中国智能交通系统(控股)有限公司

China ITS (Holdings) Co., Ltd.

(incorporated in the Cayman Island with limited liabilty)

STOCK CODE: 1900

2016 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. Ye Zhou

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. Ye Zhou

REMUNERATION COMMITTEE

Mr. Ye Zhou *(committee chairman)*
Mr. Zhou Chunsheng
Mr. Choi Onward *(FCCA, HKICPA)*

NOMINATION COMMITTEE

Mr. Zhou Chunsheng *(committee chairman)*
Mr. Choi Onward *(FCCA, HKICPA)*
Mr. Ye Zhou

REGISTERED OFFICE

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

HEAD OFFICE IN THE PRC

Building 204, No. A10,
Jiuxianqiao North Road,
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

Luk & Partners (Hong Kong law)
Unit 2001, Level 20
One International Finance Centre
1 Harbour View Street, 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
Beijing Branch
Shengjing Bank
Beijing Branch Guanyuan sub-branch
China Minsheng Banking Corp., Ltd.
Beijing Branch Wangjing Science and Technology Park sub-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)
"Chengzhi Ruibang"	Beijing Chengzhi Ruibang Technology Co., Ltd. (北京誠智瑞邦科技有限公司)
"Civil Aviation Wireless"	Civil Aviation (Beijing) Wireless Data Co., Ltd. (民航電信為邦(北京)無線數據有限公司)
"Haotian Jiajie"	Beijing Haotian Jiajie Technology Co., Ltd. (北京昊天佳捷科技有限公司)
"Hongrui Dake"	Beijing Hongrui Dake Technology Co., Ltd. (北京宏瑞達科科技有限公司)
"Intelligent Transportation"	Intelligent Transportation Co., Ltd. (智能交通有限公司)
"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)
"Jianhsu Zhongzhi Ruixin"	Jianhsu Zhongzhi Ruixin IOT Technology Co., Ltd. (江蘇中智瑞信物聯科技有限公司)
"Zhongzhi Runbang"	Beijing Zhongzhi Runbang Technology Co., Ltd. (北京中智潤邦科技有限公司)
"Zhixun Tiancheng"	Beijing Zhixun Tiancheng Technology Co., Ltd. (北京智訊天成技術有限公司)
"Zhihang Tuoyu "	Zhihang Tuoyu Information System (Beijing) Co., Ltd. (智航拓宇信息系統(北京)有限公司)
"Zhongtian Runbang"	Zhongtian Runbang Information Technology Co., Ltd. (中天潤邦信息技術有限公司)

financial highlights

HIGHLIGHTS OF 2016 ANNUAL RESULTS

- New contracts signed and orders secured of the Group for the year ended December 31, 2016 was approximately RMB2,491.1 million which was lower to approximately RMB2,642.2 million for the year ended December 31, 2015.

- Backlog as at December 31, 2016 of the Group was approximately RMB1,059.9 million which was lower to approximately RMB2,193.1 million as at December 31, 2015 due to the disposal of the Expressway and Urban Traffic business.

- Revenue of the Group for the year ended December 31, 2016 increased by approximately RMB208.3 million to approximately RMB2,525.8 million compared to approximately RMB2,317.5 million for the year ended December 31, 2015.

- Gross profit of the Group for the year ended December 31, 2016 increased by approximately RMB71.2 million to approximately RMB464.3 million compared to approximately RMB393.1 million for the year ended December 31, 2015.

- Gross profit margin of the Group was approximately 18.4%, which is higher than that in the year of 2015.

- Profit attributable to owners of the parent of the Company for the year ended December 31, 2016 was approximately RMB75.5 million, compared to a loss of approximately RMB278.5 million for the year ended December 31, 2015.

- Earnings per share[1] was RMB0.05 per share.

Notes:

(1) Earnings per share refers to profit attributable to owners of the parent divided by weighted average number of shares in issue, during the year-ended December 31, 2016.

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

	Year ended December 31				
RMB'000	**2016**	2015	2014	2013	2012
New contracts signed and orders secured	**2,491,113**	2,642,215	2,198,665	2,683,369	2,617,413

	As at December 31				
RMB'000	**2016**	2015	2014	2013	2012
Backlog	**1,059,909**	2,193,050	1,976,892	2,210,722	2,019,628

2. FINANCIAL PERFORMANCE

	Year ended December 31				
RMB'000	**2016**	2015	2014	2013	2012
Revenue	**2,525,843**	2,317,541	2,266,696	2,390,268	2,146,000
Gross profit	**464,313**	393,063	349,259	558,986	516,730
Profit/(loss) attributable to owners of parent	**75,506**	(278,476)	(194,657)	149,254	131,910

3. FINANCIAL POSITION

	As at December 31				
RMB'000	**2016**	2015	2014	2013	2012
Total assets	**5,347,011**	6,384,993	5,755,675	5,796,466	5,169,898
Net assets	**2,164,758**	2,126,140	2,443,508	2,669,643	2,497,406
Net cash position(1)	**(415,220)**	(367,494)	(154,387)	(242,792)	(47,988)

Notes:

(1) Net cash position refers to cash and cash equivalents *minus* interest-bearing bank borrowings.

(2) Details of the above financial information are set out in Management Discussion and Analysis section on page 10 to page 17.

4. FINANCIAL RATIOS

	For the year ended/As at December 31				
	2016	2015	2014	2013	2012
Sales cycle ratios:					
Trade receivables turnover days (days)[1]	**283**	245	203	154	142
Net construction contract turnover days (days)[2]	**58**	51	78	87	72
Combined trade receivables and net construction contract turnover days (days)	**341**	296	281	241	214
Other ratios:					
Trade payables turnover days (days)[3]	**200**	234	212	196	179
Current ratio (times)[4]	**1.5**	1.4	1.5	1.8	1.7
Gearing ratio (%)[5]	**-29.2%**	5.3%	2.0%	2.8%	-3.7%
Return on assets (%)[6]	**1.4%**	-4.4%	-3.4%	2.6%	2.6%
Return on equity (%)[7]	**3.5%**	-13.1%	-8.0%	5.6%	5.3%

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 10 to page 17.

chairman's statement

BUSINESS OVERVIEW

In 2016, the Group has undergone a major restructuring of its business by disposing of its business in the Expressway and Urban Traffic segments and consolidating its resources to focus on the development of its business in the Railway and Civil Aviation segments. On February 17, 2016, the Company and King Victory Holdings Limited entered into a Master Sale and Purchase Agreement, pursuant to which the Company conditionally agreed to sell and King Victory Holdings Limited conditionally agreed to purchase, among other things, 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) (together with their respective subsidiaries, the "**Disposal Group**"), which are principally engaged in the provision of Intelligent Transportation System solutions and services to expressway and urban traffic segments in the PRC. In this report, members of the Group which are not members of the Disposal Group are collectively referred to as the "**Remaining Group**".

The revenue of the Group in 2016 was RMB2,525.8 million, representing an increase of 9.0% as compared to RMB2,317.5 million in 2015. Among that, the Remaining Group's revenue for the year ended December 31, 2016 was RMB1,580.1 million, representing an increase of RMB191.9 million as compared to RMB1,388.2 million in 2015. New contracts signed and orders secured of the Group in 2016 amounted to RMB2,491.1 million, and backlog of the Group as at the end of 2016 was RMB1,059.9 million due to the disposal of the Expressway and Urban Traffic business.

(i) Railway

In the context of railway industry, China will endeavor to develop high-speed railway to further improve its full-coverage of high-speed railway network during the "13th Five-Year" Plan. The total railway mileage will increase to 150,000 kilometers in 2020 from 125,000 kilometers in 2016, including 30,000 kilometers of high-speed railways, covering more than 80% of cities around the country, with an annualized growth rate at 9.6%.

From the perspective of development of the Group's railway business in 2016, it continued its traditional advantages in conventional communication solutions and won a swathe of national key projects. In terms of new business expansion, the Railway segment continued to research, develop and invest in multiple areas, including railway alarming system, railway electronic and intelligent operation and management system, passenger service system and video surveillance, with partial business entering experimental stage. Moreover, the business scope of the Railway segment was further expanded as one of its subsidiaries obtained Level-2 qualifications of information system integration after evaluation in 2016. It means that the Company is expected to provide better service for the railway communication construction in the future.

(ii) Civil Aviation

The Civil Aviation business 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 business will be mainly focused on the informatization of airport ground services through the establishment of airport wireless solutions and obtaining sales revenues from supplying communication services, surveillance services and value-added operation and services.

LIAO JIE
Chairman

Beijing, March 27, 2017

REVENUE

By Industry Segments

The Group's revenue for the year ended December 31, 2016 increased by 9.0% to RMB2,525.8 million as compared to RMB2,317.5 million for the year ended December 31, 2015, among that, the Remaining Group's revenue for the year ended December 31, 2016 were RMB1,580.1 million.

	Year ended December 31	
	2016	2015
	RMB'000	RMB'000
Revenue by industry segments of Remaining Group		
Railway	**1,534,353**	1,317,587
Others	**45,782**	70,614
Elimination	**–**	–
Total	**1,580,135**	1,388,201

(i) Railway

Revenue of the Remaining Group from the Railway segment in the year ended December 31, 2016 was RMB1,534.4 million, representing an increase of RMB216.8 million as compared to RMB1,317.6 million for the year ended December 31, 2015. In the context of railway industry, China will endeavor to develop high-speed railway to further improve its full-coverage of high-speed railway network during the "13th Five-Year Plan". The total railway mileage will increase to 150,000 kilometers in 2020 from 125,000 kilometers in 2016, including 30,000 kilometers of high-speed railways, covering more than 80% of cities around the country, with an annualized growth rate at 9.6%. According to the Plan, during the "13th Five-Year", China will develop more high-speed railways based on the "four vertical and four horizontal" high-speed railways to form a high-speed railway network with the "eight vertical and eight horizontal" high-speed railways as framework, connecting to regional railways, and supplemented by intercity railways. It is estimated that, from 2016 to 2020, the total developed millage of the "eight vertical" part will reach approximately 8,700 kilometers, with a total investment of approximately RMB1.35 trillion, while that of the "eight horizontal" part will reach approximately 3,600 kilometers, with a total investment of approximately RMB601.8 billion. In terms of the construction plan for common railway, the construction of bottleneck sections and key sections of common artery railways will be further promoted during the "13th Five-Year" period, while the railways to and from Tibet and Xinjiang will be improved to promote the railway construction in the northeast and southwest border areas.

From the perspective of development of the Group's railway business in 2016, it continued its traditional advantages in conventional communication solutions and won a swathe of national key projects, including the reconstruction project of the northwest right of the backbone network, the capacity expansion revamping project of Geermu-Lhasa railway and the capacity expansion engineering project of the Fuliji-Xinhe section of the Fuliji-Jiahezai railway, of which the northwest right project, as the national core network of the communication backbone of China's railways, has profound significance to the future development of railway business. In terms of new business expansion, the Railway segment continued to research, develop and invest in multiple areas, including railway alarming system, railway electronic and intelligent operation and management system, passenger service system and video surveillance, with partial business entering experimental stage. Moreover, the business scope of the Railway segment was further expanded as one of its subsidiaries obtained Level-2 qualifications of information system integration after evaluation in 2016. It means that the Company is expected to provide better service for the railway communication construction in the future. The new contracts and orders secured amounted to RMB1,587.1 million in the year ended December 31, 2016 and the backlog amounted to RMB990.3 million.

(ii) Others

This segment contains Civil Aviation and others businesses. Revenue of the Remaining Group from the others segment in the year ended December 31, 2016 was RMB45.8 million, representing a decrease of RMB24.8 million as compared to RMB70.6 million in the year ended December 31, 2015. The new contracts and orders secured amounted to RMB78.7 million in the year ended December 31, 2016, and the backlog amounted to RMB69.6 million at December 31, 2016.

BUSINESS PATTERN AND MAJOR PROJECTS

The Remaining 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 2016. 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.

During 2016, the Remaining Group had implemented more than 1,756 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
Railway:	Nanchang Data Network Reform Project
	Harbin Data Network Reform Project
	Wuhan Data Network Reform Project
Others:	Shenzhen Airlines terminal sales projects
	China International Airlines terminal leasing and software services projects

By Business sectors

The revenue of the Remaining Group in Specialized Solutions' business and Value-Added Operation and Services' business increased by 8.3% and 66.4%, respectively. The following table sets out the revenue breakdown by business sectors:

	Year ended December 31	
	2016	2015
	RMB'000	RMB'000
Revenue by business sectors of the Remaining Group		
SS	**1,360,775**	1,256,400
VAOS	**219,360**	131,801
Elimination	**–**	–
Total	**1,580,135**	1,388,201

(i) Specialized Solutions ("*SS*")

Revenue of the Remaining Group from the SS business in the year ended December 31, 2016 was RMB1,360.8 million, representing an increase of RMB104.4 million as compared with RMB1,256.4 million for the year ended December 31, 2015. As mentioned in the industry segment section, due to revenue from the SS business in Railway segment recorded an increase as compared with 2015. The Group believes the revenue from this segment will further increase in 2017. The SS business as a whole accounted for 86.1% of the Remaining Group's revenue in the year ended December 31, 2016, which is slightly lower than 90.5% as recorded for the year ended December 31, 2015.

(ii) Value-Added Operation and Services ("VAOS")

Revenue of the Remaining Group from the VAOS business in the year ended December 31, 2016 was RMB219.4 million, representing an increase of RMB87.6 million as compared to RMB131.8 million for the year ended December 31, 2015. This increase was mainly due to the increase of VAOS business in the Railway segment. The VAOS business as a whole accounted for 13.9% of the Remaining Group's revenue in the year ended December 31, 2016, which is higher than 9.5% as recorded for the year ended December 31, 2015.

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 of the Remaining Group constituted 80.5% of the Remaining Group's revenue in the year ended December 31, 2016, which is lower than 81.4% as recorded for the year ended 31 December 2015.

By Industry Segments

	Year ended December 31	
	2016	2015
	RMB'000	RMB'000
Cost of Sales by industry segments of the Remaining Group		
Railway	**1,236,930**	1,066,558
Others	**35,806**	63,732
Elimination	**–**	–
Total	**1,272,736**	1,130,290
% of Revenue	**80.5%**	81.4%

(i) Railway

The Railway segment increased by RMB170.3 million to RMB1,236.9 million in the year ended December 31, 2016 as compared to RMB1,066.6 million for the year ended December 31, 2015.

(ii) Others

The Others segment decreased by RMB27.9 million to RMB35.8 million in the year ended December 31, 2016 as compared to RMB63.7 million for the year ended December 31, 2015.

By Business Sectors

	Year ended December 31 2016 RMB'000	2015 RMB'000
Cost of Sales by business sectors of the Remaining Group		
SS	**1,084,668**	1,024,805
VAOS	**188,068**	105,485
Elimination	**–**	–
Total	**1,272,736**	1,130,290
% of Revenue	**80.5%**	81.4%

(i) SS

The cost of sales incurred for SS business constituted 85.2% of the Remaining Group's cost of sales in the year ended December 31, 2016, which was slightly lower than that in the prior year.

(ii) VAOS

The cost of sales incurred for VAOS business constituted 14.8% of the Remaining Group's cost of sales in the year ended December 31, 2016, which was higher than that in the prior year mainly because of the decrease of gross profit margin for VAOS business in 2016.

GROSS PROFIT

The gross profit of the Remaining Group increased from RMB257.9 million for the year ended December 31, 2015 to RMB307.4 million in the year ended December 31, 2016. And the gross profit margin of the Remaining Group slightly increased from 18.6% for the year ended December 31, 2015 to 19.5% in the year ended December 31, 2016.

By Industry Segment

	Year ended December 31 2016 RMB'000	2015 RMB'000
Gross profit by industry segments of the Remaining Group		
Railway	**297,423**	251,029
Margin %	**19.4%**	19.1%
Others	**9,976**	6,882
Margin %	**21.8%**	9.7%
Total	**307,399**	257,911
Margin %	**19.5%**	18.6%

(i) Railway

The Railway segment gross profit margin of the Remaining Group increased by 0.3% to 19.4% for the year ended December 31, 2016 as compared to 19.1% for the year ended December 31, 2015. This change was mainly due to that the gross profit margin of several significant projects that carried out in 2016 were lower than average level in traditional and VAOS business under this segment.

(ii) Others

The Others segment gross profit of the Remaining Group increased from RMB6.9 million for the year ended December 31, 2015 to RMB10.0 million for the year ended December 31, 2016. This increase mainly due to the increase of the gross profit of Civil Aviation business.

By Business Sectors

	Year ended December 31	
	2016	2015
	RMB'000	RMB'000
Gross profit by business sectors of the Remaining Group		
SS	**276,107**	231,595
Margin	**20.3%**	18.4%
VAOS	**31,292**	26,316
Margin	**14.3%**	20.0%
Total	**307,399**	257,911
Margin	**19.5%**	18.6%

(i) SS

Gross profit margin of the Remaining Group for SS business increased to 20.3% in the year ended December 31, 2016, as compared to 18.4% for the year ended December 31, 2015.

