中国智能交通系统(控股)有限公司

China ITS (Holdings) Co., Ltd.

(incorporated in the Cayman Islands with limited liability)

Stock Code: 1900

Annual Report 2017

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

SMP Partners (Cayman) Limited
3rd 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
In Association with Morgan, Lewis & Bockius
Suites 1902–09, 19th Floor
Edinburgh Tower, The Landmark
15 Queen's Road Central
Hong Kong

LISTING EXCHANGE INFORMATION

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

PRINCIPAL BANKERS

Bank of Beijing Co., Ltd. Beijing Branch Cuiweilu sub-branch
China Merchants Bank Co., Ltd. Beijing Branch Beisanhuan sub-branch
China Everbright Bank Co., Ltd. Beijing Branch Xicheng sub-branch
China Guangfa Bank Beijing Branch
China Guangfa Bank Macau Branch
Fubon Bank (China) Co., Ltd. Tianjin Branch
LUSO International Banking Ltd. Macau Branch
Ping An Bank Co., Ltd. Shanghai Pilot Free Trade Zone Branch
Shengjing Bank Beijing Branch Guanyuan sub-branch
Shanghai Pudong Development Bank Co.,Ltd. Waigaoqiao Free Trade Zone sub-branch
Xiamen International Bank Co., Ltd. Beijing Zhongguancun 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)
"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)
"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)
"Zhongtian Runbang"	Zhongtian Runbang Information Technology Co., Ltd. (中天潤邦信息技術有限公司)
"Tibet Intelligent Aviation"	Tibet Intelligent Aviation Transportation Technology Co., Ltd. (西藏智航交通科技有限公司)
"Chengdu Zhongzhi Runbang"	Chengdu Zhongzhi Runbang Transportation Technology Co., Ltd. (成都中智潤邦交通技術有限公司)

FINANCIAL HIGHLIGHTS

HIGHLIGHTS OF 2017 ANNUAL RESULTS

- The amount of backlog as at December 31, 2017 was approximately RMB900.7 million, compared to approximately RMB1,059.9 million[(1)] as at December 31, 2016, or an approximately 15.0% decrease.

- The amount of new contracts signed and orders secured for the year ended December 31, 2017 was approximately RMB974.7 million, compared to approximately RMB1,665.8 million[(1)] for the year ended December 31, 2016.

- Revenue for the year ended December 31, 2017 was approximately RMB1,164.8 million, compared to approximately RMB1,551.8 million[(1)] for the year ended December 31, 2016.

- Gross profit for the year ended December 31, 2017 was approximately RMB259.3 million, compared to approximately RMB279.1 million[(1)] for the year ended December 31, 2016.

- Gross profit margin for the year ended December 31, 2017 was 22.3%, compared to approximately 18.0%[(1)] for the year ended December 31, 2016.

- Profit attributable to owners of the parent of the Company for the year ended December 31, 2017 was RMB24.5 million, compared to a profit of approximately RMB75.5 million[(1)] for the year ended December 31, 2016.

- Earnings per share[(2)] for the year ended December 31, 2017 was approximately RMB0.01 per share.

Notes:

(1) Excluding former subsidiaries which were disposed of and operations which were discontinued since December 31, 2016.

(2) 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, 2017.

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	**2017**	2016	2015	2014	2013
New contracts signed and orders secured	**974,722**	1,665,755(1)	2,642,215	2,198,665	2,683,369

	As at December 31				
RMB'000	**2017**	2016	2015	2014	2013
Backlog	**900,699**	1,059,909(1)	2,193,050	1,976,892	2,210,722

2. FINANCIAL PERFORMANCE

	Year ended December 31				
RMB'000	**2017**	2016	2015	2014	2013
Revenue	**1,164,838**	1,551,844(1)	2,317,541	2,266,696	2,390,268
Gross profit	**259,338**	279,108(1)	393,063	349,259	558,986
Profit/(loss) attributable to owners of parent	**24,490**	75,506(1)	(278,476)	(194,657)	149,254

3. FINANCIAL POSITION

	As at December 31				
RMB'000	**2017**	2016	2015	2014	2013
Total assets	**4,333,194**	5,347,011(1)	6,384,993	5,755,675	5,796,466
Net assets	**2,202,490**	2,164,758(1)	2,126,140	2,443,508	2,669,643
Net cash position(2)	**(581,175)**	(415,220)(1)	(367,494)	(154,387)	(242,792)

Notes:

(1) Excluding former subsidiaries which were disposed of and operations which were discontinued since December 31, 2016.

