中国智能交通系统(控股)有限公司

China ITS (Holdings) Co., Ltd.

(incorporated in the Cayman Islands with limited liability)

Stock Code: 1900

2015 Annual Report

Contents

Corporate Information

BOARD OF DIRECTORS

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 *(FCCA, HKICPA)*
Mr. Sun Lu

COMPANY SECRETARY
Mr. Leung Ming Shu *(FCCA, FCPA)*

AUTHORIZED REPRESENTATIVES
Mr. Jiang Hailin
Suite 102, 1st Unit, 8th building
1 Balizhuang Beili, Haidian District
Beijing
China

Mr. Leung Ming Shu *(FCCA, FCPA)*
Flat 2110, Block B, Tai Hang Terrace
5 Chun Fai Road
Jardine's Lookout
Hong Kong

AUDIT COMMITTEE
Mr. Choi Onward *(committee chairman) (FCCA, HKICPA)*
Mr. Zhou Chunsheng
Mr. Sun Lu

REMUNERATION COMMITTEE
Mr. Sun Lu *(committee chairman)*
Mr. Zhou Chunsheng
Mr. Choi Onward *(FCCA, HKICPA)*

NOMINATION COMMITTEE
Mr. Zhou Chunsheng *(committee chairman)*
Mr. Choi Onward *(FCCA, HKICPA)*
Mr. Sun Lu

REGISTERED OFFICE
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE IN THE PRC
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Chaoyang District
Beijing 100015, China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Room 1004
Tung Wah Mansion
199–203 Hennessy Road
Hong Kong

COMPANY WEBSITE
www.its.cn

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

Corporate Information

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Suites 3301–04, 33/F
Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

AUDITOR

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

LEGAL ADVISOR

Orrick, Herrington & Sutcliffe (Hong Kong law)
43rd Floor, Gloucester Tower
The Landmark
15 Queen's Road, Central
Hong Kong

LISTING EXCHANGE INFORMATION

Place of listing: Main Board of The Stock Exchange of Hong Kong Limited
Stock code: 1900
Board lot: 1000 shares

PRINCIPAL BANKERS

China Development Bank Corporation
Beijing Branch
China Merchants Bank Co., Ltd.
Beijing Branch Beisanhuan sub-branch
China Everbright Bank Co., Ltd.
Beijing Branch Xicheng sub-branch
Bank of Beijing Co., Ltd.
Beijing Branch Cuiweilu sub-branch
China Guangfa Bank Co., Ltd.
Beijing Branch
Ping An Bank Co., Ltd.
Beijing Branch Guomao sub-branch

Corporate Information

KEY SUBSIDIARIES

"Aproud Technology"	Beijing Aproud Technology Co., Ltd. (北京亞邦偉業技術有限公司)
"Bailian Zhida"	Beijing Bailian Zhida Technology Development Co., Ltd. (北京百聯智達科技發展有限公司)
"Beijing Aproud Transportation"	Beijing Aproud Transportation Technology Co., Ltd. (北京亞邦偉業交通技術有限公司)
"Beijing Huading Jiaye"	Beijing Huading Jiaye Technology Co., Ltd. (北京華鼎嘉業技術有限公司)
"Beijing Jingwei Zhitong"	Beijing Jingwei Zhitong Technology Co., Ltd. (北京經緯智通科技有限公司)
"Beijing Lihe Datong"	Beijing Lihe Datong Technology Co., Ltd. (北京利和達通科技有限公司)
"Beijing Newcom Traffic"	Beijing Newcom Traffic Technology Co., Ltd. (北京航天智通交通科技有限公司)
"Beijing STONE"	Beijing STONE Intelligent Transportation System Integration Co., Ltd. (北京四通智能交通系統集成有限公司)
"Beijing Wuzhouzhitong"	Beijing Wuzhouzhitong Traffic Technology Co., Ltd. (北京五洲智通交通科技有限公司)
"Beijing Zhongzhi Runbang"	Beijing Zhongzhi Runbang Technology Co., Ltd. (北京中智潤邦科技有限公司)
"Beijing Wancheng	Beijing Wancheng Internet Investment Co., Ltd. (北京萬城互聯投資有限公司)
"Chengzhi Ruibang"	Beijing Chengzhi Ruibang Technology Co., Ltd. (北京誠智瑞邦科技有限公司)
"Guangzhou Taizheng"	Guangzhou Taizheng Technology Co., Ltd. (廣州泰正科技有限公司)
"Guangzhou Xincheng"	Guangzhou Yabang Xincheng Communication Technology Co., Ltd. (廣州亞邦鑫程交通技術有限公司)
"Hongrui Dake	Beijing Hongrui Dake Technology Co., Ltd. (北京宏瑞達科科技有限公司)
"Haotian Jiajie"	Beijing Haotian Jiajie Technology Co., Ltd. (北京昊天佳捷科技有限公司)
"Intelligent Transportation"	Intelligent Transportation Co., Ltd. (智能交通有限公司)

Corporate Information

"Intelligent Aviation System"	Intelligent Aviation System Co., Ltd. (智能航空系統有限公司)
"Jiangsu Zhixun Tiancheng"	Jiangsu Zhixun Tiancheng Technology Co., Ltd. (江蘇智訊天成技術有限公司)
"Jiangsu Zhongzhi Transportation"	Jiangsu Zhongzhi Transportation Technology Co., Ltd. (江蘇中智交通科技有限公司)
"Jiangsu Zhongzhi Jiaye"	Jiangsu Zhongzhi Jiaye Electronic Technology Co., Ltd. (江蘇中智嘉業電子科技有限公司)
"Jiangsu Zhongzhi Ruixin"	Jiangsu Zhongzhi Ruixin IOT Technology Co., Ltd. (江蘇中智瑞信物聯科技有限公司)
"RHY Technology"	Beijing RHY Technology Development Co., Ltd. (北京瑞華贏科技發展有限公司)
"Southwest Intelligent Transportation"	Southwest Intelligent Transportation Co., Ltd. (西南智能交通有限公司)
"Tianjin Communication"	Tianjin Communication Information Co., Ltd. (天津航天智通交通信息投資營運有限公司)
"Zhihang Tuoyu"	Zhihang Tuoyu Information System (Beijing) Co., Ltd. (智航拓宇信息系統(北京)有限公司)
"Zhixun Tiancheng"	Beijing Zhixun Tiancheng Technology Co., Ltd. (北京智訊天成技術有限公司)
"Zhongtian Runbang"	Zhongtian Runbang Information Technology Co., Ltd. (中天潤邦信息技術有限公司)

JOINT VENTURES

"Chengdu Zhida Weilute"	Chengdu Zhida Weilute Technology Co., Ltd. (成都智達威路特科技有限公司)
"GTECH-CIC"	GTECH-CIC Joint Venture (英國通用-中國智能交通聯營公司)
"Nanjing Communication"	Nanjing Communication Information Co., Ltd. (南京智慧交通信息有限公司)
"Wuhan Chenguang"	Wuhan Chenguang Transportation Technology Development Co., Ltd. (武漢辰光交通科技發展有限公司)
"Xining Communication"	Xining Communication Information Co., Ltd. (西寧交通信息化建設投資運營有限公司)

Financial Highlights

HIGHLIGHTS OF 2015 ANNUAL RESULTS

New contracts signed and orders secured for the year ended December 31, 2015 increased by approximately 20.2% to approximately RMB2,642.2 million compared to approximately RMB2,198.7 million for the year ended December 31, 2014.

Backlog as at December 31, 2015 increased by approximately 10.9% to approximately RMB2,193.1 million compared to approximately RMB1,976.9 million as at December 31, 2014.

Revenue for the year ended December 31, 2015 increased by approximately 2.2% to approximately RMB2,317.5 million compared to approximately RMB2,266.7 million for the year ended December 31, 2014.

Gross profit for the year ended December 31, 2015 increased by approximately 12.5% to approximately RMB393.1 million compared to approximately RMB349.3 million for the year ended December 31, 2014.

Gross profit margin was approximately 17.0%, which is higher than that in the year of 2014.

The non-cash one-off expenses[(1)] for the year ended December 31, 2015 was approximately RMB215.1 million, which was RMB114.7 million in the year ended December 31, 2014.

Before deducting the non-cash one-off expenses, the adjusted loss attributable to the owners of the parent[(2)] for the year ended December 31, 2015 was approximately RMB63.4 million, including the net financial expenses[(3)] and other non-cash expenses[(4)] which were approximately RMB74.9 million and RMB9.8 million respectively.

During 2015, the Group's urban traffic segment experienced a declining business trend due to macro environment factors, and the loss of this segment was approximately RMB352.0 million which including the impairment loss recognised in this segment. On the other hand, the Group's railway segment recorded the historical highest revenue of RMB1,363.3 million for the year ended December 31, 2015. In the year ended December 31, 2015, because of the growth in traditional and VAOS business under this segment, the railway segment's gross profit margin increased by 3.0% to 18.5% as compared to 15.5% for the year ended December 31, 2014, and the profit of this segment reached approximately RMB133.6 million. In the expressway segment, the profit of this segment reached approximately RMB75.0 million for the year ended December 31, 2015.

Loss attributable to owners of the parent of the Company for the year ended December 31, 2015 was approximately RMB278.5 million, compared to a loss of approximately RMB194.7 million for the year ended December 31, 2014.

Notes:

(1) Non-cash one-off expenses for the year ended December 31, 2015 include the impairment of goodwill, valuation of investment in associates, intangible assets arising from acquisitions, properties and equipments, and the impairment of other receivables. And non-cash one-off expenses for the year ended December 31, 2014 include goodwill impairment, derecognition loss of call option, loss on disposal of subsidiaries, impairment of property and equipment and impairment of other receivables about expressway restructure taxes.

(2) Adjusted loss attributable to the owners of the parent refers to loss attributable to the owners of the parent plus non-cash one-off expenses.

(3) Net financial expenses refer to total finance cost minus finance income.

(4) Other non-cash expenses include equity-settled share option expenses and amortisation of intangible assets arising from acquisitions.

Financial Summary

A summary of backlog information, financial performance, financial position and financial ratios of China ITS (Holdings) Co., Ltd. (the "**Company**" or "**CIC**") and its subsidiaries (together with the Company, the "**Group**", "**we**" or "**us**") over the last five financial years, as extracted from published audited financial statements, is set out below:

1. BACKLOG INFORMATION

RMB'000	Year ended December 31				
	2015	2014	2013	2012	2011
New contracts signed and orders secured	**2,642,215**	2,198,665	2,683,369	2,617,413	1,900,051

RMB'000	As at December 31				
	2015	2014	2013	2012	2011
Backlog	**2,193,050**	1,976,892	2,210,722	2,019,628	1,593,531

2. FINANCIAL PERFORMANCE

RMB'000	Year ended December 31				
	2015	2014	2013	2012	2011
Revenue	**2,317,541**	2,266,696	2,390,268	2,146,000	1,585,206
Gross profit	**393,063**	349,259	558,986	516,730	392,392
Profit/(loss) attributable to owners of parent	**(278,476)**	(194,657)	149,254	131,910	112,919

3. FINANCIAL POSITION

RMB'000	As at December 31				
	2015	2014	2013	2012	2011
Total assets	**6,384,993**	5,755,675	5,796,466	5,169,898	3,941,739
Net assets	**2,126,140**	2,443,508	2,669,643	2,497,406	2,272,700
Net cash position(1)	**(367,493)**	(154,387)	(242,792)	(47,988)	135,491

Notes:

(1) Net cash position refers to cash and cash equivalents *plus* convertible borrowings and held-to-maturity investment, *minus* interest-bearing bank borrowings, guaranteed bonds and convertible bonds.

(2) Details of the above financial information are set out in Management Discussion and Analysis section on page 11 to page 21.

Financial Summary

4. FINANCIAL RATIOS

	For the year ended/As at December 31				
	2015	2014	2013	2012	2011
Sales cycle ratios:					
Trade receivables turnover days (days)[1]	**245**	203	154	142	185
Net construction contract turnover days (days)[2]	**51**	78	87	72	63
Combined trade receivables and net construction contract turnover days (days)	**296**	281	241	214	248
Other ratios:					
Trade payables turnover days (days)[3]	**234**	212	196	179	194
Current ratio (times)[4]	**1.4**	1.5	1.8	1.7	1.9
Gearing ratio (%)[5]	**5.3%**	2.0%	2.8%	-3.7%	-12.4%
Return on assets (%)[6]	**-4.4%**	-3.4%	2.6%	2.6%	2.9%
Return on equity (%)[7]	**-13.1%**	-8.0%	5.6%	5.3%	5.0%

Notes:

(1) Trade receivables turnover days refers to average trade receivables *divided* by revenue multiples 365 days.

(2) Net construction contract turnover days refers to average net construction contract *divided* by revenue multiples 365 days.

(3) Trade payables turnover days refers to average trade payables *divided* by cost of sales multiples 365 days.

(4) Current ratio refers to current assets *divided* by current liabilities.

(5) Gearing ratio refers to adjusted cash (interest-bearing bank borrowings *plus* guaranteed bonds, convertible bonds and due to related parties *minus* pledged deposits, short term deposit, convertible borrowings, held-to-maturity investment and cash and bank balances) *divided* by total equity.

(6) Return on assets refers to profit attributable to owners of parent *divided* by total assets as at balance sheet date.

(7) Return on equity refers to profit attributable to owners of parent *divided* by total equity as at balance sheet date.

(8) Details of the above financial information are set out in Management Discussion and Analysis section on page 11 to page 21.

Chairman's Statement

BUSINESS OVERVIEW

The revenue of the Group in 2015 was RMB2,317.5 million, representing an increase of 2.2% as compared to RMB2,266.7 million in 2014, new contracts signed and orders secured in 2015 amounted to RMB2,642.2 million, representing an increase of 20.2% as compared to 2014. Backlog as at the end of 2015 was RMB2,193.1 million, representing an increase of 10.9% as compared to 2014. The overall increase of revenue was due to remarkable growth in the railway segment.

In February 2016, the Company made an announcement that certain major shareholders of the Company will purchase the Group's expressway and urban traffic businesses at the initial total consideration of RMB979,840,000. Because of the lack of growth of the expressway and urban traffic businesses and boom of railway business, the Board believes the transaction is beneficial for the shareholders and the Company. The Company intends to use the proceeds to repay bank loan, enhance railway and civil aviation business and fill the general working capital of the Company.

For the further information of this transaction, please refer to HKEX website and see the announcement of the Company titled "VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF THE ENTIRE EQUITY INTERESTS IN THE TARGET COMPANIES AND CONTINUING CONNECTED TRANSACTIONS" dated February 17, 2016.

SEGMENT OVERVIEW AND PROSPECTS

(i) Railway

The Company's railway business recorded the historical highest revenue of RMB1,363.3 million for the year ended December 31, 2015. From a macro environment point of view, the "13th Five years plan (Draft)" announced that there will be RMB3.5–RMB3.8 trillion to be invested in railway infrastructure constructions from 2016 to 2020, which is much higher than "12th Five years plan". It shows that there is still huge demand on railway development. From a micro point of view, the railway segment has been benefited from the favourable industry environment with huge demand of reforming and upgrading existing local railway network communication services. 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.

In the future development plan, the railway segment will continue research and development including GPON (Gigabit-Capable Passive Optical Network) and Regional Protection System. The Board believes that these new products and solutions will make breakthrough and take revenues in 2016.

(ii) Civil Aviation

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 will be mainly focusing on the informatization of airport ground services through the establishment of airport wireless solutions and obtaining sales revenues from communication services, surveillance services and value-added operation and services.

Chairman's Statement

(iii) Expressway

In 2015, the Expressway recorded revenue of RMB808.9 million. 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%. The overall growth trend of the expressway segment appeared to be flat and mature. The financial performance of the expressway 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.

(iv) Urban Traffic

For urban traffic segment, as discussed in 2015, the Urban Traffic segment recorded revenue of RMB145.0 million. The urban traffic segment 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 2015.

LIAO JIE
Chairman

Beijing, March 31, 2016

Management Discussion and Analysis

REVENUE

By Industry Segments

The Group's revenue for the year ended December 31, 2015 increased by 2.2% to RMB2,317.5 million as compared to RMB2,266.7 million for the year ended December 31, 2014 due to a 23.8% decrease in the expressway segment, a 24.4% decrease in the urban traffic and others segment which were partially offset by a 34.6% increase in the railway segment. The following table sets out the revenue breakdown by industry segments:

	Year ended December 31	
	2015	2014
	RMB'000	RMB'000
Revenue by industry segments		
Expressway	**808,884**	1,062,150
Railway	**1,363,250**	1,012,853
Urban traffic	**145,007**	191,693
Others	**400**	–
Elimination	**–**	–
Total	**2,317,541**	2,266,696

(i) Expressway

Revenue from the expressway segment in the year ended December 31, 2015 was RMB808.9 million, representing a decrease of RMB253.3 million as compared to RMB1,062.2 million for the year ended December 31, 2014. This decrease was mainly due to the impact of the change in the expressway industry. Since 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, the Group actively searched for new cooperative models with customers and invested manpower and resources to build up new product lines since 2014. The new contracts and orders secured amount in the year ended December 31, 2015 was RMB935.4 million and the backlog amount as at December 31, 2015 was RMB1,059.3 million for the expressway segment.

Management Discussion and Analysis

(ii) Railway

Revenue from the railway segment in the year ended December 31, 2015 was RMB1,363.3 million, representing an increase of RMB350.4 million as compared to RMB1,012.9 million for the year ended December 31, 2014. Following the strong recovery in 2014, the railway segment remained robust in 2015. During the year of 2015, the new contracts and orders secured amount for railway segment increased by approximately 40.2% as compared with 2014. Under the environment of increasing investment in railway construction in China during 2014 and 2015, the railway segment captured this opportunity for development and maintained the momentum of high growth in traditional communication solutions, further consolidating its leading position in the traditional segment. During 2015, the new contract and order secured, the revenue and the backlog amounts from this segment all reached an all-time high. It is worth mentioning that owing to the 2015 China railway network reform, new contract signed and order secured for the Group amounted to more than RMB0.5 billion in the year ended December 31, 2015, which on the one hand optimized the current performance, and on the other hand could lay the foundation for providing value-added services to the customers in the future. The Group believes that the railway segment will be able to seize more business opportunities relying on their own advantages. 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 of the Group has been benefited from the favorable industry environment with huge demand of reforming and upgrading the 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. The new contracts and orders secured amount in the year ended December 31, 2015 was RMB1,633.5 million and the backlog amount as at December 31, 2015 was RMB989.3 million for railway segment.

(iii) Urban Traffic

Revenue from the urban traffic segment in the year ended December 31, 2015 was RMB145.0 million, representing a decrease of RMB46.7 million as compared to RMB191.7 million for the year ended December 31, 2014. Since late 2013, local government in China has cut back on their investment to urban traffic projects to different extent, this situation has not been improved in the 2015. On the other hand, considering the large amount of capital investment in the implementation of urban traffic projects, the risk of the government delaying the payment schedule, the Group was more cautious in the selection of new projects. The new contracts and orders secured amount in the year ended December 31, 2015 was RMB73.3 million and the backlog amount as at December 31, 2015 was RMB144.5 million for urban traffic segment.

(iv) Others

Revenue from the others segment in the year ended December 31, 2015 was RMB0.4 million, representing an increase of RMB0.4 million as compared to nil in the year ended December 31, 2014. The new contracts and orders secured amount in the year ended December 31, 2015, and the backlog amount at December 31, 2015 were both nil for others segment.

BUSINESS PATTERN AND MAJOR PROJECTS

The Group's business is highly correlated with the macroeconomic policies on infrastructure investment of the PRC central government and has an unique seasonal character. Most of the construction projects were in bidding stage and commenced implementations in the first half of 2015. Therefore, the new contracts were confirmed in the first half of the year and the revenue was recognized in the second half of the year, which resulted in a higher backlog amount in comparison with the figure at year end. The business pattern remained unchanged in 2015, but due to that lots of new contracts and orders were signed and secured during the second half of the year 2015 from the railway segment, which was higher than that for the past year, so the backlog amount was approximately RMB2,193.1 million as at December 31, 2015, which was higher than RMB1,879.2 million as at June 30, 2015.

During 2015, the Group had implemented more than 1,800 projects of various sizes, covering most of the regions in Mainland China. The following table sets out the major projects generating revenue in each industry segment:

Industry segments	**Project name**
Expressway:	Yunnan Da-Li (Dali — Lijiang) Expressway Project Hubei Macheng-Zhuxi Expressway Project Hebei Shi-An (Shijiazhuang — Anyang) Expressway Project
Railway:	Shenyang Data Network Reform Project Harbin Network Reform Project The South and North of Hunan OTN Project
Urban traffic:	Wuhai ITS Management System Project Nanhai District ITS Management Project Chongqing Subway Line 6 Project

By Business sectors

The revenue in Turnkey Solutions' business dropped by 32.3% for the year ended December 31, 2015 and Special Solutions' business and Value-Added Operation and Services' business increased by 17.3% and 94.3%, respectively. The following table sets out the revenue breakdown by business sectors:

	Year ended December 31	
	2015	2014
	RMB'000	RMB'000
Revenue by business sectors		
TS	**623,078**	919,861
SS	**1,509,893**	1,286,873
VAOS	**192,850**	99,250
Elimination	**(8,280)**	(39,288)
Total	**2,317,541**	2,266,696

Management Discussion and Analysis

(i) Turnkey Solutions ("*TS*")

Revenue from the TS business for the year ended December 31, 2015 was RMB623.1 million, representing a decrease of RMB296.8 million as compared to RMB919.9 million for the year ended December 31, 2014. As mentioned in the industry segment section, due to the decrease in urban traffic industry and the flat and mature overall growth trend in expressway industry, there was a decrease in the revenue from the TS business in these two segment. The TS business as a whole accounted for 26.9% of the Group's revenue in the year ended December 31, 2015, representing a decrease from 40.6% as recorded for the year ended December 31, 2014.

(ii) Special Solutions ("*SS*")

Revenue from the SS business in the year ended December 31, 2015 was RMB1,509.9 million, representing an increase of RMB223.0 million as compared with RMB1,286.9 million for the year ended December 31, 2014. As mentioned in the industry segment section, due to the decrease in the overall expenditure in urban traffic industry, there was a significant decrease in the revenue from the SS business in urban traffic segment. However, the revenue from the SS business in railway segment recorded a significant increase of 26.9% as compared with 2014. The Group believes the revenue from this segment will further increase in 2016. The SS business as a whole accounted for 64.8% of the Group's revenue in the year ended December 31, 2015, which is higher than 55.0% as recorded for the year ended December 31, 2014.

(iii) Value-added Operation and Services ("*VAOS*")

Revenue from the VAOS business in the year ended December 31, 2015 was RMB192.8 million, representing an increase of RMB93.5 million as compared to RMB99.3 million for the year ended December 31, 2014. This increase was mainly due to the increase of VAOS in the railway segment. The VAOS business as a whole accounted for 8.3% of the Group's revenue in the year ended December 31, 2015, which is higher than 4.4% as recorded for the year ended December 31, 2014.

Management Discussion and Analysis

COST OF SALES

Cost of sales was incurred on a project-by-project basis for individual legal entities and was subsequently aggregated at sector or segment and corporate level. The cost of sales was based on the equipment and other direct relevant costs incurred for completion of each of the relevant projects. The cost of sales constituted 83.0% of the Group's revenue in the year ended December 31, 2015, which is lower than 84.6% as recorded for the year ended 31 December 2014.

By Industry Segments

	Year ended December 31	
	2015	2014
	RMB'000	RMB'000
Cost of Sales by industry segments		
Expressway	**643,274**	866,917
Railway	**1,111,294**	855,960
Urban traffic	**169,466**	194,560
Others	**444**	–
Elimination	**–**	–
Total	**1,924,478**	1,917,437
% of Revenue	**83.0%**	84.6%

(i) Expressway

The expressway segment decreased by RMB223.6 million to RMB643.3 million in the year ended December 31, 2015 as compared to RMB866.9 million for the year ended December 31, 2014.

(ii) Railway

The railway segment increased by RMB255.3 million to RMB1,111.3 million in the year ended December 31, 2015 as compared to RMB856.0 million for the year ended December 31, 2014.

(iii) Urban traffic

The urban traffic segment decreased by RMB25.1 million to RMB169.5 million in the year ended December 31, 2015 as compared to RMB194.6 million for the year ended December 31, 2014.

(iv) Others

The others segment increased by RMB0.4 million to RMB0.4 million in the year ended December 31, 2015 as compared to nil for the year ended December 31, 2014.

By Business Sectors

	Year ended December 31	
	2015	2014
	RMB'000	RMB'000
Cost of Sales by business sectors		
TS	**566,645**	806,936
SS	**1,227,073**	1,057,104
VAOS	**139,040**	92,685
Elimination	**(8,280)**	(39,288)
Total	**1,924,478**	1,917,437
% of Revenue	**83.0%**	84.6%

(i) TS

The cost of sales incurred for TS constituted 29.0% of the Group's cost of sales in the year ended December 31, 2015, which was lower than that in the prior year, and was mainly due to the overall industry slowdown in the urban traffic segment.

(ii) SS

The cost of sales incurred for SS constituted 63.8% of the Group's cost of sales in the year ended December 31, 2015, which was higher than that in the prior year mainly because of the revenue from the SS was higher than that for the year ended December 31, 2014.