(ii) VAOS

Gross profit margin of the Remaining Group for VAOS business decreased from 20.0% for the year ended December 31, 2015 to 14.3% in the year ended December 31, 2016. This decrease was mainly due to that the gross profit margin of individual significant projects was below average level.

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.

OTHER EXPENSES

Other expenses mainly comprised of interest exemption and investment loss in convertible borrowings to Beijing Guangwei Xingye Technology Co., Ltd. ("**Guangwei Xingye**") which were approximately RMB4.0 million and RMB2.3 million, respectively.

SELLING, GENERAL AND ADMINISTRATION EXPENSES

In the year ended December 31, 2016, selling, general and administration expenses was approximately RMB311.2 million, representing a decrease of RMB101.2 million as compared to approximately RMB412.4 million for the year ended December 31, 2015.

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

In the year ended December 31, 2016, selling, general and administration expenses which was related to daily operational activities ("**SG&A**") was approximately RMB305.0 million, representing a decrease of RMB37.0 million as compared to approximately RMB342.0 million for the year ended December 31, 2015.

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 was RMB211.2 million for the year ended December 31, 2016 which was similar to the RMB211.0 million for the year ended December 31, 2015. During 2016, on one hand, the Group increased staff costs to retain and attract good talent, on the other hand, saved office expenses and travel expenses through using effective management tools.

The rental expenses decreased from RMB34.5 million for the year ended December 31, 2015 to RMB11.6 million for the year ended December 31, 2016 because of the Beijing office having became the property owned by the Company since November 2015.

Research & Development expenses decreased from RMB36.6 million for the year ended December 31, 2015 to RMB22.4 million for the year ended December 31, 2016. In addition, during 2016, the Group has invested RMB11.3 million to develop and purchase intangible asset.

(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 the Group's provisioning policy of bad debts on individual basis. Such expenses were RMB6.3 million for the year ended December 31, 2016 which was significantly lower to approximately RMB70.4 million for the year ended December 31, 2015.

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. The net financial expenses represented the total finance cost minus finance revenue. This financial expense was RMB42.7 million in the year ended December 31, 2016, which represented a significantly decrease of RMB32.2 million as compared to RMB74.9 million for the year ended December 31, 2015. The decrease was mainly due to that the Company redeemed the convertible bonds and repaid the guaranteed bonds during 2015.

SHARE OF PROFITS OF JOINT VENTURES/ASSOCIATES

Share of Profits of investment entities in the year ended December 31, 2016 was approximately RMB7.8 million, which represented an increase from the amount of RMB5.7 million for the year ended December 31, 2015. 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, 2016 was RMB81.6 million, which was higher than the income tax expenses for the year ended December 31, 2015, and was mainly due to the income taxes of RMB37.6 million as the Company transfers the equity of China Toprise Limited and Zhongzhi Runbang transfers the equity of Beijing RHY Technology Development Co., Ltd..

PROFIT FOR THE YEAR

Profit to the owners of the parent for the year ended December 31, 2016 was approximately RMB75.5 million, compared to a loss of approximately RMB278.5 million for the year ended December 31, 2015.

TRADE RECEIVABLES TURNOVER DAYS

The trade receivables turnover days in the year ended December 31, 2016 was 283 days (in the year ended December 31, 2015: 245 days).

NET CONSTRUCTION TURNOVER DAYS

The net amount due from contract customer turnover days in the year ended December 31, 2016 was 58 days (in the year ended December 31, 2015: 51 days).

TRADE PAYABLES TURNOVER DAYS

The trade payables turnover days in the year ended December 31, 2016 was 200 days (in the year ended December 31, 2015: 234 days).

INVENTORY TURNOVER DAYS

The inventories of the Group mainly comprised of raw materials, finished goods and general merchandise for surveillances Specialized Solutions. The inventory turnover days in the year ended December 31, 2016 was 6 days (in the year ended December 31, 2015: 5 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, 2016, the Group's current ratio (current assets divided by current liabilities) was 1.5 (as at December 31, 2015: 1.4). The Group's financial position remains healthy.

As at December 31, 2016, the Group was in a net negative cash of RMB415.2 million (as at December 31, 2015: net negative cash of RMB367.5 million) which included cash and cash equivalents of RMB604.8 million (as at December 31, 2015: RMB736.1 million), convertible borrowings nil (as at December 31, 2015: RMB82.3 million), interest-bearing bank borrowings of RMB1,020.1 million (as at December 31, 2015: RMB1,185.9 million). As at December 31, 2016, the Group's gearing ratio was -29.2%, which has decrease from 5.3% for the Group as at December 31, 2015, due to the decrease of due to related parties, representing the increase in cash and cash equivalents due to the completion of the sale of the Disposal Group. Gearing ratio refers to adjusted cash (interest-bearing bank borrowings plus 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, 2016, the Group had no material contingent liability.

CHARGES ON GROUP ASSETS

As at December 31, 2016, expect for the secured deposits (current portion) of approximately RMB211.4 million (as at December 31, 2015: RMB232.7 million), the Group pledged its buildings having net book values of approximately RMB61.8 million (as at December 31, 2015: RMB125.8 million), trade receivables with a total value of RMB110.5 million (as at December 31, 2015: 41.9 million) and its equity interests in a subsidiary amount of approximately RMB227.0 million (as at December 31, 2015: RMB227.0 million) to banks to secure banking facilities granted to the Group. Save as disclosed above, as at December 31, 2016, 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	51	Chairman and executive Director
Mr. Jiang Hailin	48	Executive Director
Mr. Tim Tianwei Zhang	54	Non-executive Director
Mr. Zhou Chunsheng	50	Independent non-executive Director
Mr. Choi Onward	46	Independent non-executive Director
Mr. Ye Zhou	49	Independent non-executive Director

Executive Director

Mr. LIAO Jie (廖杰), 51, 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 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.

Mr. JIANG Hailin (姜海林), 48, 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 sole director of Sea Best Investments Limited ("**Sea Best**", one of the Controlling Shareholders). 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 chairman of the board of directors of Aproud Technology from August 2002 to February 2010 and again since May 2010, an executive director of Jiangsu Zhongzhi Transportation since December 2011, an executive director of Intelligent Aviation System since November 2012, an executive director of Zhihang Tuoyu since October 2014, an executive director of Zhixun Tiancheng since November 2014, and an executive director of Hongrui Dake since November 2015.

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 23 years of experience in general management and over 15 years of experience in the China ITS industry.

Non-executive Director

Mr. Tim Tianwei ZHANG (張天偉), 54, is a non-executive Director appointed on May 20, 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 Mount Flag Capital Limited (旗山資本有限公司) (formerly known as Taconic Capited Group Ltd.) since January 2015. Mr. Zhang also served as the chief executive officer of Mount Flag, LLC since August 2015. Mr. Zhang has over 22 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 master's degree in economics from the Chinese Academy of Social Sciences and his Master of Business Administration degree from the University of Chicago.

Independent non-Executive Directors

Mr. ZHOU Chunsheng (周春生), 50, 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 Guosheng Financial Holding Inc., 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 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), 46, 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. YE Zhou (葉舟), 49, is an independent non-executive Director, the chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee. Mr. Ye was appointed as Director on July 15, 2016. Mr. Ye is and has been the chief executive officer of ULSee Inc. **(愛唯秀股份有限公司)** since 2014. Prior to his current position at ULSee Inc., from 1994 to 1996, he was a senior product engineer of General Motors Company. From 1996 to 1997, Mr. Ye was the director of wireless communication department of UTStarcom Holdings Corp. From 1997 to 2006, Mr. Ye was the vice president of Asia Pacific region of UTStarcom Holdings Corp. From 2007 to 2016, Mr. Ye was the chief executive officer of CyWee Group Ltd. **(速位互動股份有限公司)**.

Mr. Ye graduated from Pennsylvania State University with a master's degree in electrical engineering in 1994.

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	48	Chief Executive Officer, chairman of the finance committee
Mr. Leung Ming Shu	41	Chief Financial Officer, Company Secretary
Mr. Zhang Yi	43	Vice president of the Company, president of civil aviation group
Mr. Luo Haibin	40	Vice president of the Company, president of railway group
Mr. Chen Changxue	50	Vice president of the Company, general manager of overseas business department

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

Mr. LEUNG Ming Shu (梁銘樞), 41, is the Chief Financial Officer and Company Secretary of the Company, responsible for overall financial management of the Company. Mr. Leung served as Director from May 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), as an independent non-executive director, member of audit committee, nomination committee, remuneration committee and corporate governance committee of Cabbeen Fashion Limited (SEHK: 2030), as an independent non-executive director of Shengli Oil & Gas Pipe Holdings Limited, a company listed on the Stock Exchange (stock code: 1080), and as an independent non-executive director, chairman of the remuneration committee and member of the audit committee and investment committee of Sun. King Power Electronics Group Limited(SEHK: 0580).

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 18 years of experience in corporate financial management, including over 13 years with technology companies.

Mr. ZHANG Yi (張屹), 43, is a vice president of the Company and president of civil aviation group, responsible for business development in the 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 13 years of experience in sales and marketing management.

Mr. LUO Haibin (羅海濱), 40, is a vice president of the Company and president of railway group. He is responsible for the overall business development and the operational management of railway 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 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 16 years of experience in marketing and management.

Mr. CHEN Changxue (陳長學), 50, is a vice president of the Company and general manager of overseas business department. He is responsible for development of overseas business.

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 16 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, 2016.

Set out below is a detailed discussion of the corporate governance practices adopted and observed by the Company for the year ended December 31, 2016.

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 in the section 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.

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, 2016, there were eight Board meetings held, at which the Directors approved, among other things, the audited consolidated results of the Group for the year ended December 31, 2015 and the unaudited consolidated results of the Group for the six months ended June 30, 2016.

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.

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, 2016, the Board convened a total of eight Board meetings and there were four meetings for the Audit Committee, three meetings for the Remuneration Committee and three meetings 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)*	8/8	N/A	N/A	N/A	2/2
Mr. Jiang Hailin *(Chief Executive Officer)*	8/8	N/A	N/A	N/A	2/2
Non-executive Director					
Mr. Tim Tianwei Zhang	8/8	N/A	N/A	N/A	2/2
Independent Non-executive Directors					
Mr. Zhou Chunsheng	8/8	4/4	3/3	3/3	2/2
Mr. Choi Onward *(FCCA, HKICPA)*	8/8	4/4	3/3	3/3	2/2
Mr. Sun Lu (Resigned on April 29, 2016)	4/8	2/4	2/3	2/3	1/2
Mr. Ye Zhou (Appointed on July 15, 2016)	1/8	1/4	0/3	0/3	0/2

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, 2016, 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, 2016.

BOARD COMMITTEES

Audit Committee

The Audit Committee comprises three independent non-executive Directors, being Mr. Choi Onward, Mr. Zhou Chunsheng and Mr. Ye Zhou, 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 four 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, 2016 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.

Remuneration Committee

The Remuneration Committee consists of three independent non-executive Directors, namely, Mr. Ye Zhou, Mr. Zhou Chunsheng and Mr. Choi Onward. Mr. Ye Zhou 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 three meetings 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, 2016 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. Ye Zhou. 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 three meetings 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, 2016 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.

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, 2016:

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 (Resigned on April 29, 2016)	✔	✔	✔
Mr. Ye Zhou (Appointed on July 15, 2016)	✔	✔	✔

ACCOUNTABILITY AND AUDIT

Auditor's Remuneration

The remuneration paid to the Company's auditors, during the year ended December 31, 2016 is set out in note 6 on page 107.

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, 2016 is set out on pages 62 to 66.

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 an employee of the Group. During the year ended December 31, 2016, 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.

SHAREHOLDER RIGHTS

Constitutional Documents

There has been no significant change in the Company's constitutional documents during the year ended December 31, 2016.

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 2016 annual general meeting of the Company (the "**AGM**") will be held on May 23, 2017. 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.

environmental, social and governance report

0 REPORT OVERVIEW

0.1 About this Report

This is the first "Environmental, Social and Governance Report" issued by China ITS (Holdings) Co., Ltd. (the "**Company**" or "**CIC**"). This report mainly introduces the Company's policies and measures regarding environmental, social and governance ("**ESG**") issues and is meant to strengthen communication and engagement with internal and external stakeholders.

The Board of Directors of the Company assumes full responsibility for the Company's ESG strategy and ESG reporting and is responsible for assessing and determining the Company's ESG risks and ensuring that the Company has an appropriate and effective ESG risk management and internal control system in place. The Board of Directors and its individual members affirm that this report contains no false or misleading statements or material omissions and that they are jointly and severally responsible for the truthfulness, accuracy, and integrity of its content.

Scope of Coverage

This report covers China ITS (Holdings) Co., Ltd. and its domestic and overseas branches and wholly-owned subsidiaries.

Time Range

The Company's ESG report is an annual report and this report is for the period from January 1, 2016 to December 31, 2016.

Basis of Preparation

This report is prepared in accordance with the requirements of the HKEx Environmental, Social and Governance Reporting Guide (the "**ESG Reporting Guide**").

Use of Names

For the convenience of expression and reading, China ITS (Holdings) Co., Ltd. is referred to herein as "**China ITS**", "**CIC**", "**the Company**" and "**we**".

0.2 Vision of ESG Management

CIC is a provider of intelligent transportation system solutions and services. Through the major business models of Specialised Solutions (SS) and Value-Added Operation and Services (VAOS), it provides customers with services that give the maximum overall value and meet their multifaceted requirements in terms of safety, reliability, efficiency, environmental friendliness, and ROI. CIC is one the first companies in the intelligent transportation industry to be recognized as a "National High-Technology Enterprise" in China.

Since its establishment CIC has been committed to the common development of economy, society, and the environment by actively performing its corporate social responsibilities and steadily investing in sustainable development in order to better capture the opportunities from the development of the industry.

Corporate Vision

Delivering solutions which enhance safety, efficiency, convenience and sustainability for the transportation industry.

Business Goal

To become a forward-looking leading enterprise in transportation industry and focuses on intelligent transportation.

Corporate Value

Integrity, Professionalism, Innovation, and People.

The Company's vision of ESG management is as follows:

1. COMPLIANCE AND ETHICS

1.1 Anti-corruption

China ITS attaches great importance to anti-corruption and ethical business practices and prevents corruption risks. On the one hand, it strictly complies with regulatory requirements on anti-corruption and gives full scope to the role of the internal joint meeting mechanism in anti-corruption by integrating internal supervision resources relating to auditing, legal compliance, accounting and risk management and putting in place an internal anti-corruption supervision system that covers a full spectrum of roles from senior management to key positions to ensure the performance of anti-corruption responsibilities at all levels. The Company's management has introduced a series of measures, including identifying corruption risk points and supervision loopholes in business processes and internal controls and formulating thoroughly thought-out investigation plans based on the Company's information network platforms, to ensure operational transparency, close all loopholes and constantly strengthen the Company's anti-corruption system.

On the other hand, the Company has committed to increasing employees' awareness of professional ethics and anti-corruption to strengthen corruption risk prevention. It requires employees to familiarize themselves and strictly comply with the relevant explicit provisions in the Employee Handbook: Employees shall not engage in corruption, bribery, extortion, or any other irregularities and anyone found guilty shall be severely punished accordingly. In addition, the Company offers relevant training to further improve employees' anti-corruption awareness. Its contracts with core suppliers and customers also contain anti-corruption provisions.

In 2016, the Company did not find any significant risks relating to corruption and was not subject to any confirmed corruption cases involving the Company or any corruption litigations against the Company or any of its employees.

China ITS's Anti-corruption Mechanism

1.2 Product Quality Management

China ITS's main business models include Specialised Solutions (TS) and Value-Added Operation and Services (VAOS) for the transportation industry. It is the Company's mission and basic social responsibility to provide high-quality solutions "which enhance safety, efficiency, convenience and sustainability" of the transportation industry to better serve society. In adherence to its corporate value of "integrity, professionalism, innovation, and people", the Company has an institutionalized, systematic, and IT-based quality control and management system and implements project-cycle safety management to build high-quality, efficient, and safe intelligent transportation solutions, and it provides technical support for system upgrade and maintenance during system operation and management to ensure safe transportation for society, partners, and customers.

As a provider of transportation solutions, the Company has established a business process and quality control system that encompasses all aspects of its business operation, including preliminary planning, project design, project bidding, hardware support, system development, and project operation, with business contracts signed with partners for all links of project operation to ensure that all parties perform their obligations in accordance with contract provisions, using a scientific quality management system and comprehensive technical support to guarantee project quality, efficiency, convenience and safety. The Company's major solution projects in 2016 include the development of the data network and videoconferencing system of Zhengzhou — Xuzhou High-Speed Railway, Ejin — Hami Railway, Shanghai — Kunming High-Speed Railway, revamping for capacity expansion of the Golmud-Lhasa railway section of Qinghai — Tibet Railway, and revamping for capacity expansion of the Fuliji-Xinhe section of Fuliji-Jiahezhai Railway.

