 December 2016
31 December 2015	Aproud Technology	Beijing Wuzhouzhitong	45,048.00	31 December 2016
31 December 2015	Aproud Technology	Jiangsu Zhongzhi Jiaye	113,746.59	31 December 2016
		Total	**297,407,320.24**	

On 17 February 2016, in respect of each of the Post-closing Loan Agreements, the respective parties further entered into a supplemental agreement, pursuant to which the term of the loan under such agreements shall expire six months after the Offshore Closing and cost of capital will accrue on such loan at the PBOC six-month lending rate multiplied by 121% from the date of the Offshore Closing, subject to the consummation of the Offshore Closing.

For illustrative purpose only, based on the prevailing PBOC six-month lending rate as at the Latest Practicable Date of 4.35% per annum, the interest rate on the loans pursuant to the Post-closing Loan Agreements (as supplemented by the supplemental agreements) is equivalent to approximately 5.26% per annum (the actual interest rate to be charged on the loans will be determined based on the then prevailing PBOC six-month lending rate in effect after the Offshore Closing). In assessing the fairness and reasonableness of the terms of the Post-closing Loan Agreements (as supplemented by the supplemental agreements), we have obtained and reviewed all of the Post-closing Loan Agreements and the supplemental agreements. We also noted from the 2015 Interim Report that as at 30 June 2015, the Group had unsecured loans to third parties of approximately RMB217.6 million, of which, (i) a balance of approximately RMB199.6 million was interest-free; (ii) a balance of RMB8.0 million bore interest at 115% of the PBOC one-year lending rate (equivalent to approximately 5.00% per annum based on the prevailing PBOC one-year lending rate as at the Latest Practicable Date); and (iii) a balance of RMB10.0 million bore interest at 10.0% per annum. We have also obtained from the Company a list of all bank loans from third party banks in the PRC obtained by the Group (including the Target Group) since the second half of 2015, and noted that the interest rates on such bank loans ranged from 108% of the PBOC one-year lending rate (equivalent to approximately 4.70% per annum based on the prevailing PBOC one-year lending rate as at the Latest Practicable Date) to 125% of the PBOC three-month lending rate (equivalent to approximately 5.44% per annum based on the prevailing PBOC three-month lending rate as at the Latest Practicable Date), with an weighted average interest rate charged on such bank loans of approximately 5.00% per annum (based on the relevant prevailing PBOC lending rates as at the Latest Practicable Date). We consider it fair and reasonable to base our analysis on such bank loans from third party banks in the PRC obtained by the Group (including the Target Group) since the second half of 2015 as they reflected the recent cost of borrowings of the Group (including the Target Group) that would be offered by the market.

Based on the above, we noted that the interest rate on the loans (based on the prevailing PBOC six-month lending rate as at the Latest Practicable Date) pursuant to the Post-closing Loan Agreements (as supplemented by the supplemental agreements) (i) is within the range of the interest rates charged by the Group on its unsecured loans to third parties, with approximately 95% of such loans (in terms of outstanding balance as at 30 June 2015) either being interest-free or bearing an interest rate lower than that of the loans under the Post-closing Loan Agreements (as supplemented by the supplemental agreements); and (ii) is within the range, and higher than the weighted average, of the interest rates charged on the bank loans from third party banks in the PRC obtained by the Group (including the Target Group) since the second half of 2015.

Having considered the above, we concur with the Directors' view that terms of the Post-closing Loan Agreements and the supplemental agreements are on normal commercial terms, and fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole.

2. *Principal terms of the Post-closing Guarantees*

Prior to the Disposal, the Target Companies and/or their subsidiaries (including companies which will become their subsidiaries after completion of the Pre-disposal Restructuring), as the Bank Borrowers, have obtained certain banking facilities from banks, which are guaranteed by certain subsidiaries of the Company. Such Post-closing Banking Facilities are expected to remain in effect after the Offshore Closing. Upon completion of the Offshore Disposal, the Post-closing Guarantees in favour of the relevant banks given by subsidiaries of the Company in respect of the Post-closing Banking Facilities will constitute financial assistance provided by the Group to its connected persons.

Reasons for and benefits of the Post-closing Guarantees

As stated in the section headed "Letter from the Board — The Non-exempt Continuing Connected Transactions — Post-closing financial assistance — Reasons for and benefits of the Post-closing Loan Agreements and the Post-closing Guarantees" of the Circular, the Post-closing Banking Facilities primarily arise from the Group's historical internal financial management. It is not commercially desirable or practicable for the Group and the relevant parties involved to obtain the consent of the relevant banks to terminate the Post-closing Guarantees or to arrange for alternative guarantors before the completion of the Disposal. As the relevant parties will need time to rearrange the financing of the relevant companies after the Disposal, the Post-closing Guarantees will enable the Company to avoid unnecessary disruptions in the operations and cash flows of the Target Group (whose assets and liabilities and results will still be consolidated in those of the Group before completion of the Disposal) and any unnecessary cost and delay in rearranging for alternative guarantors before completion of the Disposal. It is expected that the Post-closing Guarantees will not be renewed after expiry.

Additionally, on 17 February 2016, each of Mr. Jiang Hailin and Mr. Liao Jie executed the Counter-guarantees in favour of each of the Guarantors, pursuant to which each of Mr. Jiang Hailin and Mr. Liao Jie has provided counter-guarantee of the performance of the Bank Borrowers' obligation to repay any loan borrowed under the respective Post-closing Banking Facilities in favour of the Guarantors and has undertaken to assume the obligation to repay any loan borrowed under such Post-closing Banking Facility in the event that the relevant Bank Borrower fails to repay such loan and to be responsible for any loss suffered or expenses incurred by the Guarantor as a result of such failure. The execution of the Counter-guarantees by each of Mr. Jiang Hailin and Mr. Liao Jie in favour of each of the Guarantors will therefore safeguard the Company from any potential loss or expenses arising as a result of failure in repayment of any loan borrowed by the Bank Borrowers under the Post-closing Banking Facilities.

Taking into consideration the above, in particular, that (i) the Post-closing Banking Facilities primarily arise from the Group's historical internal financial management and have been guaranteed by the Guarantors before the Disposal; (ii) the Counter-guarantees will serve to safeguard the Company from any potential loss or expenses arising out of failure of repayment by the Bank Borrowers; and (iii) the Post-closing Guarantees will enable the Company to avoid unnecessary disruptions in the operations and cash flows of the Target Group (whose assets and liabilities and results will still be consolidated in those of the Group before completion of the Disposal) and any unnecessary cost and delay in rearranging for alternative guarantors before completion of the Disposal, we concur with the Directors' view that the Post-closing Guarantees are in the interest of the Company and the Shareholders as a whole.

Principal terms of the Post-closing Guarantees

Set out below is a summary of the Post-closing Guarantees:

Bank Borrowers	**Lender**	**Maximum amount under the facility** *(RMB)*	**Expiry date**	**Guarantor**	**Date of guarantee**
Beijing RHY	China Development Bank	100,000,000	25 August 2016	Aproud Technology, Beijing Zhixun, Mr. Jiang Hailin	26 August 2015
Beijing STONE	China Minsheng Banking Corporation Limited	20,000,000	5 June 2016	Beijing Zhixun	5 June 2015
Beijing Univaid	Bank of Beijing	10,000,000	23 September 2016	Aproud Technology	24 September 2014
Beijing RHY	Bank of Beijing	230,000,000	12 January 2018	Aproud Technology	13 January 2016

On 17 February 2016, each of Mr. Jiang Hailin and Mr. Liao Jie executed the Counter-guarantees in favour of each of the Guarantors, pursuant to which each of Mr. Jiang Hailin and Mr. Liao Jie has provided a counter-guarantee of the performance of the Bank Borrowers' obligation to repay any loan borrowed under the Post-closing Banking Facility in favour of the Guarantors and has undertaken to assume the obligation to repay any loan borrowed under such Post-closing Banking Facility in the event that the relevant Bank Borrower fails to repay such loan and to be responsible for any loss suffered or expenses incurred by the Guarantor as a result of such failure. The Counter-guarantees will constitute financial assistance received by the Group from connected persons of the Company which are fully exempted from the announcement, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules as the Counter-guarantees are provided on normal commercial terms (or better for the Company) and the Counter-guarantees are not secured by any asset of the Group.

In assessing the fairness and reasonableness of the terms of the Post-closing Guarantees, we have obtained and reviewed (i) all of the Post-closing Guarantees agreements entered into between the Guarantors and the relevant banks; (ii) all of the Post-closing Banking Facilities agreements entered into between the Bank Borrowers and the relevant banks; and (iii) the Counter-guarantees executed by Mr. Jiang Hailin and Mr. Liao Jie in favour of the Guarantors. Further, as confirmed by the management of the Company, there were no records of default on the repayment of loans borrowed under the Post-closing Banking Facilities by any of the Bank Borrowers.

Having considered the above, in particular, that (i) there were no records of default on the repayment of loans borrowed under the Post-closing Banking Facilities by any of the Bank Borrowers; and (ii) the Counter-guarantees will serve to safeguard the Company from any potential loss or expenses arising out of failure of repayment by the Bank Borrowers, we concur with the view of the Directors that the terms under the Post-closing Guarantees are on normal commercial terms, and fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

D. *Requirements of the Listing Rules on the Non-exempt Continuing Connected Transactions*

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Non-exempt Continuing Connected Transactions are subject to the following annual review requirements:

1. each year the independent non-executive Directors must review the Non-exempt Continuing Connected Transactions and confirm in the annual report and accounts that the Non-exempt Continuing Connected Transactions have been entered into:

   (a) in the ordinary and usual course of business of the Group;

   (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Group than terms available to or from (as appropriate) independent third parties; and

   (c) in accordance with the CCT Agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

2. each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report), which provide limited assurance that the Non-exempt Continuing Connected Transactions:

   (a) have received the approval of the Board;

   (b) are in accordance with the pricing policies of the Group if the Non-exempt Continuing Connected Transactions involve provision of goods or services by the Group;

   (c) have been entered into in accordance with the CCT Agreements governing the Non-exempt Continuing Connected Transactions; and

   (d) have not exceeded the annual caps (where applicable);

3. the Company shall allow, and shall procure that the relevant counter-parties to the Non-exempt Continuing Connected Transactions shall allow, the auditors of the Company sufficient access to their records for the purpose of reporting on the Non-exempt Continuing Connected Transactions as set out in paragraph (2) above; the Board must state in the annual report whether its auditors have provided limited assurance regarding the matters stated in paragraph (2) above; and

4. the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that (a) the independent non-executive Directors will not be able to confirm the matters set out in paragraph (1) above; and/or (b) the auditors of the Company will not be able to provide limited assurance regarding the matters set out in paragraph (2) above, respectively.

RECOMMENDATIONS

Having considered the principal factors and reasons referred to in the above, we are of the opinion that (i) although the Disposal is not in the ordinary and usual course of business of the Group, the Non-exempt Continuing Connected Transactions are in the ordinary and usual course of business of the Group and together the Transactions are in the interests of the Group and Shareholders as a whole; (ii) the terms of the Master Sale and Purchase Agreement, the PRC Sale and Purchase Agreement and the CCT Agreements are on normal commercial terms and are fairly and reasonably determined so far as the Independent Shareholders are concerned; and (iii) the annual caps for the Non-exempt Continuing Connected Transactions are determined with reference to fair and reasonable factors as the basis in determining the annual caps.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to be convened to approve the Transactions.

Yours faithfully,
For and on behalf of
Challenge Capital Management Limited
Wilson Fok **Esther Yuen**
Managing Director *Director*

Mr. Wilson Fok is a licensed person registered with the SFC to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has over 10 years of experience in corporate finance.

Ms. Esther Yuen is a licensed person registered with the SFC to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has over 10 years of experience in corporate finance.