(iii) VAOS

The cost of sales incurred for VAOS constituted 7.2% of the Group's cost of sales in the year ended December 31, 2015, which was higher than that in the prior year.

Management Discussion and Analysis

GROSS PROFIT

Overall gross profit of the Group increased from RMB349.3 million for the year ended December 31, 2014 to RMB393.1 million in the year ended December 31, 2015. Gross profit margin increased from 15.4% for the year ended December 31, 2014 to 17.0% in the year ended December 31, 2015 which was mainly due to (i) the growth in traditional business under the railway segment; (ii) the growth in VAOS business under the expressway and railway segments.

By Industry Segment

	Year ended December 31	
	2015	2014
	RMB'000	RMB'000
Gross profit by industry segments		
Expressway	**165,610**	195,233
Margin %	**20.5%**	18.4%
Railway	**251,956**	156,893
Margin %	**18.5%**	15.5%
Urban traffic	**(24,459)**	(2,867)
Margin %	**(16.9%)**	(1.5%)
Others	**(44)**	–
Margin %	**(10.8%)**	–
Total	**393,063**	349,259
Margin %	**17.0%**	15.4%

(i) Expressway

The expressway segment gross profit margin increased by 2.1% to 20.5% in the year ended December 31, 2015 as compared to 18.4% for the year ended December 31, 2014. The increase was mainly due to the increase in gross profit from the VAOS business during the year ended December 31, 2015.

(ii) Railway

The railway segment gross profit margin increased by 3.0% to 18.5% in the year ended December 31, 2015 as compared to 15.5% for the year ended December 31, 2014. This change was mainly due to the growth in traditional and VAOS business under this segment. In particular, the gross profit margin of VAOS is higher than the traditional and other new business, such as passenger service and video surveillance.

(iii) Urban traffic

The urban traffic segment gross profit margin decreased by 15.4% from -1.5% for the year ended December 31, 2014 to -16.9% in the year ended December 31, 2015. The main reason for this change is the overall slowdown in the urban traffic industry in 2015, leading to a significant decrease in new contracts and gross profit margin for the projects.

(iv) The others

The gross loss from the others segments was RMB0.04 million.

By Business Sectors

	Year ended December 31	
	2015	2014
	RMB'000	RMB'000
Gross profit by business sectors		
TS	**56,433**	112,925
Margin	**9.1%**	12.3%
SS	**282,820**	229,769
Margin	**18.7%**	17.9%
VAOS	**53,810**	6,565
Margin	**27.9%**	6.6%
Total	**393,063**	349,259
Margin	**17.0%**	15.4%

(i) TS

Gross profit margin for TS decreased by 3.2% to 9.1% in the year ended December 31, 2015 as compared to 12.3% for the year ended December 31, 2014, which was mainly due to the decrease in gross profit margin for the urban traffic segment.

(ii) SS

Gross profit margin for SS slightly increased by 0.8% to 18.7% in the year ended December 31, 2015, as compared to 17.9% for the year ended December 31, 2014.

(iii) VAOS

Gross profit margin for VAOS increased from 6.6% for the year ended December 31, 2014 to 27.9% in the year ended December 31, 2015. The gross profit margin for VAOS varied from project to project and normally is within a range from 30% to 60%. The Group believes VAOS will continue to bring higher quality of profit in the coming years.

OTHER INCOME AND GAINS

Other income and gains mainly comprised of (a) rental income from investment properties, (b) fair value changes of investment properties and financial assets, and (c) government grants. Both the rental income and fair value changes in investment properties were related to the real estate price in Beijing and was in line with the market growth trend. The fair value of financial assets exchanges were related to the fair value changes of convertible borrowings.

OTHER EXPENSES

Other expenses mainly comprised of goodwill impairment of Beijing STONE and China Traffic Holding, the impairment of valuation of investment in associates, the impairment of intangible assets arising from acquisitions and the impairment of property and equipment which were approximately RMB203.1 million in total.

SELLING, GENERAL AND ADMINISTRATION EXPENSES

In the year ended December 31, 2015, selling, general and administration expenses was approximately RMB412.5 million, representing a decrease of RMB16.2 million as compared to approximately RMB428.7 million for the year ended December 31, 2014.

(i) Selling, general and administration expenses which was related to daily operational activities

In the year ended December 31, 2015, selling, general and administration expenses which was related to daily operational activities ("**SG&A**") was approximately RMB342.8 million, as the percentage of sales slightly decreased by 1.6% to 14.8% as compared to 16.4% for the year ended December 31, 2014.

The staff costs remained as a large component of the Group's SG&A while the travelling, entertainment and business expansion expenses ("**T&E Expenses**") and office supplies expenses are highly correlated with the headcount numbers. Therefore, the total amount of the aforesaid expenses (headcount related cost) constituted the largest portion of the Group's SG&A. The headcount related cost decreased from RMB221.9 million in the year ended December 31, 2014 to RMB211.0 million for the year ended December 31, 2015 primarily attributable to the decrease in the Group's headcount from 818 full time employees as at December 31, 2014 to 762 full time employees as at December 31, 2015, representing a 5.0% decrease and accounting for 61.5% of the SG&A.

The rental expenses increased from RMB27.0 million for the year ended December 31, 2014 to RMB34.5 million for the year ended December 31, 2015. The rental expenses accounted for 10.1% of the total SG&A in the year ended December 31, 2015, and increased 27.8% as compared to that of the corresponding period in 2014 which was mainly due to the growth of rental expenses of Beijing office.

Research & Development expenses decreased from RMB41.3 million for the year ended December 31, 2014 to RMB36.6 million for the year ended December 31, 2015.

(ii) Bad debt expenses

Bad debt expenses mainly represented one-off write-down expenses provided for receivables which the Group considered with no or minimal recoverability according to recognized criteria of bad debts on individual basis. Such expenses were RMB69.7 million for the year ended December 31, 2015, among which such expenses of the urban traffic segment were RMB55.8 million.

Management Discussion and Analysis

OTHER NON-CASH EXPENSES

Equity-settled share option expenses refer to the share options expenses related to the Company's pre-IPO share incentive scheme adopted on December 28, 2008 ("**Pre-IPO Share Incentive Scheme**") and the Share Option Scheme under which share options were granted on January 18, 2013. For year ended December 31, 2015, equity-settled share option expenses was RMB0.1 million, which was much lower than that of RMB6.7 million for year ended December 31, 2014, due to the diminishing scale of option expenses over the years.

Amortization expenses of intangible assets arising from acquisition mainly represented the amortization arising from the acquisition of CTH and STONE. Such expenses were RMB9.7 million for the year ended December 31, 2015, which was lower than the expenses of RMB17.6 million for the year ended December 31, 2014, because certain intangible assets from acquisition were already fully amortized in 2014.

FINANCE REVENUE AND FINANCE COST

Finance revenue comprised of mainly interest income and finance cost comprised of mainly interest expenses for interest-bearing bank loan, convertible bonds and guaranteed bonds. The net financial expenses represented the total finance cost minus finance revenue. This financial expense was RMB74.9 million in the year ended December 31, 2015, which represented an increase of RMB9.7 million as compared to RMB65.2 million for the year ended December 31, 2014. The increase was mainly due to that the Company paid more finance cost to redempt the convertible bonds before the due date.

SHARE OF PROFITS/(LOSSES) OF JOINT VENTURES/ASSOCIATES

Share of Profits of investment entities in the year ended December 31, 2015 was approximately RMB5.7 million, which represented a decrease from the amount of RMB13.2 million for the year ended December 31, 2014. The investment income was mainly from share of profit of several associates in both the expressway and the urban traffic segments.

INCOME TAX EXPENSES

The total income tax expense in the year ended December 31, 2015 was RMB33.6 million, which was higher than the income tax expenses for the year ended December 31, 2014, and was mainly due to the dividend taxes of RMB11.3 million as Beijing RHY declared dividends to its shareholders on December 31, 2015.

PROFIT FOR THE YEAR

Before deducting the non-cash one-off expenses, the adjusted loss to the owners of the parent for the year ended December 31, 2015 was approximately RMB63.4 million. Loss to the owners of the parent for the year ended December 31, 2015 was approximately RMB278.5 million, compared to a loss of approximately RMB194.7 million for the year ended December 31, 2014.

TRADE RECEIVABLES TURNOVER DAYS

The trade receivables turnover days in the year ended December 31, 2015 was 245 days (in the year ended December 31, 2014: 203 days).

NET CONSTRUCTION TURNOVER DAYS

The net amount due from contract customer turnover days in the year ended December 31, 2015 was 51 days (in the year ended December 31, 2014: 78 days).

The combined trade receivables and net construction contract turnover days in the year ended December 31, 2015 was 296 days (in the year ended December 31, 2014: 281 days), which reflected that there was not an obviously change in Group's account receivables turnover days in 2015 compared with 2014.

Management Discussion and Analysis

TRADE PAYABLES TURNOVER DAYS

The trade payables turnover days in the year ended December 31, 2015 was 234 days (in the year ended December 31, 2014: 212 days).

INVENTORY TURNOVER DAYS

The inventories of the Group mainly comprised of raw materials, work-in-progress, finished goods and general merchandise for surveillances Specialized Solutions. The inventory turnover days in the year ended December 31, 2015 was 5 days (in the year ended December 31, 2014: 4 days).

LIQUIDITY AND FINANCIAL RESOURCES

The Group's principal sources of working capital included cash flow from operating activities, banks and other borrowings, the proceeds from the Global Offering, and the proceeds from bond issued. As at December 31, 2015, the Group's current ratio (current assets divided by current liabilities) was 1.4 (as at December 31, 2014: 1.5). The Group's financial position remains healthy.

As at December 31, 2015, the Group was in a net negative cash of RMB367.5 million (as at December 31, 2014: net negative cash of RMB154.5 million) which included cash and cash equivalents of RMB736.1 million (as at December 31, 2014: RMB600.3 million), convertible borrowings of RMB82.3 million (as at December 31, 2014: RMB82.4 million), held-to-maturity investment nil (as at December 31, 2014: RMB67.5 million), interest-bearing bank borrowings of RMB1,185.9 million (as at December 31, 2014: RMB642.7 million. This increase was mainly due to that: (i) the rapid growth of the scale of business in the railway segment brought a huge demand for funds in a period of time (ii) the Company borrowed a loan amount of RMB136.2 million for the acquisition of a subsidiary during 2015, this subsidiary's assets primarily consist of the office which can be used as the Beijing office after acquisition by the Group); as well as guaranteed bonds nil (as at December 31, 2014: RMB107.6 million) and convertible bonds nil (as at December 31, 2014: RMB154.4 million). As at December 31, 2015, the Group's gearing ratio was 5.3%, which has increased from 2.0% as at December 31, 2014, due to the increase of interest-bearing bank borrowings. This gearing ratio will decrease after the projects complete and receive the accounts receivables. Gearing ratio refers to adjusted cash (interest-bearing bank borrowings plus guaranteed bonds, convertible bonds, due to related parties minus pledged deposits, short-term deposits, convertible borrowings, held-to-maturity investment and cash and bank balances) divide total equity.

CONTINGENT LIABILITIES

As at December 31, 2015, the Group had no material contingent liability.

CHARGES ON GROUP ASSETS

As at December 31, 2015, expect for the secured deposits (current portion) of approximately RMB232.7 million (as at December 31, 2014: RMB79.7 million), the Group pledged its buildings having net book values of approximately RMB125.8 million (as at December 31, 2014: RMB119.0 million), trade receivables with a total value of RMB41.9 million (as at December 31, 2014: 120.0 million) and its equity interests in a subsidiary amount of approximately RMB227.0 million (as at December 31, 2014: nil) to banks to secure banking facilities granted to the Group. Save as disclosed above, as at December 31, 2015, the Group had no other asset charged to financial institution.

Director and Senior Management

BOARD OF DIRECTORS

The Board consists of six Directors, two of whom are executive Directors, one of whom is a non-executive Director and the remaining three are independent non-executive Directors. The table below sets forth certain information regarding members of the Board:

Name	Age	Title
Mr. Liao Jie	50	Chairman and executive Director
Mr. Jiang Hailin	47	Executive Director
Mr. Tim Tianwei Zhang	53	Non-executive Director
Mr. Zhou Chunsheng	49	Independent non-executive Director
Mr. Choi Onward	45	Independent non-executive Director
Mr. Sun Lu	42	Independent non-executive Director

Executive Directors

Mr. LIAO Jie (廖杰), 50, is the chairman of the Board (the "**Chairman**") and an executive Director, responsible for formulating strategy of the Company. He was appointed as the executive Director and the chief executive officer of the Group (the "**Chief Executive Officer**") on August 24, 2011 and was responsible for the overall business operations and mergers and acquisitions of the Company. On July 9, 2012, Mr. Liao has been elected as the Chairman and retired from his position as the Chief Executive Officer. Mr. Liao is also one of the controlling shareholders of the Company (the "**Controlling Shareholder**"), and serves as a director of China ITS Co., Ltd. ("**Holdco**", one of the Controlling Shareholders) and Best Partners Development Limited ("**Best Partners**", one of the Controlling Shareholders), and sole director of Joyful Business Holdings Limited ("**Joyful Business**", one of the Controlling Shareholders), responsible for corporate finance and fund raising activities. Mr. Liao has been appointed as a director of Visual China Group Co., Ltd. (formerly known as Far East Industrial Stock Co., Ltd., a company listed on the Shenzhen Stock Exchange, stock code: 000681, "**Visual China**") from May 9, 2014 and the chairman of Visual China from May 29, 2014. Mr. Liao became a director of RHY Technology in May 2002, responsible for strategic planning and operational management in the expressway segment. He subsequently joined the board of directors of two other PRC companies in the Group, Wuhan Chenguang in April 2005 and Bailian Zhida in April 2007, respectively. He retired from the three above-mentioned directorships when he started serving as a senior advisor of the Board on business strategy and operational direction of the Group in January 2008.

Prior to joining the Company, Mr. Liao served as a senior engineer of Nortel Canada in 1995. From 1996, he spent a total of four years in North America running an international IT supply chain business before returning to the PRC in 1999. In 1999, Mr. Liao and his family founded Beijing Bailian Youli Information Technology Co., Ltd. (the former investment holding company prior to the establishment of Bailian Youli (Beijing) Investment Co., Ltd.), which invested and co-founded Visual China, CSDN Group Limited and the Group.

Mr. Liao holds a master's degree in applied science from the University of Toronto, and a bachelor degree in industrial automation from the Huazhong University of Science and Technology. Mr. Liao has a long established understanding of the businesses of the Group and deep industry expertise, as a result of which he can help the Group to reshape its business model, achieve operational excellence and diversify our business mix across different transport industry segments.

Director and Senior Management

Mr. JIANG Hailin (姜海林), 47, is an executive Director and the Chief Executive Officer, responsible for overall business operation of the Company. Mr. Jiang was appointed as the Director on February 20, 2008, and was then elected as the Chairman. On July 9, 2012, Mr. Jiang has been re-appointed as the Chief Executive Officer and therefore resigned from his position as the Chairman. He is also one of the Controlling Shareholders, a director of Holdco and Best Partners and sole director of Sea Best Investments Limited. Since he joined our Group in May 2002, Mr. Jiang has held various positions within our Group including serving as a director and chairman of the board of directors of Haotian Jiajie since March 2007, a director and vice chairman of the board of directors of Aproud Technology from August 2002 to February 2010 and again since May 2010, an executive director of Intelligent Aviation System since October 2012, an executive director of Jiangsu Zhongzhi Transportation since December 2011, an executive director of Zhixun Tiancheng since November 2014, an executive director of Beijing Newcom Traffic since December 2014 and an executive director of Zhihang Tuoyu since October 2014.

Prior to joining our Group, Mr. Jiang was employed by China Ocean Shipping Co., Ltd., a PRC incorporated company listed on the Shanghai Stock Exchange (stock code: 600428) where he was responsible for the development of ground transportation logistics network, in particular, the development of the cargo movement monitoring systems for ground transportation in the China ITS industry. He has established his business relationship and network in the transport industry since 2000.

Mr. Jiang received a bachelor's degree in computing from Nankai University in July 1990 and an EMBA degree from Tsinghua University in July 2006. Mr. Jiang possesses a total of approximately 22 years of experience in general management and over 14 years of experience in the China ITS industry.

Non-executive Director

Mr. Tim Tianwei ZHANG (張天偉), 53, is a non-executive Director appointed on 20 May 2014. Mr. Zhang has been the Chief Operating Officer of China Merchants Capital Investment Limited (招商局資本投資有限責任公司) ("**China Merchants Capital**") from April 2012 to December 2014. Mr. Zhang is also an independent non-executive director of HC International, Inc., a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (stock code: 8292), since November 2011. Prior to his position at China Merchants Capital, Mr. Zhang was the cofounder and managing director of Taconic Capital Ltd. from September 2003 to September 2005, the vice chairman and general manager of Unicredit China Capital Ltd. from September 2005 to June 2007. He was the managing director at J.P. Morgan Securities (Asia Pacific) Ltd. from July 2007 to October 2011, as well as the chairman of J.P. Morgan (China) Venture Capital Investment Co., Ltd. from 2010 to 2011. Mr. Zhang has been the managing director of Taconic Capital Group Ltd. (德康資本集團) since January 2015. Mr. Zhang also served as the chief executive officer of Mount Flag, LLC since August 2015. Mr. Zhang has over 21 years of experience in financial services and general management.

Mr. Zhang graduated from Tsinghua University with a Bachelor of Science in mechanical engineering in July 1986, and received his masters degree in economics from the Chinese Academy of Social Sciences and his Master of Business Administration degree from the University of Chicago.

Director and Senior Management

Independent non-Executive Directors

Mr. ZHOU Chunsheng (周春生), 49, is an independent non-executive Director, chairman of the nomination committee of the Company (the "**Nomination Committee**") and a member of the audit committee of the Company (the "**Audit Committee**") and remuneration committee of the Company (the "**Remuneration Committee**"). Mr. Zhou was appointed as Director on September 4, 2008. He is currently a professor of the Cheung Kong Graduate School of Business, an independent director of Zhejiang Transfer Co., Ltd., a company listed on Shenzhen Exchange (stock code: 002010), an independent director of Guangdong Huasheng Electrical Appliances Co., Ltd., a company listed on Shenzhen Stock Exchange (stock code: 002670), an independent non-executive director and a member of the audit committee and remuneration committee of North Asia Resources Holdings Limited, a company listed on the Hong Kong Stock Exchange (stock code: 0061), an independent non-executive director of Essence Futures Co., Ltd. and an independent non-executive director of Chang' an International Trust Co., Ltd..

Previously, Mr. Zhou acted as a commissioner of the Development and Strategy Committee of the China Securities Regulatory Commission, an economist of the U.S. Federal Reserve Board, where he was responsible for the analysis, control and management of financial risks, an assistant professor at the University of California (Riverside), an associate professor of the Business School of the University of Hong Kong and a finance professor of the Guanghua School of Management at Peking University. Mr. Zhou received a master's degree in applied mathematics from Peking University in July 1988 and a doctoral degree in economics from Princeton University in June 1995. Mr. Zhou was awarded the National Excellent Young Researcher Grant in January 2004 by the National Natural Science Foundation of China for his research in financial investments. Mr. Zhou's professional expertise and his wide experiences of serving as directors in other listed companies will be a significant asset to the Board.

Mr. CHOI Onward (蔡安活), 45, is an independent non-executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee and Nomination Committee. Mr. Choi was appointed as Director on September 4, 2008. Mr. Choi currently serves as the acting chief financial officer of NetEase, Inc., a company listed on NASDAQ (NASDAQ: NTES), an independent director of Tuniu Corporation, a company listed on NASDAQ (NASDAQ: TOUR), and an independent non-executive director of Beijing Jingkelong Company Limited, a company listed on the Stock Exchange of Hong Kong Limited (SEHK: 814).

Mr. Choi is a member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Association of Chartered Certified Accountants, a fellow member of the CPA Australia, a fellow member of the Hong Kong Institute of Certified Public Accountants and a registered practicing Certified Public Accountant in Hong Kong. Mr. Choi holds a Bachelor of Arts degree in accountancy with honors from the Hong Kong Polytechnic University.

Mr. SUN Lu (孫璐), 42, is an independent non-executive Director, chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee. Mr. Sun was appointed as Director on June 18, 2010. He is also the general manager and a director of CITIC Guoan Information Industry Co., Ltd. ("**CITIC Guoan**"), a PRC incorporated company listed on the Shenzhen Stock Exchange (stock code: 000839).

Previously, Mr. Sun served as the assistant to the general manager of CITIC Guoan. Mr. Sun was the manager of the investment department of Huaxia Securities Co., Ltd. and an auditor at the China Securities Regulatory Commission and at Hujiang Deloitte Accountant Co.. Mr. Sun received a bachelor's degree in accounting from the Capital University of Economics and Business in July 1996, and an EMBA degree from the Tsinghua University in July 2006. He possesses rich experience in corporate management.

Director and Senior Management

SENIOR MANAGEMENT

The table below sets forth information regarding the senior management of the Company (including Directors who also hold executive positions):

Name	Age	Position
Mr. Jiang Hailin	47	Chief Executive Officer, chairman of the finance committee
Mr. Ye Jun	43	Vice president of the Company, general manager of the president office
Mr. Leung Ming Shu	40	Chief Financial Officer, company secretary, general manager of investment and financing affairs
Mr. Guan Jizhen	50	Chief Technology Officer of the Company, chairman of the technology committee
Mr. Zhang Yi	42	Vice president of the Company, president of civil aviation group
Mr. Liao Yibing	49	Vice president of the Company, president of expressway and urban traffic group
Mr. Luo Haibin	39	Vice president of the Company, president of rail transportation group
Mr. Chen Changxue	49	Vice president of the Company, general manager of corporate partnership and development department

For information on Mr. Jiang Hailin, please see "Directors and Senior Management — Board of Directors" above.

Mr. Ye Jun, 43, is the vice president and the general manager of the president office of the Company, responsible for daily operation management and office automation management of the Company. Mr. Ye has held his present position since June 2015.

Prior to joining our Group, Mr. Ye was responsible for overall operating management and market development and product operation when he served as the general manager and vice president in Beijing Baiyitang Brand Investment Management Co., Ltd.* (北京百怡堂品牌投資管理有限公司) and Beijing Wangxun point technology Co., Ltd.* (北京网訊启点科技有限公司),respectively. Before that, Mr. Ye worked for Huawei Technologies Co., Ltd.* (華為技術有限公司) and was responsible for national marketing management of China Railcom, new operators, broadcast and TV system in integrated systems department. Meanwhile, he also served as the general manager of marketing department. Mr. Ye served as the engineer of China Posts and Telecommunications Industrial Corporation Beijing Heping Telecommunications Co., Ltd. (中国邮电工业总公司北京和平通信公司), in charge of product research and development and marketing of it.

Mr. Ye received a bachelor's degree in computer application from Changchun Institute of Posts and Telecommunications. Mr. Ye possesses approximately 20 years of experience in marketing and management.

Mr. LEUNG Ming Shu (梁銘樞), 40, is the Chief Financial Officer, company secretary and the chief of capital operation, investment and financing affairs of the Company, responsible for overall financial, corporate finance and acquisitions and mergers management of the Company. Mr. Leung served as Director from August 2008 to June 2009. Since he joined our Group in January 2008, Mr. Leung has held his current position within the Group. Mr. Leung also serves as an independent non-executive director, chairman of the audit committee and the remuneration committee and member of the nomination committee and the corporate governance committee of Comtec Solar Systems Group Limited (SEHK: 0712), and as an independent non-executive director, member of audit committee, nomination committee, remuneration committee and corporate governance committee of Cabbeen Fashion Limited (SEHK: 2030).

Director and Senior Management

Prior to joining our Group, Mr. Leung served as the chief financial officer of Beijing Lingtu Software Co., Ltd., a digital mapping and navigation software company incorporated in the PRC, and Beijing Xinwei Telecom Technology Co., Ltd., a subsidiary of Datang Telecom Technology & Industry Group engaged in the development of a proprietary telecommunications standard and manufacturing of telecommunications equipment. Mr. Leung served as a senior manager in the mergers and acquisitions department and chief financial officer of CDC Corporation (NASDAQ: CHINA) and its subsidiary, China.com Inc. (SEHK: 8006) respectively. As the chief financial officer of China.com Inc., Mr. Leung also supervised the corporate secretarial functions and liaised closely with the compliance advisor and legal counsel on statutory compliance matters. Mr. Leung started his professional career at PriceWaterhouseCoopers in Hong Kong in auditing, and subsequently worked at its global corporate finance department managing several cross border corporate finance and mergers and acquisitions advisory projects. He also worked as a business consultant in Market Catalyst International (HK) Ltd., the consulting arm of Morningside Group that engages in providing management consulting and marketing advisory services, where he advised companies on issues of strategy, organization and operations.

Mr. Leung graduated with a first class honors bachelor's degree in accountancy from the City University of Hong Kong in June 1998, as well as a master's degree in accountancy from the Chinese University of Hong Kong in September 2001. He 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). Mr. Leung possesses a total of approximately 17 years of experience in corporate financial management, including over 12 years with technology companies.