Project Development/Design Stage	Perform field investigation and feasibility analysis of a project, carry out specialized technical research, provide the customer with basic information, have a full understanding of customer requirements, have indepth communication with the customer on key project aspects, and minimize project design defects and implementation risks.
System Construction Stage	Strengthen system development quality management system and organizational system, comprehensively implement standardized management and benchmark management in system development and two-level quality control, and subject key system aspects to specialized assessment and expert review, and strengthen system inspection.
Project Operation Stage	Implement system maintenance and key point inspection on a regular and irregular basis, establish a pro-active project team support mechanism, actively respond to customer complaints and feedbacks, and maintain an emergency response system and 24-hour online expert team system to ensure stable and continuous system running.

China ITS's Product Quality Management Diagram

China ITS Supports Opening of China's First High-Speed Railway during the 13th Five-Year Plan Period

On September 10, 2016, the Zhengzhou-Xuzhou High-speed Railway, which uses China ITS' solutions, officially opened, marking the first high-speed railway planned during the 13th Five-year Plan Period to be put into use. The railway will play an important role in contributing to the economic development and facilitating transportation of residents in regions that the railway passes through.

As a professional solution and technical service provider in the railway communication industry, China ITS, together with its strategic partner Huawei Technologies, took part in the development of the data network and videoconferencing system of Zhengzhou-Xuzhou High-speed Railway. The data network uses Huawei's NE20E equipment and the videoconferencing system uses Huawei's TE40 equipment. China ITS and Huawei Technologies provided professional solutions and technical services for the project's ticketing (online ticketing system), power telecontrol (remote power control of overhead line system), video surveillance, power environment monitoring and HD videoconferencing across stations. The Company's and Huawei's many technical personnel were involved in the Zhengzhou-Xuzhou High-speed Railway project from the very start of solution design, where they had thorough discussions on the actual situation of the project and worked out action plans for all conceivable unfavorable situations. In the process of construction, the experts from the various parties comprehensively assessed key aspects including product stability and made comprehensive improvements. Thanks to their efforts, the delivered solutions have worked very successfully.

With the opening of Zhengzhou-Xuzhou High-speed Railway, the travel time between Fuzhou and Xi'an is reduced from a minimum of 24 hours to 10.5 hours, and that between Fuzhou and Zhengzhou from a minimum of 10.5 hours to 7 hours and 45 minutes.

The opening of Zhengzhou-Xuzhou High-speed Railway has brought China's total high-speed railway length to more than 20,000 km, continuing to lead the world.

China ITS' technicians testing products used in Zhengzhou-Xuzhou High-speed Railway

1.3 Customer Relationship Building

With a steadfast commitment to "focus on customer concern", China ITS has a market- and customer-oriented management system and continuously improves relevant mechanisms and business processes in the light of its business development and changes in internal and external environments, always striving to provide customers with top-quality products and services and work to their satisfaction.

China ITS' customers operate to the social and public good by providing tens of millions of people with efficient and convenient transportation. To maintain the normal running of all systems all year long, the Company has established an emergency response mechanism and continuously make improvements to it in the light of actual situations. The mechanism covers response actions for a full range of situations including holiday season traffic peak, hardware malfunction, programme failure and bad weather conditions and effectively maintain safe system running through systematic management of various management modules including pressure prediction, multi-layer response and control, SOPs and troubleshooting guidelines, business training and drills, information release, command and scheduling, and post-management assessment. For peak seasons such as the Spring Festival, Tomb-sweeping Day and the National Day and major events such as the G20 Summit in 2016, the Company's professional team provided support around the clock to guarantee the safe, convenient, and efficient functioning of its intelligent transportation systems for the customers and all passengers.

Effective Support of Railway Communication Network during G20 Summit

From September 4 to 5, 2016, the 11th G20 Summit took place in Hangzhou, Zhejiang Province. China ITS completed the railway communication network support for the G20 Summit and ensured the secure functioning of the communication network during the event. Its quick response and effective support earned high praises from the customer.

The G20 Hangzhou Summit was the first G20 summit held in China, and it was the G20 summit that was attended by the biggest number of developing countries and yielded the most fruitful outcomes. To complete the support for the significant event, China ITS devoted great attention and formed a special emergency response team, sent seven engineers to various places including Shanghai, Hangzhou, Jinhua, and Wenzhou for on-site support, and coordinated its offices in Nanchang and Wuhan to provide backup help when needed.

With the Company's assistance, Shanghai Railway Bureau successfully completed the 24/7 on-site support of the G20 Summit from August 30 to September 6, during which all transmission and access activities and the data network functioned normally with no occurrence of significant failures.

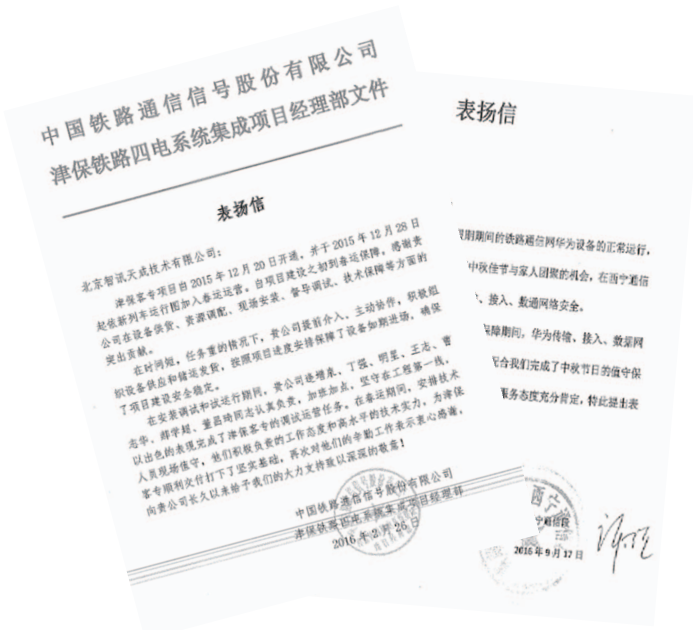
The customer-centric work style, excellent service, outstanding expertise and effective performance to ensure smooth running of network shown by China ITS during the support task earned a lot of accolades from the customer.

Support during Storms

Since June 2016, a series of powerful storms struck many regions in South China and caused disastrous floods in Anhui, Hubei, and Hunan, with many rivers in the middle and lower reaches of the Yangtze River reaching a warning water level. The storms also seriously affected some sections of the Beijing — Kowloon Railway, Beijing-Guangzhou Railway, and Sichuan — Guizhou Railway. China ITS' employees, shouldering the important task of protecting the security of railway communication, collaborated efficiently with the railway authority to support railway communication and emergency maintenance. Thanks to their efforts, the railway communication system operated smoothly and experienced no failure during the storm season despite extensive railway delays caused by the storms.

The Company has a customer complaint mechanism and adheres to the principle of "respond to every complaint and correct any mistake immediately". For customer concerns that cannot be solved on site or via telephone, the customer service centre will refer them to the corresponding departments according to their sources and categories for handing. The responsible departments will investigate and address the issues before giving concluding replies. The customer service centre will track the progress of handling and collect feedback from the customers. Relevant media reports or major complaints will be reported to the Company's General Office and management at the first opportunity and the Company will give responses in accordance with relevant policies and regulations and its relevant business practices. The Company has an enquiry and complaint hotline to give timely answers to customers' questions and complaints and, based on their feedback, continuously improves and strengthens customer relationships.

China ITS is the largest intelligent transportation solution provider in China. It holds a nearly 80% market share of national railway line projects and assists over 75% of railway bureaus across China in 24/7 safe operation and maintenance of equipment. With strategic cooperation with Huawei Technologies in many fields, China ITS is committed to providing high-quality service support for China's rail transportation construction and has received many recognitions and praises for our outstanding work.



中国铁路通信信号股份有限公司
津保铁路四电系统集成项目经理部文件

表扬信

北京智讯天成技术有限公司：

津保客专项目自2015年12月20日开通，并于2015年12月28日起依新列车运行图加入春运运营。自项目建设之初到春运保障，感谢贵公司在设备供货、资源调配、现场安装、督导调试、技术保障等方面的突出贡献。

在时间短，任务重的情况下，贵公司提前介入，主动协作，积极组织设备供应和储运发货，按照项目进度安排保障了设备如期进场，确保了项目建设安全稳定。

在安装调试和试运行期间，贵公司逯增东、丁强、明星、王志、曹志华、郎学超、董昌琦同志认真负责，加班加点，坚守在工程第一线，以出色的表现完成了津保客专的调试运营任务。在春运期间，安排技术人员现场值守，他们积极负责的工作态度和高水平的技术实力，为津保客专顺利交付打下了坚实基础，再次对他们的辛勤工作表示衷心感谢，向贵公司长久以来给予我们的大力支持致以深深的敬意！

中国铁路通信信号股份有限公司
津保铁路四电系统集成项目经理部
2016年2月26日

表扬信

期间的铁路通信网华为设备的正常运行，
中秋佳节与家人团聚的机会，在西宁通信
、接入、数通网络安全。
保障期间，华为传输、接入、数据网
合我们完成了中秋节日的值守保
服务态度充分肯定，特此提出表

2016年9月17日

In 2016, China ITS was not subject to any material violation or complaint arising from product quality problems.

2 ENERGY EFFICIENCY AND GREEN DEVELOPMENT

China ITS specializes in intelligent transportation system solutions and services. It upholds the environmental philosophy of "energy conservation, emissions reduction and green development" and fully implements China's energy and environmental policies by strictly controlling emissions and maximizing energy efficiency. It is committed to reducing the impact of its business activities on the environment to the minimum.

In 2016, the Company was not subject to any confirmed violation case relating to emissions or other environmental issues and with a significant impact on the Company.

2.1 Use of Resources

China ITS is committed to building a low-carbon workplace and promoting the sustainable development of its business by raising the environmental awareness of its employees and engaging them in energy efficiency and emission reduction activities for effective use and recycling of resources.

Electricity is the main source of energy used by the Company in its everyday operations. Other resources such as water and paper are also consumed.

In line with the concept of low carbon development, the Company has taken various measures to go green and reduce carbon footprint, including introducing an office automation (OA) system to promote automation and paperless office, purchasing office supplies on demand, and encouraging employees to embrace a low-carbon lifestyle by, for example, using low-carbon means of transportation such as walking, bicycling and public transport. To ensure that energy is not wasted to the largest extent, the Company has appointed dedicated personnel to patrol the office area five minutes and fifteen minutes after the quitting time of every workday and turn off lights, air-conditioners, and other electric appliances in a timely way.

The Company advocates for reduction of paper consumption to protect forest resources, including by pasting "Please Print on Both Sides" and "Recycle Paper Here" signs beside printers and encouraging employees to work on draft documents electronically. With respect to the management of water use, the Company promotes water conservation by setting up water conservation signs and increases the employees' environmental awareness.

2.2 Emissions

China ITS strictly complies with all applicable environmental laws and regulations, carefully assesses its environmental obligations, and takes effective measures to reduce emissions and the impact of its business activities on the environment.

China ITS is a non-production high-technology company and the emissions from its business activities only involve greenhouse gas emissions from the consumption of electricity. Greenhouse gas emissions from energy consumption and employee travels account for the major part of the Company's total emissions. We implement a low-carbon policy and strictly record and manage employee travels with an eye to further reducing energy consumption and greenhouse gas emissions.

The small amount of hazardous wastes generated from the Company's office activities such as toner cartridges and ink boxes is collected centrally and transferred to qualified organizations for environmentally friendly disposal.

3 EMPLOYEE CARE AND DEVELOPMENT

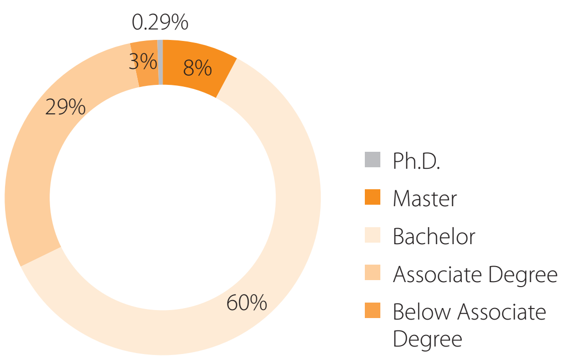
China ITS always puts people first and seeks to build long-term employer-employee relationships by providing employees with competitive salaries and benefits, investing in employee training and development, encouraging work-life balance, caring for employees' physical and mental health, and providing them with a happy and harmonious workplace.

3.1 Employment and Employee Benefits

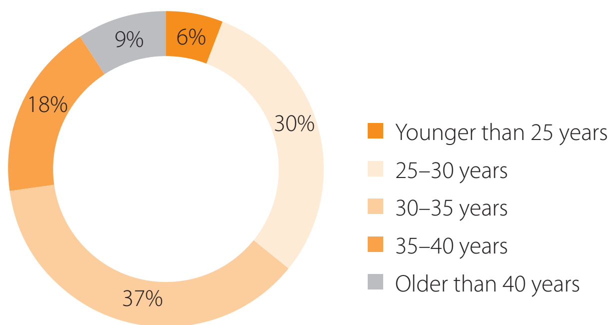
China ITS uses labour in strict compliance with the Labour Law, the Labour Contract Law and other relevant laws and regulations. It provides equal opportunity in employment regardless of candidates' nationality, race, gender, religious faith, or cultural background, signs a labour contract with every employee, and offers a comprehensive compensation system and an open and transparent environment of competition.

The Company always adheres to equal pay for equal work and gender equality. The male to female ratio of its staff is approximately 1:1, and their distribution in terms of highest level of education and age range is shown below:

Percentage distribution of China ITS employees by their highest level of education



Percentage distribution of China ITS employees by age range



The Company's compensation system is strictly in compliance with the Labour Contract Law, the Labour Law and other relevant laws and regulations, with all statutory social security contributions being paid in full and on time. Meanwhile, the Company adjusts employee salaries dynamically according to their performance and skills and in the light of the general compensation level in the industry to ensure that its compensation system is both competitive in the market and fair internally. The Company ensures that all employees are entitled to paid annual leave, marriage leave, maternity leave and other statutory leaves and holidays in accordance with the law and safeguards employees' basic rights. Moreover, the Company provides extensive employee benefits including holiday gifts, birthday gifts, food and transportation allowances, marriage and maternity gifts, and annual health examination, to strengthen employees' sense of belonging.

China ITS' employment system strictly prohibits child labour or forced labour for any position and has stringent recruitment and internal review processes to ensure the compliance and efficiency of its recruitment processes and employment arrangements and reduce the risks of violating relevant laws and regulations.

In addition, the Company has various platforms, including OA system and WeChat official account, to listen to the voices of employees, and all company rules and regulations are formulated in accordance with legal requirements and announced on the aforementioned platforms to ensure that there are secure and effective mechanisms of two-way communication, appeal and feedback between the Company and its employees.

In 2016, China ITS did not have any significant violation relating to employment and labour.

3.2 Employee Training and Development

China ITS is committed providing all employees with opportunities to learn and improve themselves and effective channels to develop and expand their careers. Training is an important part of the Company's management system, under which all employees have the rights and obligations to take part in the many training activities and development opportunities provided by the Company from time to time.

3.2.1 "New Orange Learning Programme"

The Company's Human Resources Department manages a "New Orange Learning Programme" for new employees with different professional backgrounds and from different regions within various business groups, which familiarizes new employees with the Company's development, corporate culture and management system and engages them in various collective activities such as customized experience sharing based on actual needs and challenges to stimulate learning interest, to assimilate them into the Company and get them ready for their career growth in the Company.

The Company's new employees recruited nationwide in 2016 joined the Company's "Learning Studio" WeChat group for the fifth session of collective learning of the "New Orange Learning Programme", marking the first time that the core courses of the programme were offered on the mobile platform, where they not only familiarized themselves with the Company's latest service policy but could also ask questions and communicate with each other whenever and wherever possible to inspire learning.

3.2.2 Diversified Employee Development

The Company's Human Resources Department arranges diversified training plans for employees in different positions, including but not limited to cross-department/business workshops on specialized subjects, learning sessions relating to the Company's strategic partners, middle-level management training, leadership pipeline development, and other novel forms of trainings, to provide career development opportunities for all employees, regardless of their business areas, organizational departments, or age.

Management Training

The Company sends its management team members for "advanced learning", including MBA, CFO, and CMO training, among others, in cooperation with China's leading universities such as Tsinghua University, Renmin University of China, and Beijing Jiaotong University. These programmes graduated a total of 35 excellent leaders in 2016.