1. INDEBTEDNESS STATEMENTS

Borrowings

As at the close of business on 29 February 2016, being the latest practicable date for the purpose of the indebtedness statement, the Group had outstanding interest-bearing bank loans and other borrowings of approximately RMB1,117,372,000 as follows:

	As at 29 February 2016
	RMB'000
Interest-bearing bank loans — guaranteed *(note a)*	412,950
Interest-bearing bank loans — secured *(note b)*	505,810
Notes receivable discounted, but not expired *(note c)*	95,798
Third-party factorings *(note d)*	25,000
Third-party borrowings *(note e)*	77,814
Total	1,117,372

As at 29 February 2016, the Group had total available banking facilities of approximately RMB1,225,696,000, of which approximately RMB894,399,000 had been utilised.

Notes:

(a) As at 29 February 2016, the Group's bank loans of approximately RMB413 million were guaranteed by the Company, certain subsidiaries within the Group, and certain directors of the Company.

(b) As at 29 February 2016, the Group's bank loans of approximately RMB506 million were secured by the pledge of the following:

	Carrying amount as at 29 February 2016
	RMB'000
Investment properties	119,000
Equity interests in a subsidiary	227,000
Pledged deposit	155,400
Total	501,400

(c) The amount represents notes receivable which have been discounted but have not been expired as at 29 February 2016.

(d) The amount is due to Ping An Business Factoring Co., Ltd., which was secured by trade receivables of approximately RMB42 million.

(e) The amount is due to three third-parties which is interest free and will mature in 2016.

Contingent liabilities

As at the close of business on 29 February 2016, the Group had no material contingent liabilities.

Save as aforesaid and apart from intra-group liabilities and normal trade and other payables, as at the close of business on 29 February 2016, the Group did not have any outstanding mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or debt securities or other material contingent liabilities.

The Directors confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 29 February 2016 up to and including the Latest Practicable Date.

For the purpose of the above statement of indebtedness, foreign currency amounts denominated in US dollars and Hong Kong dollars have been translated into RMB at the rates of exchange prevailing at the close of business on 29 February 2016.

2. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Upon the completion of the Disposal, the Group will be principally engaged in the provision of intelligent transportation system solutions and services to railway and civil aviation segments in the PRC.

In relation to the railway segment, the Company expects that demand will remain strong and there will be ample room for growth, in light of the policies of the PRC government under the 13th 5-year Plan of the PRC which promote further investment in railways in the PRC. Hence the Group will continue to expand its businesses with its existing solutions in the railway segment by participating in projects with high contract value. The Group will also invest in the research and development of new solutions, including gigabit-capable passive optical network and perimeter protection system technologies.

In relation to the civil aviation segment, the Group also intends to expand its business by expanding the Group's customer base in this segment, leveraging on the expected increase in new airports in the PRC in the next few years. The Group currently primarily offers solutions for data transmission and will gradually roll out solutions for voice and video communication services. The Group will continue to develop new airport wireless communication specialized solutions.

As disclosed in the section headed "Letter from the Board — USE OF PROCEEDS" in this circular, the Group intends to invest part of the proceeds from the Disposal to further expand its businesses in the railway segment and the civil aviation segment. The Group may acquire assets or businesses for its railway and civil aviation segments but has not entered into any agreement for any such acquisition as at the Latest Practicable Date. The Group currently has no intention to terminate or shrink any of its businesses which will remain in the Group after the completion of the Disposal.

3. WORKING CAPITAL

Taking into account the expected completion of the transactions contemplated under the Master Sale and Purchase Agreement and the financial resources available to the Group, including the internally generated funds and the available banking facilities, the Directors are of the opinion that the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

4. THREE YEAR FINANCIAL SUMMARY

Details of the financial information of the Company for each of the three financial years ended 31 December 2012, 2013 and 2014, the six months ended 30 June 2015 are disclosed in the following documents which have been published on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.its.cn):

- annual report of Company for the year ended 31 December 2012 published on 22 April 2013;
- annual report of Company for the year ended 31 December 2013 published on 14 April 2014;
- annual report of Company for the year ended 31 December 2014 published on 17 April 2015; and
- interim report of the Company for the six months ended 30 June 2015 published on 17 September 2015.

5. MANAGEMENT DISCUSSION AND ANALYSIS ON THE REMAINING GROUP

1. For the year ended 31 December 2012

Overview & Results

The revenue of the Remaining Group for the year ended 31 December 2012 was approximately RMB853.6 million, of which approximately RMB623.8 million (or approximately 73.1%) was contributed by the railway segment. Besides, approximately 23.5% of the revenue was mainly contributed by the expressway and urban traffic business not being included in the Target Group, which will not be continued by the Remaining Group upon completion of the Disposal ("**Discontinued Expressway and Urban Traffic Business**"). The remaining approximately 3.4% of the revenue was contributed by other segment.

There was obvious resumption in the railway segment business in 2012 after the slowdown of railway construction in 2011. In early 2012, the PRC government emphasized that the railway construction scale as stated in the "12th Five-Year Plan" will be maintained, which indicated that the postponed investment in railway construction in 2011 would be resumed and completed in the coming years. During the year, the railway segment had made remarkable achievement in developing and selling new solutions such as video conference solution and platform screen doors solution in order to diversify the business risk of traditional communication solutions. The Remaining Group had also completed the large project of passenger ticket system and continued to provide products and services in the area of passenger service system construction.

For the year ended 31 December 2012, the gross profit margin of the Remaining Group was approximately 28.4%, which mainly constituted the gross profit of the railway segment business and the relevant railway projects demonstrated a recovery in gross profit. Although the Remaining Group was negatively affected by the macro railway industry environment in 2011, the management worked hard to find the new breakthrough and to diversify the revenue composition under the difficult operating environment. With the favorable government policies in 2012 together with the management effort, the Remaining Group successfully achieved a recovery of gross profit margin in 2012.

For the year ended 31 December 2012, the net profit attributable to the parent company of the Remaining Group was approximately RMB60.4 million. It is mainly attributable to the recovery of the railway segment as discussed above and the continuous reform of middle and back offices of the Remaining Group.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2012, the cash and cash equivalent and the total borrowing of the Remaining Group were approximately RMB247.2 million and RMB366.1 million, respectively, which included short-term interest-bearing bank loans of approximately RMB164.9 million as well as guaranteed bonds due November 2015 of approximately RMB201.2 million. The gearing ratio (the total borrowings minus the cash and cash equivalent (the net liabilities) divided by the total capital (the sum of the total equity and the net liabilities)) was approximately 6.9%. As at 31 December 2012, the current ratio as a percentage of the current assets divided by current liabilities was approximately 2.1.

The Remaining Group's total borrowings were denominated in RMB. The effective interest rate of the Remaining Group's bank loan in relation to variable-rate were ranging from 6.2% to 7.5%. The coupon rate of the guaranteed bonds was 10%.

As at 31 December 2012, the issued share capital of the Company was approximately HK$329,122, comprising 1,645,608,261 Shares in issue. During the year, the Company issued a total of 32,790,501 new Shares as a result of acquisition of Beijing STONE.

Foreign Exchange Exposure and Interest Risks

For the year ended 31 December 2012, the Remaining Group did not expose to any significant foreign exchange risks as its transactions were mainly denominated in RMB. Hence, the Remaining Group did not use any financial instruments for the purpose of hedging.

The Remaining Group's exposure to the risk of changes in market interest rates relates primarily to its interest-bearing borrowings with floating interest rates. The Remaining Group's policy is to manage its interest cost using a mixture of fixed and variable rate debts.

Employment and Commission Policies

As at 31 December 2012, the Remaining Group had a total of 472 employees. The emolument policy of the Remaining Group is determined based on the market trend and the performance and experience of individual employees. The remuneration of salesmen includes salary and commission, which is based on individual business target; and general employees are entitled to year-end discretionary bonuses, which is determined based on the performance of their departments and individual performance assessment.

Significant Investment, Material Acquisition and Disposal

For the year ended 31 December 2012, the Remaining Group did not have any significant investment, material acquisition and disposal of material capital assets.

Contingent Liabilities and Capital Commitments

As at 31 December 2012, the Remaining Group did not have any significant contingent liabilities and capital commitments.

Charges on Assets

As at 31 December 2012, except for the secured deposits of approximately RMB21.2 million, the Remaining Group pledged its buildings with net book value of approximately RMB29.4 million and trade receivables of approximately RMB9.9 million to banks to secure banking facilities granted to the Remaining Group. Saved as disclosed above, as of 31 December 2012, the Remaining Group has no other assets charged to financial institutions.

Future plans for material investments or capital assets

As at 31 December 2012, the Remaining Group did not have any specified plans for material investments or capital assets.

2. For the year ended 31 December 2013

Overview & Results

The revenue of the Remaining Group for the year ended 31 December 2013 was approximately RMB1,059.5 million, representing a growth of approximately 24.1% as compared with 2012. The increase in revenue was mainly attributable to the increase in revenue of the railway segment by approximately RMB116.2 million to approximately RMB740.0 million in 2013 (representing approximately 69.8% of the total revenue in 2013). The remaining approximately 28.8% and 1.4% of the revenue was contributed by Discontinued Expressway and Urban Traffic Business and civil aviation segment, respectively.

The railway segment business of the Remaining Group continued to demonstrate growth due to the resumption of railway construction since early 2012 as discussed in the paragraph headed "1. For the year ended 31 December 2012 — Overview & Results" above. During the year, the railway segment continued to sell new solutions such as video conference solution and platform screen doors solution. Besides, the Remaining Group made significant progress in the construction of Guangzhou-Shenzhen-HK High-Speed Railway.

For the year ended 31 December 2013, the gross profit margin of the Remaining Group was approximately 27.2%, which was slightly lower than the gross profit margin of approximately 28.4% in 2012. The decrease in gross profit margin was mainly due to the decrease in the gross profit margin of the Discontinued Expressway and Urban Traffic Business due to the unfavorable operating environment as discussed in the section headed "Letter from the Board — REASONS FOR AND BENEFITS OF THE DISPOSAL" in this circular. During the year, the gross profit margin of the railway segment remained stable as compared with 2012.

For the year ended 31 December 2013, the net profit attributable to the parent company of the Remaining Group was approximately RMB73.0 million, which was approximately 20.9% higher than 2012. The increase was mainly attributable to the increase in revenue as discussed above.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2013, the cash and cash equivalent and the total borrowing of the Remaining Group were approximately RMB354.0 million and RMB588.8 million, respectively, which included short-term interest-bearing bank loans of approximately RMB257.9 million as well as guaranteed bonds due November 2015 of approximately RMB184.9 million and convertible bonds due June 2015 of approximately RMB146.0 million. The gearing ratio (the total borrowings minus the cash and cash equivalent (the net liabilities) divided by the total capital (the sum of the total equity and the net liabilities)) was approximately 12.2%. As at 31 December 2013, the current ratio as a percentage of the current assets divided by current liabilities was approximately 2.5.

The Remaining Group's total borrowings were denominated in RMB and HK$. The effective interest rate of the Remaining Group's bank loan in relation to fixed-rate were 7.8% and variable-rate were ranging from 3.2% to 7.2%. The coupon rate of the guaranteed bonds and convertible bonds was 10% and 6%, respectively.

As at 31 December 2013, the issued share capital of the Company was HK$329,303, comprising 1,646,513,072 Shares in issue. During the year, the Company issued a total of 904,811 new Shares as payment for 2013 interim scrip dividend.

Foreign Exchange Exposure and Interest Risks

For the year ended 31 December 2013, the Remaining Group did not expose to any significant foreign exchange risks as its transactions were mainly denominated in RMB. Hence, the Remaining Group did not use any financial instruments for the purpose of hedging.

The Remaining Group's exposure to the risk of changes in market interest rates relates primarily to its interest-bearing borrowings with floating interest rates. The Remaining Group's policy is to manage its interest cost using a mixture of fixed and variable rate debts.