Mr. GUAN Jizhen (關積珍), 50, is the Chief Technology Officer and chairman of the technology committee of the Company, responsible for overall research and development of the Company. Mr. Guan joined our Group in July 2012 after the acquisition of Beijing STONE by the Group and has held his current position since November 2012. In addition, Mr. Guan has served as the deputy general manager of Beijing STONE since February 1999 responsible for product research and development and engineering, a director and general manager of Beijing STONE since December 2004 responsible for general operation, and the chairman of the board of directors of Beijing STONE since June 2006. Mr. Guan also served as the chairman of the board of directors of Beijing Lihe Datong since August 2011 and Beijing Jingwei Zhitong since September 2011 and a director of Beijing Newcom Traffic since November 2011.

In addition, leveraging on his outstanding academic background and expertise in research, Mr. Guan was employed by various industrial associations and research centres. He has served as deputy general secretary for China Intelligent Transportation Systems Association since December 2012, a member of the first session of judging panel of science & technology awards by the ITS Association since March 2012, the head of expert committee for urban traffic of the ITS Association since December 2011, a member of expert committee of the ITS Association since December 2009, a member of the first session of academic committee of Beijing Key Laboratory of Cooperative Vehicle Infrastructure and Safety Control since April 2012, a member of expert committee for modern transportation technology of the National High Technology Research and Development Program of China (863 Program) since March 2012, a consultant of Beijing Transportation Development and Research Center since March 2011, a member of the expert committee of the Intelligent Transport System Association of Shenzhen since October 2010, a member of academic committee of Guangdong Key Laboratory of ITS since October 2010, a member of the judging panel of science and technology awards by the Public Security Ministry since October 2010, a member of academic committee of the Metropolitan Congestion Research Centre since November 2006 and deputy general secretary of the Transportation System Engineering Society of China since January 2002.

Director and Senior Management

Previously, Mr. Guan served as an engineer of Industrial Management Office of Beijing Jiaotong University, responsible for the development of ITS. Mr. Guan also served as the deputy general manager of Beijing Lantong Electronic Co., Ltd., responsible for production of intelligent information system and relevant projects, and he was then promoted to general manager responsible for the overall operation of the company. Meanwhile, he was appointed as the general manager of Beijing Jiaotong Fulun Economic and Technological Development Company* (北方交大輔輪經濟技術開發公司), the vice president of Lantong Group* (藍通集團) and Beijing Jiaotong Tianyou Technology Group* (北京交大天佑科技集團). Mr. Guan served as a lecturer of the Department of Industrial Management of Beijing Jiaotong University.

Mr. Guan received a bachelor's degree in logistic management and a master's degree in engineering from Beijing Jiaotong University in July 1985 and May 1987 respectively, and obtained a doctorate degree in management science and engineering from Huazhong University of Science and Technology in December 2009. Mr. Guan was elected as the "ITS Person of the Year 2012" in January 2013 and received the first class prize of "The Expert and Scientist with Outstanding Contribution Award of 2012" from China Intelligent Transportation System Association in September 2012. Mr. Guan obtained the "Outstanding Contribution for the Development of China ITS Industry (2010)", the third and second class prizes of "Beijing Science and Technology" in February 2011 and December 2008 respectively, and the "Outstanding Individual in Olympic Research and Technology Service Award". He possesses approximately 22 years of experience in the research and development as well as business operation and management in the ITS industry.

Mr. ZHANG Yi (張屹), 42, is a vice president of the Company and the president of civil aviation group, responsible for business development in new industry segment. Mr. Zhang joined our Group in July 2007. He started as the new product development department supervisor and was then promoted to a director and general manager of Zhixun Tiancheng, responsible for the overall operation management in the railway segment. He served as the vice president of the Company in November 2011, responsible for developing, coordinating and maintaining the relationship with the Group's strategic partners. He has held his current position since 2012. Mr. Zhang has served as executive director of Jiangsu Zhixun Tiancheng from November 2009 to October 23, 2014.

Prior to joining our Group, Mr. Zhang served as vice general manager of Beijing Wangxun Qidian Technology Co., Ltd. responsible for operating and marketing. Mr. Zhang also served as vice general manager of Beijing Huatie Hengxing Technology Co., Ltd. responsible for operations management. Prior to that, Mr. Zhang served as sales engineer of Tianjin Mobishi Battery Co., Ltd. responsible for the sales in China.

Mr. Zhang received a bachelor's degree in physics from the Nanjing University in July 1996. Mr. Zhang possesses a total of approximately 12 years of experience in sales and marketing management.

Mr. LIAO Yibing (廖一兵), 49, is currently the vice president of the Company and the president of expressway and urban traffic group, fully responsible for the business expansion and operation management of the two groups of the Company. Mr. Liao Yibing joined the Company in February 2001. First he served as the general manager of South China region of RHY Technology, responsible for the marketing and construction management of the expressway business in South China region. Afterwards, he was promoted to the position of vice president of RHY Technology and the general manager of South China region, responsible for the supply chain management of RHY Technology and management of South China region. In November 2011, Mr. Liao was appointed as the vice president of the Company and the general manager of RHY Technology, in charge of the supply chain of the Company and fully responsible for the overall operation of RHY Technology. He has served as the president of expressway and urban traffic group since November 2012 and August 2015, respectively.

Director and Senior Management

Prior to joining the Company, Mr. Liao was a veteran lawyer. He has served as a legal advisor of Hunan International Trust and Investment Corporation (湖南省國際信託投資有限公司), responsible for the legal affairs. He received a bachelor's degree in law from Xiangtan University. He possessed profound legal background as well as 16 years of experience in marketing and management.

Mr. Luo Haibin (羅海濱), 39, is a vice president of the Group and the president of rail transportation group. He is responsible for the overall business development and the operational management of the rapid transit group of the Company.

Mr. Luo joined the Group in November 2007 and served as the general manager of the Central South area of Zhixun Tiancheng, responsible for the marketing in the Central South area. He then served as the general manager of the Department of Sales Management, general manager of the Marketing Department, vice general manager of the Company and general manager of Zhixun Tiancheng. He has been the legal person of Beijing Zhixun Tiancheng Technology Co., Ltd., responsible for the operational management of the Company and the rapid transit group since November 2007. Mr. Luo has also served as the legal person and general manager of Beijing Zhongzhi Runbang since December 2014, responsible for the overall project management and service delivery. Mr. Luo has served as the vice president of the Group since February 2015.

Prior to joining our Group, Mr. Luo served as the marketing director of the Department of Military Network of Beijing Jiaxun Feihong Co., Ltd.* (北京佳訊飛鴻股份有限公司), responsible for the industrial marketing management of the military.

Mr. Luo graduated from Beijing Information Science and Technology University of computer software specialty and received a master's degree in Project Management Engineering from the Southwest Jiaotong University in 2003. He is currently studying Master of Business Administration programme in Tsinghua University. Mr. Luo possesses approximately 15 years of experience in marketing and management.

Mr. CHEN Changxue (陳長學), 49, is a vice president of the Group and general manager of corporate partnership and development department. He is responsible for strategic business partnership of the Company.

Mr. Chen joined the Group in December 2006 and served as the vice general manager of Zhixun Tiancheng, who was the person in charge of product solutions and project delivery. He served as the vice president of the Group since November 2011, responsible for the construction and development of the communication solutions and engineering delivery system of the Company. He then served as a general manager of corporate partnership and development department, responsible for strategic business partnership of the Company.

Prior to joining our Group, Mr. Chen was employed by China Academy of Posts and Telecommunications of the former Ministry of Posts and Telecommunications and served as an engineer. He served as a senior product manager and a senior marketing manager in China of the network product segment of Harris Corporation in the US between 1997 and 2001 respectively. He served as the chief representative in China of ARRIS in the US between 2001 and 2003, responsible for the overall business in China. He has been the vice general manager of Beijing Haode Information and Communication Technology Co., Ltd.* (北京浩德信通技術有限公司) between 2003 and 2006, responsible for the overall operation and marketing of the company.

Mr. Chen received a bachelor's degree in Automation from Beijing University of Technology. He possesses over 15 years of experience in management and marketing.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company places high value on its corporate governance and the Board firmly believes that a good corporate governance practice can improve accountability and transparency for the benefit of its shareholders.

The Company had adopted the code provisions contained in the code of corporate governance practices (the "**CG Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The Company has complied with the code provisions contained in the CG Code for the year ended December 31, 2015.

Set out below is a detailed discussion of the corporate governance practices adopted and observed by the Company for the year ended December 31, 2015.

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the standards for the Directors' dealings in the securities of the Company on June 18, 2010. Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the required standard set out in the Model Code during the reporting period.

THE BOARD

Board Responsibilities

The Board is collectively responsible for the overall management and implementing business plans of the Company, including establishing and monitoring the Company's strategic directions and development, financial goals, and assumes the responsibilities of corporate governance of the Company. The senior management is responsible for supervising and executing the plans of the Group and the Directors review those arrangements on a periodic basis.

The Board may from time to time delegate all or any of its powers that it may think fit to a Director or member of senior management of the Company. To maximise the effectiveness of the Board and to encourage active participation and contribution from the Directors, the Board is supported by three committees, which are the Audit Committee, the Remuneration Committee, and the Nomination Committee. The terms of reference of each of the committees are reviewed and amended (if necessary) from time to time, including the committees' structure, duties and memberships.

Board Members

The Board, as at the date of this report, consists of six Directors, including two executive Directors, one non-executive Director and three independent non-executive Directors. The composition of the Board is set out on page 40 in the paragraph headed "Report of the Directors — Directors" of this annual report.

Details of the Directors' biographical information are contained in the section headed "Director and Senior Management" of this annual report.

There is no financial, business, family or other material/relevant relationships among the Directors.

Corporate Governance Report

Independent Non-executive Directors

Three members of the Board are independent non-executive Directors, which meets the minimum requirement under the Listing Rules. Mr. Choi Onward, an independent non-executive Director, has appropriate financial management expertise in compliance with Rule 3.10 of the Listing Rules.

Prior to their respective appointment, each of the independent non-executive Directors has submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence. The Company has received an annual confirmation from each of the independent non-executive Directors on their respective independence pursuant to Rule 3.13 of the Listing Rules and considers that each of them to be independent.

Terms

Save as disclosed in this annual report, all of the executive Directors were appointed for a term of three years, which may be terminated according to the articles of association of the Company (the "**Articles**") and any applicable laws. In accordance with the Articles, at each annual general meeting one-third of the Directors for the time being is required to retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

Board Meetings

During the year ended December 31, 2015, there were five Board meetings held, at which the Directors approved, among other things, the audited consolidated results of the Group for the year ended December 31, 2014 and the unaudited consolidated results of the Group for the six months ended June 30, 2015.

Notices for regular Board meetings are given to each member of the Board at least 14 days prior to the meeting, whereby the Directors are given opportunities to include matters to be discussed in the agenda of the Board/committee meetings. The agenda and the relevant board papers are then circulated to the Directors 3 days before a scheduled Board meeting and apart from ensuring that the directors have received adequate, complete and reliable information in a timely manner to enable them to make informed decisions during the Board meeting, the chairman will also properly brief the directors present at the Board meeting on issues arising during the Board meeting.

Where the agenda of the Board meetings is in relation to a material matter in which a substantial Shareholder or a Director is deemed to have a conflict of interest, independent non-executive Directors who, and whose associates have no material interest in the transaction, would be invited to attend such Board meetings. Where Board meetings relate to financial and other information, the senior management would provide such explanation and information to the Board to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

After the meetings have been held, drafts of the Board minutes and Board committee meeting minutes are circulated to the Directors and the relevant Board committee members respectively for their review before finalization, and the final version of these minutes are kept by the company secretary of the Company (the "**Company Secretary**") and are available for inspection by the Board and auditor of the Company.

Every Director is entitled to have access to Board papers and relevant materials and have unrestricted access to advice and services of the Company Secretary, and is able to seek independent professional advice as and when required at the Company's expense.

Corporate Governance Report

Attendance Record

Code Provision A1.1 of the Corporate Governance Code stipulates that the Board should meet regularly and meetings should be held at least four times a year at approximately quarterly intervals. During the year ended December 31, 2015, the Board convened a total of five Board meetings and there were two meetings for the Audit Committee, one meeting for the Remuneration Committee and one meeting for the Nomination Committee based on the need of the operation and business development of the Company. Details of attendance are as follows:

	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings	General meetings
Executive Directors					
Mr. Liao Jie *(Chairman)*	5/5	N/A	N/A	N/A	1/1
Mr. Jiang Hailin *(Chief Executive Officer)*	5/5	N/A	N/A	N/A	1/1
Mr. Wang Jing (resigned on February 3, 2015)	0/5	N/A	N/A	N/A	0/1
Mr. Lu Xiao (resigned on February 3, 2015)	0/5	N/A	N/A	N/A	0/1
Mr. Pan Jianguo (resigned on February 3, 2015)	0/5	N/A	N/A	N/A	0/1
Non-executive Director					
Mr. Tim Tianwei Zhang	5/5	N/A	N/A	N/A	1/1
Independent Non-executive Directors					
Mr. Zhou Chunsheng	5/5	2/2	1/1	1/1	1/1
Mr. Choi Onward *(FCCA, HKICPA)*	5/5	2/2	1/1	1/1	1/1
Mr. Sun Lu	5/5	2/2	1/1	1/1	1/1

The Chairman and the Chief Executive Officer

The Code Provision A2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Throughout the year ended December 31, 2015, Mr. Liao Jie has been the Chairman and Mr. Jiang Hailin has been the Chief Executive Officer. Accordingly, the Company complied with Code Provision A2.1 at all times during the year ended December 31, 2015.

BOARD COMMITTEES

Audit Committee

The Audit Committee comprises three independent non-executive Directors, being Mr. Choi Onward, Mr. Zhou Chunsheng and Mr. Sun Lu, with Mr. Choi Onward being the chairman of the Audit Committee. The members of the Audit Committee confirm that they are not a former partner or affiliated to the Company's existing auditing firm nor do they have any financial interest in the Company's existing auditing firm.

The primary functions of the Audit Committee are to:

(a) be primarily responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;

(b) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards and regulations. The audit committee should discuss with the auditor, the nature and scope of the audit and reporting obligations before the audit commences;

(c) develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

(d) monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the committee should focus particularly, on any changes in accounting policies and practices, major judgmental areas, significant adjustments resulting from audit, the ongoing concern assumptions and any qualifications, compliance with accounting standards and compliance with the Listing Rules and other legal requirements to financial reporting;

(e) to consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

(f) to review the Company's financial controls, internal control and risk management systems;

(g) to discuss the risk management and internal control systems with the management and to ensure that management has discharged its duty to have an effective systems;

(h) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;

(i) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;

(j) to review the Company's financial and accounting policies and practices;

(k) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;

(l) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(m) to report to the Board on the matters set out in the Code Provisions;

(n) to consider other topics, as defined by the Board;

(o) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters, and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and

(p) to act as the key representative body for overseeing the issuer's relations with the external auditor.

To ensure that the Audit Committee is given the opportunity to discharge its functions effectively, the Audit Committee will be provided with sufficient resources including access to professional advice if considered necessary and members of the Audit Committee must liaise with the Board and senior management and the Audit committee must meet, at least once a year, with the Company's auditors.

During the year, the Audit Committee convened two meetings and drafts and final versions of the minutes of the Audit Committee have been sent to all members of the audit committee for their comment and records, respectively. All resolutions passed at the meetings were duly recorded and retained by a duly appointed secretary of the meeting or the Company Secretary.

A summary of the work performed by the Audit Committee during the year ended December 31, 2015 is set out as follows:

- reviewed the Company's interim report and annual report;
- reviewed accounting policies adopted by the Group and issues related to accounting practice;
- supervised internal auditing of the Group;
- assisted the Board to evaluate on the effectiveness of financial reporting procedure and internal control system;
- advised on material events and draw the attention of management on related risks;
- reviewed the external auditor's independence and approved the engagement of external auditor;
- recommended the Board on the re-appointment of external auditor; and
- noted the amendments to the standards and the development of corporate governance.

Corporate Governance Report

Remuneration Committee

The Remuneration Committee consists of three independent non-executive Directors, namely, Mr. Sun Lu, Mr. Zhou Chunsheng and Mr. Choi Onward. Mr. Sun Lu is the chairman of the Remuneration Committee.

The primary functions of the Remuneration Committee are to:

(a) evaluate and make recommendations to the Board on the policy and structure for remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing such policies;

(b) make recommendations to the Board on the remuneration packages of individual executive Directors and senior management;

(c) conduct reviews and approve performance-based remuneration by reference to corporate goals and objectives resolved by directors from time to time;

(d) review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

(e) review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and

(f) ensure that no director or any of his or her associates is involved in deciding his own remuneration and advise shareholders on how to vote with respect to service contracts of directors that require shareholders' approval under rule 13.68 of the Listing Rules.

To ensure that the Remuneration Committee is given the opportunity to discharge its functions effectively, the Remuneration Committee will be given opportunities to consult the Chairman and/or Chief Executive Officer about its proposals relating to the remuneration of other executive Directors and be provided with sufficient resources including access to professional advice if considered necessary.

During the year, the Remuneration Committee convened one meeting and the draft and final version of the minutes of the Remuneration Committee have been sent to all members of the Remuneration Committee for their comment and records, respectively. All resolutions passed at the meetings were duly recorded and retained by a duly appointed secretary of the meeting or the Company Secretary.

A summary of the work performed by the Remuneration Committee during the year ended December 31, 2015 is set out as follows:

- reviewed the Directors' fees; and

- reviewed and made recommendations to the Board on the remuneration structure/package of executive Directors and senior management.

Nomination Committee

The Nomination Committee consists of three independent non-executive Directors, namely, Mr. Zhou Chunsheng, Mr. Choi Onward and Mr. Sun Lu. Mr. Zhou Chunsheng is the chairman of the Nomination Committee.

The primary functions of the Nomination Committee are to:

(a) review the structure, size and composition of the Board regularly and make recommendations to the Board regarding any proposed changes; and

(b) identify, select or make recommendations to the Board on the selection of individuals nominated for directorships to fill vacancies in the Board.

During the year, the Nomination Committee convened one meeting and draft and final version of the minutes of the Nomination Committee have been sent to all members of the Nomination Committee for their comment and records, respectively. All resolutions passed at the meetings were duly recorded and retained by a duly appointed secretary of the meeting or the Company Secretary.

A summary of the work performed by the Nomination Committee during the year ended December 31, 2015 is set out as follows:

- reviewed and recommended the re-appointment of the retiring Directors for Shareholders' approval;
- discussed and reviewed the Board composition of the Company as well as other related matters; and
- recommended on the selection of individuals nominated for directorships.

CORPORATE GOVERNANCE FUNCTIONS

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

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

CONTINUOUS PROFESSIONAL DEVELOPMENT

According to the CG Code A.6.5, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. The Company should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of the directors.

Corporate Governance Report

All Directors have participated in appropriate continuous professional development and refreshed their knowledge and skills during the year. According to the records maintained by the Company, the current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the new requirement of the CG Code on continuous professional development for the year ended December 31, 2015:

Name of Director	Attend training sessions organized by professional firms	Attend training sessions required by the relevant professional bodies of which they are members	Read articles and journals on the economy, general business and regulatory matters
Executive Directors			
Mr. Liao Jie	✔	✔	✔
Mr. Jiang Hailin	✔	✔	✔
Non-executive Director			
Mr. Tim Tianwei Zhang	✔	✔	✔
Independent Non-executive Directors			
Mr. Zhou Chunsheng	✔	✔	✔
Mr. Choi Onward	✔	✔	✔
Mr. Sun Lu	✔	✔	✔

ACCOUNTABILITY AND AUDIT

Auditor's Remuneration

The remuneration paid to the Company's auditor, Ernst & Young, during the year ended December 31, 2015 in relation to audit service is RMB2 million and non-audit service is RMB3.85 million.

Directors' Responsibilities for Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company and for ensuring that the financial statements are balanced and clear and prepared in accordance with applicable statutory requirements and accounting standards.

Auditor's Statement

The statement of the Company's auditor, Ernst & Young, on its reporting responsibilities in respect of the consolidated financial statements of the Group for the year ended December 31, 2015 is set out on pages 53 to 147.

Corporate Governance Report

Internal Control and Risk Management

The Board acknowledges that it is responsible for maintaining a sound system of internal controls to safeguard the Shareholders' interest and reviewing the effectiveness of the system of internal control of the Group.

In reviewing the effectiveness of the system of internal control of the Group, the Board will also consider the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and the training programmes and budget allocated.

The Group's internal control system has been designed to provide reasonable assurance that assets are safeguarded, operational controls are in place, business risks are suitably reduced, proper accounting records and financial information are maintained, and, where appropriate, relevant legislation, regulation and best practices are complied with.

The Board has delegated to the Audit Committee responsibility for reviewing the effectiveness of the Group's internal control system and the Audit Committee will report its findings to the Board for discussion. The Audit Committee works with the Group's internal audit department (the "**Internal Audit Department**") to carry out internal audit works based on an internal audit plan which is reviewed and approved by the Audit Committee. The Internal Audit Department, reports its findings and recommendations for any corrective action required to the Audit Committee. The Audit Committee reviews the reports submitted by the Internal Audit Department and the issues on the internal control system of the Group are then discussed and evaluated by the Board every year.

The Internal Audit Department conducted an examination on various material control aspects during the year including financial, operational and compliance controls with the aim of mitigating the overall business and operational risk of the Group. Internal control reports were submitted to the Audit Committee for review and the findings and recommendations were discussed at the committee meetings. The significant findings have been remediated by the management of the Company.

COMPANY SECRETARY

Mr. Leung Ming Shu, the Company Secretary, is a full-time employee of the Group. During the year ended 31 December, 2015, Mr. Leung has complied with Rule 3.29 of the Listing Rules in relation to taking of relevant professional training.

BOARD DIVERSITY POLICY

Pursuant to the CG Code, the Board adopted a board diversity policy (the "**Board Diversity Policy**") on August 27, 2013. The Company recognizes and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

Corporate Governance Report

SHAREHOLDER RIGHTS

Constitutional Documents

There has been no significant change in the Company's constitutional documents during the year ended December 31, 2015.

Procedures for Shareholders to Convene an Extraordinary General Meeting

Pursuant to the Article 58 of the Articles of Associations of the Company, any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for proposing a person for Election as a Director

Pursuant to the Article 85 of the Articles of Associations of the Company, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice (as defined therein) signed by a Member (as defined therein) (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that (if the Notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such Notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

Communications with Shareholders and Investors

The Board values the importance of communications with the Shareholders. The general meetings of the Company provide a forum for communication between the Board and the Shareholders and at such general meetings, the chairman will ensure that an explanation is provided of the detailed procedures for conducting a poll and ensure that resolutions are proposed separately. The Chairman as well as chairman of the Remuneration Committee, the Nomination Committee and the Audit Committee and, in their absence, other members of the respective committees will also be available to answer questions at Shareholders' meetings.

The 2015 annual general meeting of the Company (the "**AGM**") will be held on 20 May, 2016. The notice of AGM will be sent to Shareholders at least 20 clear business days before the AGM.

To promote effective communication, the Company maintains a website at www.its.cn, where extensive information and updates on the Company's financial information, corporate governance practices and other information are posted and available for public access.

Report of the Directors

The Board presents its report together with the audited consolidated results of the Group for the year ended December 31, 2015.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the principal subsidiaries of the Company are to provide intelligent transportation systems and transportation infrastructure technology solutions and services to expressway, railway (including rapid transit), urban traffic, and civil aviation segments in China. Details of the activities of the subsidiaries of the Company are set out in note 1 to the consolidated financial statements on pages 62 to 66.

RESULTS AND DIVIDEND

The consolidated results of the Group for the year ended December 31, 2015 are set out on pages 55 to 61 of this annual report.

The Board recommended that no dividend will be declared for the year ended December 31, 2015.

BUSINESS REVIEW

The business review of the Group as at 31 December 2015 is set out under the section headed "Management Discussion and Analysis" of this annual report on pages 11 to 21.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in note 13 to the consolidated financial statements on page 105.

SHARE CAPITAL

Details of the movement in the Company's share capital during the year ended December 31, 2015 are set out in note 35 to the consolidated financial statements on page 125.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, which would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

RESERVES

Details of movements in the reserves of the Company and the Group for the year ended December 31, 2015 are set out in note 36 to the consolidated financial statements on page 126. As at December 31, 2015, the Group's distributable reserve is RMB1,391,106,000.

CHARITABLE DONATIONS

The Company made several charitable donations in an aggregate amount of approximately RMB20,000 during the year ended December 31, 2015.

Report of the Directors

DIRECTORS

The Directors who held office during the year ended December 31, 2015 and up to the date of this annual report are:

	Last Re-election Date
Executive Directors	
Mr. Liao Jie *(Chairman)*	May 23, 2013
Mr. Jiang Hailin *(Chief Executive Officer)*	May 23, 2013
Non-executive Director	
Mr. Tim Tianwei Zhang	May 22, 2015
Independent Non-executive Directors	
Mr. Zhou Chunsheng	May 22, 2015
Mr. Choi Onward *(FCCA, HKICPA)*	May 19, 2014
Mr. Sun Lu	May 22, 2015

In accordance with Article 84 of the Articles of Association of the Company and the Listing Rules, Mr. Liao Jie and Mr. Jiang Hailin shall retire by rotation, and being eligible, have offered themselves for re-election as Directors at the forthcoming annual general meeting.