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

(3) Details of the above financial information are set out in Management Discussion and Analysis section on page 10 to page 14.

FINANCIAL SUMMARY

4. FINANCIAL RATIOS

	For the year ended/As at December 31				
	2017	2016	2015	2014	2013
Sales cycle ratios:					
Trade receivables turnover days (days)(1)	**371**	283	245	203	154
Net construction contract turnover days (days)(2)	**15**	58	51	78	87
Combined trade receivables and net construction contract turnover days (days)	**386**	341	296	281	241
Other ratios:					
Trade payables turnover days (days)(3)	**228**	200	234	212	196
Current ratio (times)(4)	**1.8**	1.5	1.4	1.5	1.8
Gearing ratio (%)(5)	**-14.6%**	-29.2%	5.3%	2.0%	2.8%
Return on assets (%)(6)	**0.6%**	1.4%	-4.4%	-3.4%	2.6%
Return on equity (%)(7)	**1.1%**	3.5%	-13.1%	-8.0%	5.6%

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* due to related parties *minus* pledged deposits 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 14.

CHAIRMAN'S STATEMENT

OVERVIEW OF THE OVERALL OPERATION OF THE COMPANY DURING THE REPORTING PERIOD

For the year of 2017 (the "**Period**"), China ITS (Holdings) Co., Ltd. (the "**Company**") and its subsidiaries (collectively the "**Group**") recorded RMB974.7 million from new contracts signed and orders secured, and as at December 31, 2017, RMB900.7 million from backlog. For the Period, the Group generated revenue of RMB1,164.8 million, representing a decrease of 24.9% as compared to RMB1,551.8 million for the year ended December 31, 2016, overall gross profit of RMB259.3 million, representing a decrease of 7.1% compared to the year of 2016, and gross profit margin of 22.3%, improving from 18.0% for the year of 2016. The profit attributable to owners of the parent of the Company for the year ended December 31, 2017 amounted to RMB24.5 million.

BUSINESS REVIEW

Consolidate main operations and fully tap customer demand

In line with the Group's development strategy for the future, the Group implemented a major restructuring of its business (the "**Disposal**") in 2016, which saw it strip its turnkey solutions business (i.e. the electromechanical and information system integration business) and keep the specialised solutions ("**SS**") and value-added operation and services ("**VAOS**") businesses.

In 2017, the Group's management, based on a comprehensive and thorough analysis and planning of its existing product lines for the SS and VAOS businesses, in view of the market environment and the Group's actual conditions, decided to give full strength to the Company's advantages in resources and specialised service technologies and focus on product sales and related value-added operation and services with a product line-oriented approach.

The SS business is the Group's core business (accounting for 95.0% of the Group's revenue for the year ended December 31, 2016 and 92.9% of the Group's revenue for the year ended December 31, 2017), which has formed a strong portfolio of communication products supplemented by video surveillance and communication power supply and engine room professional AC products.

The VAOS business, as a maintenance and follow-up service following the provision of specialised solutions, provides operators with a full range of subsequent services, including maintenance and emergency response. Based on the expertise and knowledge built by the Group in the process of provision of specialised services and its judgements of the industry's future development, this business ensures the normal operation of operators' networks and, through the value-added services it provides, helps the Group to further tap customer demand.

CHAIRMAN'S STATEMENT

SEEK OPPORTUNITIES OF BUSINESS AND EXPLORE OVERSEAS MARKETS

Subsequent to the completion of the Disposal, the Group has focused on its existing businesses in mainland China as the foundation of the Group's business development, and committed itself to exploring other overseas markets, especially Southeast Asian markets, to diversify operating risks and lay a solid foundation for its long-term development.