Employment and Commission Policies

As at 31 December 2013, the Remaining Group had a total of 433 employees. The emolument policy of the Remaining Group is determined based on the market trend and the performance and experience of individual employees. The remuneration of salesmen includes salary and commission, which is determined based on individual business target; and general employees are entitled to year-end discretionary bonuses, which is determined based on the performance of their departments and individual performance assessment.

Significant Investment, Material Acquisition and Disposal

For the year ended 31 December 2013, the Remaining Group did not have any significant investment, material acquisition and disposal of material capital assets.

Contingent Liabilities and Capital Commitments

As at 31 December 2013, the Remaining Group did not have any significant contingent liabilities and capital commitments.

Charges on Assets

For the year ended 31 December 2013, except for the secured deposits (current portion) of approximately RMB38.7 million, the Remaining Group pledged its buildings with net book value of RMB33.0 million to banks to secure banking facilities granted to the Remaining Group, and pledged its bank deposit of RMB12.0 million to banks to secure banking facilities granted to the Target Group. Saved as disclosed above, for the year ended 31 December 2013, the Remaining Group has no other asset charged to financial institutions.

Future plans for material investments or capital assets

As at 31 December 2013, the Remaining Group did not have any specified plan for material investments or capital assets.

3. For the year ended 31 December 2014

Overview & Results

Revenue of the Remaining Group for the year ended 31 December 2014 was approximately RMB1,045.7 million, representing a slight decrease of approximately 1.3% as compared with 2013. The decrease in revenue was mainly attributable to the significant decrease in revenue of the Discontinued Expressway and Urban Traffic Business from approximately RMB304.7 million in 2013 to approximately RMB64.4 million in 2014 as a result of the completion of the contracted projects in 2013 with minimal new contracts being signed during the year. In contrast, the railway segment continued with its growth momentum with revenue increased by approximately RMB226.4 million to approximately RMB966.4 million in 2014 (representing approximately 92.4% of the total revenue in 2014). The revenue from the civil aviation segment remained stable in 2014.

Under the environment of increasing investment in railway construction in the PRC, the railway segment of the Remaining Group captured this opportunity for development and maintained the business momentum as well as further consolidated its leading position in traditional communication solutions. Meanwhile, the Remaining Group had made a remarkable breakthrough in developing new solutions such as passenger service and video surveillance by entering into new contracts related to Zheng Kai (Zhengzhou —Kaifeng) City Railway, Zheng Jiao (Zhengzhou — Jiaozuo) City Railway and Gui Guang (Guizhou — Guangzhou) Video Surveillance.

The gross profit margin of the Remaining Group in the year ended 31 December 2014 was approximately 16.8%, which was lower than the gross profit margin of approximately 27.2% in 2013. The decrease was mainly due to the lower gross profit margins of new railway businesses (such as passenger service and video surveillance) started during the year. Despite the decrease in gross profit margin, the Remaining Group was of the view that the introduction of new business was a mean to diversify the business risk for the railway segment and more importantly, it paved way for the potential value added operation and services ("VAOS") in the future.

For the year ended 31 December 2014, the net loss attributable to the parent company of the Remaining Group was approximately RMB154.9 million. During the year, the Remaining Group recorded non-recurring expenses including (a) equity-settled share option expenses and amortisation of intangible assets arising from acquisitions of approximately RMB24.3 million; (b) derecognition loss of call option of acquisition of Beijing STONE of approximately RMB16.8 million; (c) goodwill impairment of Beijing STONE of approximately RMB48.0 million; (d) impairment of property and equipment of approximately RMB7.3 million; (e) impairment of other receivables resulting from restructuring of approximately RMB20.4 million; (f) losses on disposal of subsidiaries of approximately RMB17.8 million. Save for the non-recurring expenses above, the net loss attributable to the parent company of the Remaining Group was reduced to approximately RMB20.3 million. The loss during the year was mainly attributable to the decrease in gross profit margin as mentioned above and the increase in finance cost of approximately RMB14.5 million mainly due to interest arising from the convertible bonds in the aggregate principal amount of HK$200 million issued in late 2013.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2014, the cash and cash equivalent and the total borrowing of the Remaining Group were approximately RMB123.0 million and RMB639.2 million, respectively, which included short-term interest-bearing bank loans of approximately RMB377.3 million, guaranteed bonds due November 2015 of approximately RMB107.5 million and convertible bonds due June 2015 of approximately RMB154.4 million. The gearing ratio (the total borrowings minus the cash and cash equivalent (the net liabilities) divided by the total capital (the sum of the total equity and the net liabilities)) was approximately 25.9%. As at 31 December 2014, the current ratio as a percentage of the current assets divided by current liabilities was approximately 1.6.

The Remaining Group's total borrowings were denominated in RMB and HK$. The effective interest rate of the Remaining Group's bank loan in relation to fixed-rate were ranging from 6.0% to 7.5% and variable-rate were ranging from 6.2% to 7.2%. The coupon rate of the guaranteed bonds and convertible bonds was 10% and 6%, respectively.

As at 31 December 2014, the issued share capital of the Company was HK$330,805, comprising 1,654,024,868 Shares in issue. During the year, the Company issued a total of 7,511,796 new Shares as payment for 2013 final scrip dividend.

Foreign Exchange Exposure and Interest Rate Risks

For the year ended 31 December 2014, the Remaining Group did not expose to any significant foreign exchange risks as its transactions were mainly denominated in RMB. Hence, the Remaining Group did not use any financial instruments for the purpose of hedging.

The Remaining Group's exposure to the risk of changes in market interest rates relates primarily to its interest-bearing borrowings with floating interest rates. The Remaining Group's policy is to manage its interest cost using a mixture of fixed and variable rate debts.

Employment and Commission Policies

As at 31 December 2014, the Remaining Group had a total of 403 employees. The emolument policy of the Remaining Group is determined based on the market trend and the performance and experience of individual employees. The remuneration of salesmen includes salary and commission, which is determined based on individual business target; and general employees are entitled to year-end discretionary bonuses, which is determined based on the performance of their departments and individual performance assessment.

Significant Investment, Material Acquisition and Disposal

For the year ended 31 December 2014, the Remaining Group did not have any significant investment, material acquisition and disposal of material capital assets.

Contingent Liabilities and Capital Commitments

As at 31 December 2014, the Remaining Group did not have any significant contingent liabilities and capital commitments.

Charges on Assets

As at 31 December 2014, except for the secured deposits (current portion) of approximately RMB40.5 million, the Remaining Group pledged its buildings with net book value of approximately RMB42.4 million and trade receivables with a total value of RMB120.0 million to banks to secure banking facilities granted to the Remaining Group, and pledged its bank deposit of RMB12.0 million to banks to secure banking facilities granted to the Target Group. Saved as disclosed above, as of 31 December 2014, the Remaining Group has no other asset charged to financial institutions.

Future plans for material investments or capital assets

As at 31 December 2014, the Remaining Group did not have any specified plans for material investments or capital assets.

4. For the six months ended 30 June 2015

Overview & Results

Revenue of the Remaining Group in the six months ended 30 June 2015 was approximately RMB698.8 million, representing an increase of approximately 121.8% as compared with six months ended 30 June 2014. The increase in revenue was mainly attributable to the continuous growth of the railway segment with revenue increased by approximately RMB359.8 million to approximately RMB660.4 million in six months ended 30 June 2015 (representing approximately 94.5% of the total revenue in six months ended in 30 June 2015). The remaining approximately 4.6% and 0.9% of the revenue was contributed by Discontinued Expressway and Urban Traffic Business and civil aviation segment, respectively.

The railway segment continued to be benefited from the favorable industry environment with huge demand of reforming and upgrading existing local railway network. It maintained the momentum of high growth in traditional communication solutions, video surveillance solutions, and passenger information service solutions. The Remaining Group believes that the railway segment will be able to seize more business opportunities and will continue to research and develop more competitive products and solutions in future.

The gross profit margin of the Remaining Group for the six month ended 30 June 2015 was approximately 23.5%, which was slightly lower than the gross profit margin of approximately 24.7% for the six months ended 30 June 2014 but increased by 6.7% as compared with the year ended 31 December 2014. The increase in gross profit margin as compared with 2014 full year was mainly due to the growth in traditional and VAOS business in 2015, which had higher gross profit margins than the new businesses introduced in the second half of 2014.

For the six months ended 30 June 2015, the net profit attributable to the parent company of the Remaining Group was approximately RMB26.0 million.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2015, the cash and cash equivalent and the total borrowing of the Remaining Group were approximately RMB16.6 million and RMB777.2 million, respectively, which included short-term interest-bearing bank loans of approximately RMB518.8 million, long-term interest-bearing bank loans due April 2017 of approximately RMB150.0 million and guaranteed bonds due November 2015 of approximately RMB108.4 million. The gearing ratio (the total borrowings minus the cash and cash equivalent (the net liabilities) divided by the total capital (the sum of the total equity and the net liabilities)) was approximately 34.7%. As at 30 June 2015, the current ratio as a percentage of the current assets divided by current liabilities was approximately 1.5.

The Remaining Group's total borrowings were denominated in RMB and HK$. The effective interest rate of the Remaining Group's bank loan in relation to fixed-rate were ranging from 2.3% to 7.5% and variable-rate were ranging from 3.6% to 7.3%. The coupon rate of the guaranteed bonds was 10%.

As at 30 June 2015, the issued share capital of the Company was HK$330,805, comprising 1,654,024,868 Shares in issue. During the six months, the Company did not issue any new Shares.

Foreign Exchange Exposure and Interest Rate Risks

For the six months ended 30 June 2015, the Remaining Group did not expose to any significant foreign exchange risks as its transactions were mainly denominated in RMB. Hence, the Remaining Group did not use any financial instruments for the purpose of hedging.

The Remaining Group's exposure to the risk of changes in market interest rates relates primarily to its interest-bearing borrowings with floating interest rates. The Remaining Group's policy is to manage its interest cost using a mixture of fixed and variable rate debts.

Employment and Commission Policies

As at 30 June 2015, the Remaining Group had a total of 376 employees. The emolument policy of the Remaining Group is determined based on the market trend and the performance and experience of individual employees. The remuneration of salesmen includes salary and commission, which is determined based on individual business target; and general employees are entitled to year-end discretionary bonuses, which is determined based on the performance of their departments and individual performance assessment.

Significant Investment, Material Acquisition and Disposal

For the six months ended 30 June 2015, the Remaining Group did not have any significant investment, material acquisition and disposal of material capital assets.

Contingent Liabilities and Capital Commitments

As at 30 June 2015, the Remaining Group did not have any significant contingent liabilities and capital commitments.

Charges on Assets

As at 30 June 2015, except for the secured deposits (current portion) of approximately RMB116.9 million, the Remaining Group pledged its buildings with net book values of approximately RMB42.4 million, bank deposit of RMB83.0 million and trade receivables with a total value of RMB186.9 million to banks to secure banking facilities granted to the Remaining Group, and pledged its bank deposit of RMB3.7 million to banks to secure banking facilities granted to the Target Group. Saved as disclosed above, as of 30 June 2015, the Remaining Group has no other asset charged to financial institutions.

Future plans for material investments or capital assets

As at 30 June 2015, the Remaining Group did not have any specified plans for material investments or capital assets.

A. UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION OF THE REMAINING GROUP

Introduction

The following is a summary of an illustrative and the unaudited pro forma combined statement of financial position, the unaudited pro forma combined statement of profit or loss, the unaudited pro forma combined statement of comprehensive income, the unaudited pro forma combined statement of cash flows of the Remaining Group (the "**Unaudited Pro Forma Combined Financial Information**"), which have been prepared on the basis of the notes set out below for the purpose of illustrating the effects of the Disposal on (a) the financial position of the Remaining Group as if the Disposal had been completed on 31 December 2014; and (b) the results and cash flows of the Remaining Group as if the Disposal had been completed on 1 January 2014. Capitalised terms used herein, unless otherwise defined, shall have the same meanings as those defined in the Circular.