Employee Training

In 2016, the Company organized a total of 17 internal training sessions with a combined length of 150 hours, with topics including "Nine Reflections on Team Management", "Huawei Engineering Project Management" and "Enneagram of Personality and Leadership". In addition to internal trainings, the Company encourages employees to take part in external open courses, forums, and industry summits to be informed of the latest industry developments and technological trends. A total of 52 employees took part in these events in 2016, with a combined length of time of 60 working days.

Employee Training of R&D Department

From October 14 to 15, 2016, in the VIP1 meeting room at floor 6 of China ITS headquarters, Mr. Zhong Weijun, Chief Architect of Beijing Carsmart Technology Co., Ltd., at our invitation, gave a series of lectures to the employees of our R&D Department on architectural design of information systems. The two-day lectures covered topics including the responsibilities of an architect, enterprise architecture framework, system architecture design and methodology, software design principles and design models, system architecture models for reference, and demonstration of system architecture design examples. Through the lectures, the R&D employees got a basic understanding of popular enterprise architecture frameworks such as Zachman and TOGAF, grasped the methods of model-driven analysis of system requirements, the methods of service/component-oriented system architecture design, and the impact of non-functional requirements on system architecture design, and obtained a general knowledge of software design principles and models.

Joint Training with Strategic Partner: Huawei Engineering Project Management Practice

In November 2016, the Company and its close partner Huawei Technologies held a joint specialized training on specific projects. The two-day training was mainly given by Huawei's specialists on project management and Huawei's telecommunication engineering projects and attended by the entire staff of the Company's technical service department. It covered extensive topics including: matching project management procedures with China ITS's own engineering businesses to identify and respond to risks; coordinating different departments through project communication management to effectively use resources; and unifying expressions and fostering a productive project management atmosphere to improve operating efficiency. The training strengthened the technical skills of China ITS' personnel and further deepened the cooperation between China ITS and Huawei Technologies.

3.2.3 Dual-Channel for Professional Development

The Company encourages employees to sharpen their expertise in their respective areas and provide equal opportunities of promotion and career growth for different types of personnel for them to give full scope to their advantages and strengths. Meanwhile, the Company has established a dual-channel system of professional development for employees in management category and specialized/technical category, encouraging employees to look beyond their existing roles and widely and comprehensively assess all possibilities of career development. For example, technical personnel can, while sharpening their expertise, seek further development either in their existing areas or in the management direction based on their own strengths and interests. In the course of their professional development, employees have opportunities to make different choices. The dual-channel system of professional development meets the Company's need for talent with comprehensive skills across areas and allows employees to integrate their actual situations and career interests. The opportunities to change directions of career development offered by this system has not only fuelled employee engagement but also provided a strong support of the Company's continuous development.

3.3 Occupational Health and Safety and Employee Care

3.3.1 Employee Occupational Health and Safety

China ITS attaches great importance to employees' physical, mental, and professional health. It arranges annual health checks for all employees and voluntarily takes out and maintains personal accident insurance, critical illness insurance and supplementary medical insurance for all employees as supplements to their statutory social security. In addition, the Company invites health experts to give lectures on health to employees and organizes various sports activities from time to time to promote employees' physical and mental health. With respect to health examination, for example, the Company provides all new, existing and departing employees with occupational health checks in strict compliance with relevant regulations and formulated a comprehensive health examination system.

Moreover, the Company prohibits smoking in offices and public areas to eliminate all safety hazards, and arranges dedicated personnel to patrol the office areas during holidays to avoid any safety issues.

In 2016, the Company experienced no employee on duty casualty or any other serious accident.

3.3.2 Employee Care

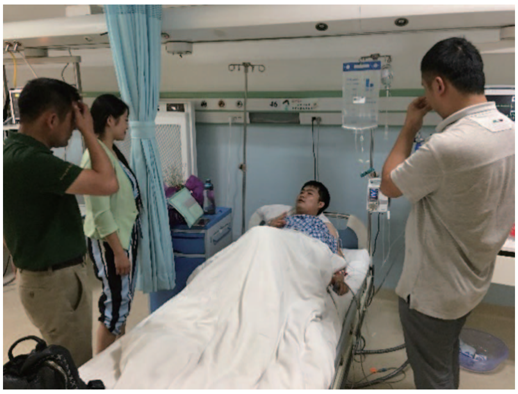
CIC provides comprehensive employee care and organizes a series of cultural and sports activities from time to time to enrich and delight employees' life outside work, build team spirit and solidarity, and promote work-life balance. Meanwhile, it offers help to employees in needy circumstances and solves their actual difficulties via dedicated funds while sharing the Company's development achievements with all employees.

In 2016, the Company organized multiple employee activities, including spring outing of the entire staff, outward bound training organized by the marketing department, and new employee engagement in subsidiaries with a wide variety of formats and contents, which both strengthened the participants' physical health but also promoted communication and exchanges among the employees.

Employee Care

On August 2, 2016 at 21:00, an employee at the Beijing office of the Company's Technical Service Department was sent to hospital due to a sudden onset of acute appendicitis. Upon learning of the information, the Company quickly notified the Administrative Department to arrange a visit to the employee on behalf of the Company. At 23:00 of the same night, a group of Company leaders and colleagues paid a visit to the employee at the hospital and helped arrange his hospitalization and operation.

It was at 02:00 in early morning of the next day after the operation was successfully completed that the leaders left the hospitals and asked other colleagues to keep his company. Later, the employee's relatives came to the hospital and expressed thanks to the Company leaders and colleagues for their care and help given to the employee at the first opportunity.



4 PARTNERSHIP BUILDING AND SOCIAL CONTRIBUTION

4.1 Supplier Cooperation and Management

China ITS has the firm conviction that cooperation is an indispensable drive of the Company's development and has been committed to building platforms of cooperation and communication with suppliers for closer cooperation with them to provide customers with high-quality products and services.

The Company manages a qualified supplier database for supplier admittance. Only suppliers that take part in competitive bidding and are assessed to be qualified in terms of safety, quality, business reputation and other indicators are included in the database. Meanwhile, the Company also accesses the suppliers' environmental and social compliance and legally required qualifications, such as "Environmental Management System Certificate" and "Occupational Health and Safety Management System Certificate". The supplier database covers excellent suppliers advanced in technology, qualified in all respects, and outstanding in reputation, which meet all procurement requirements and offer equipment and technologies that are advanced, reliable, practical, and cost-efficient. Currently, there are approximately 30 frequently used suppliers in the Company's supplier database.

4.2 Social Contribution

As a socially responsible enterprise, China ITS has fully considered the impact of its operation on the communities where it runs its businesses and has always been committed to paying back to society. We have carried out a variety of CSR activities by taking advantage of our business advantages and offices across China to contribute to job creation and economic development. We have also invested in transportation infrastructure development in cooperation with local governments and institutions along the industrial chain. In severe weather conditions such as typhoons and storms, we continued to work hard to serve the public and protect the security of transportation. For peak seasons such as the Spring Festival and other holidays, some employees of the Company sacrificed quality time with their family to provide support around the clock to safeguard transportation and communication services, which generated great support and respect from various circles of society.

APPENDIX — INDEX OF THE HKEX ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORTING GUIDE

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A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	40	2.1	Use of Resources
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.		N/A	
Aspect A3: The Environment and Natural Resources				
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ESG Reporting Guide		Page No.	Content
Aspect B3: Development and Training			
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B8	General Disclosure	46	4.2 Social Contribution

report of the directors

The Board presents its report together with the audited consolidated results of the Group for the year ended December 31, 2016.

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 railway 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 74 to 76.

RESULTS AND DIVIDEND

The consolidated results of the Group for the year ended December 31, 2016 are set out on pages 67 to 73 of this annual report.

The Board recommended that no dividend will be declared for the year ended December 31, 2016.

BUSINESS REVIEW

The business review of the Group as at December 31, 2016 is set out under the section headed "Management Discussion and Analysis" of this annual report on pages 10 to 17.

PRINCIPAL RISKS AND UNCERTAINTIES

A number of factors may affect the results and business operations of the Group, some of which are inherent to the fashion business and some are from external sources. The Group's major risks are summarized below:

Uncertainty in relation to public spending on transportation infrastructure

The Group's business strategy depends on the PRC government's public spending on transportation infrastructure. Our major customers include PRC public institutions, which are public services institutions set up by the government or other organizations using state-owned assets, and state-owned enterprises. The Group is therefore exposed to changes in public works budgets.

Risk of project delays

The Group faces risks associated with cost overrun for projects. A significant amount of the Group's contracts require it to complete a project for a fixed price within a fixed period of time which exposes the Group to the risk of cost overrun.

Financial risks

The results of the Group are subject to various kinds of financial risks. Please refer to note 43 to the financial statements of the Company for the year ended and as at December 31, 2016 on pages 150 to 153 for the discussion of such risks.

KEY RELATIONSHIPS

Employees

Please refer to the section headed "environmental, social and governance report — 3 EMPLOYEE CARE AND DEVELOPMENT" on page 41 of this annual report for the discussion on the Group's relationships with its employee.

Customers

Due to the nature of the Group's business, one which requires a high level of collaboration with its customers for successful implementation of projects, it is essential for the Group to maintain a close relationship with each of its customers. The Group's customers are primarily owners and/or operators of public transportation. During the year ended December 31, 2016, the Group has maintained good relationship and did not have any material dispute with its customers.

Suppliers

Our suppliers are mainly suppliers of equipment and electronic devices and components. We maintain stable and close relationships with our suppliers, which allows us to obtain the equipment, parts and materials we need for implementation of our clients' projects in a timely and reliable manner. During the year ended December 31, 2016, the Group has maintained good relationship and did not have any material dispute with its suppliers.

ENVIRONMENTAL POLICIES

Please refer to the section headed "environmental, social and governance report — 2 ENERGY EFFICIENCY AND GREEN DEVELOPMENT" on page 40 of this annual report for the environmental policies of the Group.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in the mainland China. Our establishment and operations accordingly shall comply with relevant laws and regulations in the mainland China. During the year ended December 31, 2016 and up to the date of this report, we have complied with all the relevant laws and regulations in the mainland China.

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 pages 116 to 117.

SHARE CAPITAL

Details of the movement in the Company's share capital during the year ended December 31, 2016 are set out in note 32 to the consolidated financial statements on page 133.

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, 2016 are set out in note 33 to the consolidated financial statements on page 133. As at December 31, 2016, the Group's distributable reserve is RMB1,455,929,000.

CHARITABLE DONATIONS

The Company made no charitable donations during the year ended December 31, 2016.

DIRECTORS

The Directors who held office during the year ended December 31, 2016 and up to the date of this annual report are:

	Last Re-election Date
Executive Directors	
Mr. Liao Jie *(Chairman)*	May 23, 2016
Mr. Jiang Hailin *(Chief Executive Officer)*	May 23, 2016
Non-executive Director	
Mr. Tim Tianwei Zhang	May 20, 2014
Independent Non-executive Directors	
Mr. Zhou Chunsheng	May 26, 2015
Mr. Choi Onward *(FCCA, HKICPA)*	May 16, 2014
Mr. Ye Zhou	July 15, 2016

In accordance with Article 84 of the Articles of Association of the Company and the Listing Rules, Mr. Tim Tianwei Zhang and Mr. Choi Onward 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 18 to 22 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, 2016, 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[5]	Approximate percentage of shareholdings as at December 31, 2016[5]
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	711,447,096(L)	43.01%(L)
Mr. Choi Onward[3]	Beneficial owner	98,824(L)	0.01%(L)
Mr. Zhou Chunsheng[4]	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 709,591,248 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. Zhou Chunsheng January 18, 2012 under the Share Option Scheme.

(5) (L) denotes long positions.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as otherwise disclosed in this annual report, at no time during the year ended December 31, 2016, 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, 2016.

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, 2016.

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 are set out in note 8 to the consolidated financial statements on pages 108 to 110.

EMPLOYMENT AND EMOLUMENT POLICIES

As at December 31, 2016, the Group had 431 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.

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, 2016, a total of 18,565,461 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, 2016 is as follows:

Grantee	Grant date	Vesting start date	Expiry date	Outstanding as at January 1, 2016	Exercised during the year ended December 31, 2016	Lapsed or cancelled during the year ended December 31, 2016	Outstanding as at December 31, 2016	Exercise price per share (RMB)
All	31/12/2008	30/06/2011	30/06/2016	6,878,054	–	6,878,054	0	2
	31/12/2008	31/12/2011	31/12/2016	3,031,452	–	3,031,452	0	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:				**28,474,967**	**–**	**9,909,506**	**18,565,461**	

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.

Movement of the options granted under the Share Option Scheme during the year ended December 31, 2016 is as follows:

Grantee	Grant date[1]	Vesting start date	Expiry date	Outstanding as at January 1, 2016	Exercised during the year ended December 31, 2016	Lapsed or cancelled during the year ended December 31, 2016	Outstanding as at December 31, 2016	Exercise price per share (HK$)
Mr. Jiang Hailin	18/01/2012	April 19, 2012	Note (2)	77,203	–	–	77,203	1.05
(Executive Director,	18/01/2012	July 19, 2012	Note (2)	77,203	–	–	77,203	1.05
Chief Executive Officer)	18/01/2012	October 19, 2012	Note (2)	77,203	–	–	77,203	1.05
	18/01/2012	January 19, 2013	Note (2)	77,203	–	–	77,203	1.05
	18/01/2012	April 19, 2013	Note (2)	154,592	–	–	154,592	1.05
	18/01/2012	July 19, 2013	Note (2)	154,592	–	–	154,592	1.05
	18/01/2012	October 19, 2013	Note (2)	154,592	–	–	154,592	1.05
	18/01/2012	January 19, 2014	Note (2)	154,592	–	–	154,592	1.05
	18/01/2012	April 19, 2014	Note (2)	231,981	–	–	231,981	1.05
	18/01/2012	July 19 2014	Note (2)	231,981	–	–	231,981	1.05
	18/01/2012	October 19, 2014	Note (2)	231,981	–	–	231,981	1.05
	18/01/2012	January 19, 2015	Note (2)	232,725	–	–	232,725	1.05
Sub-total				1,855,848	–	–	1,855,848	
Mr. Liao Jie[3]	18/01/2012	April 19, 2012	Note (2)	1,694,612	–	–	1,694,612	1.05
(Executive Director,	18/01/2012	July 19, 2012	Note (2)	1,694,612	–	–	1,694,612	1.05
Chairman)	18/01/2012	October 19, 2012	Note (2)	1,694,612	–	–	1,694,612	1.05
	18/01/2012	January 19, 2013	Note (2)	1,694,612	–	–	1,694,612	1.05
	18/01/2012	April 19, 2013	Note (2)	3,393,298	–	–	3,393,298	1.05
	18/01/2012	July 19, 2013	Note (2)	3,393,298	–	–	3,393,298	1.05
	18/01/2012	October 19, 2013	Note (2)	3,393,298	–	–	3,393,298	1.05
	18/01/2012	January 19, 2014	Note (2)	3,393,298	–	–	3,393,298	1.05
	18/01/2012	April 19, 2014	Note (2)	5,091,984	–	–	5,091,984	1.05
	18/01/2012	July 19, 2014	Note (2)	5,091,984	–	–	5,091,984	1.05
	18/01/2012	October 19, 2014	Note (2)	5,091,984	–	–	5,091,984	1.05
	18/01/2012	January 19, 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	April 19, 2012	Note (2)	8,232	–	–	8,232	1.05
(Independent	18/01/2012	July 19, 2012	Note (2)	8,232	–	–	8,232	1.05
Non-Executive	18/01/2012	October 19, 2012	Note (2)	8,232	–	–	8,232	1.05
Director)	18/01/2012	January 19, 2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	April 19, 2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	July 19, 2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	October 19, 2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	January 19, 2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	April 19, 2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	July 19, 2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	October 19, 2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	January 19, 2015	Note (2)	8,272	–	–	8,272	1.05
Sub-total				98,824	–	–	98,824	