In 2017, in a move to facilitate expansion in the Southeast Asian markets, the Group established its Malaysia subsidiary. In early 2018, the Group signed the equipment purchasing contract for Malaysia's East Coast Rail Link camp network and video engineering project (RMB8.15 million in contract value) and Gtech-CIC Joint Venture won the bids for the wireless communication system maintenance contract for the Hong Kong section of the Guangzhou — Shenzhen — Hong Kong Express Rail Link (RMB83.0 million in contract value) and the Group won the bids for the AC system equipment purchasing contract for the Astana Light Metro project in Kazakhstan (RMB38.89 million in contract value). Based on its good reputation in the industry, the Group is expected to achieve gradual business growth in overseas markets.

LIAO JIE
Chairman

Beijing, May 3, 2018

MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE

During the Period, the Group carried out 1,761 projects of varying sizes across mainland China. The revenue and gross profit achieved by the Group for the year ended December 31, 2017 show below:

	Year ended December 31	
	2017	2016
	RMB'000	RMB'000
Revenue by business sectors		
SS	**1,082,667**	1,474,324
VAOS	**100,274**	122,443
Elimination	**(18,103)**	(44,923)
Total	**1,164,838**	1,551,844

(i) SS

For the year ended December 31, 2017, revenue of RMB1,082.7 million was recognised from the SS business, representing a decrease of RMB391.6 million from RMB1,474.3 million for the year ended December 31, 2016. The amount of new contracts signed and orders secured for the year ended December 31, 2017 was RMB874.1 million, and the amount of backlog as at December 31, 2017 was RMB830.0 million, representing an decrease of RMB150.7 million from RMB980.7 million as at December 31, 2016.

There were mainly two reasons for the decrease in revenue. On the one hand, it had to do with the overall environment of China's railway investment: affected by the railway investment policies in previous years, the investment was concentrated on railway track construction — railway communication construction generally takes place after completion of track construction — leading to a revenue decrease in the year. Despite the revenue decrease, however, the year saw the Group achieve a significant increase in market share in such segments as transmission, wireless and data communication. On the other hand, the central government issued a risk alert in May 2017 and required stepping up financial risk prevention and control, which was accompanied by a slightly tightened monetary policy. Against this backdrop, local governments' railway construction projects experienced a capital crunch, leading to the railway investment deceleration. The second reason is the cyclical nature of upgrade and restructuring projects in the railway communication product market. Generally, the railway communication network receives an upgrade for every approximately five years. As the peak of railway communication network upgrade projects was basically completed in 2016, the cycle reached its trough in 2017. Due to the abovementioned factors, the Group's revenue from specialised solutions for the year of 2017 experienced a decline from the same period of last year. In 2018, the specialised solutions business' revenue is expected to improve to some extent.

MANAGEMENT DISCUSSION AND ANALYSIS

(ii) VAOS

Revenue recognised from the VAOS business for the year ended December 31, 2017 was RMB100.3 million, representing an decrease of RMB22.1 million from RMB122.4 million for the year ended December 31, 2016. The amount of new contracts signed and orders secured for the VAOS business for the year ended December 31, 2017 was RMB100.6 million, and the amount of backlog as at December 31, 2017 was approximately RMB70.7 million, representing a decrease of RMB8.5 million from RMB79.2 million as at December 31, 2016.

As maintenance and follow-up services provided after the provision of specialised solutions, the Group's VAOS business has its existing product line 100% represented by "communication products". Looking forward, the "communication products" VAOS business will remain a core business of the Group.

Business Sector	**Project Name**
SS	Jing — Shen (Beijing — Shenyang) Railway Project Shang — He — Hang (Shangqiu — Hefei — Hangzhou) Railway Project Yang Ping Guan — Ankang Railway Project
VAOS	Maintenance of Urumuqi railway administration Maintenance of Taiyuan railway administration

GROSS PROFIT

Overall gross profit of the Group decreased from RMB279.1 million for the year ended December 31, 2016 to RMB259.3 million for the year ended December 31, 2017. Gross profit margin increased from 18.0% for the year ended December 31, 2016 to 22.3% for the year ended December 31, 2017.