The Unaudited Pro Forma Combined Financial Information of the Remaining Group has been prepared by the Directors of the Company in accordance with paragraph 4.29 of the Listing Rules for illustrative purposes only, based on their judgments, estimations and assumptions, and because of its hypothetical nature, it may not give a true picture of the financial position of the Remaining Group as at 31 December 2014 or at any future date or the results and cash flows of the Remaining Group for the year ended 31 December 2014 or for any future period following the completion of the Disposal.

The Unaudited Pro Forma Combined Financial Information is based on the audited consolidated statement of financial position of the Group as at 31 December 2014, the audited consolidated statement of profit or loss, audited consolidated statement of other comprehensive income and audited consolidated statement of cash flows of the Group for the year ended 31 December 2014 extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2014, after giving effect to the pro forma adjustments relating to the Disposal as described in the accompanying notes. Narrative description of the pro forma adjustments that are (i) directly attributable to the transactions and not relating to future events or decisions; and (ii) factually supported, is summarised in the accompanying notes.

The Unaudited Pro Forma Combined Financial Information is based on a number of assumptions, estimates, and uncertainties. Accordingly, the Unaudited Pro Forma Combined Financial Information does not purport to describe the actual financial position, results and cash flows of the Remaining Group that would have been attained had the Disposal been completed on 31 December 2014 and 1 January 2014, respectively. The Unaudited Pro Forma Combined Financial Information does not purport to predict future financial positions or results of the Remaining Group.

UNAUDITED PRO FORMA COMBINED STATEMENT OF FINANCIAL POSITION

	The Group as at 31 December 2014	Pro forma adjustments			Unaudited Pro Forma Remaining Group as at 31 December 2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	
NON-CURRENT ASSETS					
Property and equipment	67,899	(15,068)	—	—	52,831
Investment properties	119,000	(76,600)	—	—	42,400
Prepaid land premium	13,471	—	—	—	13,471
Goodwill	353,782	—	—	(123,118)	230,664
Other intangible assets	42,184	—	—	(42,184)	—
Investments in joint ventures	52,452	(33,832)	—	—	18,620
Investments in associates	139,180	(72,593)	—	(44,202)	22,385
Available-for-sale investment	25,307	—	—	—	25,307
Deferred tax assets	5,030	(3,788)	—	—	1,242
Pledged deposits	4,500	(4,500)	—	—	—
Convertible borrowings	82,390	—	—	—	82,390
Total non-current assets	905,195	(206,381)	—	(209,504)	489,310
CURRENT ASSETS					
Inventories	20,721	(12,695)	—	—	8,026
Construction contracts	1,252,874	(793,868)	—	—	459,006
Trade and bills receivables	1,409,037	(422,640)	—	—	986,397
Prepayments, deposits and other receivables	1,332,641	(500,511)	—	—	832,130
Amounts due from related parties	84,895	(444,748)	862,263	(121,170)	381,240
Deferred cost	2,767	(2,767)	—	—	—
Held-to-maturity investment	67,530	—	—	—	67,530
Pledged deposits	79,716	(39,197)	—	—	40,519
Cash and cash equivalents	600,299	(477,352)	—	952,813	1,075,760
Tax prepaid	—	(38,583)	38,583	—	—
Total current assets	4,850,480	(2,732,361)	900,846	831,643	3,850,608

	The Group as at 31 December 2014	Pro forma adjustments			Unaudited Pro Forma Remaining Group as at 31 December 2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	
CURRENT LIABILITIES					
Trade and bills payables	1,176,568	(758,932)	—	—	417,636
Other payables and accruals	271,555	(196,592)	—	—	74,963
Construction contracts	855,940	(184,094)	—	—	671,846
Interest-bearing bank borrowings	579,664	(202,397)	—	—	377,267
Amounts due to related parties	59,131	(519,581)	862,263	—	401,813
Income tax payable	13,132	(24,162)	38,583	—	27,553
Guaranteed bonds — current portion	107,516	—	—	—	107,516
Convertible bonds — current portion	154,426	—	—	—	154,426
Total current liabilities	3,217,932	(1,885,758)	900,846	—	2,233,020
NET CURRENT ASSETS	1,632,548	(846,603)	—	831,643	1,617,588
TOTAL ASSETS LESS CURRENT LIABILITIES	2,537,743	(1,052,984)	—	622,139	2,106,898
NON-CURRENT LIABILITIES					
Interest-bearing bank borrowings	63,000	(63,000)	—	—	—
Deferred tax liabilities	31,235	(25,147)	—	—	6,088
Total non-current liabilities	94,235	(88,147)	—	—	6,088
Net assets	2,443,508	(964,837)	—	622,139	2,100,810
EQUITY					
Equity attributable to owners of the parent					
Issued share capital	290	(7)	—	7	290
Equity component of convertible bonds	7,903	—	—	—	7,903
Contribution from the controlling shareholder of the Target Group	—	(233,530)	—	233,530	—
Reserves	2,420,021	(727,212)	—	399,808	2,092,617
	2,428,214	(960,749)	—	633,345	2,100,810
Non-controlling interests	15,294	(4,088)	—	(11,206)	—
Total equity	2,443,508	(964,837)	—	622,139	2,100,810

UNAUDITED PRO FORMA COMBINED STATEMENT OF PROFIT OR LOSS

	The Group for the year ended 31 December 2014	Pro forma adjustments			Unaudited Pro Forma Remaining Group for the year ended 31 December 2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 5)*	*(Note 6)*	*(Note 7)*	
REVENUE	2,266,696	(1,254,778)	33,810	—	1,045,728
Cost of sales	(1,917,437)	1,081,631	(33,810)	—	(869,616)
Gross profit	349,259	(173,147)	—	—	176,112
Other income and gains	28,418	(8,883)	—	—	19,535
Selling, general and administrative expenses	(428,712)	207,996	—	17,380	(203,336)
Other expenses	(77,083)	4,718	—	47,999	(24,366)
OPERATING PROFIT/(LOSS)	(128,118)	30,684	—	65,379	(32,055)
Finance income	11,178	(1,502)	—	—	9,676
Finance costs	(76,350)	30,675	—	—	(45,675)
Share of profits/(losses) of:					
Joint ventures	462	448	—	—	910
Associates	12,700	(10,533)	—	—	2,167
Losses on disposal of subsidiaries	(17,775)	(327)	—	(393,471)	(411,573)
PROFIT/(LOSS) BEFORE TAX	(197,903)	49,445	—	(328,092)	(476,550)
Income tax expense	(17,467)	11,060	—	—	(6,407)
PROFIT/(LOSS) FOR THE YEAR	(215,370)	60,505	—	(328,092)	(482,957)
Attributable to:					
Owners of the parent	(194,657)	46,727	—	(335,022)	(482,952)
Controlling shareholder of the Target Group	—	(6,930)	—	6,930	—
Non-controlling interests	(20,713)	20,708	—	—	(5)
	(215,370)	60,505	—	(328,092)	(482,957)

UNAUDITED PRO FORMA COMBINED STATEMENT OF COMPREHENSIVE INCOME

	The Group for the year ended 31 December 2014	Pro forma adjustments			Unaudited Pro Forma Remaining Group for the year ended 31 December 2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 5)*	*(Note 6)*	*(Note 7)*	
PROFIT/(LOSS) FOR THE YEAR	(215,370)	60,505	—	(328,092)	(482,957)
OTHER COMPREHENSIVE INCOME					
Exchange differences on translation of foreign operations	(7,281)	7,353	—	—	72
Translation reserve transferred from other comprehensive income to profit or loss	—	—	—	44,385	44,385
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	(7,281)	7,353	—	44,385	44,457
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(222,651)	67,858	—	(283,707)	(438,500)
Attributable to:					
Owners of the parent	(201,938)	54,080	—	(290,637)	(438,495)
Controlling shareholder of the Target Group	—	(6,930)	—	6,930	—
Non-controlling interests	(20,713)	20,708	—	—	(5)
	(222,651)	67,858	—	(283,707)	(438,500)

UNAUDITED PRO FORMA COMBINED STATEMENT OF CASH FLOWS

	The Group for the year ended 31 December 2014	Pro forma adjustments		Unaudited Pro Forma Remaining Group for the year ended 31 December 2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 8)*	*(Note 9)*	
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(loss) before tax	(197,903)	49,445	(328,092)	(476,550)
Adjustments for:				
Depreciation	22,050	(10,772)	—	11,278
Amortisation	17,821	(194)	(17,380)	247
Net loss on disposal of items of property and equipment	79	(79)	—	—
Losses/(profits) on disposal of subsidiaries	17,775	327	393,471	411,573
Equity-settled share option expense	6,728	(1,486)	—	5,242
Impairment of amounts due from construction contracts	13,644	(5,148)	—	8,496
Impairment of trade receivables	10,754	(7,800)	—	2,954
Impairment of other receivables	26,106	(4,316)	—	21,790
Impairment of amount due from related parties	7,020	(7,020)	—	—
Impairment of property and equipment	7,347	—	—	7,347
Impairment of deferred cost	17,200	(17,200)	—	—
Impairment of goodwill	52,353	(4,354)	(47,999)	—
Share of profits of joint ventures	(462)	(448)	—	(910)
Share of profits of associates	(12,700)	10,533	—	(2,167)
Fair value gain on investment properties	(9,900)	500	—	(9,400)
Fair value gain on convertible borrowings	(2,390)	—	—	(2,390)
Derecognition loss of call option	16,815	—	—	16,815
Finance income	(11,178)	1,502	—	(9,676)
Finance costs	76,350	(30,675)	—	45,675
	57,509	(27,185)	—	30,324

	The Group for the year ended 31 December 2014	Pro forma adjustments		Unaudited Pro Forma Remaining Group for the year ended 31 December 2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 8)*	*(Note 9)*	
Changes in assets and liabilities:				
Decrease/(increase) in inventories	201	(7,743)	—	(7,542)
Decrease/(increase) in construction contracts	89,423	73,076	—	162,499
Decrease/(increase) in trade and bills receivables	(288,200)	(23,603)	—	(311,803)
Decrease/(increase) in prepayments, deposits and other receivables	52,795	(82,967)	—	(30,172)
Decrease/(increase) in amounts due from related parties	43,451	39,236	121,170	203,857
Decrease/(increase) in deferred cost	396	(396)	—	—
Decrease/(increase) in pledged deposits	923	(2,750)	—	(1,827)
Increase/(decrease) in trade and bills payables	164,830	(190,892)	—	(26,062)
Increase/(decrease) in other payables and accruals	30,103	(17,546)	—	12,557
Increase/(decrease) in amounts due to related parties	7,023	(30,790)	—	(23,767)
Cash generated from/(used in) operations	158,454	(271,560)	121,170	8,064
Interest received	2,042	(1,502)	—	540
Interest paid	(66,494)	30,675	—	(35,819)
Income tax paid	(32,635)	13,724	—	(18,911)
Net cash flows from/(used in) operating activities	61,367	(228,663)	121,170	(46,126)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	3,294	—	—	3,294
Proceeds from disposal of items of property and equipment	217	(215)	—	2
Purchases of items of property and equipment	(33,744)	2,826	—	(30,918)
Investment in convertible borrowings	(80,000)	—	—	(80,000)
Dividend received from the Target Group	—	—	138,750	138,750
Dividend received from a joint venture	2,650	(2,650)	—	—
Acquisition of subsidiaries	(3,068)	—	—	(3,068)
Disposal of subsidiaries	17,914	1	692,893	710,808
Acquisition of joint ventures	(2,000)	2,000	—	—
Acquisition of associates	(22,354)	4,000	—	(18,354)
Collection of the prepayment for acquisition of equity interests in other companies	22,662	(4,500)	—	18,162
Net cash flows from/(used in) investing activities	(94,429)	1,462	831,643	738,676

	The Group for the year ended 31 December 2014	Pro forma adjustments		Unaudited Pro Forma Remaining Group for the year ended 31 December 2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 8)*	*(Note 9)*	
CASH FLOWS FROM FINANCING ACTIVITIES				
Payment of direct transaction cost of convertible bonds	(2,490)	—	—	(2,490)
Proceeds from convertible bonds	1,587	—	—	1,587
Proceeds from interest-bearing bank borrowings	701,457	(264,103)	—	437,354
Repayment of interest-bearing bank borrowings	(666,354)	348,321	—	(318,033)
Dividend paid	(6,675)	—	—	(6,675)
Repurchase of guaranteed bonds	(81,000)	—	—	(81,000)
Net cash flows from/(used in) financing activities	(53,475)	84,218	—	30,743
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(86,537)	(142,983)	952,813	723,293
Effect of foreign exchange rate changes, net	(8,884)	7,354	—	(1,530)
Cash and cash equivalents at beginning of year	695,720	(341,723)	—	353,997
CASH AND CASH EQUIVALENTS AT END OF YEAR	600,299	(477,352)	952,813	1,075,760

Notes to Unaudited Pro Forma Combined Financial Information of the Remaining Group

(1) The consolidated statement of financial position of the Group as at 31 December 2014, consolidated statement of profit or loss, consolidated statement of comprehensive income and consolidated statement of cash flows of the Group for the year ended 31 December 2014 are extracted from the annual report of the Company for the year ended 31 December 2014.