Biographies of Directors and senior management of the Company are set out on pages 22 to 28 of this annual report.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Save for the information disclosed in the section headed "Directors and Senior Management — Board of Directors" of this annual report, there is no other information related to Directors of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules, and considers that all of the independent non-executive Directors are independent.

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the Model Code as set out in Appendix 10 of the Listing Rules as the standards for the Directors' dealings in the securities of the Company on June 18, 2010. Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the required standard set out in the Model Code during the reporting period.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Save as disclosed below, as at December 31, 2015, none of the Directors and Chief Executive Officer had any interests or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange:

Name of Director	Nature of interest	Securities[6]	Approximate percentage of shareholdings as at December 31, 2015[6]
Mr. Liao Jie[1]	Beneficial owner/Interest of a controlled corporation	130,044,077(L)	7.86%(L)
Mr. Jiang Hailin[2]	Beneficial owner/Beneficiary of the Fino Trust	713,027,096(L)	43.11%(L)
Mr. Choi Onward[3]	Beneficial owner	98,824(L)	0.01%(L)
Mr. Sun Lu[4]	Beneficial owner	98,824(L)	0.01%(L)
Mr. Zhou Chunsheng[5]	Beneficial owner	98,824(L)	0.01%(L)

Notes:

(1) 40,735,874 of these Shares are underlying Shares subject to the exercise of share options granted to Mr. Liao Jie on January 18, 2012 under the Share Option Scheme. Mr. Liao Jie is also deemed to be interested in the 89,308,203 Shares held by Joyful Business, which is wholly-owned by Mr. Liao Jie.

(2) 1,855,848 of these Shares are underlying Shares subject to the exercise of share options granted to Mr. Jiang Hailin on January 18, 2012 under the Share Option Scheme

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

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

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

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

(6) (L) denotes long positions.

Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as otherwise disclosed in this annual report, at no time during the year ended December 31, 2015, was the Company or any of its subsidiaries or its holding company or any of the subsidiaries of the Company's holding company a party to any arrangement to enable the Directors or the Chief Executive Officer or their respective associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors and Chief Executive Officer, or their spouse and children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during such period.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the business of the Group, to which the Company, its holding companies, its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended December 31, 2015.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended December 31, 2015.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors and their respective associates (as defined in the Listing Rules) has an interest in any business which competes or may compete with the business in which the Group is engaged.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

REMUNERATION OF THE DIRECTORS AND SENIOR MANAGEMENT

The determination of the remuneration of the Directors and senior management of the Company is based on the individual performance, the nature and responsibilities of the individual concerned and the performance of our Group and market conditions. Proposals for increase in remuneration, payment of discretionary bonus or adjustment to any benefits scheme will be approved by the Remuneration Committee.

The Company will also periodically review and assess its human resource requirements and the prevailing market trend and make appropriate adjustments. Details of the remuneration of the Directors and the Group's senior management are set out in note 8 to the consolidated financial statements on pages 98 to 100.

EMPLOYMENT AND EMOLUMENT POLICIES

As at December 31, 2015, the Group had 762 full-time employees. The emolument policy of the employees of the Group is set up by the Board on the basis of individual performance, the nature and responsibilities of the individual concerned and the performance of our Group and market conditions.

In addition, the Company has adopted the Pre-IPO Share Incentive Scheme and the Share Option Scheme as an incentive for Directors and eligible employees.

Report of the Directors

RETIREMENT BENEFIT SCHEME

The Group does not have any employee who is required to participate in the Mandatory Provident Fund in Hong Kong. The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC municipal government. The employees of the PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to this retirement benefits scheme is to make the required contributions under the scheme.

PRE-IPO SHARE INCENTIVE SCHEME AND SHARE OPTION SCHEME

The terms of the Pre-IPO Share Incentive Scheme and the Share Option Scheme were disclosed in the section headed "Other information — Pre-IPO Share Incentive Scheme" and "Other information — Share Option Scheme" respectively, in Appendix VI to the prospectus of the Company dated June 30, 2010 (the "**Prospectus**") and in the section headed "Report of the Directors" in the 2011 Annual Report of the Company dated March 28, 2012.

1. Pre-IPO Share Incentive Scheme

Holdco adopted the Pre-IPO Share Incentive Scheme on December 28, 2008. The purpose of the Pre-IPO Share Incentive Scheme is to recognize and reward the contribution of certain eligible participants to the growth and development of the business(es) of the Group.

Options to subscribe for an aggregate of 116,653,105 Shares have been conditionally granted by Holdco under the Pre-IPO Share Incentive Scheme.

As of December 31, 2015, a total of 28,474,967 Shares which were held by Holdco may be transferred to the relevant grantees upon exercise of all options which had been granted under the Pre-IPO Share Incentive Scheme. Upon exercise of such options, Holdco transfers the relevant number of Shares to the grantee of the options. There is therefore no dilutive effect on the Shareholders resulting from the exercise of the options under the Pre-IPO Share Incentive Scheme.

Movement of the options granted under the Pre-IPO Share Incentive Scheme during the year ended December 31, 2015 is as follows:

Grantee	Grant date	Vesting start date	Expiry date	Outstanding as at January 1, 2015	Exercised during the year ended December 31, 2015	Lapsed or cancelled during the year ended December 31, 2015	Outstanding as at December 31, 2015	Exercise price per share (RMB)
All	31/12/2008	31/12/2010	31/12/2015	1,962,575	–	1,962,575	0	2
	31/12/2008	30/06/2011	30/06/2016	6,878,054	–	–	6,878,054	2
	31/12/2008	31/12/2011	31/12/2016	3,031,452	–	–	3,031,452	3
	31/12/2008	30/06/2012	30/06/2017	5,890,702	–	–	5,890,702	3
	31/12/2008	31/12/2012	31/12/2017	4,747,502	–	–	4,747,502	4
	31/12/2008	30/06/2013	30/06/2018	7,927,257	–	–	7,927,257	4
TOTAL:				**30,437,542**	**-**	**1,962,575**	**28,474,967**	

2. Share Option Scheme

The Company conditionally adopted the Share Option Scheme on June 18, 2010 and the Share Option Scheme became effective as at the date of listing of the Company on July 15, 2010 (the "**Listing Date**"). The purpose of the Share Option Scheme is to enable the Company to grant options to eligible participants as incentives or rewards for their contribution or potential contribution to the Group.

The Board may, at its absolute discretion, offer an option to eligible participant to subscribe for the Shares at an exercise price and subject to the other terms of the Share Option Scheme.

The total number of Shares issued and to be issued upon the exercise of the options granted to or to be granted to each eligible participant under the Share Option Scheme and any other schemes of the Company or any of its subsidiaries (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue.

The Share Option Scheme will remain in force for a period of 10 years from the Listing Date and ending on the ten anniversary of the Listing Date. Under the Share Option Scheme, each option has an exercise period not exceeding 10 years from the date of grant.

As at the Listing Date, the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company ("**Share Option Scheme Limit**") shall not in aggregate exceed 155,029,633 Shares being 10% of the total number of Shares in issue immediately prior to the date on which dealings in the Shares commenced on the Stock Exchange.

On January 18, 2012, the Board resolved to grant share options under the Share Option Scheme to 191 grantees, which includes certain Directors, chief executive, substantial Shareholders and employees of the Company to subscribe for an aggregate of 155,000,000 Shares. For further details of the abovementioned grant of share options, please refer to the announcement of the Company on January 18, 2012.

Following the grant of share options on January 18, 2012, the remaining mandate not utilized under the above Share Option Scheme Limit is 29,633 Shares. On February 29, 2012, Shareholders approved the refreshment of the Share Option Scheme Limit for the purpose of future grants of share options to the eligible participants under the Share Option Scheme. Under the refreshed Share Option Scheme Limit, the total number of Shares which may be issued upon exercise of options which may be granted under the Share Option Scheme and any other share option scheme(s) of the Company shall not exceed 10% of the total number of Shares in issue at the date of passing the relevant resolutions on refreshment of the Share Option Scheme Limit, i.e. 161,281,776 Shares. Options previously granted under the Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme or exercised options and those options granted on January 18, 2012) will not be counted for the purpose of calculating the 10% refreshed Share Option Scheme Limit.

Report of the Directors

Movement of the options granted under the Share Option Scheme during the year ended December 31, 2015 is as follows:

Grantee	Grant date[1]	Vesting start date	Expiry date	Outstanding as at January 1, 2015	Exercised during the year ended December 31, 2015	Lapsed or cancelled during the year ended December 31, 2015	Outstanding as at December 31, 2015	Exercise price per share (HK$)
Mr. Jiang Hailin	18/01/2012	19 April 2012	Note (2)	77,203	–	–	77,203	1.05
(Executive Director,	18/01/2012	19 July 2012	Note (2)	77,203	–	–	77,203	1.05
Chief Executive Officer)	18/01/2012	19 October 2012	Note (2)	77,203	–	–	77,203	1.05
	18/01/2012	19 January 2013	Note (2)	77,203	–	–	77,203	1.05
	18/01/2012	19 April 2013	Note (2)	154,592	–	–	154,592	1.05
	18/01/2012	19 July 2013	Note (2)	154,592	–	–	154,592	1.05
	18/01/2012	19 October 2013	Note (2)	154,592	–	–	154,592	1.05
	18/01/2012	19 January 2014	Note (2)	154,592	–	–	154,592	1.05
	18/01/2012	19 April 2014	Note (2)	231,981	–	–	231,981	1.05
	18/01/2012	19 July 2014	Note (2)	231,981	–	–	231,981	1.05
	18/01/2012	19 October 2014	Note (2)	231,981	–	–	231,981	1.05
	18/01/2012	19 January 2015	Note (2)	232,725	–	–	232,725	1.05
Sub-total				1,855,848	–	–	1,855,848	
Mr. Liao Jie[3]	18/01/2012	19 April 2012	Note (2)	1,694,612	–	–	1,694,612	1.05
(Executive Director,	18/01/2012	19 July 2012	Note (2)	1,694,612	–	–	1,694,612	1.05
Chairman)	18/01/2012	19 October 2012	Note (2)	1,694,612	–	–	1,694,612	1.05
	18/01/2012	19 January 2013	Note (2)	1,694,612	–	–	1,694,612	1.05
	18/01/2012	19 April 2013	Note (2)	3,393,298	–	–	3,393,298	1.05
	18/01/2012	19 July 2013	Note (2)	3,393,298	–	–	3,393,298	1.05
	18/01/2012	19 October 2013	Note (2)	3,393,298	–	–	3,393,298	1.05
	18/01/2012	19 January 2014	Note (2)	3,393,298	–	–	3,393,298	1.05
	18/01/2012	19 April 2014	Note (2)	5,091,984	–	–	5,091,984	1.05
	18/01/2012	19 July 2014	Note (2)	5,091,984	–	–	5,091,984	1.05
	18/01/2012	19 October 2014	Note (2)	5,091,984	–	–	5,091,984	1.05
	18/01/2012	19 January 2015	Note (2)	5,108,282	–	–	5,108,282	1.05
Sub-total				40,735,874	–	–	40,735,874	
Mr. Choi Onward	18/01/2012	19 April 2012	Note (2)	8,232	–	–	8,232	1.05
(Independent	18/01/2012	19 July 2012	Note (2)	8,232	–	–	8,232	1.05
Non-Executive	18/01/2012	19 October 2012	Note (2)	8,232	–	–	8,232	1.05
Director)	18/01/2012	19 January 2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19 April 2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19 July 2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19 October 2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19 January 2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19 April 2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19 July 2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19 October 2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19 January 2015	Note (2)	8,272	–	–	8,272	1.05
Sub-total				98,824	–	–	98,824	

Report of the Directors

Grantee	Grant date[1]	Vesting start date	Expiry date	Outstanding as at January 1, 2015	Exercised during the year ended December 31, 2015	Lapsed or cancelled during the year ended December 31, 2015	Outstanding as at December 31, 2015	Exercise price per share (HK$)
Mr. Zhou Chunsheng	18/01/2012	19 April 2012	Note (2)	8,232	–	–	8,232	1.05
(Independent	18/01/2012	19 July 2012	Note (2)	8,232	–	–	8,232	1.05
Non-Executive	18/01/2012	19 October 2012	Note (2)	8,232	–	–	8,232	1.05
Director)	18/01/2012	19 January 2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19 April 2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19 July 2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19 October 2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19 January 2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19 April 2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19 July 2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19 October 2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19 January 2015	Note (2)	8,272	–	–	8,272	1.05
Sub-total				98,824	–	–	98,824	
Mr. Sun Lu	18/01/2012	19 April 2012	Note (2)	8,232	–	–	8,232	1.05
(Independent	18/01/2012	19 July 2012	Note (2)	8,232	–	–	8,232	1.05
Non-Executive	18/01/2012	19 October 2012	Note (2)	8,232	–	–	8,232	1.05
Director)	18/01/2012	19 January 2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19 April 2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19 July 2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19 October 2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19 January 2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19 April 2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19 July 2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19 October 2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19 January 2015	Note (2)	8,272	–	–	8,272	1.05
Sub-total				98,824	–	–	98,824	
Others	18/01/2012	19 April 2012	Note (2)	6,396,202	–	–	6,396,202	1.05
	18/01/2012	19 July 2012	Note (2)	6,396,202	–	–	6,396,202	1.05
	18/01/2012	19 October 2012	Note (2)	6,396,202	–	–	6,396,202	1.05
	18/01/2012	19 January 2013	Note (2)	6,396,202	–	–	6,396,202	1.05
	18/01/2012	19 April 2013	Note (2)	9,338,914	–	–	9,338,914	1.05
	18/01/2012	19 July 2013	Note (2)	9,338,914	–	–	9,338,914	1.05
	18/01/2012	19 October 2013	Note (2)	9,338,914	–	–	9,338,914	1.05
	18/01/2012	19 January 2014	Note (2)	9,338,914	–	–	9,338,914	1.05
	18/01/2012	19 April 2014	Note (2)	12,281,626	–	–	12,281,626	1.05
	18/01/2012	19 July 2014	Note (2)	12,281,626	–	–	12,281,626	1.05
	18/01/2012	19 October 2014	Note (2)	12,281,626	–	–	12,281,626	1.05
	18/01/2012	19 January 2015	Note (2)	12,326,464	–	–	12,326,464	1.05
Sub-total				112,111,806	–	–	112,111,806	
TOTAL:				**155,000,000**	**-**	**-**	**155,000,000**	

Notes:

(1) The closing price of the Shares immediately before the grant date of share options was HK$1.05.

(2) Expiry date of these share options shall be the earlier of: (i) the date on which the share option lapses in accordance with the Share Option Scheme or (ii) the date falling ten (10) years from the date of acceptance by the grantee.

(3) The total number of Shares to be issued upon exercise of the share options granted to Mr. Liao Jie would exceed 1% of the Shares in issue in the 12–month period up to and including the date of the grant. Such further grant of share options to Mr. Liao Jie was approved by Shareholders in an extraordinary general meeting on February 29, 2012.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at the December 31, 2015, so far as is known to any Director or chief executive of the Company, other than a Director or chief executive of the Company, the following persons had interests or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the issuer under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the group.

Name	Capacity	Long position/ Short position	Number of Shares	Percentage to Company's issued share capital
Holdco[1]	Beneficiary owner	Long position	711,171,248	43.00%
Best Partners[2]	Interest of controlled corporation	Long position	711,171,248	43.00%
Fino Investment Limited[3]	Interest of controlled corporation	Long position	711,171,248	43.00%
Tesco Investments Limited[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%
Pioneer Asset Management S.A.	Investment manager	Long position	133,653,000	8.08%
Ampio International Limited[5]	Interest of controlled corporation	Long position	139,383,293	8.47%
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%

Report of the Directors

Notes:

(1) As disclosed in the prospectus of the Company dated June 30, 2010, to facilitate the management and operation of the Company, certain major shareholders of the Company have entered into voting agreements delegating their voting rights in the Company to Holdco prior to the listing of the Company, and Holdco has been a controlling shareholder (as defined under the Listing Rules) of the Company since the listing of the Company in 2010. In connection with this arrangement and as a result of previous restructuring exercises of the Group, as at the Latest Practicable Date, Holdco, Pride Spirit Company Limited, Sea Best, Joy Bright, Gouver, Kang Yang Holdings Limited, Huaxin Investments Limited, Rockyjing Investment Limited, Key Trade, Speedy Fast, Best Partners, 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, were parties to a series of shareholders voting agreements (the "**Shareholders Voting Agreements**"), pursuant to which each of the parties (other than Holdco) to the Shareholder Voting Agreements has authorized Holdco to exercise their voting rights in the Company on their behalves.

As at December 31, 2015, 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.

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 Limited and as to 17% by Tesco Investments Limited. By virtue of the Shareholder Voting Agreements, Best Partners is deemed to be controlled by Fino Investments Limited and Tesco Investments Limited. Two of our Directors Mr. Jiang Hailin and Mr. Liao Jie are also directors of Best Partners.

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

(5) 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.

Each of Joy Bright (the sole shareholder of Gouver), and Rockyjing Investment Limited is wholly–owned by Ampio International Limited. Accordingly, Ampio International Limited is deemed to be interested in the 80,424,662 Shares and 52,885,399 Shares in which Joy Bright Success Limited and Rockyjing Investment Limited are interested, respectively.

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

Save as disclosed in the paragraphs headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" and "Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares" above, no Director or proposed director is a director or employee of a company which has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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

In November 2015, the 10.0% guaranteed bonds due 2015 in the original principal amount of RMB210,000,000 (the "**Bonds**") matured. Following the maturity of the Bonds, the Company redeemed the entire outstanding principal amount of the Bonds in the sum of RMB109,000,000 plus interest of RMB5,450,000 accrued thereon pursuant to the terms and conditions of the Bonds. The bonds was withdrawn from the Stock Exchange of Hong Kong Limited (stock code: 85908), with effect from November 9, 2015. For further details of the above mentioned redemption, please refer to the announcement dated November 9, 2015.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the year ended December 31, 2015.

EVENTS AFTER THE REPORTING PERIOD

Disposal of the Expressway and Urban Traffic businesses

On 17 February 2016, the Company and the King Victory Holdings Limited (the "**Purchaser**") entered into a master sale and purchase agreement (the "**Master Sale and Purchase Agreement**"), pursuant to which the Company conditionally agreed to sell and the Purchaser conditionally agreed to purchase the entire issued share capital of each of Hugecom Limited, China Traffic Holding Limited, China Expressway Intelligent Transportation Technology Group Ltd. and Beijing RHY Technology Development Co., Ltd.* (北京瑞華贏科技發展有限公司) (the "**Target Companies**") and certain receivable owing by the Target Companies to the Company at the total initial consideration of RMB979,840,000, subject to the terms and conditions of the Master Sale and Purchase Agreement (the "**Disposal**"). The Target Companies and their subsidiaries are principally engaged in the provision of intelligent transportation system solutions and services to expressway and urban traffic sectors in the PRC. Upon completion of the disposal of the Target Companies, each of the Target Companies will cease to be a subsidiary of the Company.

As one of the applicable percentage ratios for the transaction contemplated under the Master Sale and Purchase Agreement is 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 China ITS Co., Ltd. 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 an extraordinary general meeting to be convened by the Company. Please refer to the announcement of the Company dated 17 February 2016 for further details.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANY

Acquisition of Hongrui Dake

On 24 September 2015, Beijing Aproud Technology Co., Ltd* (北京亞邦偉業技術有限公司) ("**Aproud Technology**"), an indirect wholly-owned subsidiary of the Company and Beijing Hezhong Jiuzhou Investment Co., Ltd* (北京合眾九州投資有限公司) ("**Hezhong Jiuzhou**") entered into a sale and purchase agreement (the "**Hongrui Dake SPA**") pursuant to which Aproud Technology agreed to purchase and Hezhong Jiuzhou agreed to sell 100% equity interest in Beijing Hongrui Dake Technology Co., Ltd* (北京宏瑞達科科技有限公司) ("**Hongrui Dake**"), a wholly-owned subsidiary of Hezhong Jiuzhou, for a consideration of approximately RMB227.3 million. Hezhong Jiuzhou's assets primarily consist of six floors of offices in Chaoyang District, Beijing, PRC, with a gross floor area of 9,443.05 square meters.

As one of the applicable percentage ratios with respect to the Hongrui Dake SPA and the transactions contemplated under it was more than 5% but all of the applicable percentage ratios were less than 25%, the acquisition of Hongrui Dake by the Group constituted a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules. Please refer to the announcement of the Company dated 24 September 2015 for further details.

Disposal of Shandong Yigou

In April 2015, Beijing RHY Technology Development Co., Ltd ("**RHY Technology**"), an indirect wholly-owned subsidiary of the Company, entered into equity transfer agreements in respect of the transfer of the entire equity interest in Shandong Yigou Software Technology Co., Ltd ("**Shandong Yigou**") held by RHY Technology, with two independent third parties (the "**Shandong Yigou Purchasers**"). Pursuant to the equity transfer agreements, RHY Technology transferred 52.8% of the equity interest in Shandong Yigou to the Shandong Yigou Purchasers at a total consideration of approximately RMB8.9 million, which was determined by reference to the net asset value as recorded in Shandong Yigou's accounts as at February 28, 2015. The transfer generated a loss of RMB4.1 million. Prior to the transfer, Shandong Yigou was engaged in software development services in expressway industry. The Group planned to discontinue this business operation and as part of such plan, and the Group transferred 52.8% equity interest and all the businesses of Shandong Yigou to the Shandong Yigou Purchasers. The disposal of Shandong Yigou is consistent with the Company's strategy of terminating the operation of the related business which is non-core to the Group's overall business strategy. As each of the relevant percentage ratios in respect of this transaction is below 5% and the transaction did not involve any securities for which listing would be sought, the transaction did not constitute a notifiable transaction under Chapter 14 of the Listing Rules.

Disposal of VA Holding

In June 2015, the Company entered into an equity transfer agreement in respect of the transfer of 100% of the equity interest in China ITS VA Holding Co., Ltd. ("**VA Holding**"), a wholly-owned subsidiary of the Company, with an independent third party (the "**VA Holding Purchaser**"). Pursuant to the equity transfer agreement, the Company transferred 100% of the equity interest in VA Holding to the VA Holding Purchaser at a total consideration of RMB50,000, which was determined by reference to the negative net asset value of RMB77,300 as recorded in VA Holding's accounts as at May 31, 2015. The transfer generated a profit of RMB127,400. Prior to the transfer, VA Holding did not engage in actual business. The Group transferred 100% equity interest and all the businesses of VA Holding to the VA Holding Purchaser. The disposal of VA Holding is consistent with the Company's strategy of terminating the operation of the related business. As each of the relevant percentage ratios in respect of this transaction is below 5% and the transaction did not involve any securities for which listing would be sought, the transaction did not constitute a notifiable transaction under Chapter 14 of the Listing Rules.

Disposal of Beijing Zhongzhi Real Estate

In July 2015, Intelligent Transportation Co., Ltd. ("**Intelligent Transportation**"), entered into an equity transfer agreement in respect of the transfer of 100% of the equity interest in Beijing Zhongzhi Real Estate Co., Ltd. ("**Beijing Zhongzhi Real Estate**") with an independent third party (the "**Beijing Zhongzhi Real Estate Purchaser**"). Pursuant to the equity transfer agreement, the Intelligent Transportation transferred 100% of the equity interest in Beijing Zhongzhi Real Estate to the Beijing Zhongzhi Real Estate Purchaser at a total consideration of approximately RMB8.7 million, which was determined by reference to the net asset value of Beijing Zhongzhi Real Estate at June 30, 2015. The transfer generated a loss of RMB1,000. Prior to the transfer, Beijing Zhongzhi Real Estate didn't engage in actual business. The Group transferred 100% equity interest and all the businesses of Beijing Zhongzhi Real Estate to the Beijing Zhongzhi Real Estate Purchaser. The disposal of Beijing Zhongzhi Real Estate is consistent with the Company's strategy of terminating the operation of the related business. As each of the relevant percentage ratios in respect of this transaction is below 5% and the transaction did not involve any securities for which listing would be sought, the transaction did not constitute a notifiable transaction under Chapter 14 of the Listing Rules.

Save as disclosed above, there was no other material acquisitions or disposal of subsidiaries and associated companies by the Company during the year ended December 31, 2015.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2015, the aggregate sales to the Group's five largest customers, in aggregate represented approximately 22.6% of the Group's total revenue and sales to the Group's largest customer amounted to approximately 5.4% of the Group's total revenue.

For the year ended December 31, 2015, the aggregate purchases attributable to the Group's five largest suppliers, in aggregate represented approximately 52.8% of the Group's total purchases and purchases attributable to the Group's largest supplier amounted to approximately 36.3% of the Group's total purchases.

For the year ended December 31, 2015, none of the Directors nor any of their associates or any Shareholders who, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital, had any interest in the five largest suppliers or customers.

BANKING FACILITIES AND OTHER BORROWINGS

Details of the bank facilities and other borrowings of the Group as at December 31, 2015 are set out in note 31 to the consolidated financial statements on pages 121 to 122.