Grantee	Grant date[1]	Vesting start date	Expiry date	Outstanding as at January 1, 2016	Exercised during the year ended December 31, 2016	Lapsed or cancelled during the year ended December 31, 2016	Outstanding as at December 31, 2016	Exercise price per share (HK$)
Mr. Zhou Chunsheng	18/01/2012	April 19, 2012	Note (2)	8,232	–	–	8,232	1.05
(Independent	18/01/2012	July 19, 2012	Note (2)	8,232	–	–	8,232	1.05
Non-Executive	18/01/2012	October 19, 2012	Note (2)	8,232	–	–	8,232	1.05
Director)	18/01/2012	January 19, 2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	April 19, 2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	July 19, 2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	October 19, 2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	January 19, 2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	April 19, 2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	July 19, 2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	October 19, 2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	January 19, 2015	Note (2)	8,272	–	–	8,272	1.05
Sub-total				98,824	–	–	98,824	
Others	18/01/2012	April 19, 2012	Note (2)	6,404,434	–	–	6,404,434	1.05
	18/01/2012	July 19, 2012	Note (2)	6,404,434	–	–	6,404,434	1.05
	18/01/2012	October 19, 2012	Note (2)	6,404,434	–	–	6,404,434	1.05
	18/01/2012	January 19, 2013	Note (2)	6,404,434	–	–	6,404,434	1.05
	18/01/2012	April 19, 2013	Note (2)	9,347,146	–	–	9,347,146	1.05
	18/01/2012	July 19, 2013	Note (2)	9,347,146	–	–	9,347,146	1.05
	18/01/2012	October 19, 2013	Note (2)	9,347,146	–	–	9,347,146	1.05
	18/01/2012	January 19, 2014	Note (2)	9,347,146	–	–	9,347,146	1.05
	18/01/2012	April 19, 2014	Note (2)	12,289,858	–	–	12,289,858	1.05
	18/01/2012	July 19, 2014	Note (2)	12,289,858	–	–	12,289,858	1.05
	18/01/2012	October 19, 2014	Note (2)	12,289,858	–	–	12,289,858	1.05
	18/01/2012	January 19, 2015	Note (2)	12,334,736	–	–	12,334,736	1.05
Sub-total				112,210,630	–	–	112,210,630	
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, 2016, 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	709,591,248	42.90%
Best Partners[2]	Interest of controlled corporation	Long position	709,591,248	42.90%
Fino Investment Limited[3]	Interest of controlled corporation	Long position	709,591,248	42.90%
Tesco Investments Limited[4]	Interest of controlled corporation	Long position	709,591,248	42.90%
Credit Suisse Trust Limited[3][4][5]	Trustee	Long Position	630,313,161	38.11%
Pioneer Investments Management Limited	Investment manager	Long Position	216,544,000	13.09%
Pioneer Asset Management S.A.	Investment manager	Long position	150,450,000	9.09%
Ampio International Limited[5]	Interest of controlled corporation	Long position	131,730,061	7.96%
Penbay Investments Limited[6]	Beneficial owner	Long position	98,613,367	5.96%
Chen Qi[6]	Interest of controlled corporation	Long position	98,613,367	5.96%

Notes:

(1) 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 Investments Limited, Joy Bright Success Limited, Gouver Investments Limited, Kang Yang Holdings Limited, Huaxin Investments Limited, Rockyjing Investment Limited, Key Trade Holdings Limited, Speedy Fast Investments Limited, Best Partners Development Limited, Joyful Business Holdings Limited, 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, 2016, Holdco is entitled to exercise or control the exercise of the voting rights of a total of 709,591,248 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 91.2015% by Fino Investments Limited and as to 8.7985% 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. Our Director Mr. Liao Jie is director 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 and Mr. Yuan Chuang. 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

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, 2016.

EVENTS AFTER THE REPORTING PERIOD

Acquisition of Chengdu Zhongzhi Runbang Transportation Technology Co., Ltd.

On March 24, 2017, Jiangsu Zhongzhi Transportation Technology Co., Ltd.* (江蘇中智交通科技有限公司) ("**Jiangsu Zhongzhi Transportation**") and Beijing Zhixun Tiancheng Technology Co., Ltd.* (北京智訊天成技術有限公司) ("**Zhixun Tiancheng**"), both of which are indirectly wholly-owned subsidiaries of the Company, entered into an equity transfer agreement with Guangwei Xingye, Chengdu Zhongzhi Runbang Transportation Technology Co., Ltd.* (成都中智潤邦交通技術有限公司) ("**Chengdu Zhongzhi Runbang**") and the owners of Guagngwei Xingye, pursuant to which Jiangsu Zhongzhi Transportation has conditionally agreed to acquire and Guagngwei Xingye conditionally agreed to transfer 100% equity interest in Chengdu Zhongzhi Runbang, a wholly-owned subsidiary of the Guagngwei Xingye, to Zhixun Tiancheng with effect from the Equity Interest Date for a consideration of RMB92,000,000, and Jiangsu Zhongzhi Transportation agreed to waive the outstanding accrued interest in the amount of RMB4,000,000 under certain convertible loan agreement between Jiangsu Zhongzhi Transportation and Guagngwei Xingye, subject to compliance by Guagngwei Xingye, Chengdu Zhongzhi Runbang and the owners of Guagngwei Xingye of the equity transfer agreement. As one of the applicable percentage ratios is more than 5% but all of the applicable percentage ratios are less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. Upon completion of the acquisition, Chengdu Zhongzhi Runbang will become an indirect wholly-owned subsidiary of the Company and its financial statements will be consolidated to those of the Group. Please refer to the announcement of the Company dated March 24, 2017 for further details.

MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES

Very Substantial Disposal

As disclosed in the announcement of the Company dated February 17, 2016 and the circular of the Company dated March 24, 2016, the Company and King Victory Holdings Limited ("**Purchaser**") entered into the master sale and purchase agreement (the "**Master SPA**"), 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., Beijing RHY Technology Development Co., Ltd. and certain amounts receivable by the Company from China Traffic Holding Limited and China Toprise Limited for a total consideration of RMB979,840,000 (subject to adjustment) (the "**Disposal**"). In addition, pursuant to the Master SPA, Zhongzhi Runbang Technology Co., Ltd. and Beijing Wuzhouzhitong Traffic Technology Co., Ltd. entered into the PRC Sale and Purchase Agreement ("**PRC SPA**") on December 17, 2016. The Disposal and certain other matters in connection to it have been approved by the independent shareholders of the Company at extraordinary general meeting held on April 27, 2016. All the conditions of the offshore closing as stipulated in the Master SPA have been fulfilled and the offshore closing was completed in December 2016. All the conditions of the onshore closing as stipulated in the PRC SPA had also been fulfilled on December 31, 2016 and the onshore closing is pending completion of registration with the authority of the PRC.

Acquisition of Civil Aviation (Beijing) Wireless Data Co., Ltd.

On October 22, 2016, Intelligent Aviation System Co., Ltd.* (智能航空系統有限公司) ("**purchaser**"), which is an indirectly wholly-owned subsidiary of the Company, entered into the share transfer agreement with Beijing Minhang Zhongtian Science and Technology Ltd. (北京民航中天科技有限責任公司) ("**Seller**"), pursuant to which the Purchaser agreed to acquire from the Seller of 80% of the entire issued share capital of Civil Aviation (Beijing) Wireless Data Co., Ltd. (民航電信為邦（北京）無線數據有限公司) at a consideration of RMB4,000,000 (the "**Acquisition**"). Since each of the relevant percentage ratios in respect of the transaction is less than 5% and the transaction did not involve any securities for which listing would be sought, the transaction did not constitute a notifiable transactions under Chapter 14 of the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2016, the aggregate sales to the Group's five largest customers, in aggregate represented approximately 16.7% of the Group's total revenue and sales to the Group's largest customer amounted to approximately 4.8% of the Group's total revenue.

For the year ended December 31, 2016, the aggregate purchases attributable to the Group's five largest suppliers, in aggregate represented approximately 56.5% of the Group's total purchases and purchases attributable to the Group's largest supplier amounted to approximately 20.5% of the Group's total purchases.

For the year ended December 31, 2016, 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, 2016 are set out in note 30 to the consolidated financial statements on page 130.

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, 2016, 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, 2016.

RELATED PARTIES TRANSACTIONS

The Group was involved in a number of related party transactions during the year ended December 31, 2016, which have been disclosed in note 40 to the consolidated financial statements on pages 142 to 145.

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, 2016 or any time during the year ended December 31, 2016.

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, 2016 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, 2016.

Detailed information on the corporate governance practice adopted by the Company is set out in the Corporate Governance Report on pages 23 to 32.

AUDIT COMMITTEE

The Group's annual report for the year ended December 31, 2016 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 26 to 27.

AUDITOR

The consolidated financial statements of the Group for the year ended December 31, 2016 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 27, 2017

independent auditors' report

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

OPINION

We have audited the consolidated financial statements of China ITS (Holdings) Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 67 to 155, which comprise the consolidated statement of financial position as at December 31, 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition on construction contracts The Company derives a significant portion of its revenues from construction contracts that are accounted for by applying the percentage-of-completion ("POC") method, which accounted for approximately 87% (2015: 92%) of the Group's consolidated revenue for the year ended December 31, 2016. The POC method involves the use of significant judgement and estimates by the management including estimates of the progress towards completion, total contract cost, remaining costs to completion, total contract revenues and contract risks. In addition, revenue, cost and gross profit realised on such contracts may vary significantly from the Group's original estimates due to changes in conditions. As a result, we identified revenue recognition on construction contracts as key audit matter requiring special audit consideration. The accounting policies and disclosures for the revenue recognition on construction contracts are included in notes 2.4, 3, 5 and 23 to the consolidated financial statements.	Our audit procedures included, among others, for new contracts, comparing the available public bidding information with the information we obtained from the Group to ascertain the substance of the contracts; obtaining the revenue recognition calculation worksheets to understand how the budgeted costs were estimated by the Group; obtaining the purchase contracts, invoices, goods delivery notes and examination and acceptance reports to ascertain the status of projects; comparing the gross profit in current year to prior year for existing contracts and making enquiry with management on significant fluctuations; obtaining the calculation of the provision for potential losses for the loss contracts and evaluating the management's assessment of the provision by reviewing the contract and budget cost of the project and making enquiries with management on the rationale behind the losses.
Impairment of goodwill Under IFRSs, the Group is required to perform an impairment assessment of goodwill at least annually. The annual impairment assessment was significant to our audit because the balance of RMB230,664,000 as of December 31, 2016 is material to the financial statements. In addition, management's assessment process is complex and highly judgemental and is based on assumptions, such as budgeted gross margin, growth rates and discount rate. Given the sensitivity of the assumptions and the level of judgement involved, we considered this as key audit matter. The accounting policies and disclosures for the impairment of goodwill are included in notes 2.4, 3 and 16 to the consolidated financial statements.	Our audit procedures included, among others, involving an internal valuation specialist to assist us in evaluating the assumptions and methodologies used by the Group, and a comparison of the key assumptions used in the impairment assessment to the historical data of the Company and the external data in the similar industry. We also focused on the adequacy of the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of goodwill.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of loans to other companies As at December 31, 2016, the carrying amount of loans to other companies amounted to RMB67,501,000, which will be due within one year. In view of the significance of the amount and the level of judgement exercised by the management in assessing the recoverability, we considered this as key audit matter. The Company's disclosures about loans to other companies are included in notes 3 and 25 to the consolidated financial statements.	Our audit procedures included, among others, obtaining the loan contracts and approval documentation from the management; ascertaining the financial position of the borrowers by performing company search on them, obtaining confirmations from the borrowers on the outstanding balances and checking subsequent settlement of the loans after the balance sheet date. We also evaluated the management's assessment of the recoverability of the loans, with reference to information, such as the available financial information of the companies and their previous borrowings and settlement history.
Disposal of subsidiaries As at December 31, 2016, the Company completed the disposal of its entire interests in Hugecom Limited, China Traffic Holding Limited, China Expressway Intelligent Transportation Technology Group Ltd., and Beijing RHY Technology Development Co., Ltd. at an offshore consideration of RMB455,972,000 and an onshore consideration of RMB208,573,000. We considered the accounting treatment in the consolidated financial statements of this transaction as key audit matter because the disposal involved pre-disposal restructuring, complex consolidation process, tax consideration and significant transaction amount. The Company's disclosures about the disposal of subsidiaries are included in note 35 to the consolidated financial statements.	Our audit procedures included, among others, obtaining the master sale and purchase agreement and approval documentation from the management; verifying the disposal date determined by the management; testing the loss on disposal by reconciling the consideration to the master sale and purchase agreement and bank accounts and by verifying the net assets disposed of to the underlying accounting records.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Melody Lam Siu Wah.

Ernst & Young
Certified Public Accountants
Hong Kong
March 27, 2017

consolidated statement of profit or loss

Year ended December 31, 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5	**2,525,843**	2,317,541
Cost of sales		**(2,061,530)**	(1,924,478)
Gross profit		**464,313**	393,063
Other income and gains	5	**37,067**	26,862
Selling, general and administrative expenses		**(311,209)**	(412,525)
Other expenses		**(7,301)**	(204,390)
OPERATING PROFIT/(LOSS)		**182,870**	(196,990)
Finance income		**15,879**	10,664
Finance costs	7	**(58,590)**	(85,600)
Share of profits/(losses) of:			
Joint ventures		**941**	(280)
Associates		**6,862**	5,963
Loss on disposal of joint ventures		**–**	(4,045)
(Loss)/gain on disposal of subsidiaries	35	**(11,578)**	126
PROFIT/(LOSS) BEFORE TAX	6	**136,384**	(270,162)
Income tax expense	10	**(81,550)**	(33,608)
PROFIT/(LOSS) FOR THE YEAR		**54,834**	(303,770)
Attributable to:			
Owners of the parent		**75,506**	(278,476)
Non-controlling interests		**(20,672)**	(25,294)
		54,834	(303,770)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
		RMB	RMB
Basic			
— For profit/(loss) for the year	12	**0.05**	(0.17)
Diluted			
— For profit/(loss) for the year	12	**0.05**	(0.17)

consolidated statement of comprehensive income

Year ended December 31, 2016

	2016 RMB'000	2015 RMB'000
PROFIT/(LOSS) FOR THE YEAR	**54,834**	(303,770)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**(25,570)**	(12,707)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(25,570)**	(12,707)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**29,264**	(316,477)
Attributable to:		
Owners of the parent	**49,936**	(291,183)
Non-controlling interests	**(20,672)**	(25,294)
	29,264	(316,477)

consolidated statement of financial position

December 31, 2016

	Notes	December 31, 2016 RMB'000	December 31, 2015 RMB'000
NON-CURRENT ASSETS			
Property and equipment	13	**300,388**	293,073
Investment properties	14	**61,800**	125,800
Prepaid land premium	15	**–**	13,171
Goodwill	16	**230,664**	230,664
Other intangible assets	17	**9,128**	–
Investments in joint ventures	18	**16,103**	35,920
Investments in associates	19	**3,623**	78,212
Available-for-sale investment	20	**25,307**	25,307
Deferred tax assets	31	**17,366**	2,376
Prepayment for acquisition of equity interests in a company	21	**92,000**	–
Convertible borrowings	27	**–**	82,300
Total non-current assets		**756,379**	886,823
CURRENT ASSETS			
Inventories	22	**86,077**	31,867
Construction contracts	23	**586,356**	1,494,229
Trade and bills receivables	24	**1,274,760**	1,703,204
Prepayments, deposits and other receivables	25	**743,837**	1,186,713
Amounts due from related parties	40	**1,083,363**	113,377
Pledged deposits	26	**211,396**	232,673
Cash and cash equivalents	26	**604,843**	736,107
Total current assets		**4,590,632**	5,498,170
CURRENT LIABILITIES			
Trade and bills payables	28	**740,579**	1,292,190
Other payables and accruals	29	**197,149**	395,010
Construction contracts	23	**889,468**	1,248,356
Interest-bearing bank borrowings	30	**938,863**	904,701
Amounts due to related parties	40	**246,489**	92,302
Income tax payable		**79,397**	24,714
Total current liabilities		**3,091,945**	3,957,273
NET CURRENT ASSETS		**1,498,687**	1,540,897
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,255,066**	2,427,720

consolidated statement of financial position

December 31, 2016

	Notes	December 31, 2016 RMB'000	December 31, 2015 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,255,066**	2,427,720
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	30	**81,200**	281,200
Deferred tax liabilities	31	**9,108**	20,380
Total non-current liabilities		**90,308**	301,580
Net assets		**2,164,758**	2,126,140
EQUITY			
Equity attributable to owners of the parent			
Share capital	32	**290**	290
Other reserves	33	**2,164,497**	2,136,854
		2,164,787	2,137,144
Non-controlling interests		**(29)**	(11,004)
Total equity		**2,164,758**	2,126,140

Liao Jie
Director

Jiang Hailin
Director

consolidated statement of changes in equity

Year ended December 31, 2016

		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 32	note 32	note 33	note 33							
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 related to 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	34	–	–	–	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
At January 1, 2016		**290**	**1,088,725**	**144,804**	**630,851**	**–**	**7,782**	**(37,689)**	**302,381**	**2,137,144**	**(11,004)**	**2,126,140**
Profit/(loss) for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**75,506**	**75,506**	**(20,672)**	**54,834**
Other comprehensive income for the year:												
Exchange differences related to foreign operations		**–**	**–**	**–**	**–**	**–**	**–**	**(25,570)**	**–**	**(25,570)**	**–**	**(25,570)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**–**	**(25,570)**	**75,506**	**49,936**	**(20,672)**	**29,264**
Disposal of subsidiaries	35	**–**	**–**	**–**	**–**	**–**	**–**	**(22,293)**	**–**	**(22,293)**	**30,647**	**8,354**
Transfer from retained earnings		**–**	**–**	**10,683**	**–**	**–**	**–**	**–**	**(10,683)**	**–**	**–**	**–**
Acquisition of a subsidiary		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,000**	**1,000**
At December 31, 2016		**290**	**1,088,725****	**155,487****	**630,851****	**–**	**7,782***	**(85,552)****	**367,204****	**2,164,787**	**(29)**	**2,164,758**

* The asset revaluation reserve arose from a change in use from an owner-occupied property to an investment property carried at fair value before January 1, 2015.