(2) These adjustments represent the exclusion of assets and liabilities of the Target Group as at 31 December 2014, assuming the Disposal had taken place on 31 December 2014. The assets and liabilities of the Target Group as at 31 December 2014 are extracted from the unaudited Combined Financial Information of the Target Group as set out in Appendix III of the Circular.

(3) These adjustments represent the reversal of the consolidated adjustments of the Group relating to related party balances between the Target Group and the Remaining Group and the reclassification of tax prepaid and income tax payable as at 31 December 2014.

(4) These adjustments represent (i) the cash consideration receivable by the Group of RMB979.84 million in relation to the Disposal, comprising (a) the aggregate sum of the Offshore Consideration and the Onshore Consideration of approximately RMB858.67 million for the purchase of the entire issued share capital of the Target Companies by the Purchaser from the Company; (b) the consideration for the assignment of the Receivables of approximately RMB121.17 million; (ii) the estimated expenses and taxes directly attributable to the Disposal of approximately RMB27.03 million; (iii) the net consideration payable amounted to approximately RMB55.79 million to the Remaining Group upon the completion of the Pre-disposal Restructuring; and (iv) the estimated loss from the Disposal amounted to approximately RMB301.58 million as if the Pre-disposal Restructuring and the Disposal had taken place on 31 December 2014.

The calculation of the estimated loss on the Disposal to be recognised in profit or loss, as if the Disposal had taken place on 31 December 2014, is as follows:

	Amount *RMB'000*	*Notes*
Consideration:		
Initial consideration	979,840	
Net consideration payable to the Remaining Group upon the completion of the Pre-disposal Restructuring	(55,785)	*Note 4.1*
	924,055	
Net assets of the Target Group:		
Net assets of the Target Group as at 31 December 2014	960,749	
Assignment of the Receivable as at 31 December 2014	121,170	*Note 4.2*
Net consideration payable to the Remaining Group upon the completion of the Pre-disposal Restructuring	(55,785)	
Goodwill and other intangible assets attributable to the Target Group	209,504	
Release of the cumulative foreign exchange reserve of the Target Group upon the Disposal	(37,032)	*Note 4.3*
	1,198,606	
Estimated loss on disposal as if the Disposal had taken place on 31 December 2014, before expenses and taxes directly attributable to the Disposal	(274,551)	
Other adjustment:		
Estimated expense and taxes directly attributable to the Disposal	(27,027)	*Note 4.4*
Estimated loss on the Disposal	(301,578)	

4.1 The amount represents the net cash consideration payable by the Target Group upon the completion of the Pre-disposal Restructuring before the Disposal.

4.2 The amount represents the assignment of the Receivables consideration due from the Remaining Group as stated in the Master Sale and Purchase Agreement.

4.3 The amount represents the cumulative foreign exchange reserve of the Target Group being released to profit or loss as at 31 December 2014.

4.4 The amount represents the estimated expenses and taxes directly attributable to the Pre-disposal Restructuring and the Disposal as estimated by the Directors.

4.5 The adjustment to reserves is represented by:

	Amount
	RMB'000
The equity of the Target Group as at 31 December 2014	960,749
Less: Estimated loss on the Disposal	301,578
Less: Release of the cumulative foreign exchange reserves of the Target Group upon the Disposal	37,032
	622,139

The final amount of gain or loss on the Disposal may be different from the amount described above and would be subject to the net assets of the Target Group on the date of the completion of the Disposal.

(5) These adjustments represent the exclusion of the results and reserves of the Target Group for the year ended 31 December 2014, which are extracted from the unaudited Combined Financial Information of the Target Group for the year ended 31 December 2014 set out in Appendix III of the Circular, assuming the Disposal had taken place on 1 January 2014.

(6) These adjustments represent the adjustment of intercompany transactions to reflect the actual revenue and cost of sales of the Remaining Group for the year ended 31 December 2014.

(7) These adjustments represent (i) the cash consideration receivable by the Group of RMB979.84 million in relation to the Disposal, comprising (a) the aggregate sum of the Offshore Consideration and the Onshore Consideration of approximately RMB858.67 million for the purchase of the entire issued share capital of the Target Companies by the Purchaser from the Company; (b) the consideration for the assignment of the Receivables of approximately RMB121.17 million; (ii) the estimated expenses and taxes directly attributable to the Disposal of approximately RMB27.03 million; (iii) the net consideration payable amounted to approximately RMB55.79 million to the Remaining Group upon the completion of the Pre-disposal Restructuring; and (iv) the estimated loss from the Disposal amounted to approximately RMB349.41 million as if the Pre-disposal Restructuring and the Disposal had taken place on 1 January 2014.

The calculation of the estimated loss on the Disposal to be recognised in profit or loss, as if the Disposal had taken place on 1 January 2014, is as follows:

	Amount
	RMB'000
Consideration:	
Initial consideration	979,840
Net consideration payable to the Remaining Group upon the completion of the Pre-disposal Restructuring	(55,785)
	924,055
Net assets of the Target Group:	
Net assets of the Target Group as at 1 January 2014	950,558
Assignment of the Receivables as at 1 January 2014	121,170
Net consideration payable to the Remaining Group upon the completion of the Pre-disposal Restructuring	(55,785)
Goodwill and other intangible assets attributable to the Target Group	274,883
Release of the cumulative foreign exchange reserve of the Target Group upon the Disposal	(44,385)
	1,246,441
Estimated loss on disposal as if the Disposal had taken place on 1 January 2014, before expenses and taxes directly attributable to the Disposal	(322,386)
Other adjustment:	
Estimated expense and taxes directly attributable to the Disposal	(27,027)
Estimated loss on the Disposal	(349,413)

The final amount of gain or loss on the Disposal may be different from the amount described above and would be subject to the net assets of the Target Group on the date of the completion of the Disposal.

The adjustment to total comprehensive income for the year is represented by:

	Amount
	RMB'000
Estimated loss on the Disposal	(349,413)
Reversal of the impairment of goodwill and amortisation of other intangible assets during the year ended 31 December 2014	65,379
Reversal of the gain on disposal of Beijing Huading Hengye Technology Co., Ltd. to the Remaining Group by the Target Group	327
	(283,707)

The directors of the Company consider that it is more appropriate to present the financial impact of the Disposal assuming it had taken place on 30 September 2015 in order to reflect the most recent financial impact of the Disposal.

The calculation of the estimated loss on the Disposal to be recognised in profit or loss, as if the Disposal had taken place on 30 September 2015, is as follows:

	Amount
	RMB'000
Consideration:	
Initial consideration	979,840
Dividend declared by the Target Group	(138,750)
Net consideration payable to the Remaining Group upon the completion of the Pre-disposal Restructuring	(55,785)
	785,305
Net assets of the Target Group:	
Net assets of the Target Group as at 30 September 2015	858,669
Assignment of the Receivables as at 30 September 2015	121,170
Net consideration payable to the Remaining Group upon the completion of the Pre-disposal Restructuring	(55,785)
Release of the cumulative foreign exchange reserve of the Target Group upon the Disposal	(29,047)
Dividend declared by the Target Group	(138,750)
	756,257
Estimated gain on disposal as if the Disposal had taken place on 30 September 2015, before expenses and taxes directly attributable to the Disposal	29,048
Other adjustment:	
Estimated expense and taxes directly attributable to the Disposal	(27,027)
Estimated gain on the Disposal	2,021

The goodwill and other intangible assets attributable to the Target Group were fully impaired as at 30 September 2015.

(8) These adjustments represent the exclusion of the cash flows of the Target Group which are extracted from the unaudited Combined Financial Information of the Target Group for the year ended 31 December 2014 as set out in Appendix III to the Circular, assuming the Disposal had taken place on 1 January 2014.

(9) The adjustment to cash and cash equivalents at end of the year is represented by:

	Amount
	RMB'000
Cash received from the Disposal	979,840
Cash paid for the expense and taxes directly attributable to the Disposal	(27,027)
	952,813

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

The following is the text of a report received from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

To the Directors of China ITS (Holdings) Co., Ltd.

We have completed our assurance engagement to report on the compilation of unaudited pro forma combined financial information of China ITS (Holdings) Co., Ltd. (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma combined financial information consists of the unaudited pro forma combined statement of financial position as at 31 December 2014, unaudited pro forma combined statement of profit or loss, unaudited pro forma combined statement of comprehensive income and unaudited pro forma combined statement of cash flows for the year ended 31 December 2014 and related notes as set out in Appendix II to the circular dated 24 March 2016 (the "**Circular**") issued by the Company (the "**Unaudited Pro Forma Combined Financial Information**"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Combined Financial Information are described in the relevant notes.

The Unaudited Pro Forma Combined Financial Information has been compiled by the Directors to illustrate the impact of the Disposal (as defined in the Circular) on the Group's financial position as at 31 December 2014 as if the Disposal had taken place on 31 December 2014, and the Group's financial performance and cash flows for the year ended 31 December 2014 as if the Disposal had taken place on 1 January 2014. As part of this process, information about the Group's financial position, financial performance and cash flows have been extracted by the Directors from the Group's consolidated financial statements for the year ended 31 December 2014, on which an accountants' report has been published.

Directors' responsibility for the Unaudited Pro Forma Combined Financial Information

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

Our independence and quality control

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

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

Reporting accountants' responsibilities

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

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

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Combined Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Combined Financial Information.

The purpose of the Unaudited Pro Forma Combined Financial Information included in the Circular is solely to illustrate the impact of the Disposal on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Combined Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Combined Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Combined Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Unaudited Pro Forma Combined Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Combined Financial Information.

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

Opinion

In our opinion:

(a) the Unaudited Pro Forma Combined Financial Information has been properly compiled on the basis stated;

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

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Combined Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

24 March 2016

The following is the text of a report received from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

EY 安永

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Report on Review of the Combined Financial Information of the Disposal Group of China ITS (Holdings) Co., Ltd.

To the board of directors of China ITS (Holdings) Co., Ltd.

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the Combined Financial Information set out on pages III-3 to III-16 which comprise the unaudited combined statements of financial position of the expressway and urban traffic businesses of China ITS (Holdings) Co., Ltd. (the "**Company**"), which mainly include China Traffic Holdings Ltd., Hugecom Limited and China Expressway Intelligent Transportation Technology Group Ltd. and their subsidiaries (hereinafter collectively referred to as the "**Disposal Group**") as at 31 December 2012, 2013 and 2014 and 30 September 2015 and the unaudited combined statements of profit or loss, unaudited combined statements of comprehensive income, unaudited combined statements of changes in equity and unaudited combined statements of cash flows for each of the periods then ended (the "**Financial Information**"). The Financial Information has been prepared solely for the purpose of inclusion in the circular to be issued by the Company in connection with the disposal of the Disposal Group in accordance with the Main Board Listing Rule 14.68(2)(a)(i)(A).