	Year ended December 31	
	2017 RMB'000	2016 RMB'000
Gross profit by business sectors		
SS	**195,493**	243,670
Margin %	**18.1%**	16.5%
VAOS	**63,845**	39,630
Margin %	**63.7%**	32.4%
Elimination	**–**	(4,192)
Total	**259,338**	279,108
Margin	**22.3%**	18.0%

(i) SS

Gross profit recognised from SS for the year ended December 31, 2017 was RMB195.5 million, representing a decrease of RMB48.2 million from RMB243.7 million for the year ended December 31, 2016. Gross profit margin of SS for the year ended December 31, 2017 was 18.1%, increasing by 1.6% from 16.5% for the year ended December 31, 2016.

(ii) VAOS

Gross profit recognised from VAOS for the year ended December 31, 2017 was RMB63.8 million, representing an increase of RMB24.2 million from RMB39.6 million for the year ended December 31, 2016. Gross profit margin of VAOS for the year ended December 31, 2017 was 63.7%, increasing by 31.3% from 32.4% for the year ended December 31, 2016. This was because, compared to 2016 when some maintenance projects of VAOS business were outsourced with a lower profit margin, this year had less such projects being outsourced, leading to a higher gross profit margin.

OTHER INCOME AND GAINS

Other income and gains mainly comprised of rental income from investment properties. The rental income from investment properties was related to the real estate price in Beijing and was in line with the market growth trend.

SELLING, GENERAL AND ADMINISTRATION EXPENSE

In the year ended December 31, 2017, selling, general and administration expenses was approximately RMB200.4 million, representing an increase of RMB9.4 million as compared to approximately RMB191.0 million for the year ended December 31, 2016.

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

For the year ended December 31, 2017, selling, general and administration expenses which was related to daily operational activities ("**SG&A**") was approximately RMB171.1 million, as a percentage of sales was 14.7%. For the year ended December 31, 2016, selling, general and administration expenses which was related to daily operational activities ("**SG&A**") was approximately RMB187.1 million, as a percentage of sales was 12.1%.

Staff costs remained as a large component of the Group's SG&A while travelling, entertainment and business expansion expenses ("**T&E Expenses**") and office supplies expenses are highly correlated with the headcount numbers. Therefore, the total amount of the aforesaid expenses (headcount related cost) constituted the largest portion of the Group's SG&A. The headcount related cost decreased from RMB119.3 million in the year ended December 31, 2016 to RMB108.0 million for the year ended December 31, 2017, and accounting for 63.1% of the SG&A which was similar to 63.7% for the year ended December 31, 2016.

Rental expenses increased from RMB5.9 million for the year ended December 31, 2016 to RMB8.6 million for the year ended December 31, 2017.

Research & Development expenses increased from RMB13.3 million for the year ended December 31, 2016 to RMB22.3 million for the year ended December 31, 2017. In addition, in the year of 2017, the Group has invested RMB9.6 million to develop and purchase intangible asset.

(ii) Impairment losses

Impairment losses mainly represented one-off write-down losses provided for receivables, and investment in a joint venture which the Group considered with no or minimal recoverability on an individual basis. Such losses were RMB29.3 million for the year ended December 31, 2017. Impairment losses were RMB3.9 million for the year ended December 31, 2016.

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 net financial expense was RMB25.6 million for the year ended December 31, 2017, which represented a decrease of RMB12.5 million as compared to RMB38.1 million for the year ended December 31, 2016. The reasons for the decrease: The Group received in late 2016 and 2017 part of the transaction consideration of the Disposal Group[1] sold in 2016, which improved the Group's cash flow in 2017 and was used to pay part of the Group's interest-bearing bank borrowings, leading to a decrease in interest expenses in the year. On the other hand, as the transaction consideration of the sale of the Disposal Group would be paid by installment, the acquirer needed to pay interest to the Group, leading to an increase in the Group's interest income and consequently a decrease in the Group's net financial expenses in 2017.

SHARE OF PROFIT OF JOINT VENTURE/ASSOCIATES

Share of profit of investment entities for the year ended December 31, 2017 was approximately RMB0.6 million, as compared to the profit of RMB3.2 million for the year ended December 31, 2016.

INCOME TAX EXPENSES

The total income tax expenses for the year ended December 31, 2017 was RMB24.6 million, which was slightly higher to RMB24.0 million for the year ended December 31, 2016.