** These reserve accounts comprise the consolidated other reserves of RMB2,164,497,000 (2015: RMB2,136,854,000) in the consolidated statement of financial position.

consolidated statement of cash flows

Year ended December 31, 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**136,384**	(270,162)
Adjustments for:			
Depreciation	6	**12,266**	13,769
Amortisation	6	**300**	10,043
Net loss on disposal of items of property and equipment	6	**–**	15
Loss/(gain) on disposal of subsidiaries	6	**11,578**	(126)
Loss on disposal of joint ventures	6	**–**	4,045
Equity-settled share option expense	6	**–**	113
Impairment of amounts due from construction contracts	6	**–**	22,466
Impairment of trade receivables	6	**3,096**	27,760
Impairment of other receivables	6	**3,162**	11,981
Impairment of an amount due from a related party	6	**–**	1,514
Impairment of property and equipment	6	**–**	3,389
Impairment of deferred cost	6	**–**	2,023
Impairment of goodwill	6	**–**	123,118
Impairment of investments in associates	6	**–**	44,202
Impairment of other intangible assets	6	**–**	32,441
Impairment of advances to suppliers	6	**–**	6,000
Share of (profits)/losses of joint ventures		**(941)**	280
Share of profits of associates		**(6,862)**	(5,963)
Fair value gain on investment properties	5	**(14,600)**	(6,800)
Fair value loss on convertible borrowings	6	**–**	90
Finance income		**(15,879)**	(10,664)
Finance costs	7	**58,590**	85,600
		187,094	95,134
Changes in assets and liabilities:			
Increase in inventories		**(54,357)**	(11,146)
Decrease in construction contracts		**24,258**	128,594
Increase in trade and bills receivables		**(118,987)**	(321,926)
Decrease in prepayments, deposits and other receivables		**22,570**	144,231
(Increase)/decrease in amounts due from/to related parties		**(321,627)**	4,217
Decrease in deferred cost		**–**	744
Decrease/(increase) in pledged deposits		**10,447**	(148,457)
Increase in trade and bills payables		**160,594**	115,621
(Decrease)/increase in other payables and accruals		**(22,530)**	124,435
Cash (used in)/generated from operations		**(112,538)**	131,447
Interest received		**6,410**	2,664
Interest paid		**(57,548)**	(82,747)
Income tax paid		**(32,032)**	(30,226)
Net cash flows (used in)/from operating activities		**(195,708)**	21,138

consolidated statement of cash flows

Year ended December 31, 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**–**	21,520
Proceeds from disposal of items of property and equipment		**4**	1,153
Purchases of items of property and equipment		**(24,043)**	(243,503)
Additions to other intangible assets		**(10,497)**	–
Proceeds from disposal of a held-to-maturity investment		**–**	67,530
Dividend received from investments		**5,270**	5,034
Disposal of subsidiaries	35	**(87,662)**	(423)
Acquisition of an available-for-sale investment		**(3,000)**	–
Net cash flows used in investing activities		**(119,928)**	(148,689)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from interest-bearing bank borrowings		**1,155,343**	1,373,206
Repayment of interest-bearing bank borrowings		**(927,681)**	(829,968)
Increase in pledged deposits for bank loans		**(17,350)**	–
Repurchase of guaranteed bonds		**–**	(109,000)
Redemption of convertible bonds		**–**	(157,720)
Net cash flows from financing activities		**210,312**	276,518
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(105,324)**	148,967
Effect of foreign exchange rate changes, net		**(25,940)**	(13,159)
Cash and cash equivalents at beginning of year		**736,107**	600,299
CASH AND CASH EQUIVALENTS AT END OF YEAR	26	**604,843**	736,107

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		Principal activities
			Direct	Indirect	
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
Fairstar Success Holdings Limited	British Virgin Islands June 13, 2006	US$50,001	100	–	Investment holding
China ITS (Holdings) Co., Ltd. (BVI)	British Virgin Islands July 1, 2010	US$1	100	–	Investment holding
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

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 Aproud Technology Co., Ltd. ("Aproud Technology")	PRC/Mainland China February 15, 2001	RMB280 million	–	100	Communications, 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 Zhixun Tiancheng Technology Co., Ltd. ("Zhixun Tiancheng")	PRC/Mainland China June 25, 2007	RMB250 million	–	100	Communications specialised solutions
Jiangsu Zhixun Tiancheng Technology Co., Ltd.	PRC/Mainland China November 19, 2009	RMB10 million	–	100	Communications specialised solutions
Jiangsu Zhongzhi Transportation Technology Co., Ltd. ("Jiangsu Zhongzhi Transportation")	PRC/Mainland China December 15, 2011	US$30 million	–	100	Intelligent transportation system service
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
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
Civil Aviation (Beijing) Wireless Data Co., Ltd.	PRC/Mainland China November 16, 2007	RMB5 million	–	80	Civil aviation turkey solutions

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		Principal activities
			Direct	Indirect	
Jiangsu Zhongzhi Ruixin IOT Technology Co., Ltd.	PRC/Mainland China November 19, 2013	RMB10 million	–	100	Internet information technology, real estate development, and sale of electronics
Star Power Development Limited	British Virgin Islands November 22, 2012	US$1	100	–	Investment holding
Zhihang Tuoyu Information System (Beijing) Co., Ltd.	PRC/Mainland China April 12, 2013	RMB2 million	–	100	Technology specialized 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	RMB196 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.

Aproud Technology and Haotian Jiajie are registered as Sino-foreign equity joint ventures. Jiangsu Zhongzhi Transportation, 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, 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, 2016. 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.

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 new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements 2012–2014 Cycle	Amendments to a number of IFRSs

The nature and the impact of the amendments are described below:

(a) 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 amendments have had no significant impact on the Group's financial statements.

(b) 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 applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) Annual Improvements to IFRSs 2012–2014 Cycle issued in September 2014 sets out amendments to a number of IFRSs. Details of the amendments are as follows:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in IFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

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.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
IFRS 9	*Financial Instruments*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

[1] Effective for annual periods beginning on or after January 1, 2017
[2] Effective for annual periods beginning on or after January 1, 2018
[3] Effective for annual periods beginning on or after January 1, 2019
[4] No mandatory effective date yet determined but available for adoption

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

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

The IASB issued amendments to IFRS 2 in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from January 1, 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

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 1 January 2018. The Group is currently assessing the impact of the standard.

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. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

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 expect 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 April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt IFRS 15 on January 1, 2018. During the year ended December 31, 2016, the Group performed a preliminary assessment on the impact of the adoption of IFRS 15.

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

The Group's principal activities consist of specialised solution business and value-added operation and services. The expected impacts arising from the adoption of IFRS 15 on the Group are mainly related to warranties that the Group grants to its customers as part of a sales transaction. Currently, the Group accounts for warranties as a separately identifiable component of the sales transaction in which they are granted. The fair value of the consideration received or receivable in respect of the sales transaction is allocated between the warranties and the other components of the sale. The amount allocated to the warranties is determined by reference to their fair value, irrespective of the fair values of the other components. Under IFRS 15, the accounting for the warranties is largely consistent with the Group's current practice. However, the Group is required to allocate transaction price to warranties based on relative stand-alone selling price basis.

IFRS 16 replaces IAS 17 Leases, IFRIC-4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases — Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt IFRS 16 on January 1, 2019 and is currently assessing the impact of IFRS 16 upon adoption.

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from January 1, 2017.

Amendments to IAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from January 1, 2017.

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.

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*.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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:

Building	49.2 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underling products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

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

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Available-for-sale financial investments (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

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

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

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 34 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.

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.

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.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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, 2016 was nil (2015: RMB123,118,000). 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, 2016 was RMB61,800,000 (2015: RMB125,800,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 14 to the financial statements.

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, 2016 was nil (2015: RMB3,389,000), nil (2015: RMB32,441,000) and nil (2015: RMB44,202,000), respectively.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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 losses recognised for the year ended December 31, 2016 for amounts due from construction contracts, trade receivables, other receivables and an amount due from a related party were nil (2015: RMB22,466,000), RMB3,096,000 (2015: RMB27,760,000), RMB3,162,000 (2015: RMB11,981,000), and nil (2015: RMB1,514,000), 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.

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, 2016 was approximately RMB17,366,000 (2015: RMB2,376,000).

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, civil aviation 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 resource 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/losses of joint ventures and associates, gain/loss on disposal of subsidiaries, exchange gain/loss, 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, 2016	Expressway RMB'000	Railway RMB'000	Urban traffic RMB'000	Others RMB'000	Total RMB'000
Segment revenue					
Sales to external customers	756,747	1,603,016	166,080	–	2,525,843
Intersegment sales	–	–	–	–	–
	756,747	1,603,016	166,080	–	2,525,843
Reconciliation:					
Elimination of intersegment sales					–
Revenue					2,525,843
Segment results	107,080	179,319	(52,708)	–	233,691
Reconciliation:					
Finance income					15,879
Finance costs					(58,590)
Exchange losses					(968)
Changes in fair value of investment properties					14,600
Corporate and other unallocated expenses					(68,228)
Profit before tax					136,384
December 31, 2016					
Other segment information:					
Share of profits of joint ventures	(941)	–	–	–	(941)
Share of profits of associates	(3,309)	(37)	(3,516)	–	(6,862)
Loss on disposal of a subsidiary	6	–	–	–	6
Impairment losses recognised in the statement of profit or loss	3,565	20	18	–	3,603
Other non-cash expenses	–	–	–	–	–
Depreciation and amortisation	2,398	1,435	3,280	–	7,113
Capital expenditure*	362	12,057	23,005	–	35,424

* Capital expenditure consists of additions to property and equipment and intangible assets.

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:					
Share of (profits)/losses of joint ventures	(9)	–	289	–	280
Share of profits of associates	(378)	(2,128)	(3,457)	–	(5,963)
Loss on disposal of a subsidiary	–	–	1	–	1
Loss/(gain) on disposal of joint ventures	4,069	–	(24)	–	4,045
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 and intangible assets.

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:

	2016 RMB'000	2015 RMB'000
Revenue		
Implementation of projects	**2,185,180**	2,125,859
Sale of products	**259,509**	130,415
Rendering of services	**81,154**	61,267
	2,525,843	2,317,541
Other income		
Gross rental income	**11,375**	11,439
Government grants*	**11,085**	7,708
Others	**7**	915
	22,467	20,062
Gains		
Changes in fair value of investment properties	**14,600**	6,800
	37,067	26,862

* 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. PROFIT/(LOSS) BEFORE TAX

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

	2016 RMB'000	2015 RMB'000
Cost of services rendered for the implementation of projects	**1,789,644**	1,774,474
Cost of inventories sold	**222,880**	114,678
Cost of services provided	**49,006**	35,326
	2,061,530	1,924,478
Depreciation (note 13)	**12,266**	13,769
Amortisation of intangible assets* (note 17)	**–**	9,743
Amortisation of prepaid land premium (note 15)	**300**	300
Minimum lease payments under operating leases	**11,562**	34,713
Auditors' remuneration	**4,347**	6,651
Wages and salaries	**82,787**	82,955
Pension scheme contributions (defined contribution scheme)	**9,200**	8,808
Social insurance costs and staff welfare	**20,335**	19,709
Equity-settled share option expense (note 34)	**–**	113
	112,322	111,585
Impairment of amounts due from construction contracts (note 23)	**–**	22,466
Impairment of trade receivables (note 24)	**3,096**	27,760
Impairment of other receivables (note 25)	**3,162**	11,981
Impairment of an amount due from a related party	**–**	1,514
Impairment of property and equipment (note 13)	**–**	3,389
Impairment of goodwill (note 16)**	**–**	123,118
Impairment of investments in associates**	**–**	44,202
Impairment of other intangible assets (note 17)**	**–**	32,441
Impairment of deferred cost	**–**	2,023
Impairment of advance to suppliers	**–**	6,000
Changes in fair value of investment properties (note 14)	**(14,600)**	(6,800)
Changes in fair value of convertible borrowings	**–**	90
Rental income on investment properties	**(10,277)**	(8,754)
Net loss on disposal of items of property and equipment	**–**	15
Loss on disposal of joint ventures	**–**	4,045
Loss/(gain) on disposal of subsidiaries (note 35)	**11,578**	(126)
Exchange losses	**968**	687

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2016 RMB'000	2015 RMB'000
Interest on bank loans, overdrafts and other loans (including convertible bonds and guaranteed bonds)	**53,849**	80,800
Total interest expense on financial liabilities not at fair value through profit or loss	**53,849**	80,800
Other finance costs:		
Increase in discounted amounts of other payables and accruals arising from the passage of time	**4,741**	4,800
	58,590	85,600

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:

	2016 RMB'000	2015 RMB'000
Fees	**1,337**	1,372
Other emoluments:		
Salaries, allowances and benefits in kind	**2,074**	1,017
Equity-settled share option expense	**–**	57
Pension scheme contributions	**47**	50
	2,121	1,124
	3,458	2,496

8. DIRECTORS' REMUNERATION (continued)

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 (2015: nil).

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 34 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:

	2016 RMB'000	2015 RMB'000
Mr. Zhou Chunsheng	**191**	179
Mr. Choi Onward	**191**	179
Mr. Sun Lu	**–**	90
Mr. Ye Zhou	**88**	–
	470	448
Other emoluments:		
Equity-settled share option expense	**–**	–
	470	448

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 34 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 non-executive directors

2016	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	**867**	**522**	**–**	**47**	**1,436**
Mr. Liao Jie	**–**	**1,552**	**–**	**–**	**1,552**
	867	**2,074**	**–**	**47**	**2,988**

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 April 29, 2016, Mr. Sun Lu resigned as a non-executive director of the Company. To fill the vacancy of the board, Mr. Ye Zhou was appointed as an independent non-executive director with effect from July 15, 2016.

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

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2015: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2015: three) non-director highest paid employees are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	**1,679**	2,145
Equity-settled share option expense	**–**	8
	1,679	2,153

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

	Number of employees	
	2016	2015
Nil to HK$500,000 (nil to RMB433,000)	**1**	–
HK$500,001 to HK$1,000,000 (RMB433,001 to RMB866,000)	**2**	2
HK$1,000,001 to HK$1,500,000 (RMB866,001 to RMB1,300,000)	**–**	–
HK$1,500,001 to HK$2,000,000 (RMB1,300,001 to RMB1,740,000)	**–**	1
	3	3

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 34. 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% (2015: 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 2016 are as follows:

(i) Beijing Stone Intelligent Transportation System Integration Co., Ltd., Beijing RHY Technology Development Co., Ltd., Zhixun Tiancheng, Intelligent Aviation System, Beijing Aproud Transportation Technology Co., Ltd. and Aproud Technology were designated and approved as High and New Technology Enterprises ("HNTEs") in October 2014 for a period of three years from 2014 and were entitled to a preferential tax rate of 15% for 2016.

(ii) 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 2016.

(iii) 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, 2016, 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 (2015: 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 RMB890,448,000 (2015: RMB994,968,000).

The major components of income tax expense are as follows:

	2016 RMB'000	2015 RMB'000
Current income tax:		
Current income tax charge in Mainland China	**83,214**	41,809
Deferred income tax:		
Relating to origination and reversal of temporary differences	**(1,664)**	(8,201)
Income tax expense reported in the consolidated statement of profit or loss	**81,550**	33,608

10. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit/(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:

	Hong Kong		Cayman Islands and British Virgin Islands		Mainland China		Total	
2016	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	(565)		(109,807)		246,756		136,384	
Tax at statutory tax rate	(93)	16.5	–	–	61,689	25.0	61,596	45.2
Tax holiday or lower tax rates enacted by local authorities	–	–	–	–	(28,328)	(11.5)	(28,328)	(20.8)
Effect of withholding tax at 10% on the gain on disposal of the Group's PRC subsidiaries	–	–	25,072	(22.8)	–	–	25,072	18.4
Expenses not deductible for tax	–	–	–	–	10,493	4.3	10,493	7.7
Income not subject to tax	–	–	–	–	–	–	–	–
Effect of tax rate change	–	–	–	–	(559)	(0.2)	(559)	(0.4)
Adjustments in respect of current income tax of previous periods	–	–	–	–	1,232	0.5	1,232	0.9
Profit attributable to joint ventures and associates*	–	–	–	–	(2,039)	(0.8)	(2,039)	(1.5)
Tax losses not recognised	93	(16.5)	–	–	13,990	5.6	14,083	10.3
Tax charge at the Group's effective rate	–	–	25,072	(22.8)	56,478	22.9	81,550	59.8

10. INCOME TAX (continued)

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)

* The share of tax attributable to joint ventures and associates amounting to RMB2,039,000 (2015: RMB726,000) is included in "Share of profits/(losses) 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 years ended December 31, 2016 and December 31, 2015.