The directors of the Company are responsible for the preparation and presentation of the Financial Information of the Disposal Group in accordance with the basis of preparation set out in note 2 to the Financial Information and Main Board Listing Rule 14.68(2)(a)(i). The directors are also responsible for such internal control as management determines is necessary to enable the preparation of Financial Information that is free from material misstatement, whether due to fraud or error. The Financial Information does not contain sufficient information to constitute a complete set of financial statements as defined in International Accounting Standard 1 "Presentation of Financial Statements" or an interim financial report as defined in International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this Financial Information based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and with reference to Practice Note 750 "Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal" issued by the Hong Kong Institute of Certified Public Accountants. A review of the Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the Financial Information of the Disposal Group for the relevant periods is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2 to the Financial Information.

Ernst & Young
Certified Public Accountants
Hong Kong

24 March 2016

UNAUDITED COMBINED STATEMENT OF PROFIT OR LOSS

For the three years ended 31 December 2012, 2013 and 2014 and the nine-month period ended 30 September 2015

	Year ended 31 December			Nine-month period ended 30 September	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE	1,484,085	1,418,818	1,254,778	774,149	626,829
Cost of sales	(1,209,496)	(1,148,461)	(1,081,631)	(628,381)	(553,735)
Gross profit	274,589	270,357	173,147	145,768	73,094
Other income and gains	16,928	13,126	8,883	7,576	7,488
Selling, general and administrative expenses	(144,694)	(166,994)	(207,996)	(153,055)	(152,736)
Other expenses	(1,375)	(254)	(4,718)	(4,717)	(2)
OPERATING PROFIT/(LOSS)	145,448	116,235	(30,684)	(4,428)	(72,156)
Finance income	1,410	1,541	1,502	1,084	1,011
Finance costs	(11,719)	(26,808)	(30,675)	(24,900)	(18,089)
Share of profits/(losses) of:					
Joint ventures	3,463	9,265	(448)	6,049	2,414
Associates	9,872	8,505	10,533	4,518	(8,219)
Gain on disposal of an associate	117,895	—	—	—	—
Loss on disposal of joint ventures	—	—	—	—	(4,045)
(Losses)/gains on disposal of subsidiaries	(26,682)	(436)	327	327	—
PROFIT/(LOSS) BEFORE TAX	239,687	108,302	(49,445)	(17,350)	(99,084)
Income tax expense	(41,530)	(28,831)	(11,060)	(4,478)	(21,838)
PROFIT/(LOSS) FOR THE YEAR/PERIOD	198,157	79,471	(60,505)	(21,828)	(120,922)
Attributable to:					
Owners of the parent	197,622	62,135	(46,727)	(19,035)	(108,934)
Controlling shareholder of the Disposal Group	(7,924)	14,126	6,930	9,920	5,263
Non-controlling interests	8,459	3,210	(20,708)	(12,713)	(17,251)
	198,157	79,471	(60,505)	(21,828)	(120,922)

UNAUDITED COMBINED STATEMENT OF COMPREHENSIVE INCOME

For the three years ended 31 December 2012, 2013 and 2014 and the nine-month period ended 30 September 2015

	Year ended 31 December			Nine-month period ended 30 September	
	2012	2013	2014	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
PROFIT/(LOSS) FOR THE YEAR/PERIOD	198,157	79,471	(60,505)	(21,828)	(120,922)
Exchange differences on translation of foreign operations	(130)	8,834	(7,353)	(8,252)	(7,984)
OTHER COMPREHENSIVE INCOME FOR THE YEAR/PERIOD, NET OF TAX	(130)	8,834	(7,353)	(8,252)	(7,984)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	198,027	88,305	(67,858)	(30,080)	(128,906)
Attributable to:					
Owners of the parent	197,492	70,969	(54,080)	(27,287)	(116,918)
Controlling shareholder of the Disposal Group	(7,924)	14,126	6,930	9,920	5,263
Non-controlling interests	8,459	3,210	(20,708)	(12,713)	(17,251)
	198,027	88,305	(67,858)	(30,080)	(128,906)

UNAUDITED COMBINED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012, 2013 and 2014 and 30 September 2015

	At 31 December			At 30 September
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Property and equipment	36,948	23,307	15,068	6,835
Investment properties	124,600	76,100	76,600	76,600
Goodwill	4,354	4,354	—	—
Other intangible assets	388	194	—	—
Investments in joint ventures	23,295	31,850	33,832	19,208
Investments in associates	46,982	56,561	72,593	64,186
Deferred tax assets	3,959	4,093	3,788	730
Prepayment for acquisition of equity interests in other companies	10,000	4,500	—	—
Pledged deposits	—	4,500	4,500	—
Total non-current assets	250,526	205,459	206,381	167,559
CURRENT ASSETS				
Inventories	37,853	20,438	12,695	11,886
Construction contracts	598,198	808,167	793,868	726,384
Trade and bills receivables	377,214	454,043	422,640	529,532
Prepayments, deposits and other receivables	456,472	587,805	500,511	542,163
Amounts due from related parties	246,598	382,899	444,748	482,224
Deferred cost	8,071	20,364	2,767	—
Pledged deposits	59,441	41,947	39,197	37,829
Cash and cash equivalents	337,595	341,723	477,352	378,113
Tax prepaid	—	36,541	38,583	39,300
Total current assets	2,121,442	2,693,927	2,732,361	2,747,431
CURRENT LIABILITIES				
Trade and bills payables	482,868	568,040	758,932	642,925
Other payables and accruals	151,088	179,339	196,592	260,830
Construction contracts	125,436	266,321	184,094	226,966
Interest-bearing bank borrowings	266,649	262,615	202,397	199,400
Amounts due to related parties	433,842	510,480	519,581	681,014
Income tax payable	5,010	19,760	24,162	21,310
Total current liabilities	1,464,893	1,806,555	1,885,758	2,032,445
NET CURRENT ASSETS	656,549	887,372	846,603	714,986
TOTAL ASSETS LESS CURRENT LIABILITIES	907,075	1,092,831	1,052,984	882,545

	At 31 December			At 30 September
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT LIABILITIES				
Interest-bearing bank borrowings	—	87,000	63,000	—
Deferred tax liabilities	20,706	30,477	25,147	37,039
Total non-current liabilities	20,706	117,477	88,147	37,039
Net assets	886,369	975,354	964,837	845,506
EQUITY				
Equity attributable to owners of the parent				
Issued share capital	7	7	7	7
Contribution from the controlling shareholder of the Disposal Group	212,474	226,600	233,530	238,793
Reserves	635,228	723,951	727,212	619,869
	847,709	950,558	960,749	858,669
Non-controlling interests	38,660	24,796	4,088	(13,163)
Total equity	886,369	975,354	964,837	845,506

Liao Jie
Director

Jiang Hailin
Director

UNAUDITED COMBINED STATEMENT OF CHANGES IN EQUITY

For the three years ended 31 December 2012, 2013 and 2014 and the nine-month period ended 30 September 2015

		Attributable to owners of the parent					
	Notes	Share capital RMB'000	Contribution from the controlling shareholder of the Disposal Group RMB'000	Reserves RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2012		7	170,397	509,493	679,897	12,244	692,141
(Loss)/profit for the year		—	(7,924)	197,622	189,698	8,459	198,157
Exchange differences on translation of foreign operations		—	—	(130)	(130)	—	(130)
Total comprehensive income for the year		—	(7,924)	197,492	189,568	8,459	198,027
Acquisition of subsidiaries	*(i)*	—	—	(35,980)	(35,980)	—	(35,980)
Capital contribution from non-controlling interests	*(ii)*	—	136	—	136	—	136
Disposal of investment in a subsidiary	*(iii)*	—	—	—	—	17,545	17,545
Disposal of subsidiaries		—	—	—	—	412	412
Share-based payment transactions		—	—	9,032	9,032	—	9,032
Debt forgiveness from the Company	*(iv)*	—	—	2,142	2,142	—	2,142
Interim dividend		—	49,865	(49,865)	—	—	—
Contribution from the parent		—	—	2,914	2,914	—	2,914
At 31 December 2012 and at 1 January 2013		7	212,474	635,228	847,709	38,660	886,369
Profit for the year		—	14,126	62,135	76,261	3,210	79,471
Exchange differences on translation of foreign operations		—	—	8,834	8,834	—	8,834
Total comprehensive income for the year		—	14,126	70,969	85,095	3,210	88,305
Disposal of a subsidiary		—	—	—	—	(17,074)	(17,074)
Share-based payment transactions		—	—	4,298	4,298	—	4,298
Debt forgiveness from the Company	*(iv)*	—	—	6,858	6,858	—	6,858
Contribution from the parent		—	—	6,598	6,598	—	6,598
At 31 December 2013 and at 1 January 2014		7	226,600	723,951	950,558	24,796	975,354

		Attributable to owners of the parent					
	Notes	Share capital RMB'000	Contribution from the controlling shareholder of the Disposal Group RMB'000	Reserves RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2014		7	226,600	723,951	950,558	24,796	975,354
Profit/(loss) for the year		—	6,930	(46,727)	(39,797)	(20,708)	(60,505)
Exchange differences on translation of foreign operations		—	—	(7,353)	(7,353)	—	(7,353)
Total comprehensive income for the year		—	6,930	(54,080)	(47,150)	(20,708)	(67,858)
Share-based payment transactions		—	—	1,486	1,486	—	1,486
Debt forgiveness from the Company	*(iv)*	—	—	21,643	21,643	—	21,643
Contribution from the parent		—	—	34,212	34,212	—	34,212
At 31 December 2014 and at 1 January 2015		7	233,530	727,212	960,749	4,088	964,837
Profit/(loss) for the period		—	5,263	(108,934)	(103,671)	(17,251)	(120,922)
Exchange differences on translation of foreign operations		—	—	(7,984)	(7,984)	—	(7,984)
Total comprehensive income for the period		—	5,263	(116,918)	(111,655)	(17,251)	(128,906)
Share-based payment transactions		—	—	21	21	—	21
Debt forgiveness from the Company	*(iv)*	—	—	8,301	8,301	—	8,301
Contribution from the parent		—	—	1,253	1,253	—	1,253
At 30 September 2015		7	238,793	619,869	858,669	(13,163)	845,506
At 1 January 2014		7	226,600	723,951	950,558	24,796	975,354
Profit/(loss) for the period		—	9,920	(19,035)	(9,115)	(12,713)	(21,828)
Exchange differences on translation of foreign operations		—	—	(8,252)	(8,252)	—	(8,252)
Total comprehensive income for the period		—	9,920	(27,287)	(17,367)	(12,713)	(30,080)
Share-based payment transactions		—	—	1,270	1,270	—	1,270
Debt forgiveness from the Company	*(iv)*	—	—	5,778	5,778	—	5,778
Contribution from the parent		—	—	3,689	3,689	—	3,689
At 30 September 2014		7	236,520	707,401	943,928	12,083	956,011

Notes:

For those subsidiaries, joint ventures and associates of the Company which are not included in the Disposal Group, they were collectively referred to as the "Remaining Group" below.

(i) Beijing Huading Hengye Technology Co., Ltd. ("**Huading Hengye**"), Jiangsu Zhongzhi Jiaye Electronic Technology Co., Ltd. ("**Zhongzhi Jiaye**") and Beijing Aproud Technology Co., Ltd. ("**Aproud Technology**") were subsidiaries of the Remaining Group before 2012. In 2012, the Disposal Group acquired 100% equity interests in Huading Hengye and Zhongzhi Jiaye, and also acquired certain businesses from Aproud Technology. The Disposal Group adopted the pooling-of-interests method to account for the above transactions. The movement of reserves represented the net excess of the considerations over the book value of the net assets being acquired.