SUFFICIENCY OF PUBLIC FLOAT

According to information that is publicly available to the Company and within the knowledge of the Board, as at December 31, 2015, the Company has maintained sufficient public float as required under the Listing Rules.

CONNECTED TRANSACTIONS

There were no connected transactions of the Company for the year ended December 31, 2015.

RELATED PARTIES TRANSACTIONS

The Group was involved in a number of related party transactions during the year ended December 31, 2015, which have been disclosed in note 43 to the consolidated financial statements on pages 133 to 136.

Report of the Directors

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

No contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling Shareholder or any of its subsidiaries subsisted at December 31, 2015 or any time during the year ended December 31, 2015.

NON-COMPETITION DEED

As disclosed in the Prospectus, the independent non-executive Directors will review, on an annual basis, the compliance by the controlling Shareholders with the non-competition undertakings under the Non-competition Agreement (as defined in the Prospectus). The independent non-executive Directors have conducted such review for the year ended December 31, 2015 and found that the Non-competition Agreement has been fully complied with.

CORPORATE GOVERNANCE

The Company places high value on its corporate governance practice and the Board firmly believes that a good corporate governance practice can improve accountability and transparency for the benefit of its shareholders.

The Company has adopted the code provisions (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The Company has complied with the code provisions contained in the CG Code for the year ended December 31, 2015.

Detailed information on the corporate governance practice adopted by the Company is set out in the Corporate Governance Report on pages 29 to 38.

AUDIT COMMITTEE

The Group's annual report for the year ended December 31, 2015 has been reviewed by the Audit Committee. Information on the work of the Audit Committee and its composition are set out in the Corporate Governance Report on pages 32 to 33.

AUDITOR

The consolidated financial statements of the Group for the year ended December 31, 2015 have been audited by Ernst & Young. A resolution for the re–appointment of Ernst & Young as the Company's auditor will be proposed at the forthcoming annual general meeting.

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

Beijing, March 31, 2016

Independent Auditors' Report

EY 安永

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1 Tim Mei Avenue
Central, Hong Kong

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香港中環添美道1號
中信大廈22樓

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To the members of China ITS (Holdings) Co., Ltd.
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China ITS (Holdings) Co., Ltd. (the "Company") and its subsidiaries set out on pages 55 to 147, which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Independent Auditors' Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at December 31, 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
March 31, 2016

Consolidated Statement of Profit or Loss

Year ended December 31, 2015

	Notes	2015 RMB'000	2014 RMB'000
REVENUE	5	**2,317,541**	2,266,696
Cost of sales	6	**(1,924,478)**	(1,917,437)
Gross profit		**393,063**	349,259
Other income and gains	5	**26,862**	28,418
Selling, general and administrative expenses		**(412,525)**	(428,712)
Other expenses		**(204,390)**	(77,083)
OPERATING LOSS		**(196,990)**	(128,118)
Finance income		**10,664**	11,178
Finance costs	7	**(85,600)**	(76,350)
Share of profits/(losses) of:			
Joint ventures		**(280)**	462
Associates		**5,963**	12,700
Loss on disposal of joint ventures		**(4,045)**	–
Gains/(losses) on disposal of subsidiaries	38	**126**	(17,775)
LOSS BEFORE TAX	6	**(270,162)**	(197,903)
Income tax expense	10	**(33,608)**	(17,467)
LOSS FOR THE YEAR		**(303,770)**	(215,370)
Attributable to:			
Owners of the parent		**(278,476)**	(194,657)
Non-controlling interests		**(25,294)**	(20,713)
		(303,770)	(215,370)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
		RMB	RMB
Basic			
— For loss for the year	12	**(0.17)**	(0.12)
Diluted			
— For loss for the year	12	**(0.17)**	(0.12)

Consolidated Statement of Comprehensive Income

Year ended December 31, 2015

	2015 RMB'000	2014 RMB'000
LOSS FOR THE YEAR	**(303,770)**	(215,370)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(12,707)**	(7,281)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(12,707)**	(7,281)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(316,477)**	(222,651)
Attributable to:		
Owners of the parent	**(291,183)**	(201,938)
Non-controlling interests	**(25,294)**	(20,713)
	(316,477)	(222,651)

Consolidated Statement of Financial Position

December 31, 2015

	Notes	December 31, 2015 RMB'000	December 31, 2014 RMB'000
NON-CURRENT ASSETS			
Property and equipment	13	**293,073**	67,899
Investment properties	14	**125,800**	119,000
Prepaid land premium	15	**13,171**	13,471
Goodwill	16	**230,664**	353,782
Other intangible assets	17	**-**	42,184
Investments in joint ventures	18	**35,920**	52,452
Investments in associates	19	**78,212**	139,180
Available-for-sale investment	20	**25,307**	25,307
Deferred tax assets	32	**2,376**	5,030
Pledged deposits	26	**-**	4,500
Convertible borrowings	27	**82,300**	82,390
Total non-current assets		**886,823**	905,195
CURRENT ASSETS			
Inventories	21	**31,867**	20,721
Construction contracts	22	**1,494,229**	1,252,874
Trade and bills receivables	23	**1,703,204**	1,409,037
Prepayments, deposits and other receivables	24	**1,186,713**	1,332,641
Amounts due from related parties	43	**113,377**	84,895
Deferred cost	28	**-**	2,767
Held-to-maturity investment	25	**-**	67,530
Pledged deposits	26	**232,673**	79,716
Cash and cash equivalents	26	**736,107**	600,299
Total current assets		**5,498,170**	4,850,480
CURRENT LIABILITIES			
Trade and bills payables	29	**1,292,190**	1,176,568
Other payables and accruals	30	**395,010**	271,555
Construction contracts	22	**1,248,356**	855,940
Interest-bearing bank borrowings	31	**904,701**	579,664
Amounts due to related parties	43	**92,302**	59,131
Income tax payable		**24,714**	13,132
Guaranteed bonds — current portion	33	**-**	107,516
Convertible bonds — current portion	34	**-**	154,426
Total current liabilities		**3,957,273**	3,217,932
NET CURRENT ASSETS		**1,540,897**	1,632,548
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,427,720**	2,537,743

Consolidated Statement of Financial Position

December 31, 2015

	Notes	**December 31, 2015 RMB'000**	December 31, 2014 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,427,720**	2,537,743
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	31	**281,200**	63,000
Deferred tax liabilities	32	**20,380**	31,235
Total non-current liabilities		**301,580**	94,235
Net assets		**2,126,140**	2,443,508
EQUITY			
Equity attributable to owners of the parent			
Share capital	35	**290**	290
Equity component of convertible bonds	34	**–**	7,903
Other reserves	36	**2,136,854**	2,420,021
		2,137,144	2,428,214
Non-controlling interests		**(11,004)**	15,294
Total equity		**2,126,140**	2,443,508

Liao Jie
Director

Jiang Hailin
Director

Consolidated Statement of Changes in Equity

Year ended December 31, 2015

		Attributable to owners of the parent										
	Notes	Share capital	Share premium	Statutory reserve	Capital reserve	Equity component of convertible bonds	Asset revaluation reserve	Exchange fluctuation reserve	Retained earnings	Total	Non-controlling interests	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		note 35	note 35	note 36	note 36	note 34						
At January 1, 2014		289	1,071,966	126,566	624,010	7,903	7,782	(17,701)	809,542	2,630,357	39,286	2,669,643
Loss for the year		–	–	–	–	–	–	–	(194,657)	(194,657)	(20,713)	(215,370)
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations		–	–	–	–	–	–	(7,281)	–	(7,281)	–	(7,281)
Total comprehensive income for the year		–	–	–	–	–	–	(7,281)	(194,657)	(201,938)	(20,713)	(222,651)
Share-based payment transactions	37	–	–	–	6,728	–	–	–	–	6,728	–	6,728
Distribution of 2014 final dividend		1	8,856	–	–	–	–	–	(15,532)	(6,675)	–	(6,675)
Transfer from retained earnings		–	–	7,772	–	–	–	–	(7,772)	–	–	–
Disposal of subsidiaries		–	–	(258)	–	–	–	–	–	(258)	(3,279)	(3,537)
At December 31, 2014		290	1,080,822	134,080	630,738	7,903	7,782	(24,982)	591,581	2,428,214	15,294	2,443,508
At January 1, 2015		**290**	**1,080,822**	**134,080**	**630,738**	**7,903**	**7,782**	**(24,982)**	**591,581**	**2,428,214**	**15,294**	**2,443,508**
Loss for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(278,476)**	**(278,476)**	**(25,294)**	**(303,770)**
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations		**-**	**-**	**-**	**-**	**-**	**-**	**(12,707)**	**-**	**(12,707)**	**-**	**(12,707)**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**(12,707)**	**(278,476)**	**(291,183)**	**(25,294)**	**(316,477)**
Share-based payment transactions	37	**-**	**-**	**-**	**113**	**-**	**-**	**-**	**-**	**113**	**-**	**113**
Transfer from retained earnings		**-**	**-**	**10,724**	**-**	**-**	**-**	**-**	**(10,724)**	**-**	**-**	**-**
Redemption of convertible bonds		**-**	**7,903**	**-**	**-**	**(7,903)**	**-**	**-**	**-**	**-**	**-**	**-**
Dividends declared to non-controlling shareholders		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,004)**	**(1,004)**
At December 31, 2015		**290**	**1,088,725***	**144,804***	**630,851***	**-**	**7,782***	**(37,689)***	**302,381***	**2,137,144**	**(11,004)**	**2,126,140**

* These reserve accounts comprise the consolidated other reserves of RMB2,136,854,000 (2014: RMB2,420,021,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended December 31, 2015

	Notes	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(270,162)**	(197,903)
Adjustments for:			
Depreciation	6	**13,769**	22,050
Amortisation	6	**10,043**	17,821
Net loss on disposal of items of property and equipment	6	**15**	79
(Gains)/losses on disposal of subsidiaries	6	**(126)**	17,775
Loss on disposal of joint ventures	6	**4,045**	–
Equity-settled share option expense	6	**113**	6,728
Impairment of amounts due from construction contracts	6	**22,466**	13,644
Impairment of trade receivables	6	**27,760**	10,754
Impairment of other receivables	6	**11,981**	26,106
Impairment of an amount due from a related party	6	**1,514**	7,020
Impairment of property and equipment	6	**3,389**	7,347
Impairment of deferred cost	6	**2,023**	17,200
Impairment of goodwill	6	**123,118**	52,353
Impairment of investment in associates	6	**44,202**	–
Impairment of other intangible assets	6	**32,441**	–
Impairment of advances to suppliers	6	**6,000**	–
Share of losses/(profits) of joint ventures		**280**	(462)
Share of profits of associates		**(5,963)**	(12,700)
Fair value gain on investment properties	5	**(6,800)**	(9,900)
Fair value losses/(gains) on convertible borrowings	6	**90**	(2,390)
Derecognition loss of a call option	6	**–**	16,815
Finance income		**(10,664)**	(11,178)
Finance costs	7	**85,600**	76,350
		95,134	57,509
Changes in assets and liabilities:			
(Increase)/decrease in inventories		**(11,146)**	201
Decrease in construction contracts		**128,594**	89,423
Increase in trade and bills receivables		**(321,926)**	(288,200)
Decrease in prepayments, deposits and other receivables		**144,231**	52,795
(Increase)/decrease in amounts due from related parties		**(28,953)**	43,451
Decrease in deferred cost		**744**	396
(Increase)/decrease in pledged deposits		**(148,457)**	923
Increase in trade and bills payables		**115,621**	164,830
Increase in other payables and accruals		**124,435**	30,103
Increase in amounts due to related parties		**33,170**	7,023
Cash generated from operations		**131,447**	158,454
Interest paid		**(82,747)**	(66,494)
Interest received		**2,664**	2,042
Income tax paid		**(30,226)**	(32,635)
Net cash flows from operating activities		**21,138**	61,367

Consolidated Statement of Cash Flows

Year ended December 31, 2015

	Notes	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**21,520**	3,294
Proceeds from disposal of items of property and equipment		**1,153**	217
Purchases of items of property and equipment		**(243,503)**	(33,744)
Proceeds from disposal of a held-to-maturity investment		**67,530**	–
Investment in convertible borrowings		**–**	(80,000)
Dividend received from a joint venture		**5,034**	2,650
Acquisition of subsidiaries		**–**	(3,068)
Disposal of subsidiaries	38	**(423)**	17,914
Acquisition of joint ventures		**–**	(2,000)
Acquisition of associates		**–**	(22,354)
Collection of the prepayment related to acquisition of a new entity		**–**	22,662
Net cash flows used in investing activities		**(148,689)**	(94,429)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of direct transaction cost of convertible bonds		**–**	(2,490)
Proceeds from convertible bonds		**–**	1,587
Proceeds from interest-bearing bank borrowings		**1,373,206**	701,457
Repayment of interest-bearing bank borrowings		**(829,968)**	(666,354)
Dividend paid		**–**	(6,675)
Repurchase of guaranteed bonds		**(109,000)**	(81,000)
Redemption of convertible bonds		**(157,720)**	–
Net cash flows from/(used in) financing activities		**276,518**	(53,475)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**148,967**	(86,537)
Effect of foreign exchange rate changes, net		**(13,159)**	(8,884)
Cash and cash equivalents at beginning of year		**600,299**	695,720
CASH AND CASH EQUIVALENTS AT END OF YEAR	26	**736,107**	600,299

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on February 20, 2008. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, the Cayman Islands. The Company's principal place of business in Hong Kong is in Room 1004, Tung Wah Mansion, 199-203 Hennessy Road, Wanchai. The principal executive office of the Company is located at Building 204, No. A10, Jiuxianqiao North Road, Chaoyang District, Beijing, 100015, the People's Republic of China (the "PRC").

The Group is a provider of transportation infrastructure technology solutions and services in the PRC. During the year, the Group was involved in the following principal activities:

(a) Turnkey solutions 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 through the design, development and implementation 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, to transportation operators and participants.

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

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
China Aviation Communication Technology Company Limited	Hong Kong April 23, 2012	HK$100	100	–	Investment holding
Well Score International Limited	Hong Kong March 27, 2009	HK$1	100	–	Investment holding
China Toprise Limited	British Virgin Islands June 16, 2006	US$1,001	–	100	Investment holding
Fairstar Success Holdings Limited	British Virgin Islands June 13, 2006	US$50,001	100	–	Investment holding

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
China ITS (Holdings) Co., Ltd. (BVI)	British Virgin Islands January 10, 2011	US$1	100	–	Investment holding
China Expressway Intelligent Transportation Technology Group Ltd.	British Virgin Islands September 6, 2012	US$5,100	100	–	Investment holding
Beijing RHY Technology Development Co., Ltd. ("RHY Technology")	PRC/Mainland China February 16, 2001	RMB500 million	–	100	Intelligent transportation system turnkey solutions and value-added operation and services
Beijing Aproud Technology Co., Ltd. ("Aproud Technology")	PRC/Mainland China February 15, 2001	RMB280 million	–	100	Communications and surveillance specialised solutions and value-added operation and services
Beijing Zhongzhi Runbang Technology Co., Ltd. ("Zhongzhi Runbang")	PRC/Mainland China September 3, 2004	RMB15 million	–	100	Value-added operation and services and specialised solutions
Beijing Bailian Zhida Technology Development Co., Ltd. ("Bailian Zhida")	PRC/Mainland China April 18, 2007	RMB5.5 million	–	100	Surveillance specialised solutions
Beijing Haotian Jiajie Technology Co., Ltd. ("Haotian Jiajie")	PRC/Mainland China March 30, 2007	RMB125 million	–	100	Communications specialised solutions and value-added operation and services
Beijing Zhixun Tiancheng Technology Co., Ltd. ("Zhixun Tiancheng")	PRC/Mainland China June 25, 2007	RMB50 million	–	100	Communications specialised solutions
Beijing Aproud Transportation Technology Co., Ltd. ("Aproud Transportation")	PRC/Mainland China July 11, 2007	RMB5 million	–	100	Development of intelligent transportation system related software
Jiangsu Zhixun Tiancheng Technology Co., Ltd.	PRC/Mainland China November 19, 2009	RMB10 million	–	100	Communications specialised solutions
China Traffic Holdings Ltd.	Cayman Islands November 20, 2007	US$889	100	–	Investment holding
Beijing Newcom Traffic Technology Co., Ltd. ("Beijing Newcom")	PRC/Mainland China June 14, 2002	RMB30 million	–	100	Intelligent communications service
Beijing Newcom Traffic Technology Anhui Co., Ltd.	PRC/Mainland China November 18, 2011	RMB1 million	–	100	Intelligent communications service

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Beijing Wuzhouzhitong Traffic Technology Co., Ltd. ("Beijing Wuzhouzhitong")	PRC/Mainland China August 28, 2008	US$4.5 million	–	100	Computer system and software service
Guangzhou Taizheng Technology Co., Ltd.	PRC/Mainland China May 30, 2003	RMB6 million	–	100	Computer system and software service
Tianjin Communication Information Co., Ltd.	PRC/Mainland China February 2, 2010	RMB5 million	–	100	Communications system and computer related service
Jiangsu Zhongzhi Transportation Technology Co., Ltd. ("Jiangsu Zhongzhi Transportation")	PRC/Mainland China December 15, 2011	US$30 million	–	100	Intelligent transportation system service
Guangzhou Yabang Xincheng Communication Technology Co., Ltd.	PRC/Mainland China September 19, 2011	RMB2 million	–	70	Communications system service
Xinjiang RHY Technology Co., Ltd. ("Xinjiang RHY")	PRC/Mainland China October 24, 2005	RMB10 million	–	80	Computer system service
Beijing Jingwei Zhitong Technology Co., Ltd.	PRC/Mainland China March 16, 2011	RMB20 million	–	90.28	Computer communication and software service
Beijing Stone Intelligent Transportation System Integration Co., Ltd. ("Beijing Stone")	PRC/Mainland China February 10, 1999	RMB50 million	–	75	Computer communication and software service
Beijing Lihe Datong Technology Co., Ltd. ("Beijing Lihe Datong")	PRC/Mainland China April 20, 2011	RMB20 million	–	100	Computer communication and software service
Hugecom Limited	British Virgin Islands January 11, 2011	US$10,000	100	–	Investment holding
Jiangsu Zhongzhi Jiaye Electronic Technology Co., Ltd.	PRC/Mainland China April 20, 2012	RMB160 million	–	100	Computer communication and software service
Southwest Intelligent Transportation Co., Ltd.	PRC/Mainland China November 6, 2012	RMB50 million	–	100	Intelligent transportation system turnkey solutions and value-added operation and services
Intelligent Transportation Co., Ltd. ("Intelligent Transportation")	PRC/Mainland China July 13, 2012	RMB50 million	100	–	Intelligent transportation system turnkey solutions and value-added operation and services

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Tianjin Univaid Technology Co., Ltd.	PRC/Mainland China April 15, 2015	RMB10 million	–	70	Computer communication and intelligent transportation
Beijing Wancheng Internet Investment Co., Ltd.	PRC/Mainland China December 4, 2015	RMB20 million	–	100	System service and investment holding
Intelligent Aviation System Co., Ltd. ("Intelligent Aviation System")	PRC/Mainland China November 23, 2012	RMB50 million	–	100	Civil aviation technology and surveillance specialised solutions and value-added operation and services
Jiangsu Zhongzhi Ruixin IOT Technology Co., Ltd.	PRC/ Mainland China November 19, 2013	RMB10 million	–	100	Internet information technology, and sale of electronics
Star Power Development Limited	British Virgin Islands November 22, 2012	US$1	100	–	Investment holding
Beijing Huading Jiaye Technology Co., Ltd.	PRC/ Mainland China July 19, 2013	RMB20 million	–	100	Contract operation, and technology specialised services
Beijing Zhihang Tuoyu Technology Co., Ltd.	PRC/ Mainland China April 12, 2013	RMB2 million	–	100	Technology specialised services, and sale of electronics
Beijing Chengzhi Ruibang Technology Co., Ltd.	PRC/Mainland China April 30, 2014	RMB40 million	–	100	Computer system and software service
Zhongtian Runbang Information Technology Co., Ltd. ("Zhongtian Runbang")	PRC/ Mainland China December 8, 2014	RMB50 million	–	100	Technology specialised services, and sale of electronics
Leria Investment Limited	British Virgin Islands July 15, 2011	US$1	–	100	Investment holding
Beijing Hongrui Dake Technology Co.,Ltd. ("Hongrui Dake")	PRC/Mainland China October 17, 2014	RMB160 million	–	100	Commercial properties leasing

None of the statutory financial statements of the above subsidiaries were audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

Notes to the Financial Statements

December 31, 2015

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

RHY Technology, Aproud Technology and Haotian Jiajie are registered as Sino-foreign equity joint ventures. Beijing Wuzhouzhitong, Jiangsu Zhongzhi Transportation, Beijing Lihe Datong, Intelligent Transportation and Intelligent Aviation System are wholly-foreign-owned enterprises under PRC law. The other subsidiaries registered in Mainland China are domestic companies with limited liability under PRC law.

2.1 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations issued and approved by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and certain financial instruments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended December 31, 2015. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

2.1 BASIS OF PRESENTATION (continued)

Basis of consolidation (continued)

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards for the first time for the current year's financial statements.

Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*
Annual Improvements to IFRSs 2010–2012 Cycle
Annual Improvements to IFRSs 2011–2013 Cycle

The nature and the impact of each amendment is described below:

(a) Amendments to IAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group.

(b) The *Annual Improvements to IFRSs 2010–2012 Cycle* issued in December 2013 sets out amendments to a number of IFRSs. Details of the amendments that are effective for the current year are as follows:

- IFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.

- IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*: Clarifies the treatment of gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.

- IAS 24 *Related Party Disclosures*: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) The Annual Improvements to IFRSs 2011–2013 Cycle issued in December 2013 sets out amendments to a number of IFRSs. Details of the amendments that are effective for the current year are as follows:

- IFRS 3 *Business Combinations*: Clarifies that joint arrangements but not joint ventures are outside the scope of IFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment has had no impact on the Group as the Company is not a joint arrangement and the Group did not form any joint arrangement during the year.

- IFRS 13 *Fair Value Measurement*: Clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 or IAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which IFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in IFRS 13.

- IAS 40 *Investment Property*: Clarifies that IFRS 3, instead of the description of ancillary services in IAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group as the Group has no acquisition of investment properties during the year.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Hong Kong Stock Exchange relating to the disclosure of the financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 9	*Financial Instruments*[3]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[6]
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
IFRS 14	*Regulatory Deferral Accounts*[5]
IFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*[1]
Amendments to IAS 1	*Disclosure Initiative*[1]
Amendments to IAS 27	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012–2014 Cycle	Amendments to a number of IFRSs[1]
IFRS 16	*Lease*[4]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[2]

1 Effective for annual periods beginning on or after January 1, 2016
2 Effective for annual periods beginning on or after January 1, 2017
3 Effective for annual periods beginning on or after January 1, 2018
4 Effective for annual periods beginning on or after January 1, 2019
5 Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after January 1, 2016 and therefore is not applicable to the Group
6 No mandatory effective date yet determined but is available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from January 1, 2018. The Group is currently assessing the impact of the standard.

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. There is no fixed timetable of the Group to adopt the amendments as the standard has no mandatory effective date.

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

The amendments to IFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in IFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on January 1, 2016.

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In July 2015, the IASB issued an amendment to IFRS 15 regarding a one-year deferral of the mandatory effective date of IFRS 15 to January 1, 2018. The Group expects to adopt IFRS 15 on January 1, 2018 and is currently assessing the impact of IFRS 15 upon adoption.

Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in IAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Group expects to adopt the amendments from January 1, 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on January 1, 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

The amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures introduce minor clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the standards.

The IASB issued IFRS 16 Leases on January 13, 2016, which requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 Leases.

IAS 12 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments issued on January 19, 2016 clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control, is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated statement of comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at December 31. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment properties, derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties, goodwill and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel service to the Group or to the parent of the Group.

Property and equipment and depreciation

Property and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property and equipment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment and depreciation (continued)

Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Buildings	20 years
Computers and electronic equipment	3 to 5 years
Office equipment	3 to 5 years
Motor vehicles	5 years
Software	5 years
Leasehold improvements	Over the shorter of the expected life of the leasehold improvements and the lease terms

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building or equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Technology know-how

Technology know-how arising from business combination is stated at fair value and is amortised on the straight-line basis over its estimated useful life of 5 years.