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Basic earnings/(loss) per share amount is calculated by dividing the profit/(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/(loss) per share amount is based on the profit/(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/(loss) 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 earnings/(loss) per share amounts presented for the years ended December 31, 2016 and December 31, 2015 in respect of a dilution as the impact of the share option scheme outstanding has an anti-dilutive effect on the basic earnings/(loss) per share amounts presented.

The calculations of basic and diluted earnings/(loss) per share are based on:

	2016 RMB'000	2015 RMB'000
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings/(loss) per share calculation	**75,506**	(278,476)

	Number of shares 2016	 2015
Shares		
Weighted average number of shares in issue during the year used in the basic earnings/(loss) per share calculation	**1,654,024,868**	1,654,024,868

13. PROPERTY AND EQUIPMENT

	Building 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, 2016								
At January 1, 2016								
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
At January 1, 2016, net of accumulated depreciation and impairment	226,349	17,995	487	7,176	1,191	1,589	38,286	293,073
Additions	–	1,295	176	–	324	313	21,935	24,043
Disposals	–	(4)	–	–	–	–	–	(4)
Disposal of subsidiaries (note 35)	(81)	(629)	(258)	(3,103)	(300)	(87)	–	(4,458)
Depreciation provided during the year	(4,459)	(4,047)	(255)	(1,902)	(773)	(830)	–	(12,266)
At December 31, 2016, net of accumulated depreciation	221,809	14,610	150	2,171	442	985	60,221	300,388
At December 31, 2016								
Cost	227,000	26,063	1,369	10,041	846	3,899	60,221	329,439
Accumulated depreciation	(5,191)	(11,453)	(1,219)	(7,870)	(404)	(2,914)	–	(29,051)
Net carrying amount	221,809	14,610	150	2,171	442	985	60,221	300,388

* The impairment of RMB3,389,000 as at December 31, 2015 was written off due to the disposal of subsidiaries for the year ended December 31, 2016.

13. PROPERTY AND EQUIPMENT (continued)

	Building 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 carrying value of the building shown above that is situated on long-term leasehold land in the PRC is as follows:

	2016 RMB'000	2015 RMB'000
Lease term less than 50 years	**221,809**	226,349

14. INVESTMENT PROPERTIES

	2016 RMB'000	2015 RMB'000
Carrying amount at January 1	**125,800**	119,000
Net gain from fair value adjustment	**14,600**	6,800
Disposal of subsidiaries (note 35)	**(78,600)**	–
Carrying amount at December 31	**61,800**	125,800

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, 2016, an independent firm of professional valuers, at RMB61,800,000. 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, 2016, the Group's investment properties with a carrying value of RMB61,800,000 (2015: RMB125,800,000), was pledged to secure bank loans granted to the Group at December 31, 2016 (note 30).

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, 2016 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	–	–	61,800	61,800

14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

	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

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 (2015: nil).

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

Commercial properties	**2016 RMB'000**	2015 RMB'000
Carrying amount at January 1	**125,800**	119,000
Net gain from fair value adjustment	**14,600**	6,800
Disposal of subsidiaries (note 35)	**(78,600)**	–
Carrying amount at December 31	**61,800**	125,800

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

	Valuation technique	**Significant unobservable inputs**	**Range (weighted average) 2016**	2015
Commercial properties	Income approach	Estimated rental value (per sq.m. and per month)	**246**	172–207
		Capitalisation rate	**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:

	2016 RMB'000	2015 RMB'000
Carrying amount at January 1	**13,171**	13,471
Recognised during the year	**(300)**	(300)
Transfer to inventories	**(12,871)**	–
Carrying amount at December 31	**–**	13,171

16. GOODWILL

	2016 RMB'000	2015 RMB'000
At January 1	**230,664**	353,782
Impairment provided during the year	**–**	(123,118)
Net carrying amount at December 31	**230,664**	230,664

Impairment testing of goodwill

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

- Aproud Technology and its subsidiaries (collectively "Aproud subgroup"), which principally engages in communications specialised solutions in railway business.

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

	2016 RMB'000	2015 RMB'000
Aproud subgroup	**230,664**	230,664

16. GOODWILL (continued)

Impairment testing of goodwill (continued)

The recoverable amount of Aproud subgroup in 2016 has 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% (2015: 20%) for Aproud subgroup. The growth rate used to extrapolate the cash flows beyond the five-year period is 3% (2015: 5%) for Aproud subgroup.

Assumptions were used in the value in use calculation of each cash-generating unit for December 31, 2016 and December 31, 2015. 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, 2016	Deferred development cost RMB'000
Cost at January 1, 2016, net of accumulated amortisation	–
Additions	**9,128**
Amortisation provided during the year	–
At December 31, 2016	**9,128**
At December 31, 2016	
Cost	**9,128**
Accumulated amortisation	–
Net carrying amount	**9,128**

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	–	–	–	–

18. INVESTMENTS IN JOINT VENTURES

	2016 RMB'000	2015 RMB'000
Share of net assets	**16,103**	35,920

The Group's receivable and payable balances with the joint ventures are disclosed in note 40 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:

	2016 RMB'000	2015 RMB'000
Share of the joint ventures' profits/(losses) for the year	**941**	(280)
Share of the joint ventures' total comprehensive income	**941**	(280)
Aggregate carrying amount of the Group's investments in the joint ventures	**16,103**	35,920

19. INVESTMENTS IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Share of net assets	**3,623**	78,212

The Group's receivables and payables with associates are disclosed in note 40 to the financial statements.

The associate that was individually material to the Group, Guangzhou Communication Information Co., Ltd., was disposed of as at December 31, 2016. The following table illustrates the aggregate financial information of the Group's associates:

	2016 RMB'000	2015 RMB'000
Share of the associates' profits for the year	**6,862**	5,963
Share of the associates' total comprehensive income	**6,862**	5,963
Aggregate carrying amount of the Group's investments in the associates	**3,623**	78,212

20. AVAILABLE-FOR-SALE INVESTMENT

	2016 RMB'000	2015 RMB'000
Unlisted equity investment, at cost	**25,307**	25,307

As at December 31, 2016, the unlisted equity investment with a carrying amount of RMB25,307,000 (2015: 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 has no specific intention to dispose of the investment.

21. PREPAYMENT FOR ACQUISITION OF EQUITY INTERESTS IN A COMPANY

In 2016, the Group entered into a letter of intent with Beijing Guangwei Xingye Technology Co., Ltd. ("Guangwei Xingye") to invest in Guangwei Xingye's subsidiary, which is specialised in the provision of technology services in the railway industry. As at December 31, 2016, RMB92,000,000 was transferred from the principal and interest receivable of the convertible borrowings to prepayment for acquisition of equity interests in a company.

22. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	**3,565**	12,464
Properties under development	**67,555**	–
Finished goods	**14,957**	19,403
	86,077	31,867

23. CONSTRUCTION CONTRACTS

	2016 RMB'000	2015 RMB'000
Gross amount due from contract customers	**586,356**	1,494,229
Gross amount due to contract customers	**(889,468)**	(1,248,356)
	(303,112)	245,873
Contract costs incurred plus recognised profits less recognised losses to date	**5,714,926**	10,510,293
Less: Progress billings	**(6,018,038)**	(10,264,420)
	(303,112)	245,873

In the current year, no impairment loss has been provided for the amounts due from contract customers (2015: RMB22,466,000).

24. TRADE AND BILLS RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**1,150,953**	1,620,084
Impairment	**(5,379)**	(32,980)
	1,145,574	1,587,104
Bills receivable	**129,186**	116,100
	1,274,760	1,703,204

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 balances of trade and bills receivables.

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:

	2016 RMB'000	2015 RMB'000
Less than 6 months	**601,538**	628,230
6 months to 1 year	**132,503**	418,047
1 year to 2 years	**283,906**	415,810
2 years to 3 years	**170,335**	119,272
Over 3 years	**86,478**	121,845
	1,274,760	1,703,204

24. TRADE AND BILLS RECEIVABLES (continued)

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

	2016 RMB'000	2015 RMB'000
At January 1	**32,980**	11,010
Additions	**3,096**	27,760
Amount written off	**(655)**	(5,790)
Disposal of subsidiaries	**(30,042)**	–
At December 31	**5,379**	32,980

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB647,000 (2015: RMB27,367,000) with a carrying amount before provision of RMB647,000 (2015: RMB30,859,000).

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

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	**601,538**	628,230
Past due but not impaired:		
Less than 6 months past due	**132,503**	418,047
6 months to 1 year past due	**141,953**	206,160
1 year to 2 years past due	**227,121**	265,795
2 years to 3 years past due	**85,167**	59,636
	1,188,282	1,577,868

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, 2016, trade receivables of RMB110,520,000 (2015: RMB41,900,000) are secured for the current bank loans of RMB96,249,000 (2015: RMB24,438,000) (note 30).

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	2016 RMB'000	2015 RMB'000
Prepayments to suppliers for purchases of goods		**499,787**	736,700
Loans to other companies	(a)	**67,501**	169,007
Tender deposits		**19,870**	15,231
Contract deposits		**10,459**	160,313
Advances to staff		**16,913**	22,382
Interest receivable		**1,469**	8,000
Dividend receivable		**16,231**	9,611
Others		**126,769**	81,476
		758,999	1,202,720
Impairment		**(15,162)**	(16,007)
		743,837	1,186,713

Note:

(a) The balance represents unsecured loans to other third party companies which were due within one year. All the loans are interest-free.

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

	2016 RMB'000	2015 RMB'000
At January 1	**16,007**	27,406
Additions	**3,162**	13,392
Reversal	**–**	(1,411)
Amount written off	**–**	(23,380)
Disposal of subsidiaries	**(4,007)**	–
At December 31	**15,162**	16,007

Included in the above provision for impairment of other receivables is a provision for individually impaired other receivables of RMB15,162,000 (2015: RMB16,007,000) with a carrying amount before provision of RMB32,210,000 (2015: RMB33,055,000).

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2016 **RMB'000**	2015 RMB'000
Cash and bank balances	**604,843**	736,107
Pledged deposits		
— Current deposits	**211,396**	232,673
	816,239	968,780
Less: Pledged deposits for		
— Letter of guarantee for projects	**(4,818)**	(34,555)
— Bills payable	**(9,127)**	(10,869)
— Interest-bearing bank borrowings	**(195,750)**	(178,400)
— Tenders	**(1,701)**	(8,849)
Cash and bank balances	**604,843**	736,107

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 RMB812,751,000 (RMB812,732,000 is in Mainland China and RMB19,000 is overseas) as at December 31, 2016 (2015: RMB962,340,000 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 Guangwei Xingye, 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.

In 2016, the Group entered into a letter of intent with Guangwei Xingye to terminate the convertible borrowings and to invest in Guangwei Xingye's subsidiary. The principal and the interest receivable of the convertible borrowings were transferred to prepayment for acquisition of equity interests in a company as at December 31, 2016.

28. 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:

	2016 RMB'000	2015 RMB'000
Current or less than 1 year past due	**656,741**	845,507
1 to 2 years past due	**53,508**	312,579
Over 2 years past due	**30,330**	134,104
	740,579	1,292,190

The Group's bills payable were secured by pledged deposits of the Group of RMB9,127,000 as at December 31, 2016 (2015: RMB10,869,000).

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

29. OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 RMB'000
Advances from customers	**20,090**	105,893
Business advance deposits	**1,515**	34,759
Staff costs and welfare accruals	**11,340**	15,472
Other borrowings	**14,116**	38,168
Other taxes payable	**108,053**	149,645
Interest payables	**1,345**	303
Research and development funds	**–**	3,599
Others	**40,690**	47,171
	197,149	395,010

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

30. INTEREST-BEARING BANK BORROWINGS

	Contractual rate (%)	2016 RMB'000	2015 RMB'000
Current			
Bank loans — secured and repayable within one year	2.3–8.0	**650,753**	474,598
Bank loans — guaranteed and repayable within one year	5.4–7.5	**220,000**	320,900
Bills receivable endorsed	–	**68,110**	109,203
		938,863	904,701
Non-current			
Bank loans–guaranteed and repayable within two years	7.5	**–**	145,000
Bank loans–secured and repayable within two years	8.0	**81,200**	136,200
		81,200	281,200
		1,020,063	1,185,901

Notes:

(i) Bank loans of RMB210.0 million as at December 31, 2016 (2015: RMB163.1 million) were secured by investment properties valued at RMB61.8 million (2015: RMB125.8 million), and investment properties valued at RMB78.6 million by Beijing RHY Technology Development Co., Ltd., a related party of the Company (2015: nil) (note 14).

(ii) Bank loans of RMB96.2 million as at December 31, 2016 (2015: RMB24.4 million) were secured by trade receivables with a total amount of RMB110.5 million (2015: RMB41.9 million).

(iii) Bank loans of RMB294.6 million as at December 31, 2016 (2015: RMB195.4 million) were secured by a pledged deposit of RMB195.8 million by Zhixun Tiancheng, a subsidiary of the Group (2015: RMB83.0 million).

(iv) The bank loans of RMB50.0 million as at December 31, 2016 (2015: nil) were secured by entity interests in Hongrui Dake, a subsidiary of the Group, valued at RMB227.0 million (2015: nil).

(v) Bank loans of RMB190.0 million as at December 31, 2016 (2015: RMB290.9 million) were guaranteed by Aproud Technology, a subsidiary of the Group and Beijing RHY Technology Development Co., Ltd., a related party of the Group.

(vi) Bank loans of RMB30.0 million as at December 31, 2016 (2015: RMB30.0 million) were guaranteed by the Company and Aproud Technology, a subsidiary of the Group.

(vii) The non-current bank loans of RMB81.2 million as at December 31, 2016 (2015: RMB136.2 million) were secured by entity interests in Hongrui Dake, a subsidiary of the Group, valued at RMB227.0 million (2015: RMB227.0 million).

As at December 31, 2016, the Group had unutilised available bank borrowing facilities amounting to RMB0.04 million (2015: RMB277.7 million).

As at December 31, 2016, the Group's bank loans of RMB682.0 million were charged at fixed interest rates and bank loans of RMB270.0 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.

31. DEFERRED TAX

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

Deferred tax assets

	Impairment of trade receivables RMB'000	Accrued expenses RMB'000	Intangible assets RMB'000	Revenue recognition RMB'000	Total RMB'000
2016					
At January 1, 2016	**–**	**2,274**	**102**	**–**	**2,376**
Deferred tax (charged)/credited to the statement of profit or loss during the year	**–**	**(1,425)**	**111**	**16,517**	**15,203**
Deferred tax assets included in the disposal of subsidiaries (note 35)	**–**	**–**	**(213)**	**–**	**(213)**
At December 31, 2016	**–**	**849**	**–**	**16,517**	**17,366**
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

31. DEFERRED TAX (continued)

Deferred tax liabilities

	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
2016				
At January 1, 2016	**18,086**	**627**	**1,667**	**20,380**
Deferred tax charged to the statement of of profit or loss during the year	**2,945**	**–**	**10,594**	**13,539**
Deferred tax liabilities included in the disposal of subsidiaries (note 35)	**(11,923)**	**(627)**	**(12,261)**	**(24,811)**
At December 31, 2016	**9,108**	**–**	**–**	**9,108**
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

* 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 RMB15,087,000 arising in Mainland China (2015: RMB140,246,000) 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.

32. SHARE CAPITAL

Shares

	2016 RMB'000	2015 RMB'000
Issued and fully paid:		
1,654,024,868 (2015: 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:

	Number of shares in issue '000	Share capital RMB'000	Share premium RMB'000	Total RMB'000
At January 1, 2015	1,654,025	290	1,080,822	1,081,112
Redemption of convertible bonds	–	–	7,903	7,903
At December 31, 2015 and January 1, 2016	1,654,025	290	1,088,725	1,089,015
Redemption of convertible bonds	**–**	**–**	**–**	**–**
At December 31, 2016	**1,654,025**	**290**	**1,088,725**	**1,089,015**

33. 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 71 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 34; and iii) capitalised retained earnings to the capital of certain subsidiaries.

34. 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:

	2016		2015	
	Weighted average exercise price RMB per share	**Number of options '000**	Weighted average exercise price RMB per share	Number of options '000
At January 1	**3.20**	**28,475**	3.13	30,438
Expired during the year	**2.31**	**(9,909)**	2.00	(1,963)
At December 31	**3.68**	**18,566**	3.20	28,475

Numbers of 9,909,000 (the year ended December 31, 2015: 1,963,000) share options were expired during the year ended December 31, 2016, and no share option was exercised or cancelled.