(ii) It mainly represented the contribution from Beijing Aproud Information Engineering Co., Ltd., a subsidiary of the Remaining Group, to Beijing RHY Technology Development Co., Ltd. ("**RHY Technology**"), a subsidiary of the Disposal Group.

(iii) Beijing Haotian Jiajie Technology Co., Ltd. ("**Haotian Jiajie**") was a 100% subsidiary of the Disposal Group before 2012. In 2012, the Disposal Group disposed of 15% of its shares in Haotian Jiajie to Jiangsu Zhongzhi Transportation Technology Co., Ltd., which was a subsidiary of the Remaining Group. Therefore, the non-controlling interests of the Disposal Group increased accordingly.

(iv) The Company paid the interest expense which should be borne by the Disposal Group during the relevant periods. The amounts represented the debt forgiveness to the Disposal Group by the Company.

UNAUDITED COMBINED STATEMENT OF CASH FLOWS

For the three years ended 31 December 2012, 2013 and 2014 and the nine-month period ended 30 September 2015

	Year ended 31 December			Nine-month period ended 30 September	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) before tax	239,687	108,302	(49,445)	(17,350)	(99,084)
Adjustments for:					
Depreciation	15,632	10,182	10,772	8,554	6,398
Amortisation of intangible assets	387	194	194	144	—
Net loss/(gain) on disposal of items of property and equipment	70	137	79	62	(188)
Losses/(gains) on disposal of subsidiaries	26,682	436	(327)	(327)	—
Equity-settled share option expense	9,032	4,298	1,486	1,270	21
Impairment of inventories	—	1,387	—	—	—
Impairment of amounts due from construction contracts	—	—	5,148	5,148	11,905
Impairment of trade receivables	—	—	7,800	7,740	8,232
Impairment of other receivables	1,300	—	4,316	4,316	1,391
Impairment of prepayments to suppliers	—	—	—	—	6,000
Impairment of amount due from related parties	—	—	7,020	7,020	—
Impairment of deferred cost	—	—	17,200	17,200	2,023
Impairment of goodwill	—	—	4,354	4,354	—
Impairment of property and equipment	—	—	—	—	3,388
Impairment of investment of an associate	—	1,000	—	—	—
Share of (profits)/losses of joint ventures	(3,463)	(9,265)	448	(6,049)	(2,414)
Share of (profits)/losses of associates	(9,872)	(8,505)	(10,533)	(4,518)	8,219
Gain on disposal of an associate	(117,895)	—	—	—	—
Loss on disposal of joint ventures	—	—	—	—	4,045
Fair value gain on investment properties	(8,200)	(7,500)	(500)	—	—
Finance income	(1,410)	(1,541)	(1,502)	(1,084)	(1,011)
Finance costs	11,719	26,808	30,675	24,900	18,089
	163,669	125,933	27,185	51,380	(32,986)

	Year ended 31 December			Nine-month period ended 30 September	
	2012	2013	2014	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Changes in assets and liabilities:					
(Increase)/decrease in inventories	(16,117)	16,028	7,743	8,529	810
(Increase)/decrease in construction contracts	(174,586)	(71,573)	(73,076)	(101,216)	98,451
(Increase)/decrease in trade and bills receivables	(166,577)	(112,519)	23,603	27,585	(115,124)
(Increase)/decrease in prepayments, deposits and other receivables	(284,983)	(146,547)	82,967	50,631	(40,133)
Decrease/(increase) in amounts due from related parties	75,509	(185,481)	(39,236)	33,811	(37,136)
(Increase)/decrease in deferred cost	(8,071)	(12,293)	396	996	744
(Increase)/decrease in pledged deposits	(12,197)	12,994	2,750	5,243	1,368
Increase/(decrease) in trade and bills payables	197,440	87,321	190,892	67,827	(116,007)
Increase in other payables and accruals	57,691	27,386	17,546	14,260	64,238
Increase/(decrease) in amounts due to related parties	92,932	83,214	30,790	(77,542)	169,735
Cash (used in)/generated from operations	(75,290)	(175,537)	271,560	81,504	(6,040)
Interest received	1,410	1,541	1,502	1,084	1,011
Interest paid	(11,719)	(26,808)	(30,675)	(24,900)	(18,089)
Income tax paid	(23,577)	(41,538)	(13,724)	(10,028)	(10,457)
Net cash flows (used in)/from operating activities	(109,176)	(242,342)	228,663	47,660	(33,575)

	Year ended 31 December			Nine-month period ended 30 September	
	2012	2013	2014	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from disposal of items of property and equipment	94	2,636	215	218	238
Purchases of items of property and equipment	(27,894)	(8,111)	(2,826)	(2,708)	(1,604)
Dividend received from a joint venture	—	2,250	2,650	2,640	3,184
Acquisition of subsidiaries	(29,626)	—	—	—	—
Disposal of subsidiaries	22,481	96,396	(1)	(1)	—
Disposal of investment properties	—	56,000	—	—	—
Acquisition of joint ventures	(1,717)	—	(2,000)	—	—
Acquisition of associates	(2,000)	—	(4,000)	(4,000)	—
Decrease of investments in associates	178,650	—	—	—	2,000
Collection of the prepayment for acquisition of equity interests in other companies	1,500	5,500	4,500	4,500	—
Net cash flows from/(used in) investing activities	141,488	154,671	(1,462)	649	3,818
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from interest-bearing bank borrowings	340,171	472,993	264,103	235,723	162,518
Repayment of interest-bearing bank borrowings	(143,521)	(390,027)	(348,321)	(314,648)	(228,515)
Decrease in pledged deposits for bank loans	—	—	—	—	4,500
Capital contributions from non-controlling interests	136	—	—	—	—
Net cash flows from/(used in) financing activities	196,786	82,966	(84,218)	(78,925)	(61,497)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	229,098	(4,705)	142,983	(30,616)	(91,254)
Effect of foreign exchange rate changes, net	(132)	8,833	(7,354)	(8,254)	(7,985)
Cash and cash equivalents at beginning of year/period	108,629	337,595	341,723	341,723	477,352
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	337,595	341,723	477,352	302,853	378,113

NOTES TO THE FINANCIAL INFORMATION

For the three years ended 31 December 2012, 2013 and 2014 and the nine-month period ended 30 September 2015

1. CORPORATE AND GROUP INFORMATION

The Disposal Group is a provider of transportation infrastructure technology solutions and services mainly to the expressway and urban traffic businesses in Mainland China. During the relevant periods, the Disposal Group was involved in the following principal activities:

(a) Turnkey solution business — engaging in the integration of information technology with the physical transportation infrastructure;

(b) Specialised solution business — providing solutions to discrete problems occurring in clients' existing or planned transportation infrastructure by designing, developing and implementing of hardware-based and software-based systems; and

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

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

Information about subsidiaries

Particulars of the principal companies now comprising the Disposal Group are as follows:

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered capital	Percentage of equity interest attributable to the Disposal Group Direct	Indirect	Principal activities
China Toprise Limited	British Virgin Islands 16 June 2006	US$1,001	—	100	Investment holding
China Expressway Intelligent Transportation Technology Group Ltd.	British Virgin Islands 6 September 2012	US$5,100	100	—	Investment holding
RHY Technology	PRC/Mainland China 16 February 2001	RMB500 million	—	100	Intelligent transportation system turnkey solutions and value-added operation and services
Beijing Bailian Zhida Technology Development Co., Ltd.	PRC/Mainland China 18 April 2007	RMB5.5 million	—	100	Surveillance specialised solutions
Tianjin Balian Zhida Technology Co., Ltd.	PRC/Mainland China 15 April 2015	RMB10 million	—	70	Surveillance specialised solutions

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered capital	Percentage of equity interest attributable to the Disposal Group		Principal activities
			Direct	Indirect	
Beijing Aproud Transportation Technology Co., Ltd.	PRC/Mainland China 11 July 2007	RMB5 million	—	100	Development of intelligent transportation system related software
Zhongzhi Jiaye	PRC/Mainland China 20 April 2012	RMB160 million	—	100	Computer communications and software service
Southwest Intelligent Transportation Co., Ltd.	PRC/Mainland China 6 November 2012	RMB50 million	—	100	Intelligent transportation system turnkey solutions and value-added operation and services
China Traffic Holdings Ltd.	Cayman Island 20 November 2007	US$889	100	—	Investment holding
Beijing Wuzhouzhitong Traffic Technology Co., Ltd. ("Beijing Wuzhouzhitong")	PRC/Mainland China 28 August 2008	US$4.5 million	—	100	Computer system and software service
Beijing Newcom Traffic Technology Co., Ltd.	PRC/Mainland China 14 June 2002	RMB30 million	—	100	Intelligent communications service
Beijing Newcom Traffic Technology Anhui Co., Ltd.	PRC/Mainland China 18 November 2011	RMB1 million	—	100	Intelligent communications service
Guangzhou Taizheng Technology Co., Ltd.	PRC/Mainland China 30 May 2003	RMB6 million	—	100	Computer system and software service
Tianjin Communication Information Co., Ltd.	PRC/Mainland China 2 February 2010	RMB5 million	—	100	Communications system and computer related service
Guangzhou Yabang Xincheng Communication Technology Co., Ltd.	PRC/Mainland China 19 September 2011	RMB2 million	—	70	Communications system service
Xinjiang RHY Technology Co., Ltd.	PRC/Mainland China 24 October 2005	RMB10 million	—	80	Computer system service
Beijing Jingwei Zhitong Technology Co., Ltd.	PRC/Mainland China 16 March 2011	RMB20 million	—	90.28	Computer communications and software service

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered capital	Percentage of equity interest attributable to the Disposal Group Direct	Indirect	Principal activities
Beijing Stone Intelligent Transportation System Integration Co., Ltd.	PRC/Mainland China 10 February 1999	RMB50 million	—	75	Computer communications and software service
Beijing Lihe Datong Technology Co., Ltd. ("Beijing Lihe Datong")	PRC/Mainland China 20 April 2011	RMB20 million	—	100	Computer communications and software service
Hugecom Limited	British Virgin Islands 20 April 2011	US$10,000	100	—	Investment holding
Beijing Huading Jiaye Technology Co., Ltd.	PRC/Mainland China 19 July 2013	RMB20 million	—	100	Contract operation and technology specialised services

RHY Technology is registered as a Sino-foreign equity joint venture. Beijing Wuzhouzhitong and Beijing Lihe Datong are wholly-foreign-owned enterprises under the law of People's Republic of China ("**PRC**"). The other subsidiaries registered in Mainland China are domestic companies with limited liability under PRC law.

2. BASIS OF PREPARATION

The Financial Information has been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations issued by the International Accounting Standards Board (the "**IASB**"). The Financial Information has been prepared under the historical cost convention, except for investment properties, which have been measured at fair value. The Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

The Financial Information includes the financial statements of the Company's expressway and urban traffic businesses, which mainly include China Traffic Holdings Ltd., Hugecom Limited and China Expressway Intelligent Transportation Technology Group Ltd. and their subsidiaries (the "**Disposal Group**"). A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Disposal Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Disposal Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

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 document 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 herein or this document misleading.