Customer relationships

Customer relationships arising from business combination are stated at fair value and are amortised on the straight-line basis over their estimated useful lives of 3.3 years and 7 years.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land premium under operating leases is initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, these assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for “Revenue recognition” below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Available-for-sale financial investments (continued)

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

(a) the rights to receive cash flows from the asset have expired; or

(b) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass through" arrangement, and either (i) the Group has transferred substantially all the risks and rewards of the asset, or (ii) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss — is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include trade and bills payables, other payables, amounts due to related parties and interest-bearing bank borrowings.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Financial liabilities at fair value through profit or loss (continued)

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the specific identification basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (a) the amount that would be recognised in accordance with the general guidance for provisions above; and (b) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

(a) when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

(a) when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets and released to the statement of profit or loss over the expected useful lives of the relevant assets by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" below;

(c) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" below;

(d) rental income, on a time proportion basis over the lease terms;

(e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(f) dividend income, when the shareholders' right to receive payment has been established.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction contracts (continued)

Revenue from cost plus construction contracts is recognised using the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amounts. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Share-based payments

China ITS Co., Ltd. (one of the controlling shareholders of the Company) and the Company operate share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 37 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

PRC contribution plan

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The assets of the scheme are held separately from that of the Group in an independently administered fund. These subsidiaries are required to contribute 20% of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the directors were classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622), proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

Since the Company conducts its primary business operations through its subsidiaries established in the PRC, the Company adopts RMB as the presentation currency of the Group. The Company's functional currency is the Hong Kong dollar. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or transaction of monetary items are recognised in the statement of profit or loss.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on changes in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain non-PRC subsidiaries and joint ventures are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of foreign operations are translated into RMB at the rates of exchange prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of non-PRC subsidiaries are translated into RMB at the exchange rates prevailing at the dates of the cash flows. Frequently recurring cash flows of non-PRC subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating lease.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independent of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Tax provisions

Determining tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions, and tax provisions are set up accordingly. The tax treatment of such transactions is assessed periodically to take into account all the changes in the tax legislation and practices.

No deferred tax liabilities have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. The directors determine that it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The impairment of goodwill recognised for the year ended December 31, 2015 was RMB123,118,000 (2014: RMB52,353,000). Further details are given in note 16.

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The carrying amount of investment properties at December 31, 2015 was RMB125,800,000 (2014: RMB119,000,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 14 to the financial statements.

Notes to the Financial Statements

December 31, 2015

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. The impairment of property and equipment, other intangible assets and investment in associates recognised for the year ended December 31, 2015 was RMB3,389,000 (2014: RMB7,347,000), RMB32,441,000 (2014: Nil) and RMB44,202,000 (2014: Nil), respectively.

Impairment of receivables

The Group's policy for impairment of receivables is based on an assessment of the recoverability of debtors. The identification of doubtful debts requires management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, the differences will have an impact on the carrying amounts of the receivables and the impairment loss in the period in which the estimate has been changed.

The receivables that were past due but not impaired relate to a number of debtors that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that the provision balance for impairment is sufficient in respect of these balances, and the remaining balances are still considered fully recoverable. The impairment loss recognised for the year ended December 31, 2015 for amounts due from construction contracts, trade receivables, other receivables and an amount due from a related party was RMB22,466,000 (2014: RMB13,644,000), RMB27,760,000 (2014: RMB10,754,000), RMB11,981,000 (2014: RMB26,106,000), and RMB1,514,000 (2014: RMB7,020,000), respectively.

Percentage of completion of construction work

The Group recognises revenue according to the percentage of completion for individual contracts of construction work, which requires estimation to be made by management. The stage of completion is estimated by reference to the actual costs incurred over the total budgeted costs, and the corresponding contract revenue is also estimated by management. Due to the nature of the activity undertaken in construction contracts, the date at which the activity is entered into and the date at which the activity is completed usually fall into different accounting periods. Hence, the Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each contract as the contract progresses. Where the actual contract revenue is less than expected or actual contract costs are more than expected, an impairment loss may arise.

Current income tax and deferred income tax

The Group is subject to income taxes in numerous jurisdictions. Judgement is required to determine the provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the current income tax and deferred income tax provisions in the periods in which the differences arise.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Current income tax and deferred income tax (continued)

Deferred tax assets relating to certain deductible temporary differences and unused tax losses are recognised as management considers it is probable that future taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised. The realisation of the deferred tax assets mainly depends on whether sufficient profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in the statement of profit or loss for the period in which such a reversal takes place. The carrying value of deferred tax assets at December 31, 2015 was approximately RMB2,376,000 (2014: RMB5,030,000).

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group has the following operating segments based on industry sectors:

(i) Expressway: Provides turnkey solutions ("TS"), specialised solutions ("SS") and value-added operation and services ("VAOS") to customers in the expressway industry;

(ii) Railway: Provides SS and VAOS to customers in the railway industry;

(iii) Urban traffic: Provides TS, SS and VAOS to customers in the urban traffic and energy industry; and

(iv) Others: Provides SS to customers in other industries.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax from continuing operations except that finance income, finance costs, share of profits of joint ventures and associates, gains/losses on disposal of subsidiaries, exchange gains/losses, changes in fair value of investment properties and convertible borrowings, derecognition loss of call option as well as head office and corporate expenses are excluded from this measurement.

Intersegment sales are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. OPERATING SEGMENT INFORMATION (continued)

Year ended December 31, 2015	Expressway RMB'000	Railway RMB'000	Urban traffic RMB'000	Others RMB'000	Total RMB'000
Segment revenue					
Sales to external customers	808,884	1,363,250	145,007	400	2,317,541
Intersegment sales	-	-	-	-	-
	808,884	1,363,250	145,007	400	2,317,541
Reconciliation:					
Elimination of intersegment sales					-
Revenue					2,317,541
Segment results	74,952	133,574	(352,039)	(71)	(143,584)
Reconciliation:					
Finance income					10,664
Finance costs					(85,600)
Exchange losses					(687)
Changes in fair value of investment properties and convertible borrowings					6,710
Corporate and other unallocated expenses					(57,665)
Loss before tax					(270,162)
December 31, 2015					
Other segment information:					
Impairment losses recognised in the statement of profit or loss	11,847	1,821	261,226	-	274,894
Other non-cash expenses	26	32	4	-	62
Depreciation and amortisation	3,212	1,616	12,548	-	17,376
Capital expenditure*	1,958	7,741	1,398	-	11,097

* Capital expenditure represents the additions to property and equipment.

4. OPERATING SEGMENT INFORMATION (continued)

Year ended December 31, 2014	Expressway RMB'000	Railway RMB'000	Urban traffic RMB'000	Others RMB'000	Total RMB'000
Segment revenue					
Sales to external customers	1,062,150	1,012,853	191,693	–	2,266,696
Intersegment sales	–	–	–	–	–
	1,062,150	1,012,853	191,693	–	2,266,696
Reconciliation:					
Elimination of intersegment sales					–
Revenue					2,266,696
Segment results	58,306	63,706	(188,489)	–	(66,477)
Reconciliation:					
Finance income					11,178
Finance costs					(76,350)
Exchange gains					5,401
Changes in fair value of investment properties and convertible borrowings					12,290
Derecognition loss of a call option					(16,815)
Corporate and other unallocated expenses					(67,130)
Loss before tax					(197,903)
December 31, 2014					
Other segment information:					
Impairment losses recognised in the statement of profit or loss	34,376	2,089	97,959	–	134,424
Other non-cash expenses	1,710	1,709	17,056	–	20,475
Depreciation and amortisation	4,998	2,208	28,369	–	35,575
Capital expenditure*	2,658	28,303	1,057	–	32,018

* Capital expenditure represents the additions to property and equipment.

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

The Group principally operates in the PRC (country of the domicile of major operating subsidiaries). All Group's revenue from external customers is attributed to the PRC and all non-current assets excluding deferred tax assets and an available-for-sale investment are located in the PRC.

Information about a major customer

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

5. REVENUE, OTHER INCOME AND GAINS

Revenue from the implementation of projects represents an appropriate proportion of contract revenue of construction contracts, net of business tax and government surcharges.

Revenue from the sale of products represents the net invoiced value of goods sold, net of value-added tax and government surcharges, and after allowances for goods returns and trade discounts.

Revenue from the rendering of services represents net invoiced value of services rendered.

An analysis of revenue, other income and gains is as follows:

	2015 RMB'000	2014 RMB'000
Revenue		
Implementation of projects	**2,125,859**	2,122,907
Sale of products	**130,415**	98,699
Rendering of services	**61,267**	45,090
	2,317,541	2,266,696
Other income		
Gross rental income	**11,439**	8,483
Government grants*	**7,708**	2,046
Others	**915**	198
	20,062	10,727
Gains		
Changes in fair value of investment properties	**6,800**	9,900
Changes in fair value of convertible borrowings	**–**	2,390
Exchange gains	**–**	5,401
	26,862	28,418

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

6. LOSS BEFORE TAX

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

	2015 RMB'000	2014 RMB'000
Cost of services rendered for the implementation of projects	**1,774,474**	1,816,809
Cost of inventories sold	**114,678**	65,226
Cost of services provided	**35,326**	35,402
	1,924,478	1,917,437
Depreciation (note 13)	**13,769**	22,050
Amortisation of intangible assets* (note 17)	**9,743**	17,566
Amortisation of prepaid land premium (note 15)	**300**	255
Minimum lease payments under operating leases	**34,713**	27,924
Auditors' remuneration	**6,651**	2,750
Wages and salaries	**82,955**	79,169
Pension scheme contributions (defined contribution scheme)	**8,808**	11,683
Social insurance costs and staff welfare	**19,709**	17,800
Equity-settled share option expense (note 37)	**113**	6,728
	111,585	115,380
Impairment of amounts due from construction contracts (note 22)	**22,466**	13,644
Impairment of trade receivables (note 23)	**27,760**	10,754
Impairment of other receivables (note 24)	**11,981**	26,106
Impairment of an amount due from a related party	**1,514**	7,020
Impairment of property and equipment (note 13)	**3,389**	7,347
Impairment of goodwill (note 16)**	**123,118**	52,353
Impairment of investment in associates**	**44,202**	–
Impairment of other intangible assets (note 17)**	**32,441**	–
Impairment of deferred cost (note 28)	**2,023**	17,200
Impairment of advance to suppliers	**6,000**	–
Changes in fair value of investment properties (note 14)	**(6,800)**	(9,900)
Changes in fair value of convertible borrowings	**90**	(2,390)
Derecognition loss of a call option	**–**	16,815
Rental income on investment properties	**(8,754)**	(6,942)
Net loss on disposal of items of property and equipment	**15**	79
Loss on disposal of joint ventures	**4,045**	–
(Gains)/losses on disposal of subsidiaries (note 38)	**(126)**	17,775
Charitable donation	**20**	400
Exchange losses/(gains)	**687**	(5,401)

* The amortisation of intangible assets for the year is included in "Selling, general and administrative expenses" in the consolidated statement of profit or loss.

** The impairment of goodwill, investment in associates and other intangible assets are included in "Other expenses" in the consolidated statement of profit or loss.

Notes to the Financial Statements

December 31, 2015

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2015 RMB'000	2014 RMB'000
Interest on bank loans, overdrafts and other loans (including convertible bonds and guaranteed bonds)	**80,800**	75,860
Total interest expense on financial liabilities not at fair value through profit or loss	**80,800**	75,860
Other finance costs:		
Increase in discounted amounts of a long-term payable arising from the passage of time	**4,800**	490
	85,600	76,350

8. DIRECTORS' REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2015 RMB'000	2014 RMB'000
Fees	**1,372**	2,489
Other emoluments:		
Salaries, allowances and benefits in kind	**1,017**	1,551
Equity-settled share option expense	**57**	3,780
Pension scheme contributions	**50**	134
	1,124	5,465
	2,496	7,954

During the year, no payments were made by the Group to the directors of the Company as an inducement to join the Group or compensation for loss of office (2014: Nil).

8. DIRECTORS' REMUNERATION (continued)

In the years of 2008 and 2012, certain directors were granted share options, in respect of their services to the Group, under the share option schemes of China ITS Co., Ltd. and the Company, further details of which are set out in note 37 to the financial statements. The fair value of these options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year are as follows:

	2015 **RMB'000**	2014 RMB'000
Mr. Zhou Chunsheng	**179**	173
Mr. Choi Onward	**179**	173
Mr. Sun Lu	**90**	173
	448	519
Other emoluments:		
Equity-settled share option expense	**–**	11
	448	530

In the year of 2012, the independent non-executive directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 37 to the financial statements. The fair value of these options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and in the current year, there was no share option expense.

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and a non-executive director

2015	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Mr. Jiang Hailin	813	516	2	44	1,375
Mr. Liao Jie	–	463	42	–	505
Mr. Wang Jing	–	–	2	–	2
Mr. Lu Xiao	37	8	7	3	55
Mr. Pan Jianguo	74	30	4	3	111
	924	1,017	57	50	2,048

Mr. Zhang Tianwei was appointed as a non-executive director with effect from May 20, 2014. During the year, no remuneration was paid by the Group to Mr. Zhang Tianwei.

On February 3, 2015, Mr. Wang Jing, Mr. Lu Xiao and Mr. Pan Jianguo resigned as executive directors of the Company.

2014	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Mr. Lv Xilin	–	145	389	14	548
Mr. Jiang Hailin	788	379	113	40	1,320
Mr. Liao Jie	–	331	2,477	–	2,808
Mr. Wang Jing	–	–	113	–	113
Mr. Lu Xiao	394	342	423	40	1,199
Mr. Pan Jianguo	788	354	254	40	1,436
	1,970	1,551	3,769	134	7,424

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2014: four directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2014: one) non-director highest paid employee is as follows:

	2015 **RMB'000**	2014 RMB'000
Salaries, allowances and benefits in kind	**2,145**	1,605
Equity-settled share option expense	**8**	327
	2,153	1,932

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

	Number of employees **2015**	2014
HK$500,001 to HK$1,000,000 (RMB406,000 to RMB813,000)	**2**	–
HK$1,000,001 to HK$1,500,000 (RMB813,000 to RMB1,220,000)	**–**	–
HK$1,500,001 to HK$2,000,000 (RMB1,220,000 to RMB1,626,000)	**1**	–
HK$2,000,001 to HK$2,500,000 (RMB1,626,000 to RMB2,033,000)	**–**	1
	3	1

In the years of 2008 and 2012, share options were granted to certain non-director highest paid employees in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 37. The fair value of these options, which has been recognised in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the year is included in the above non-director highest paid employees' remuneration disclosures.

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

Details of the tax benefits enjoyed by the Group's PRC subsidiaries in 2015 are as follows:

(i) Beijing Newcom was designated and approved as a High and New Technology Enterprise ("HNTE") in November 2013 for a period of three years from 2013 and was entitled to a preferential tax rate of 15% for 2015.

(ii) Bailian Zhida, Beijing Stone, RHY Technology, Zhixun Tiancheng, Intelligent Aviation System, Aproud Transportation, Aproud Technology and Xinjiang RHY were designated and approved as HNTEs in October 2014 for a period of three years from 2014 and were entitled to a preferential tax rate of 15% for 2015.

(iii) Zhongzhi Runbang was designated and approved as a High and New Technology Enterprise ("HNTE") in November 2015 for a period of three years from 2015 and was entitled to a preferential tax rate of 15% for 2015.

(iv) Zhongtian Runbang is a company set up in Tibet, and was entitled to preferential tax of 9% from 2015 to 2017.

According to PRC tax regulations, from January 1, 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, are subject to withholding tax at the rate of 10% on various types of passive income such as dividends derived from entities in the PRC. Distributions of the pre-2008 earnings are exempted from the above-mentioned withholding tax. At December 31, 2015, no deferred tax liabilities have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC (2014: Nil). In the opinion of the directors, it is not probable that the Group's PRC subsidiaries will distribute profits in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB994,968,000 (2014: RMB886,239,000).

The major components of income tax expense are as follows:

	2015 RMB'000	2014 RMB'000
Current income tax:		
Current income tax charge in Mainland China	**41,809**	30,828
Deferred income tax:		
Relating to origination and reversal of temporary differences	**(8,201)**	(13,361)
Income tax expense reported in the consolidated statement of profit or loss	**33,608**	17,467

10. INCOME TAX (continued)

A reconciliation of the tax expense applicable to loss before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, is as follows:

2015	Hong Kong RMB'000	%	Cayman Islands and British Virgin Islands RMB'000	%	Mainland China RMB'000	%	Total RMB'000	%
Loss before tax	(372)	-	(44,129)	-	(225,661)	-	(270,162)	-
Tax at statutory tax rate	(61)	16.4	-	-	(56,415)	25.0	(56,476)	20.9
Tax holiday or lower tax rates enacted by local authorities	-	-	-	-	18,627	(8.3)	18,627	(6.9)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	-	-	-	-	11,250	(5.0)	11,250	(4.2)
Expenses not deductible for tax	-	-	-	-	39,518	(17.5)	39,518	(14.6)
Income not subject to tax	-	-	-	-	(1,437)	0.6	(1,437)	0.5
Adjustments in respect of current income tax of previous periods	-	-	-	-	(671)	0.3	(671)	0.2
Profit attributable to joint ventures and associates*	-	-	-	-	(726)	0.3	(726)	0.3
Tax losses not recognised	61	(16.4)	-	-	23,462	(10.4)	23,523	(8.7)
Tax charge at the Group's effective rate	-	-	-	-	33,608	(14.9)	33,608	(12.4)

2014	Hong Kong RMB'000	%	Cayman Islands and British Virgin Islands RMB'000	%	Mainland China RMB'000	%	Total RMB'000	%
Loss before tax	(235)	–	(59,774)	–	(137,894)	–	(197,903)	–
Tax at statutory tax rate	(39)	16.5	–	–	(34,473)	25.0	(34,512)	17.5
Tax holiday or lower tax rates enacted by local authorities	–	–	–	–	9,406	(6.8)	9,406	(4.8)
Expenses not deductible for tax	–	–	–	–	22,564	(16.4)	22,564	(11.4)
Income not subject to tax	–	–	–	–	(312)	0.2	(312)	0.2
Adjustments in respect of current income tax of previous periods	–	–	–	–	(19)	–	(19)	–
Effect of tax rate change	–	–	–	–	(1,776)	1.3	(1,776)	0.9
Profit attributable to joint ventures and associates*	–	–	–	–	(3,209)	2.3	(3,209)	1.6
Tax losses not recognised	39	(16.5)	–	–	25,286	(18.3)	25,325	(12.8)
Tax charge at the Group's effective rate	–	–	–	–	17,467	(12.7)	17,467	(8.8)

* The share of tax attributable to joint ventures and associates amounting to RMB726,000 (2014: RMB3,209,000) is included in "Share of profits of joint ventures" and "Share of profits of associates" in the consolidated statement of profit or loss.

11. DIVIDENDS

No dividend was proposed by the Company for the year ended December 31, 2015 and December 31, 2014.

12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Basic loss per share ("EPS") amount is calculated by dividing the loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

The calculation of the diluted earnings per share amount is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, plus the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed conversion of all the dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic loss per share amounts presented for the year ended December 31, 2015 and December 31, 2014 in respect of a dilution as the impact of the share option scheme outstanding has an anti-dilutive effect on the basic loss per share amounts presented.

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

	2015 **RMB'000**	2014 RMB'000
Loss		
Loss attributable to ordinary equity holders of the parent, used in the basic loss per share calculation	**(278,476)**	(194,657)
	Number of shares	
	2015	2014
Shares		
Weighted average number of shares in issue during the year used in the basic per share calculation	**1,654,024,868**	1,649,600,111

Notes to the Financial Statements

December 31, 2015

13. PROPERTY AND EQUIPMENT

	Buildings RMB'000	Computers and electronic equipment RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Software RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
December 31, 2015								
At January 1, 2015								
Cost	612	27,850	5,931	30,078	34,424	15,587	34,999	149,481
Accumulated depreciation	(419)	(14,681)	(5,077)	(21,191)	(19,836)	(13,031)	-	(74,235)
Impairment	-	-	-	-	(7,347)	-	-	(7,347)*
Net carrying amount	193	13,169	854	8,887	7,241	2,556	34,999	67,899
At January 1, 2015, net of accumulated depreciation	193	13,169	854	8,887	7,241	2,556	34,999	67,899
Additions	227,000	1,247	387	2,820	33	366	11,650	243,503
Disposals	-	(76)	(2)	(451)	(186)	(103)	(353)	(1,171)
Depreciation provided during the year	(755)	(4,180)	(461)	(3,374)	(3,769)	(1,230)	-	(13,769)
Impairment	(89)	(175)	(291)	(706)	(2,128)	-	-	(3,389)
Transfer	-	8,010	-	-	-	-	(8,010)	-
At December 31, 2015, net of accumulated depreciation and impairment	226,349	17,995	487	7,176	1,191	1,589	38,286	293,073
At December 31, 2015								
Cost	227,612	36,680	6,283	29,732	24,990	5,671	38,286	369,254
Accumulated depreciation	(1,174)	(18,510)	(5,505)	(21,850)	(21,671)	(4,082)	-	(72,792)
Impairment	(89)	(175)	(291)	(706)	(2,128)	-	-	(3,389)
Net carrying amount	226,349	17,995	487	7,176	1,191	1,589	38,286	293,073

* The impairment of RMB7,347,000 as at December 31, 2014 was written off due to the disposal of property and equipment for the year ended December 31, 2015.

13. PROPERTY AND EQUIPMENT (continued)

	Buildings RMB'000	Computers and electronic equipment RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Software RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
December 31, 2014								
At January 1, 2014								
Cost	619	16,376	5,733	31,067	50,366	13,725	16,174	134,060
Accumulated depreciation	(393)	(11,332)	(4,473)	(18,988)	(26,127)	(7,903)	–	(69,216)
Net carrying amount	226	5,044	1,260	12,079	24,239	5,822	16,174	64,844
At January 1, 2014, net of accumulated depreciation	226	5,044	1,260	12,079	24,239	5,822	16,174	64,844
Additions	–	1,640	223	891	261	1,862	28,869	33,746
Disposals	–	(26)	–	(269)	–	–	–	(295)
Disposal of subsidiaries (note 38)	(2)	–	(4)	(6)	(987)	–	–	(999)
Depreciation provided during the year	(31)	(3,533)	(625)	(3,808)	(8,925)	(5,128)	–	(22,050)
Impairment	–	–	–	–	(7,347)	–	–	(7,347)
Transfer	–	10,044	–	–	–	–	(10,044)	–
At December 31, 2014, net of accumulated depreciation and impairment	193	13,169	854	8,887	7,241	2,556	34,999	67,899
At December 31, 2014								
Cost	612	27,850	5,931	30,078	34,424	15,587	34,999	149,481
Accumulated depreciation	(419)	(14,681)	(5,077)	(21,191)	(19,836)	(13,031)	–	(74,235)
Impairment	–	–	–	–	(7,347)	–	–	(7,347)
Net carrying amount	193	13,169	854	8,887	7,241	2,556	34,999	67,899

The carrying values of the buildings shown above that are situated on long-term leasehold land in the PRC are as follows:

	2015 RMB'000	2014 RMB'000
Lease less than 50 years	**226,349**	193

14. INVESTMENT PROPERTIES

	2015 **RMB'000**	2014 RMB'000
Carrying amount at January 1	**119,000**	109,100
Net gain from fair value adjustment	**6,800**	9,900
Carrying amount at December 31	**125,800**	119,000

The Group's investment properties are situated in Mainland China and are leased to third parties under long-term operating leases.

The Group's investment properties were revalued by Savills Valuation and Professional Services Limited ("Savills") on December 31, 2015, an independent firm of professional valuers, at RMB125,800,000. Each year, when the Group decides to appoint which external valuer to be responsible for the external valuations of the Group's properties, selection criteria including market knowledge, reputation, independence and whether professional standards are maintained have been considered. The Group's chief financial officer has discussions with the valuer on the valuation assumptions and valuation results when the valuation is performed for annual financial reporting.

At December 31, 2015, the Group's investment properties with a carrying amount of RMB125,800,000 (2014: RMB119,000,000), including RMB125,800,000 (2014: RMB119,000,000) which was pledged to secure bank loans granted to the Group at December 31, 2015 (note 31).

Fair value hierarchy

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

	Fair value measurement as at December 31, 2015 using			
Recurring fair value measurement for:	**Quoted prices in active markets (Level 1) RMB'000**	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Commercial properties	**–**	**–**	**125,800**	**125,800**

	Fair value measurement as at December 31, 2014 using			
Recurring fair value measurement for:	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Commercial properties	–	–	119,000	119,000

14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2014: Nil).

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

Commercial properties	2015 RMB'000	2014 RMB'000
Carrying amount at January 1	**119,000**	109,100
Net gain from fair value adjustment	**6,800**	9,900
Carrying amount at December 31	**125,800**	119,000

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

	Valuation techniques	Significant unobservable inputs	Range (weighted average) 2015	 2014
Commercial properties	Income approach	Estimated rental value (per sq.m. and per month)	**172–207**	154–187
		Capitalisation rate	**6.5%–7.5%**	6.5%–7.5%

Under the income approach, the fair value is determined based on capitalisation of rental income of contractual tenancies for the unexpired term of tenancies. The reversionary market rent after the expiry of tenancies is also taken into account.

The capitalisation rate and estimated rental value are derived from market asking and sales transaction evidence as appropriate. A significant increase (decrease) in the estimated rental value would result in a significant increase (decrease) in the fair value of the investment properties. A significant increase (decrease) in the capitalisation rate would also result in a significant decrease (increase) in the fair value of the investment properties.