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

2016

Batches	**Numbers of options '000**	**Exercise price RMB per share**	**Exercise period**
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
	18,566		

34. SHARE OPTION SCHEME (continued)

Pre-IPO Scheme (continued)

2015

Batches	Numbers of options '000	Exercise price RMB per share	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		

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.

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

	2016		2015	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At January 1 and December 31	**1.05**	**155,000**	1.05	155,000

34. SHARE OPTION SCHEME (continued)

Post-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:

2016 and 2015

Batches	**Numbers of options** '000	**Exercise price** HK$ per share	**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 as follows:

	2016 **RMB'000**	2015 RMB'000
Equity-settled share option expense	–	113

34. 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, 2016, 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 (2015: 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 HK$31,000 (equivalent to RMB28,000) and share premium of HK$162,719,000 (equivalent to RMB145,552,000) (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.

35. DISPOSAL OF SUBSIDIARIES

2015

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.

Net assets disposed of at disposal date:	VA Holding RMB'000	Beijing Zhongzhi RMB'000
Cash and bank balances	395	28
Prepayments, deposits and other receivables	(18,811)	8,700
Investment in an associate	18,339	–
	(77)	8,728
Gain/(loss) 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)

2016

On January 22, 2016, the Group disposed of 50% share interest in Xinjiang XinRui JiYe Intelligent Technology Co., Ltd. ("XJR"), a subsidiary of the Group with shareholding ratio of 80%, at a consideration of RMB5,279,000 to Lv Xilin, and the fair value of the residual investment is RMB3,167,000.

35. DISPOSAL OF SUBSIDIARIES (continued)

2016 (continued)

On December 31, 2016, the Company disposed of its entire interests in Hugecom Limited, China Traffic Holding Limited, China Expressway Intelligent Transportation Technology Group Ltd., and Beijing RHY Technology Development Co., Ltd. (collectively, the "Disposal Group"), at an offshore consideration of RMB455,972,000 to King Victory Holdings Limited, and an onshore consideration of RMB208,573,000 to Beijing Wuzhouzhitong Traffic Technology Co., Ltd.

Net assets disposed of:	XJR RMB'000	Disposal Group RMB'000
Cash and cash equivalents	5,774	414,388
Pledged deposits	–	28,180
Trade and bills receivables	995	543,340
Amounts due from construction contracts	692	710,199
Prepayments, deposits and other receivables	5,916	450,900
Inventories	175	12,843
Amounts due from related parties	15,840	475,804
Property and equipment	183	4,275
Investment properties	–	78,600
Investments in associates	–	83,532
Investments in joint ventures	–	20,827
Available-for-sale investment	–	3,000
Deferred tax assets	–	213
Trade and bills payables	(421)	(711,784)
Amounts due to construction contracts	–	(186,164)
Interest-bearing bank borrowings — current	–	(61,000)
Other payables and accruals	(2,792)	(173,724)
Income tax payable	(2,208)	(29,524)
Amounts due to related parties	(13,528)	(641,005)
Interest-bearing bank borrowings — non-current	–	(332,500)
Deferred tax liabilities	(61)	(24,750)
Non-controlling interests	(2,113)	32,760
	8,452	698,410
Exchange fluctuation reserve	–	(22,293)
Fair value of the residual investment	(3,167)	–
Loss on disposal of subsidiaries	(6)	(11,572)
	5,279	664,545
Satisfied by:		
Cash	–	332,500
Cash consideration recorded in other receivables	5,279	–
Cash consideration recorded in amounts due from related parties	–	332,045

35. DISPOSAL OF SUBSIDIARIES (continued)

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

	XJR RMB'000	Disposal Group RMB'000
Cash consideration	–	332,500
Cash and bank balances disposed of	5,774	414,388
Net outflow of cash and cash equivalents in respect of disposal of subsidiaries	(5,774)	(81,888)

36. PLEDGE OF ASSETS

Details of the Group's trade and bills payables and bank borrowings, which are secured by the assets of the Group, are included in notes 28 and 30, respectively, to the financial statements.

37. 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 two 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, 2016, the Group had total future minimum lease receivables under non-cancellable operating lease with its tenants falling due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	4,480	13,686
In the second to fifth years, inclusive	1,130	11,279
	5,610	24,965

37. OPERATING LEASE COMMITMENTS (continued)

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 two years.

At December 31, 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	**956**	4,831
In the second to fifth years, inclusive	**123**	4,984
	1,079	9,815

38. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 37 above, the Group had the following capital commitments as at December 31, 2016:

	2016 RMB'000	2015 RMB'000
Contracted, but not provided for:		
Land and buildings	**8,314**	–
	8,314	–

39. CONTINGENT LIABILITIES

As at December 31, 2016, the Group did not have any significant contingent liabilities (2015: nil).

40. 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	2016 RMB'000	2015 RMB'000
Sales to related parties:			
武漢光谷智能交通科技有限公司	(a)	**729**	1,590
Guangzhou Communication Information Co., Ltd.	(a)	**571**	4,935
Wuhan Chenguang Transportation Technology Development Co., Ltd.	(b)	**354**	354
Nanjing Communication Information Co., Ltd.	(b)	**171**	600
Xi'an Communication Information Co., Ltd.	(a)	**47**	91
Total		**1,872**	7,570
Purchases from related parties:			
武漢光谷智能交通科技有限公司	(a)	**11,186**	11,873
Nanjing Communication Information Co., Ltd.	(b)	**7,993**	4,860
Wuhan Chenguang Transportation Technology Development Co., Ltd.	(b)	**7,513**	1,880
Xi'an Communication Information Co., Ltd.	(a)	**6,850**	9,588
北京綠通暢達交通技術有限公司	(c)	**4,773**	991
北京鑫虹智顯科技科技發展公司	(d)	**2,277**	11,526
Guangzhou Communication Information Co., Ltd.	(a)	**25**	–
江蘇智通潤邦信息科技有限公司	(e)	**–**	4,161
Total		**40,617**	44,879

Notes:

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

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

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

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

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

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.

40. RELATED PARTY TRANSACTIONS (continued)

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

	Notes	2016 RMB'000	2015 RMB'000
Due from related parties:			
King Victory Holdings Limited	(a)	**227,759**	–
Beijing Stone Intelligent Transportation System Integration Co., Ltd.*	(a)	**224,983**	–
China Toprise Limited.*	(a)	**215,712**	–
Beijing RHY Technology Development Co., Ltd.*	(a)	**151,002**	–
Beijing Wuzhouzhitong Traffic Technology Co., Ltd.*	(a)	**104,331**	–
China Traffic Holding Ltd.*	(a)	**46,868**	–
常州天博投資管理中心(有限合夥)	(b)	**25,000**	3,850
Beijing Wancheng Internet Investment Co., Ltd.*	(a)	**20,000**	–
Beijing Bailian Zhida Technology Development Co., Ltd.*	(a)	**17,380**	–
江蘇智通潤邦信息科技有限公司	(c)	**17,061**	10,148
GTECH-CIC	(d)	**14,312**	9,215
Beijing Aproud Transportation Technology Co., Ltd.*	(a)	**9,857**	–
Beijing Lihe Datong Technology Co., Ltd.*	(a)	**5,548**	–
Beijing Newcom Traffic Technology Co., Ltd.*	(a)	**1,767**	–
武漢光谷智能交通科技有限公司	(e)	**853**	1,302
Beijing Huading Jiaye Technology Co., Ltd.*	(a)	**595**	–
Guangzhou Yabang Xincheng Communication Technology Co., Ltd.*	(a)	**221**	–
Jiangsu Zhongzhi Jiaye Electronic Technology Co., Ltd.*	(a)	**114**	–
Guangzhou Communication Information Co., Ltd.	(e)	**–**	27,082
Xi'an Communication Information Co., Ltd.	(e)	**–**	18,492
Wuhan Chenguang Transportation Technology Development Co., Ltd.	(f)	**–**	18,408
北京鑫虹智顯科技發展有限公司	(g)	**–**	17,868
RHY Holdings Ltd.	(h)	**–**	3,000
北京瑞瀾聯合通信技術有限公司	(i)	**–**	3,000
北京綠通暢達交通技術有限公司	(j)	**–**	529
Nanjing Communication Information Co., Ltd.	(f)	**–**	369
Chengdu Zhida Weilute Technology Co., Ltd.	(d)	**–**	68
Beijing Zhineng Shixun Information Technology Co., Ltd.	(e)	**–**	46
Total		**1,083,363**	113,377

40. RELATED PARTY TRANSACTIONS (continued)

	Notes	2016 RMB'000	2015 RMB'000
Due to related parties:			
Beijing RHY Technology Development Co., Ltd.*	(a)	**153,645**	–
GTECH-CIC	(d)	**50,377**	45,530
Beijing Aproud Transportation Technology Co., Ltd.*	(a)	**24,821**	–
江蘇智通潤邦信息科技有限公司	(c)	**8,662**	8,155
Xi'an Communication Information Co., Ltd.	(e)	**3,527**	9,051
Guangzhou Yabang Xincheng Communication Technology Co., Ltd.*	(a)	**2,976**	–
Guangzhou Communication Information Co., Ltd.	(e)	**1,481**	–
北京綠通暢達交通技術有限公司	(j)	**1,000**	1,036
Chengdu Zhida Weilute Technology Co., Ltd.	(d)	**–**	3,849
武漢光谷智能交通科技有限公司	(e)	**–**	12,310
Wuhan Chenguang Transportation Technology Development Co., Ltd.	(f)	**–**	8,112
北京鑫虹智顯科技發展有限公司	(g)	**–**	3,623
Xinjiang Jiaojian Intelligent Communication Technology Co., Ltd.	(e)	**–**	359
Nanjing Communication Information Co., Ltd.	(f)	**–**	277
Total		**246,489**	92,302

Notes:

(a) The entity is controlled by the ultimate shareholders of the Company.

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

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

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

(e) The entity is an associate of the Disposal Group.

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

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

(h) RHY Holding Ltd. is 59% owned by a director of the Company, and the director resigned as a director of the Group in 2016. The entity is not a related party of the Group as at December 31, 2016.

(i) The entity is 58% owned by RHY Holding Ltd. and is not a related party of the Group as at December 31, 2016.

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

* Due to the disposal of the Disposal Group, the entity, being a subsidiary of the Disposal Group, has been disposed of accordingly as at December 31, 2016 (note 35).

40. RELATED PARTY TRANSACTIONS (continued)

The above balances as at December 31, 2016 and December 31, 2015 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.

Compensation of key management personnel of the Group

	2016 RMB'000	2015 RMB'000
Salaries, bonuses, allowances and benefits in kind	4,506	4,674
Equity-settled share option expense	–	21
Pension scheme contributions	115	87
Total compensation paid to key management personnel	4,621	4,782

Further details of the directors' remuneration are included in note 8.

41. 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

2016

	Designated as financial assets at fair value through profit or loss upon initial recognition RMB'000	Loans and receivables RMB'000	Available-for-sale investment RMB'000	Total RMB'000
Available-for-sale investment	–	–	25,307	25,307
Trade and bills receivables	–	1,274,760	–	1,274,760
Financial assets included in prepayments, deposits and other receivables	–	227,137	–	227,137
Amounts due from related parties	–	1,083,363	–	1,083,363
Pledged deposits	–	211,396	–	211,396
Cash and cash equivalents	–	604,843	–	604,843
	–	3,401,499	25,307	3,426,806

41. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial assets (continued)

2015

	Designated as financial assets at fair value through profit or loss upon initial recognition 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

Financial liabilities

	2016 Financial liabilities at amortised cost RMB'000	2015 Financial liabilities at amortised cost RMB'000
Trade and bills payables	**740,579**	1,292,190
Financial liabilities included in other payables and accruals	**16,976**	73,230
Interest-bearing bank borrowings — current	**938,863**	904,701
Amounts due to related parties	**246,489**	92,302
Interest-bearing bank borrowings — non-current	**81,200**	281,200
	2,024,107	2,643,623

42. 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 and amounts due from/to related parties 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 other long-term assets and interest-bearing bank borrowings 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 and interest-bearing bank borrowings as at December 31, 2016 was assessed to be insignificant.

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.

42. 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, 2016

	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	–	–	–	–

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

No financial assets used the fair value measurement as at December 31, 2016.

42. 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, 2016 and 2015.

Liabilities for which fair values are disclosed:

As at December 31, 2016

	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	–	**938,863**	–	**938,863**
Interest-bearing bank borrowings — non-current	–	**81,200**	–	**81,200**
	–	**1,020,063**	–	**1,020,063**

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

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, cash and cash equivalents, pledged deposits. 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 RMB3,347,000 for the year ended December 31, 2016 (2015: RMB1,331,000).

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, 2016 and 2015 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 or loss rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
December 31, 2016			
If RMB weakens against US$	**5**	**33**	**–**
If RMB strengthens against US$	**(5)**	**(33)**	**–**
If RMB weakens against HK$	**5**	**(4,167)**	**82,736**
If RMB strengthens against HK$	**(5)**	**4,167**	**(82,736)**
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)

* Excluding retained earnings

43. 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, 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 stated-owned enterprises, 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, 2016

	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	331,437	409,142	–	–	740,579
Financial liabilities included in other payables and accruals	15,631	–	1,345	–	16,976
Interest-bearing bank borrowings — current	–	366,738	572,125	–	938,863
Amounts due to related parties	246,489	–	–	–	246,489
Interest-bearing bank borrowings — non-current	–	–	6,496	86,593	93,089
	593,557	775,880	579,966	86,593	2,035,996

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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

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.

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, 2016 and December 31, 2015.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

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 35% and (35%). 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:

	2016 **RMB'000**	2015 RMB'000
Interest-bearing bank borrowings	**1,020,063**	1,185,901
Amounts due to related parties	**246,489**	92,302
Less: Cash and cash equivalents	**(604,843)**	(736,107)
Net debt	**661,709**	542,096
Equity attributable to owners of the parent	**2,164,787**	2,137,144
Adjusted capital	**2,164,787**	2,137,144
Net debt to capital ratio	**30.6%**	25.4%

44. EVENT AFTER THE REPORTING PERIOD

As mentioned in note 21, the Group entered into a letter of intent with Guangwei Xingye to invest in Guangwei Xingye 's subsidiary in 2016. Subsequent to the balance sheet date, on March 24, 2017, the Group entered into an equity transfer agreement with Guangwei Xingye, Chengdu Zhongzhi Runbang Transportation Technology Co., Ltd. ("Chengdu Zhongzhi Runbang", Guangwei Xingye's subsidiary), pursuant to which the Group has conditionally agreed to acquire and Guangwei Xingye has conditionally agreed to transfer 100% equity interests in Chengdu Zhongzhi Runbang at a consideration of RMB92,000,000.

45. 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:

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**611,905**	936,493
Investment in a joint venture	**2,067**	2,067
Available-for-sale investment	**25,307**	25,307
Total non-current assets	**639,279**	963,867
CURRENT ASSETS		
Prepayments, deposits and other receivables	**43,831**	38,457
Amounts due from subsidiaries	**972,008**	876,662
Amounts due from related parties	**465,088**	–
Cash and cash equivalents	**4,603**	5,633
Total current assets	**1,485,530**	920,752
CURRENT LIABILITIES		
Interest-bearing bank borrowings	**273,367**	287,376
Other payables and accruals	**70,054**	26,636
Amounts due to related parties	**50,377**	45,530
Amounts due to subsidiaries	**66,730**	8,680
Income tax payable	**8,103**	–
Total current liabilities	**468,631**	368,222
NET CURRENT ASSETS	**1,016,899**	552,530
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,656,178**	1,516,397
Net assets	**1,656,178**	1,516,397
EQUITY		
Share capital	**290**	290
Other reserves (note)	**1,655,888**	1,516,107
Total equity	**1,656,178**	1,516,397

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

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, 2015	1,058,805	612,474	(127,679)	(140,107)	1,403,493
Profit for the year	–	–	–	57,081	57,081
Exchange differences related to foreign operations	–	–	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 and January 1, 2016	1,066,708	612,522	(80,097)	(83,026)	1,516,107
Profit for the year	**–**	**–**	**–**	**78,291**	**78,291**
Exchange differences related to foreign operations	**–**	**–**	**61,490**	**–**	**61,490**
Total comprehensive income for the year	**–**	**–**	**61,490**	**78,291**	**139,781**
At December 31, 2016	**1,066,708**	**612,522**	**(18,607)**	**(4,735)**	**1,655,888**

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on March 27, 2017.

particulars of properties

December 31, 2016

INVESTMENT PROPERTIES

Location	Use	Tenure	Attributable interest of the Group
No.1 Zhong Guan Cun Dong Road, Haidian District, Beijing, the PRC	Office	Long-term lease	100%