2. DISCLOSURE OF INTERESTS

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at the Latest Practicable Date, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

Name of Director	Nature of interest	Securities(7)	Approximate percentage of shareholdings as at Latest Practicable Date(7)
Mr. Liao Jie(1)(2)	Beneficial owner/Interest of a controlled corporation	130,044,077 (L)	7.86% (L)
Mr. Jiang Hailin(1)(3)	Beneficial owner/Beneficiary of Fino Trust	713,027,096 (L)	43.11% (L)
Mr. Choi Onward(4)	Beneficial owner	98,824 (L)	0.01% (L)
Mr. Sun Lu(5)	Beneficial owner	98,824 (L)	0.01% (L)
Mr. Zhou Chunsheng(6)	Beneficial owner	98,824 (L)	0.01% (L)

Notes:

(1) To facilitate the management and operation of the Company and as a result of previous restructuring exercises of the Group, China ITS Co., Ltd. ("**Holdco**"), Pride Spirit Company Limited, Sea Best Investments Limited, Joy Bright Success Limited ("**Joy Bright**"), Gouver Investments Limited ("**Gouver**"), Kang Yang Holdings Limited, Huaxin Investments Limited, Rockyjing Investment Limited, Key Trade Holdings Limited, Speedy Fast Investments Limited,

Best Partners Development Limited ("**Best Partners**"), Joyful Business Holdings Limited ("**Joyful Business**"), Mr. Liao Jie, Mr. Lu Xiao, Mr. Liao Daoxun, Ms. Wu Yurui, Mr. Jiang Hailin, Mr. Wang Jing, Mr. Liang Shiping, Ms. Wu Chunhong, Mr. Zhao Lisen, Mr. Yuan Chuang, Mr. Zhang Qian, Mr. Guan Xiong, Mr. Zheng Hui, Mr. Lv Xilin, Ms. Wang Li, Mr. Dang Kulun, Mr. Pan Jianguo and Mr. Jing Yang, entered into shareholders voting agreements (the "**Shareholders voting Agreements**"), pursuant to which each of the parties (other than Holdco) to the Shareholder Voting Agreements has authorized Holdco to exercise their voting rights in the Company on their behalves.

Holdco is entitled to exercise or control the exercise of the voting rights of a total of 711,171,248 Shares, representing the aggregate number of Shares held by all of the parties to the Shareholder Voting Agreements.

(2) 40,735,874 of these Shares are underlying Shares subject to the exercise of share options granted to Mr. Liao Jie on 18 January 2012 under the share option scheme adopted by the Company on 18 June 2010 which became effective on 15 July 2010 (the "**Share Option Scheme**"). Mr. Liao Jie is also deemed to be interested in the 89,308,203 Shares held by Joyful Business, which is wholly-owned by Mr. Liao Jie.

(3) 1,855,848 of these Shares are underlying Shares subject to the exercise of share options granted to Mr. Jiang Hailin on 18 January 2012 under the Share Option Scheme.

Mr. Jiang Hailin was also interested in all the Shares in which Fino Trust was interested as a beneficiary of Fino Trust. As the beneficial owner of Fino Investments Limited ("**Fino Investments**"), Fino Trust is deemed to be interested in all the Shares in which Fino Investments is interested. Mr. Jiang Hailin beneficially and directly owns 18,853,876 Shares, which are part of the 711,171,248 Shares in which Fino Trust is deemed to be interested.

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

(5) These Shares are underlying Shares subject to the exercise of share options granted to Mr. Sun Lu on 18 January 2012 under the Share Option Scheme.

(6) These Shares are underlying Shares subject to the exercise of share options granted to Mr. Zhou Chunsheng 18 January 2012 under the Share Option Scheme.

(7) (L) denotes long positions.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

At no time was the Company, its holding company, or any of its subsidiaries a party to any arrangements to enable the Directors and the chief executive of the Company (including their spouse and children under 18 years of age) to hold any interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO).

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the persons or corporations (other than Director or chief executive of the Company) who had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Capacity	Long position/ Short position	Number of Shares	Percentage to Company's issued share capital
Holdco(1)	Beneficiary owner	Long position	711,171,248	43.00%
Best Partners(2)	Interest of controlled corporation	Long position	711,171,248	43.00%
Fino Investments(3)	Interest of controlled corporation	Long position	711,171,248	43.00%
Tesco Investments(4)	Interest of controlled corporation	Long position	711,171,248	43.00%
Credit Suisse Trust Limited(3)(4)(5)	Trustee	Long position	631,893,161	38.20%
Pioneer Investments Management Limited	Investment manager	Long position	199,070,000	12.03%
Ampio International(5)	Interest of controlled corporation	Long position	133,310,061	8.06%
Pioneer Asset Management S.A.	Investment manager	Long position	133,653,000	8.08%
Penbay Investments Limited(6)	Beneficial owner	Long position	98,613,367	5.96%
Chen Qi(6)	Interest of controlled corporation	Long position	98,613,367	5.96%

Notes:

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

(2) The issued share capital of Best Partners is held as to 83% by Fino Investments and as to 17% by Tesco Investments. By virtue of the Shareholder Voting Agreements, Best Partners Development Limited is deemed to be controlled by Fino Investments and Tesco Investments. Two of our Directors Mr. Jiang Hailin and Mr. Liao Jie are also directors of Best Partners.

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

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

(5) Ampio International Limited is owned as to 50% by Serangoon Limited and as to 50% by Seletar Limited, as nominees and trustees for Credit Suisse Trust Limited, which is the trustee holding such interest on trust for the beneficiaries of Ampio Trust, namely Mr. Pan Jianguo and Mr. Jing Yang. The Ampio Trust is an irrevocable discretionary trust established under the laws and regulations of Singapore.

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

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

3. FURTHER INFORMATION CONCERNING DIRECTORS

(a) Directors' service contracts

As at the Latest Practicable Date, none of the Directors had entered, or was proposing to enter, into any service contract with any member of the Group (excluding contracts expiring or determinable by such member of the Group within one year without payment of compensation (other than statutory compensation)).

(b) Directors' interest in competing business

As at the Latest Practicable Date, none of the Directors or their respective associate is or was interested in any business, apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business.

(c) Directors' interests in assets

None of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of or leased to any member of the Group or proposed to be so acquired, disposed of or leased since 31 December 2014, being the date to which the latest published audited accounts of the Company were made up, and up to the Latest Practicable Date.

(d) Directors' interests in contracts

As at the Latest Practicable Date, there is no other contract or arrangement subsisting at the Latest Practicable Date in which any of the Directors is materially interested and which is significant in relation to the business of the Group.

4. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the Group within the two years preceding the Latest Practicable Date and are or may be material:

(1) a sale and purchase agreement dated 24 September 2015 entered into between Aproud Technology and Beijing Hezhong Jiuzhou Investment Co., Ltd. pursuant to which Aproud Technology acquired all the equity interests in Hongrui Dake at a total consideration of approximately RMB227 million;

(2) a deed of undertaking dated 17 February 2016 executed by China Expressway, Mr. Jiang Hailin and Mr. Liao Jie in favour of the Company regarding the payment of the China Expressway Dividend;

(3) an undertaking dated 17 February 2016 executed by Beijing RHY, Mr. Mr. Jiang Hailin and Mr. Liao Jie in favour of Beijing Zhongzhi regarding the payment of the Beijing RHY Dividend; and

(4) the Master Sale and Purchase Agreement.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial position or trading prospects of the Company since 31 December 2014, the date to which the latest audited financial statements of the Company were made up.

6. LITIGATION

As at the Latest Practicable Date, neither the Company nor any member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against the Company or any member of the Group.

7. GENERAL

(a) The registered office, the headquarters and principal place of business in the Cayman Islands of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(b) The principal place of business of the Company in Hong Kong is at Room 1004, Tung Wah Mansion, 199–203 Hennessy Road, Wanchai, Hong Kong.

(c) The Company's Hong Kong branch share registrar and transfer office is Union Registrars Limited at A18/F., Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong (which will be relocated to Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong with effect from 5 April 2016).

(d) The company secretary of the Company is Mr. Leung Ming Shu who is a Fellow Member of the Association of Chartered Certified Accountants (FCCA) and a Fellow Member of the Hong Kong Institute of Certified Public Accountants (FCPA).

(e) The English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese text for the purpose of interpretation.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the below documents will be available for inspection during normal business hours at the office of Orrick, Herrington & Sutcliffe, the legal adviser of the Company, at 43rd Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong from the date of this circular up to and including the EGM date:

(a) the Memorandum and the Articles of Association;

(b) the material contracts referred in the paragraph headed "MATERIAL CONTRACTS" in this appendix;

(c) the Master Sale and Purchase Agreement;

(d) the annual reports of the Company for the two years ended 31 December 2014;

(e) this circular;

(f) the Letter from the Board;

(g) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 48 to 49 of this circular;

(h) the letter of advice from Challenge Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 50 to 89 of this circular;

(i) the accountants' reports prepared by Ernst & Young in respect of the Target Group, the text of which is set out in Appendix III to this circular;

(j) the report from Ernst & Young in respect of the unaudited pro forma financial information of the Remaining Group, the text of which is set out in Appendix II to this circular;

(k) the written consents referred to in the paragraph headed "EXPERTS" in this appendix.

10. EXPERTS

The following is the qualification of the experts who had given opinion or advice which is contained in this circular:

Name	Qualifications
Challenge Capital Management Limited	a corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance), and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Disposal and the Non-exempt Continuing Connected Transactions
Ernst & Young	Certified public accountants

Each of Challenge Capital and Ernst & Young has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report(s), letter(s) or opinion(s) (as the case may be) and references to its name or its report(s), letter(s) or opinion(s) (as the case may be) included in this circular in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of Challenge Capital and Ernst & Young:

(i) was not beneficially interested in the share capital of any member of the Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and

(ii) did not have any direct or indirect interest in any assets which have been, since 31 December 2014 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

China ITS (Holdings) Co., Ltd.
中国智能交通系统(控股)有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1900)

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the "**Meeting**") of China ITS (Holdings) Co., Ltd. (the "**Company**") will be held on 27 April, 2016 at 1:30 p.m. at Room VI, 6/F Building 204, No. A10 Jiuxianqiao North Road, Chaoyang District, Beijing, for the purpose of considering and, if though fit, to pass with or without amendments the following ordinary resolution (the "**Resolution**"):

ORDINARY RESOLUTION

"**THAT** the Master Sale and Purchase Agreement (as defined in the circular of the Company dated 24 March 2016 (the "**Circular**") and the transactions contemplated thereunder, and the Non-exempt Continuing Connected Transactions (as defined in the Circular) be and are hereby approved, confirmed and ratified; and the directors of the Company be and are hereby authorised to perform all such acts, deeds and things and execute all documents as they consider necessary or expedient to effect and implement the Master Sale and Purchase Agreement (as defined in the Circular), the transactions contemplated thereunder and the Non-exempt Continuing Connected Transactions (as defined in the Circular) and the amendments thereto which are not material in the context of the Disposal as a whole and of administrative nature."

By order of the Board
China ITS (Holdings) Co., Ltd
Mr. Liao Jie
Chairman

Hong Kong, 24 March 2016

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

Principal place of business in Hong Kong:
Room 1004
Tung Wah Mansion
199–203 Hennessy Road
Wanchai
Hong Kong

Notes:

(1) Any member entitled to attend and vote at the EGM convened by the above notice is entitled to appoint one or more proxies to attend and vote instead of him. A proxy needs not be a member of the Company. All proxies, together with powers of attorney or other authorities, if any, under which they are signed or notarially certified copies thereof, must be deposited with the Company's branch share registrar in Hong Kong, Union Registrars Limited at A18/F., Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong (which will be relocated to Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong with effect from 5 April 2016) not less than 48 hours before the time appointed for the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the EGM or any adjournment thereof should she/he so wishes.

(2) Where there are joint registered holders of any Share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders are present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the other in which the names of the joint holders stand on the register of the relevant joint holding.

(3) Shareholders who have a material interest in the Disposal and the Non-exempt Continuing Connected Transactions (as defined in the circular of the Company dated 24 March 2016), including the shareholders of the Purchaser (as defined in the circular of the Company dated 24 March 2016), and their respective associates are required to abstain from voting on the Resolution at the EGM.

As at the date of this notice, the executive Directors are Mr. Liao Jie, and Mr. Jiang Hailin, the non-executive Director is Mr. Tim Tianwei Zhang, and the independent non-executive Directors are Mr. Zhou Chunsheng, Mr. Choi Onward and Mr. Sun Lu.