15. PREPAID LAND PREMIUM

The movement in prepaid land premium during the year is as follows:

	2015 RMB'000	2014 RMB'000
Carrying amount at January 1	**13,471**	13,726
Recognised during the year	**(300)**	(255)
Carrying amount at December 31	**13,171**	13,471

16. GOODWILL

	2015 RMB'000	2014 RMB'000
At January 1	**353,782**	406,135
Impairment provided during the year	**(123,118)**	(52,353)
Net carrying amount at December 31	**230,664**	353,782

Impairment testing of goodwill

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

- Beijing Aproud Technology Co., Ltd. and its subsidiaries (collectively "Aproud subgroup"), which principally engages in communications specialised solutions in railway business;
- China Traffic Holding Ltd. and its subsidiaries (collectively "CTH subgroup"), which principally engages in intelligent communications service in urban traffic business;
- Hugecom Limited and its subsidiaries (collectively "Stone subgroup"), which principally engages in computer communication and software service in urban traffic business; and
- Xinjiang RHY Technology Co., Ltd. ("Xinjiang RHY"), which principally engages in computer system service in expressway business.

16. GOODWILL (continued)

Impairment testing of goodwill (continued)

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

	2015 **RMB'000**	2014 RMB'000
Aproud subgroup	**230,664**	230,664
CTH subgroup	**–**	78,325
Stone subgroup	**–**	44,793
Xinjiang RHY	**–**	–
	230,664	353,782

Goodwill allocated to Xinjiang RHY was fully impaired in 2014. The recoverable amount of Aproud subgroup, CTH subgroup and Stone subgroup cash-generating units in 2015 have been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The discount rate applied to the cash flow projections is 20% (2014: 20%) for Aproud subgroup, 19.5% (2014:17%) for CTH subgroup and 19.5% (2014: 17%) for Stone subgroup, respectively. The growth rate used to extrapolate the cash flows beyond the five-year period is 5% (2014: 5%) for Aproud subgroup, 2.5% (2014: 3%) for CTH subgroup and 2.5% (2014: 3%) for Stone subgroup, respectively.

The recoverable amount of CTH subgroup and Stone subgroup as of December 31, 2015 was determined as zero, and management provided RMB78,325,000 and RMB44,793,000 for the impairment loss of CTH subgroup and Stone subgroup, respectively, in 2015. The impairment loss was provided in line with the decline of urban traffic business and the loss-marking records in recent years of CTH subgroup and Stone subgroup.

Assumptions were used in the value in use calculation of each cash-generating unit for December 31, 2015 and December 31, 2014. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Gross margins — Gross margins are based on average values achieved in the three years preceding the beginning of the budget period.

Discount rate — The discount rate used is before tax and reflects specific risks relating to the relevant units. In determining an appropriate discount rate, a consideration has been given to the applicable borrowing interest rates in the year immediately before the budget years.

Growth rate — The Group determines the growth rate which shall not exceed the long-term average gross growth rate of the relevant market in Mainland China.

The values assigned to the key assumptions on market development, gross margins and discount rate are consistent with external information sources.

17. OTHER INTANGIBLE ASSETS

December 31, 2015	**Technical know-how RMB'000**	**Customer relationships RMB'000**	**Contract backlog RMB'000**	**Total RMB'000**
Cost at January 1, 2015, net of accumulated amortisation	**12,031**	**29,765**	**388**	**42,184**
Amortisation provided during the year	**(4,665)**	**(4,960)**	**(118)**	**(9,743)**
Impairment during the year	**(7,366)**	**(24,805)**	**(270)**	**(32,441)**
At December 31, 2015	**-**	**-**	**-**	**-**
At December 31, 2015				
Cost	**31,875**	**61,099**	**4,272**	**97,246**
Accumulated amortisation	**(24,509)**	**(36,294)**	**(4,002)**	**(64,805)**
Impairment	**(7,366)**	**(24,805)**	**(270)**	**(32,441)**
Net carrying amount	**-**	**-**	**-**	**-**

December 31, 2014	Technical know-how RMB'000	Customer relationships RMB'000	Contract backlog RMB'000	Total RMB'000
Cost at January 1, 2014, net of accumulated amortisation	18,445	40,759	546	59,750
Amortisation provided during the year	(6,414)	(10,994)	(158)	(17,566)
At December 31, 2014	12,031	29,765	388	42,184
At December 31, 2014				
Cost	31,875	61,099	4,272	97,246
Accumulated amortisation	(19,844)	(31,334)	(3,884)	(55,062)
Net carrying amount	12,031	29,765	388	42,184

18. INVESTMENTS IN JOINT VENTURES

	2015 RMB'000	2014 RMB'000
Share of net assets	**35,920**	52,452

The Group's receivable and payable balances with the joint ventures are disclosed in note 43 to the financial statements.

The following table illustrates the aggregate financial information in respect of the Group's joint ventures that are not individually material:

	2015 RMB'000	2014 RMB'000
Share of the joint ventures' (loss)/profit for the year	**(280)**	462
Share of the joint ventures' total comprehensive income	**(280)**	462
Aggregate carrying amount of the Group's investments in the joint ventures	**35,920**	52,452

19. INVESTMENTS IN ASSOCIATES

	2015 RMB'000	2014 RMB'000
Share of net assets	**78,212**	139,180

The Group's receivables and payables with associates are disclosed in note 43 to the financial statements.

Particulars of the material associate are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest	Principal activities
Guangzhou Communication Information Co., Ltd.	RMB50 million	Mainland China	45%	Intelligent transportation system

The above investment in associate is held indirectly by the Company.

19. INVESTMENTS IN ASSOCIATES (continued)

The following table illustrates the summarised financial information in respect of Guangzhou Communication Information Co., Ltd., adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements:

	2015 **RMB'000**	2014 RMB'000
Current assets	**172,898**	152,870
Non-current assets	**82,635**	165,795
Current liabilities	**(121,099)**	(113,549)
Non-current liabilities	**(44,678)**	(42,126)
Net assets	**89,756**	162,990
Cash and cash equivalents	**80,369**	52,476
Depreciation and amortisation	**(27,888)**	(24,043)
Interest income	**929**	149
Interest expenses	**(337)**	(1,722)
Income tax expenses	**(950)**	(3,291)
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	**45%**	45%
Group's share of net assets of the associate	**40,390**	73,346
Carrying amount of the investment	**40,390**	73,346
Revenue	**107,793**	110,186
Profit for the year	**3,091**	24,859
Total comprehensive income for the year	**3,091**	24,859
Dividend collected	**2,250**	–

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2015 **RMB'000**	2014 RMB'000
Share of the associates' profit for the year	**4,572**	1,513
Share of the associates' total comprehensive income	**4,572**	1,513
Aggregate carrying amount of the Group's investments in the associates	**37,822**	65,834

20. AVAILABLE-FOR-SALE INVESTMENT

	2015 RMB'000	2014 RMB'000
Unlisted equity investment, at cost	**25,307**	25,307

As at December 31, 2015, the unlisted equity investment with a carrying amount of RMB25,307,000 (2014: RMB25,307,000) was stated at cost less impairment because the directors are of the opinion that the fair value cannot be measured reliably. The Group does not intend to dispose of the investment in the near future.

21. INVENTORIES

	2015 RMB'000	2014 RMB'000
Raw materials	**12,464**	2,804
Finished goods	**19,403**	17,917
	31,867	20,721

22. CONSTRUCTION CONTRACTS

	2015 RMB'000	2014 RMB'000
Gross amount due from contract customers	**1,494,229**	1,252,874
Gross amount due to contract customers	**(1,248,356)**	(855,940)
	245,873	396,934
Contract costs incurred plus recognised profits less recognised losses to date	**10,510,293**	8,259,966
Less: Progress billings	**(10,264,420)**	(7,863,032)
	245,873	396,934

In 2015, RMB22,466,000 (2014: RMB13,644,000) was provided for the impairment loss of the amounts due from contract customers.

23. TRADE AND BILLS RECEIVABLES

	2015 RMB'000	2014 RMB'000
Trade receivables	**1,620,084**	1,353,485
Impairment	**(32,980)**	(11,010)
	1,587,104	1,342,475
Bills receivables	**116,100**	66,562
	1,703,204	1,409,037

Trade and bills receivables, which are non-interest-bearing, are recognised and carried at original invoiced amount less any impairment loss. Trade and bills receivables generally have credit terms ranging from 30 days to 180 days.

In view of the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. An estimate for doubtful debts is made when there is objective evidence that an impairment loss on receivables has been incurred. The Group does not hold any collateral or other credit enhancements over its trade and bills receivables balances.

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	2015 RMB'000	2014 RMB'000
Less than 6 months	**628,230**	733,657
6 months to 1 year	**418,047**	294,392
1 year to 2 years	**415,810**	226,351
2 years to 3 years	**119,272**	89,363
Over 3 years	**121,845**	65,274
	1,703,204	1,409,037

The movements in provision for impairment of trade and bills receivables are as follows:

	2015 RMB'000	2014 RMB'000
At January 1	**11,010**	256
Addition	**27,760**	10,754
Amount written off	**(5,790)**	–
At December 31	**32,980**	11,010

23. TRADE AND BILLS RECEIVABLES (continued)

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB27,367,000 (2014: RMB7,307,000) with a carrying amount before provision of RMB30,859,000 (2014: RMB7,307,000).

An aged analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	2015 **RMB'000**	2014 RMB'000
Neither past due nor impaired	**628,230**	733,657
Past due but not impaired:		
Less than 6 months past due	**418,047**	294,392
6 months to 1 year past due	**207,905**	113,176
1 year to 2 years past due	**267,541**	158,580
2 years to 3 years past due	**120,558**	81,377
Over 3 years past due	**60,923**	27,855
	1,703,204	1,409,037

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

As at December 31, 2015, trade receivables of RMB41,900,000 (2014: RMB120,000,000) are secured for the current bank loans of RMB24,438,000 (2014: RMB50,000,000) (note 31).

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	**2015 RMB'000**	2014 RMB'000
Prepayments to suppliers for purchases of goods		**736,700**	833,304
Loans to other companies	(a)	**169,007**	174,924
Tender deposits		**15,231**	27,151
Contract deposits		**160,313**	167,925
Advances to staff		**22,382**	20,724
Interest receivable		**8,000**	21,514
Dividend receivable		**9,611**	29,899
Compensation due from strategic investor		**–**	20,380
Others		**81,476**	64,226
		1,202,720	1,360,047
Impairment		**(16,007)**	(27,406)
		1,186,713	1,332,641

Note:

(a) The balance represent unsecured loans to other third party companies which were due within one year. Among the loans, a balance of RMB154,507,000 is interest-free, a balance of RMB8,000,000 bears interest at 115% of the 1-year benchmark interest rate announced by the People's Bank of China, and a balance of RMB6,500,000 bears interest at 10% per annum.

The movements in provision for impairment of other receivables are as follows:

	2015 RMB'000	2014 RMB'000
At January 1	**27,406**	1,716
Addition	**13,392**	26,106
Reversal	**(1,411)**	–
Amount written off	**(23,380)**	(416)
At December 31	**16,007**	27,406

Included in the above provision for impairment of other receivables is a provision for individually impaired other receivables of RMB16,007,000 (2014: RMB27,406,000) with a carrying amount before provision of RMB33,055,000 (2014: RMB27,406,000).

25. HELD-TO-MATURITY INVESTMENT

The Company subscribed for a bond with a principal amount of US$11.0 million in December 2011 issued by Trooper Group Limited, a company incorporated with limited liability in the British Virgin Islands. The bond was issued on December 13, 2011, secured by a parcel of land located in Qingdao, China, and bears interest at 15% per annum, payable monthly in arrears commencing in January 2012. The bond was due on June 30, 2014 bearing interest at 12% per semi-annum in 2014 according to the renewal agreements. In 2015, the total amount of the bond and interests have been settled by the counterparty.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2015 RMB'000	2014 RMB'000
Cash and bank balances	**736,107**	600,299
Pledged deposits		
— Current deposits	**232,673**	79,716
— Non-current deposits	**–**	4,500
	968,780	684,515
Less: Pledged deposits for		
— Letter of guarantee for projects	**(34,555)**	(57,698)
— Bills payable	**(10,869)**	(7,836)
— Interest-bearing bank borrowings	**(178,400)**	(10,345)
— Tenders	**(8,849)**	(8,337)
Cash and bank balances	**736,107**	600,299

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

The cash and bank balances and pledged deposits of the Group denominated in RMB totalled RMB962,340,000 (RMB962,317,000 is located in Mainland China and RMB23,000 is located overseas) as at December 31, 2015 (2014: RMB672,623,000 in total). In Mainland China, the RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

27. CONVERTIBLE BORROWINGS

In June 2014, the Group lent RMB80,000,000 to a specialised solutions provider in the expressway industry with a right of converting the debt into a certain percentage of the equity interest of the borrower at any business date during the borrowing period from June 26, 2014 to June 25, 2019.

The convertible borrowings as of December 31, 2015 were revalued by American Appraisal China Limited, an independent firm of professional valuers, at RMB82,300,000 (2014: RMB82,390,000). When the Group decided to appoint which external valuer to be responsible for the external valuations of convertible borrowings, selection criteria including market knowledge, reputation, independence and whether professional standards are maintained have been considered. The Group's chief financial officer has discussions with the valuer on the valuation assumptions and valuation results when the valuation is performed for annual financial reporting.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the convertible borrowings:

	Fair value measurement as at December 31, 2015 using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Fair value measurement for:				
Convertible borrowings	**–**	**–**	**82,300**	**82,300**

	Fair value measurement as at December 31, 2014 using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Fair value measurement for:				
Convertible borrowings	–	–	82,390	82,390

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

27. CONVERTIBLE BORROWINGS (continued)

Fair value hierarchy (continued)

The fair value of convertible borrowings was estimated as of December 31, 2015 and December 31, 2014, using a binomial tree model, taking into account the terms upon the exercise of convertible borrowings. The following table lists the key inputs to the model used:

	2015	2014
Expiration of convertible borrowings	**June 25, 2019**	June 25, 2019
Exercise price	**RMB80,000,000**	RMB80,000,000
Risk-free rate of interest	**3.49%**	3.02%
Dividend yield	**0%**	0%
Term (years)	**3.48**	4.48
Volatility (%)	**47.8%**	45.6%

The risk-free rate is based on the yield of a Hong Kong government bond with a maturity similar to that of the convertible borrowings. Dividend yield of 0% was used as one of key inputs to the model as loss making performance was estimated by the market. Volatility is calculated with reference to the Company's historical share price movements matching the period of the conversion option.

28. DEFERRED COST

The balance represented the cost incurred for an electronic monitoring project of Beijing Stone. The project period is from 2012 to 2016. In 2015, RMB2,023,000 (2014: RMB17,200,000) of impairment was provided according to the estimated cash inflow for the remaining project period.

29. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2015 **RMB'000**	2014 RMB'000
Current or less than 1 year past due	**845,507**	866,368
1 to 2 years past due	**312,579**	288,318
Over 2 years past due	**134,104**	21,882
	1,292,190	1,176,568

The Group's bills payable were secured by pledged deposits of the Group of RMB10,869,000 as at December 31, 2015 (2014: RMB7,836,000).

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

30. OTHER PAYABLES AND ACCRUALS

	2015 RMB'000	2014 RMB'000
Advances from customers	**105,893**	113,211
Business advance deposits	**34,759**	31,118
Staff costs and welfare accruals	**15,472**	13,528
Other borrowings	**38,168**	21,950
Other taxes payable	**149,645**	59,354
Interest payables	**303**	2,287
Research and development funds	**3,599**	1,925
Others	**47,171**	28,182
	395,010	271,555

Other payables are non-interest-bearing and have no fixed terms of repayment.

31. INTEREST-BEARING BANK BORROWINGS

	Contractual rate (%)	2015 RMB'000	2014 RMB'000
Current			
Bank loans — secured and repayable within one year	1.4–7.3	**474,598**	172,754
Bank loans — guaranteed and repayable within one year	5.0–8.2	**320,900**	361,335
Bills receivables endorsed	–	**109,203**	45,575
		904,701	579,664
Non-current			
Bank loans —guaranteed and repayable within two years	7.5	**145,000**	–
Bank loans —secured and repayable within three years	8.0	**136,200**	–
Bank loans — secured and repayable within two years	6.6	**–**	63,000
		281,200	63,000
		1,185,901	642,664

31. INTEREST-BEARING BANK BORROWINGS (continued)

Notes:

(i) Bank loans of RMB163.1 million as at December 31, 2015 (2014: RMB122.8 million) were secured by investment properties valued at RMB125.8 million (2014: RMB119.0 million) (note 14).

(ii) Bank loans of RMB24.4 million as at December 31, 2015 (2014: RMB50.0 million) were secured by trade receivables with a total amount of RMB41.9 million (2014: RMB120.0 million).

(iii) Bank loans of RMB195.4 million as at December 31, 2015 were secured by a pledged deposit of RMB83.0 million by Zhixun Tiancheng, a subsidiary of the Group (2014: Nil).

(iv) Bank loans of RMB91.7 million as at December 31, 2015 (2014: RMB63.0 million) were secured by a bank deposit of RMB95.4 million (2014: RMB12.0 million), provided by Aproud Technology, a subsidiary of the Group.

(v) Bank loans of RMB290.9 million as at December 31, 2015 (2014: RMB185.0 million) were guaranteed by Aproud Technology, RHY Technology and Zhixun Tiancheng, subsidiaries of the Group.

(vi) Bank loans of RMB30.0 million as at December 31, 2015 (2014: RMB176.3 million) were guaranteed by the Company.

(vii) The non-current bank loans of RMB145.0 million as at December 31, 2015 were guaranteed by RHY Technology, a subsidiary of the Group (2014: Nil).

(viii) The non-current bank loans of RMB136.2 million as at December 31, 2015 were secured by entity interest in Hongrui Dake, a subsidiary of the Group, valued at RMB227.0 million (2014: Nil).

As at December 31, 2015, the Group had unutilised available bank borrowing facilities amounting to RMB277.7 million (2014: RMB1,040.3 million).

As at December 31, 2015, the Group's bank loans of RMB474.0 million were charged at fixed interest rates and bank loans of RMB602.7 million were charged at floating interest rates based on the benchmark interest rates announced by the People's Bank of China. The carrying amounts of the Group's current borrowings approximate to their fair values.

32. DEFERRED TAX

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

Deferred tax assets

	Note	Impairment of trade receivables RMB'000	Accrued expenses RMB'000	Intangible assets RMB'000	Provision for inventory impairment RMB'000	Total RMB'000
2015						
At January 1, 2015		**195**	**2,607**	**2,228**	**-**	**5,030**
Deferred tax charged to the statement of profit or loss during the year		**(195)**	**(333)**	**(2,126)**	**-**	**(2,654)**
At December 31, 2015		**-**	**2,274**	**102**	**-**	**2,376**

	Note	Impairment of trade receivables RMB'000	Accrued expenses RMB'000	Intangible assets RMB'000	Provision for inventory impairment RMB'000	Total RMB'000
2014						
At January 1, 2014		6,989	4,610	763	347	12,709
Arising from disposal of subsidiaries	38	(5,705)	(883)	(405)	–	(6,993)
Deferred tax (charged)/credited to the statement of profit or loss during the year		(1,089)	(1,120)	1,870	(347)	(686)
At December 31, 2014		195	2,607	2,228	–	5,030

32. DEFERRED TAX (continued)

Deferred tax liabilities

	Note	Fair value adjustment on investment properties RMB'000	Fair value adjustment of intangible assets RMB'000	Recognition of revenue on construction contracts* RMB'000	Total RMB'000
2015					
At January 1, 2015		**15,636**	**9,419**	**6,180**	**31,235**
Deferred tax charged/(credited) to the statement of profit or loss during the year		**2,450**	**(8,792)**	**(4,513)**	**(10,855)**
At December 31, 2015		**18,086**	**627**	**1,667**	**20,380**
2014					
At January 1, 2014		11,717	15,565	20,581	47,863
Arising from disposal of a subsidiary	38	–	–	(2,581)	(2,581)
Deferred tax charged/(credited) to the statement of profit or loss during the year		3,919	(6,146)	(11,820)	(14,047)
At December 31, 2014		15,636	9,419	6,180	31,235

* The deferred tax liabilities arising from "Recognition of revenue on construction contracts" were recognised on the taxable temporary difference between the construction revenue recognised based on the percentage of completion method under IFRSs and the revenue deemed taxable by relevant tax authorities.

The Group has tax losses of RMB140,246,000 arising in Mainland China (2014: RMB139,290,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries and it is not considered probable that taxable profits will available against which the tax losses can be utilised.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

33. GUARANTEED BONDS

In November 2012, the Company issued RMB210,000,000 guaranteed bonds with an interest rate per annum of 10%, due 2015. The net proceeds of the bonds were RMB201,200,000 after deduction of commission and expenses. In November 2015, the Company repaid all the outstanding guaranteed bonds.

34. CONVERTIBLE BONDS

On January 30, 2015, the Company exercised its early redemption right to redeem the convertible bonds due June 2015 in the full amount of HK$200 million prior to their maturity. The Company settled the full amount of the principal of HK$200 million and the premium of approximately HK$16.0 million (equivalent to RMB12,600,000) on February 20, 2015.

35. SHARE CAPITAL

Shares

	2015 **RMB'000**	2014 RMB'000
Issued and fully paid:		
1,654,024,868 (2014: 1,654,024,868) ordinary shares of HK$0.0002 each	**290**	290

A summary of movements in the Company's share capital is as follows:

	Notes	**Number of shares in issue** '000	**Share capital** RMB'000	**Share premium** RMB'000	**Total** RMB'000
At January 1, 2014		1,646,513	289	1,071,966	1,072,255
Issue of shares	(a)	7,512	1	8,856	8,857
At December 31, 2014 and January 1, 2015		1,654,025	290	1,080,822	1,081,112
Redemption of convertible bonds	34	–	–	7,903	7,903
At December 31, 2015		1,654,025	290	1,088,725	1,089,015

Note:

(a) In March 2014, the Company resolved to pay a final dividend of HK1.2 cents per share for the year 2013 by way of allotment of new shares with an option to elect to receive cash of HK1.2 cents per share in lieu of the new shares in respect of part or all of this dividend. In August 2014, the Company issued 7,511,796 ordinary shares and paid HK$8,626,000 (equivalent to RMB6,675,000) in cash to satisfy the 2013 final dividend.

36. RESERVES

The amounts of the Group's statutory reserve and capital reserve and movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 59 of the financial statements.

Statutory reserve

According to the PRC Company Law, the PRC subsidiaries of the Group are required to transfer 10% of their respective after-tax profits, calculated in accordance with the PRC accounting standards and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The statutory surplus reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of the companies, provided that the fund is maintained at a minimum level of 25% of the registered capital.

Capital reserve

The capital reserve of the Group consists of: i) reserves arising from the reorganisation before IPO; ii) reserves arising from the share options granted by China ITS Co., Ltd. and the Company to the employees of the Group as set out in note 37; and iii) capitalised retained earnings to the capital of certain subsidiaries.

37. SHARE OPTION SCHEME

Pre-IPO Scheme

On December 28, 2008, China ITS Co., Ltd. launched a share option scheme. Pursuant to the scheme, China ITS Co., Ltd. granted 116,653,105 options to the eligible employees of the Group and directors of the Company, of which 58,170,393 share options were vested on the grant date and the remaining 58,482,712 share options would be vested over six equal semi-annual instalments starting from the second anniversary of the grant date provided that these employees remain in service at the respective vesting dates. The expiration dates for the share options are five years after their respective vesting dates. Exercise prices are RMB0.60 per share for the first batch, RMB2.00 for the second and third batches, RMB3.00 for the fourth and fifth batches and RMB4.00 for the last two batches. There are no cash settlement alternatives.

The following share options were outstanding under the scheme during the year:

	2015		2014	
	Weighted average exercise price per share RMB	**Number of options '000**	Weighted average exercise price per share RMB	Number of options '000
At January 1	**3.13**	**30,438**	3.13	30,438
Expired during the year	**2.00**	**(1,963)**	–	–
At December 31	**3.20**	**28,475**	3.13	30,438

Numbers of 1,963,000 share options were expired during the year ended December 31, 2015, and no share option was exercised or cancelled.

37. SHARE OPTION SCHEME (continued)

Pre-IPO Scheme (continued)

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

2015

Batches	**Numbers of options** '000	**Exercise price per share** RMB	**Exercise period**
Batch 3	6,878	2.00	June 30, 2011 to June 29, 2016
Batch 4	3,031	3.00	December 31, 2011 to December 30, 2016
Batch 5	5,891	3.00	June 30, 2012 to June 29, 2017
Batch 6	4,748	4.00	December 31, 2012 to December 30, 2017
Batch 7	7,927	4.00	June 30, 2013 to June 29, 2018
	28,475		

2014

Batches	Numbers of options '000	Exercise price per share RMB	Exercise period
Batch 2	1,963	2.00	December 31, 2010 to December 30, 2015
Batch 3	6,878	2.00	June 30, 2011 to June 29, 2016
Batch 4	3,031	3.00	December 31, 2011 to December 30, 2016
Batch 5	5,891	3.00	June 30, 2012 to June 29, 2017
Batch 6	4,748	4.00	December 31, 2012 to December 30, 2017
Batch 7	7,927	4.00	June 30, 2013 to June 29, 2018
	30,438		

Post-IPO Scheme

On January 18, 2012, the board of directors resolved to grant share options under the share option scheme adopted by the Company on June 18, 2010 to 191 grantees, which included directors, independent non-executive directors and certain employees of the Group to subscribe for an aggregate of 155,000,000 ordinary shares. A total of 155,000,000 share options would be vested over twelve quarterly instalments from three months after the grant date provided these grantees remain in service at the respective vesting dates. The exercise price is HK$1.05 per share. There are no cash settlement alternatives.

37. SHARE OPTION SCHEME (continued)

Post-IPO Scheme (continued)

The following share options were outstanding under the scheme during the year:

	2015 Weighted average exercise price per share HK$	2015 Number of options '000	2014 Weighted average exercise price per share HK$	2014 Number of options '000
At January 1 and December 31	**1.05**	**155,000**	1.05	155,000

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

2015 and 2014

Batches	Numbers of options '000	Exercise price per share HK$	Exercise period*
Batch 1	8,193	1.05	April 19, 2012 to January 18, 2022
Batch 2	8,193	1.05	July 19, 2012 to January 18, 2022
Batch 3	8,193	1.05	October 19, 2012 to January 18, 2022
Batch 4	8,193	1.05	January 19, 2013 to January 18, 2022
Batch 5	12,912	1.05	April 19, 2013 to January 18, 2022
Batch 6	12,912	1.05	July 19, 2013 to January 18, 2022
Batch 7	12,912	1.05	October 19, 2013 to January 18, 2022
Batch 8	12,912	1.05	January 19, 2014 to January 18, 2022
Batch 9	17,630	1.05	April 19, 2014 to January 18, 2022
Batch 10	17,630	1.05	July 19, 2014 to January 18, 2022
Batch 11	17,630	1.05	October 19, 2014 to January 18, 2022
Batch 12	17,690	1.05	January 19, 2015 to January 18, 2022
	155,000		

* Expiry date of these share options shall be the earlier of: (a) the date on which the share option lapses in accordance with the share option scheme and (b) the date falling ten years from the date of acceptance by the grantee.

The share option expenses recognised by the Group during the year are RMB113,000 (2014: RMB6,728,000).

37. SHARE OPTION SCHEME (continued)

Post-IPO Scheme (continued)

The fair value of equity-settled share options granted in 2012 was estimated as at the date of grant, using a binomial model, taking into account the terms upon which the options were granted. The following table lists the inputs to the model used:

Strike price	HK$1.05
Expected life of options (year)	10 years
Risk-free interest rate (%)	1.45%
Volatility (%)	44.00%
Dividend yield (%)	0.00%
Exercise multiple	2.00
Number of steps	200

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

As at December 31, 2015, the Company had 155,000,000 share options outstanding under the scheme, which represented approximately 9.37% of the Company's shares in issue at that date (2014: 9.37%). The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 155,000,000 additional ordinary shares of the Company and additional issued capital of RMB26,000 and share premium of RMB136,352,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 155,000,000 share options outstanding under the scheme, which represented approximately 9.37% of the Company's shares in issue at that date.

38. DISPOSAL OF SUBSIDIARIES

On May 10, 2014 and September 20, 2014, the Group disposed of Jiangsu Yijie Technology Co., Ltd. ("Jiangsu Yijie", a wholly-owned subsidiary) and Beijing Xiyou Communication Technology Co., Ltd. ("Beijing Xiyou", a 70% equity interest owned subsidiary), for a consideration of RMB24,000,000 and RMB10,284,000, respectively. Xi'an Youke Information Technology Co., Ltd. is a wholly-owned subsidiary of Beijing Xiyou and was disposed of accordingly.

38. DISPOSAL OF SUBSIDIARIES (continued)

In addition, Beijing Newcom Technology Co., Ltd., an entity controlled by the Group through a series of contractual arrangements, was disposed of by the Group upon the termination of those contractual arrangements on November 30, 2014.

2014	Jiangsu Yijie RMB'000	Beijing Xiyou RMB'000	Beijing Newcom Technology Co., Ltd. RMB'000
Net assets disposed of at disposal date:			
Cash and bank balances	80	4	2
Trade receivables	–	–	21,735
Amounts due from contract customers	111,834	–	–
Prepayments, deposits and other receivables	8,137	10,914	8,017
Property and equipment	2	10	987
Investment in a joint venture	5,428	–	–
Deferred tax assets	32	–	6,961
Trade payables	(15,719)	–	(19,116)
Amounts due to contract customers	(400)	–	–
Other payables and accruals	(43,212)	–	(3,600)
Tax payables	(19,793)	–	(14,384)
Deferred tax liabilities	(2,581)	–	–
Non-controlling interests	–	(3,279)	–
	43,808	7,649	602
Gains/(losses) on disposal of subsidiaries	(19,808)	2,635	(602)
	24,000	10,284	–
Satisfied by cash	18,000	–	–
Cash consideration recorded in other receivables	6,000	10,284	–
	24,000	10,284	–

38. DISPOSAL OF SUBSIDIARIES (continued)

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	Jiangsu Yijie RMB'000	Beijing Xiyou RMB'000	Beijing Newcom Technology Co., Ltd. RMB'000
Cash consideration	18,000	–	–
Cash and bank balances disposed of	(80)	(4)	(2)
Net inflow/(outflow) of cash and cash equivalents in respect of disposal of subsidiaries	17,920	(4)	(2)

On June 29, 2015 and July 15, 2015, the Group disposed of China ITS VA Holding Limited ("VA Holding", a wholly-owned subsidiary) and Beijing Zhongzhi Real Estate Co., Ltd. ("Beijing Zhongzhi", a wholly-owned subsidiary), at a consideration of HK$64,000 (equivalent to RMB50,000) and RMB8,727,000, respectively.

2015	**VA Holding RMB'000**	**Beijing Zhongzhi RMB'000**
Net assets disposed of at disposal date:		
Cash and bank balances	**395**	**28**
Prepayments, deposits and other receivables	**(18,811)**	**8,700**
Investment in an associate	**18,339**	**–**
	(77)	**8,728**
Gains/(losses) on disposal of subsidiaries	**127**	**(1)**
	50	**8,727**
Cash consideration recorded in other receivables	**50**	**8,727**

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

	VA Holding RMB'000	**Beijing Zhongzhi RMB'000**
Cash and bank balances disposed of	**(395)**	**(28)**
Net outflow of cash and cash equivalents in respect of disposal of subsidiaries	**(395)**	**(28)**

39. PLEDGE OF ASSETS

Details of the Group's bank borrowings, which are secured by the assets of the Group, are included in note 31 to the financial statements.

40. OPERATING LEASE COMMITMENTS

As lessor

The Group leases its investment properties (note 14 to the financial statements) and leased offices to certain independent third parties, with leases negotiated for terms ranging from one year to three years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At December 31, 2015, the Group had total future minimum lease receivables under non-cancellable operating lease with its tenants falling due as follows:

	2015 **RMB'000**	2014 RMB'000
Within one year	**13,686**	11,147
In the second to fifth years, inclusive	**11,279**	6,738
	24,965	17,885

As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At December 31, 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2015 **RMB'000**	2014 RMB'000
Within one year	**4,831**	33,070
In the second to fifth years, inclusive	**4,984**	8,402
	9,815	41,472

41. CAPITAL COMMITMENTS

As at December 31, 2015, the Group did not have any significant commitments (2014: Nil).

42. CONTINGENT LIABILITIES

As at December 31, 2015, the Group did not have any significant contingent liabilities (2014: Nil).

43. RELATED PARTY TRANSACTIONS

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

	Notes	2015 RMB'000	2014 RMB'000
Sales to related parties:			
Guangzhou Communication Information Co., Ltd.	(b)	4,935	10,509
Xinjiang Jiaojian Intelligent Communication Technology Co., Ltd.	(b)	1,590	630
Nanjing Communication Information Co., Ltd.	(a)	600	2,517
武漢光谷智能交通科技有限公司	(b)	354	–
Xi'an Communication Information Co., Ltd.	(b)	91	1,094
Chengdu Zhida Weilute Technology Co., Ltd.	(a)	–	466
Total		7,570	15,216
Purchases from related parties:			
武漢光谷智能交通科技有限公司	(b)	11,873	5,505
北京鑫虹智顯科技科技發展公司	(c)	11,526	–
Xi'an Communication Information Co., Ltd.	(b)	9,588	4,985
Nanjing Communication Information Co., Ltd.	(a)	4,860	644
無錫智通潤邦信息科技有限公司	(d)	4,161	–
Wuhan Chenguang Transportation Technology Development Co., Ltd.	(a)	1,880	9,632
北京綠通暢達交通技術有限公司	(b)	991	1,708
Shandong Yigou Software Technology Co., Ltd.	(e)	–	3,776
Guangzhou Communication Information Co., Ltd.	(b)	–	519
Total		44,879	26,769

Notes:

(a) The entity is a joint venture of the Group.

(b) The entity is an associate of the Group.

(c) The entity is controlled by a key management personnel of the Group.

(d) The entity is joint-controlled by a key management personnel of the Group.

(e) The entity was a joint venture of the Group and was disposed of in April 2015.

In the opinion of the directors, the transactions between the Group and the related parties were conducted in the ordinary course of business and based on prices mutually agreed between the related parties and the Group.

43. RELATED PARTY TRANSACTIONS (continued)

As disclosed in the consolidated statement of financial position, the Group had the following outstanding balances with related parties:

	Notes	2015 RMB'000	2014 RMB'000
Due from related parties:			
Trade related			
Guangzhou Communication Information Co., Ltd.	(a)	**25,799**	27,695
Xi'an Communication Information Co., Ltd.	(a)	**18,328**	18,641
北京鑫虹智顯科技發展有限公司	(f)	**11,916**	–
無錫智通潤邦信息科技有限公司	(g)	**8,255**	–
武漢光谷智能交通科技有限公司	(a)	**1,302**	–
Nanjing Communication Information Co., Ltd.	(b)	**369**	5,006
北京綠通暢達交通技術有限公司	(a)	**529**	–
Wuhan Chenguang Transportation Technology Development Co., Ltd.	(b)	**438**	–
Chengdu Zhida Weilute Technology Co., Ltd.	(b)	**68**	68
Shandong Yigou Software Technology Co., Ltd.	(c)	**–**	77
		67,004	51,487
Non-trade related			
Wuhan Chenguang Transportation Technology Development Co., Ltd.	(b)	**17,970**	19,020
GTECH-CIC	(b)	**9,215**	–
北京鑫虹智顯科技發展有限公司	(f)	**5,952**	–
常州天博投資管理中心	(i)	**3,850**	–
北京瑞瀾聯合通信技術有限公司	(e)	**3,000**	3,000
RHY Holdings Ltd.	(d)	**3,000**	3,000
無錫智通潤邦信息科技有限公司	(g)	**1,893**	–
Guangzhou Communication Information Co., Ltd.	(a)	**1,283**	1,283
Xi'an Communication Information Co., Ltd.	(a)	**164**	180
Beijing Zhineng Shixun Information Technology Co., Ltd.	(a)	**46**	46
Zhongzhixin Financial Leasing Co., Ltd.	(h)	**–**	6,879
		46,373	33,408
		113,377	84,895

43. RELATED PARTY TRANSACTIONS (continued)

Notes:

(a) The entity is an associate of the Group.

(b) The entity is a joint venture of the Group.

(c) The entity was a joint venture of the Group and was disposed of in April 2015.

(d) RHY Holdings Ltd. is 59% owed by a director of the Company.

(e) The entity is 58% owned by RHY Holding Ltd.

(f) The entity is controlled by a key management personnel of the Group.

(g) The entity is joint-controlled by a key management personnel of the Group

(h) The entity was an associate of the Group and was disposed of in June 2015.

(i) The entity is controlled by close members of a director of the Company.

	Notes	2015 RMB'000	2014 RMB'000
Due to related parties:			
Trade related			
GTECH-CIC	(b)	**45,530**	29,394
武漢光谷智能交通科技有限公司	(a)	**12,024**	8,433
Xi'an Communication Information Co., Ltd.	(a)	**8,673**	3,294
Wuhan Chenguang Transportation Technology Development Co., Ltd.	(b)	**8,112**	6,818
無錫智通潤邦信息科技有限公司	(d)	**8,110**	–
北京鑫虹智顯科技發展有限公司	(c)	**3,623**	–
Chengdu Zhida Weilute Technology Co., Ltd.	(b)	**696**	696
Xinjiang Jiaojian Intelligent Communication Technology Co., Ltd.	(a)	**359**	591
Nanjing Communication Information Co., Ltd.	(b)	**277**	819
Shandong Yigou Software Technology Co., Ltd.	(e)	**–**	1,497
北京綠通暢達交通技術有限公司	(a)	**–**	458
		87,404	52,000
Non-trade related			
Chengdu Zhida Weilute Technology Co., Ltd.	(b)	**3,153**	3,160
北京綠通暢達交通技術有限公司	(a)	**1,036**	2,000
Xi'an Communication Information Co., Ltd.	(a)	**378**	–
武漢光谷智能交通科技有限公司	(a)	**286**	286
無錫智通潤邦信息科技有限公司	(d)	**45**	–
Shandong Yigou Software Technology Co., Ltd.	(e)	**–**	1,685
		4,898	7,131
Total		**92,302**	59,131

43. RELATED PARTY TRANSACTIONS (continued)

Notes:

(a) The entity is an associate of the Group.

(b) The entity is a joint venture of the Group.

(c) The entity is controlled by a key management personnel of the Group.

(d) The entity is joint-controlled by a key management personnel of the Group.

(e) The entity was a joint venture of the Group and was disposed of in April 2015.

The above balances as at December 31, 2015 and December 31, 2014 were unsecured and interest-free. There were no fixed terms of repayment. There were no guarantees provided or received for any related party receivables or payables.

Terms and conditions of transactions with related parties

Outstanding balances as at December 31, 2015 and December 31, 2014 are unsecured, interest-free, and have no fixed terms of repayment. There were no guarantees provided or received for any related party receivables or payables.

Compensation of key management personnel of the Group

	2015 RMB'000	2014 RMB'000
Salaries, bonuses, allowances and benefits in kind	**4,674**	6,151
Equity-settled share option expense	**21**	1,507
Pension scheme contributions	**87**	179
Total compensation paid to key management personnel	**4,782**	7,837

Further details of the directors' remuneration are included in note 8.

44. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets
2015

	Designated as financial assets at fair value through profit or loss upon initial recognition RMB'000	Held-to-maturity investment RMB'000	Loans and receivables RMB'000	Available-for-sale investment RMB'000	Total RMB'000
Available-for-sale investment	-	-	-	25,307	25,307
Convertible borrowings	82,300	-	-	-	82,300
Trade and bills receivables	-	-	1,703,204	-	1,703,204
Financial assets included in prepayments, deposits and other receivables	-	-	427,631	-	427,631
Amounts due from related parties	-	-	113,377	-	113,377
Pledged deposits	-	-	232,673	-	232,673
Cash and cash equivalents	-	-	736,107	-	736,107
	82,300	-	3,212,992	25,307	3,320,599

44. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2014

	Designated as financial assets at fair value through profit or loss upon initial recognition RMB'000	Held-to-maturity investment RMB'000	Loans and receivables RMB'000	Available-for-sale investment RMB'000	Total RMB'000
Available-for-sale investment	–	–	–	25,307	25,307
Pledged deposits — non-current	–	–	4,500	–	4,500
Convertible borrowings	82,390	–	–	–	82,390
Trade and bills receivables	–	–	1,409,037	–	1,409,037
Financial assets included in prepayments, deposits and other receivables	–	–	478,613	–	478,613
Amounts due from related parties	–	–	84,895	–	84,895
Held-to-maturity investment	–	67,530	–	–	67,530
Pledged deposits — current	–	–	79,716	–	79,716
Cash and cash equivalents	–	–	600,299	–	600,299
	82,390	67,530	2,657,060	25,307	2,832,287

Financial liabilities

	2015 Financial liabilities at amortised cost RMB'000	2014 Financial liabilities at amortised cost RMB'000
Trade and bills payables	**1,292,190**	1,176,568
Financial liabilities included in other payables and accruals	**73,230**	55,355
Interest-bearing bank borrowings — current	**904,701**	579,664
Amounts due to related parties	**92,302**	59,131
Guaranteed bonds	**–**	107,516
Convertible bonds	**–**	154,426
Interest-bearing bank borrowings — non-current	**281,200**	63,000
	2,643,623	2,195,660

45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments are reasonably approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to related parties and a held-to-maturity investment approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of the pledged deposits, other long-term assets, guaranteed bonds, interest-bearing bank borrowings and a long-term payable have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for other long-term assets, guaranteed bonds, interest-bearing bank borrowings and long-term payable as at December 31, 2015 was assessed to be insignificant. The fair value of the liability portion of the convertible bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

The fair values of other financial assets have been estimated using a valuation technique based on assumptions. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position are reasonable and that they were the most appropriate values at the end of the reporting period.

45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value

As at December 31, 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Financial assets				
Convertible borrowings	**–**	**–**	**82,300**	**82,300**

As at December 31, 2014

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets				
Convertible borrowings	–	–	82,390	82,390

Fair value measurement decreased by RMB90,000 in Level 3 during the year (2014: increased by RMB2,390,000) for convertible borrowings.

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

Fair value hierarchy (continued)

Liabilities measured at fair value

The Group did not have any financial liabilities measured at fair value as at December 31, 2015 and 2014.

As at December 31, 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Interest-bearing bank borrowings — current	**–**	**904,701**	**–**	**904,701**
Interest-bearing bank borrowings — non-current	**–**	**281,200**	**–**	**281,200**
	–	**1,185,901**	**–**	**1,185,901**

As at December 31, 2014

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank borrowings — current	–	579,664	–	579,664
Guaranteed bonds	–	–	107,516	107,516
Convertible bonds	–	–	154,426	154,426
Interest-bearing bank borrowings — non-current	–	63,000	–	63,000
	–	642,664	261,942	904,606

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, cash and cash equivalents, pledged deposits and convertible borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, amounts due from/to related parties, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accruals, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to its interest-bearing borrowings with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. If there would be a general increase/decrease in the interest rates of bank loans with floating interest rates by one percentage point, with all other variables held constant, the consolidated profit/(loss) before tax would have decreased/increased by approximately RMB1,331,000 for the year ended December 31, 2015 (2014: RMB1,865,000).

Foreign currency risk

Substantially all of the Group's sales and purchases are denominated in RMB. The Group's certain bank balances are denominated in US$, HK$ and certain expenses of the Group are denominated in currencies other than RMB.

The following table demonstrates the sensitivity as at December 31, 2015 and 2014 to a reasonably possible change in the US$ and HK$ exchange rate, with all other variables held constant, of the Group's profit or loss before tax and the Group's equity.

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit or loss before tax RMB'000	Increase/ (decrease) in equity* RMB'000
December 31, 2015			
If RMB weakens against US$	**5**	**(4,294)**	**–**
If RMB strengthens against US$	**(5)**	**4,294**	**–**
If RMB weakens against HK$	**5**	**(2,048)**	**73,485**
If RMB strengthens against HK$	**(5)**	**2,048**	**(73,485)**
December 31, 2014			
If RMB weakens against US$	5	408	–
If RMB strengthens against US$	(5)	(408)	–
If RMB weakens against HK$	5	4,833	72,222
If RMB strengthens against HK$	(5)	(4,833)	(72,222)

* Excluding retained earnings

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, balances of receivables are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, short-term deposits, pledged bank balances, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, a held-to-maturity investment and amounts due from related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. As the Group's major customers are PRC government agencies, the Group believes that they are reliable and of high credit quality and hence, there is no significant credit risk with these customers. As the Group's exposure is spread over a diversified portfolio of customers, there is no significant concentration of credit risk.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade and bills receivables) and projected cash flows from operations.

The Group's objective is to ensure continuity of sufficient funding and flexibility through the use of bank and other borrowings with debt maturities within 12 months.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

As at December 31, 2015

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade and bills payables	583,126	709,064	-	-	1,292,190
Financial liabilities included in other payables and accruals	72,927	-	303	-	73,230
Interest-bearing bank borrowings — current	-	338,655	566,046	-	904,701
Amounts due to related parties	92,302	-	-	-	92,302
Interest-bearing bank borrowings — non-current	-	-	21,735	304,437	326,172
	748,355	1,047,719	588,084	304,437	2,688,595

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

As at December 31, 2014

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade and bills payables	573,404	603,164	–	–	1,176,568
Financial liabilities included in other payables and accruals	53,068	–	2,287	–	55,355
Interest-bearing bank borrowings — current	–	193,422	386,242	–	579,664
Amounts due to related parties	59,131	–	–	–	59,131
Guaranteed bonds	–	–	119,900	–	119,900
Convertible bonds	–	–	162,513	–	162,513
Interest-bearing bank borrowings — non-current	–	–	4,184	64,559	68,743
	685,603	796,586	675,126	64,559	2,221,874

The directors have carried out a detailed review of the cash flow forecast of the Group for the next twelve months from the end of the reporting period. Based on this forecast, the directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Group during that period. In preparing the cash flow forecast, the directors have considered historical cash requirements of the Group as well as other key factors, including the availability of the loan financing and additional capital from equity holders of the Company. The directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2015 and December 31, 2014.

The Group monitors capital using net debt to capital ratio, which is net debt divided by the capital. The Group's policy is to maintain the net debt to capital ratio between 30% and (30%). Net debt includes interest-bearing bank borrowings, guaranteed bonds and amounts due to related parties, less cash and cash equivalents. Capital includes equity attributable to owners of the parent after adjusting the liability component of the convertible bonds. The net debt to capital ratios as at the end of the reporting periods were as follows:

	2015 **RMB'000**	2014 RMB'000
Interest-bearing bank borrowings	**1,185,901**	642,664
Guaranteed bonds	**–**	107,516
Amounts due to related parties	**92,302**	59,131
Less: cash and cash equivalents	**(736,107)**	(600,299)
Net debt	**542,096**	209,012
Convertible bonds, the liability component	**–**	154,426
Equity attributable to owners of the parent	**2,137,144**	2,428,214
Adjusted capital	**2,137,144**	2,582,640
Net debt to capital ratio	**25.4%**	8.1%

47. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the balance sheet date, on February 17, 2016, the Company and King Victory Holding Limited (the "Purchaser") entered into a master sale and purchase agreement, pursuant to which the Company conditionally agreed to sell and the Purchaser conditionally agreed to purchase the entire issued share capital of each of Hugecom Limited, China Traffic Holding Limited, China Expressway Intelligent Transportation Technology Group Ltd., and Beijing RHY Technology Development Co., Ltd. (the "Target Companies") and certain receivables owing by the Target Companies to the Company at a total consideration of RMB979,840,000, subject to the terms and conditions of the agreement. The Target Companies and their subsidiaries are principally engaged in the provision of intelligent transportation system solutions and services to expressway and urban traffic sectors in the PRC. Upon completion of the disposal of the Target Companies, each of the Target Companies will cease to be a subsidiary of the Company.

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2015	2014
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**936,493**	909,251
Investment in a joint venture	**2,067**	2,067
Available-for-sale investment	**25,307**	25,307
Total non-current assets	**963,867**	936,625
CURRENT ASSETS		
Prepayments, deposits and other receivables	**38,457**	45,486
Amounts due from subsidiaries	**876,662**	662,905
Held-to-maturity investment	**–**	67,530
Cash and cash equivalents	**5,633**	3,641
Total current assets	**920,752**	779,562
CURRENT LIABILITIES		
Interest-bearing bank borrowings	**287,376**	–
Other payables and accruals	**26,636**	4,844
Amounts due to related parties	**45,530**	29,395
Amounts due to subsidiaries	**8,680**	8,320
Guaranteed bonds — current portion	**–**	107,516
Convertible bonds — current portion	**–**	154,426
Total current liabilities	**368,222**	304,501
NET CURRENT ASSETS	**552,530**	475,061
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,516,397**	1,411,686
Net assets	**1,516,397**	1,411,686
EQUITY		
Share capital	**290**	290
Equity component of convertible bonds	**–**	7,903
Reserves	**1,516,107**	1,403,493
Total equity	**1,516,397**	1,411,686

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

A summary of the Company's other reserves is as follows:

	Share premium RMB'000	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At January 1, 2014	1,049,949	609,406	(128,686)	(59,786)	1,470,883
Loss for the year	–	–	–	(64,789)	(64,789)
Exchange differences on translation	–	–	1,007	–	1,007
Total comprehensive income for the year	–	–	1,007	(64,789)	(63,782)
Share-based payment transactions	–	3,068	–	–	3,068
Distribution of 2014 final dividend	8,856	–	–	(15,532)	(6,676)
At December 31, 2014 and January 1, 2015	1,058,805	612,474	(127,679)	(140,107)	1,403,493
Profit for the year	–	–	–	57,081	57,081
Exchange differences on translation	–	–	47,582	–	47,582
Total comprehensive income for the year	–	–	47,582	57,081	104,663
Share-based payment transactions	–	48	–	–	48
Distribution of 2014 final Dividend	7,903	–	–	–	7,903
At December 31, 2015	1,066,708	612,522	(80,097)	(83,026)	1,516,107

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on March 31, 2016.

Particulars of Properties

December 31, 2015

INVESTMENT PROPERTIES

Location	Use	Tenure	Attributable interest of the Group
No.8 Dongdaqiao Road, Chaoyang District, Beijing, the PRC	Office	Long-term lease	100%
No.1 Zhong Guan Cun Dong Road, Haidian District, Beijing, the PRC	Office	Long-term lease	100%