PROFIT FOR THE YEAR

Profit attributable to the owners of the parent for the year ended December 31, 2017 was approximately RMB24.5 million, compared to a profit of approximately RMB75.5 million for the year ended December 31, 2016.

TRADE RECEIVABLES TURNOVER DAYS

The trade receivables turnover days in the year ended December 31, 2017 was 371 days (in the year ended December 31, 2016: 283 days).

NET CONSTRUCTION TURNOVER DAYS

The net amount due from contract customer turnover days in the year ended December 31, 2017 was 15 days (in the year ended December 31, 2016: 58 days).

(1) The Disposal Group refers to Hugecom Limited. China Traffic Holding Limited, China Expressway Intelligent Transportation Technology Group Ltd., and Beijing RHY Technology Development Co., Ltd..

MANAGEMENT DISCUSSION AND ANALYSIS

TRADE PAYABLES TURNOVER DAYS

The trade payables turnover days in the year ended December 31, 2017 was 228 days (in the year ended December 31, 2016: 200 days).

INVENTORY TURNOVER DAYS

The inventories of the Group mainly comprised of raw materials, work-in-progress, finished goods and general merchandise for surveillances Specialized Solutions. The inventory turnover days in the year ended December 31, 2017 was 5 days (in the year ended December 31, 2016: 6 days).

LIQUIDITY AND FINANCIAL RESOURCES

The Group's principal sources of working capital included cash flow from operating activities, bank and other borrowings, the proceeds from the Global Offering. As at December 31, 2017, the Group's current ratio (current assets divided by current liabilities) was 1.8 (as at December 31, 2016: 1.5). The Group's financial position remains healthy.

As at December 31, 2017, the Group was in a net negative cash of RMB581.1 million (as at December 31, 2016: net negative cash of RMB415.2 million) which included cash and cash equivalents of RMB179.7 million (as at December 31, 2016: RMB604.8 million) and interest-bearing bank borrowings of RMB760.8 million (as at December 31, 2016: RMB1,020.0 million). As at December 31, 2017, the Group's gearing ratio was -14.6%, which has increased from -29.2% as at December 31, 2016, due to the decrease of cash and cash equivalents which were used in daily operations and to repay bank loans. Gearing ratio refers to adjusted cash (interest-bearing bank borrowings plus due to related parties minus pledged deposits and cash and bank balances) divided by total equity.

CONTINGENT LIABILITIES

As at December 31, 2017, the Group had no material contingent liability.

CHARGES ON GROUP ASSETS

As at December 31, 2017, except for the secured deposits (current portion) of approximately RMB283.1 million (as at December 31, 2016: RMB211.4 million), the Group pledged trade receivables with a carrying amount of RMB94.2 million (as at December 31, 2016: RMB110.5 million) to banks to secure banking facilities granted to the Group. Save as disclosed above, as at December 31, 2017, 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	52	Chairman and executive Director
Mr. Jiang Hailin	49	Executive Director
Mr. Tim Tianwei Zhang	55	Non-executive Director
Mr. Zhou Chunsheng	51	Independent non-executive Director
Mr. Choi Onward	47	Independent non-executive Director
Mr. Ye Zhou	50	Independent non-executive Director

Executive Director

Mr. LIAO Jie (廖杰), 52, 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 Company (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). 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 Beijing RHY Technology Development Co., Ltd. in May 2002, responsible for strategic planning and operational management in the expressway segment and retired from the directorship when he started serving as a senior advisor of the Board of the Company 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.

DIRECTOR AND SENIOR MANAGEMENT

Mr. JIANG Hailin (姜海林), 49, 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 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 24 years of experience in general management and over 16 years of experience in the China ITS industry.

Non-executive Director

Mr. Tim Tianwei ZHANG (張天偉), 55, is a non-executive Director appointed on May 20, 2014. Mr. Zhang has been the Chief Operating Officer of China Merchants Capital Investment Limited ("**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 (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.

DIRECTOR AND SENIOR MANAGEMENT

Independent non-Executive Directors

Mr. ZHOU Chunsheng (周春生), 51, 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), 47, 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. From July 2007 to June 2017, Mr. Choi served as the acting chief financial officer of NetEase, Inc., a company listed on NASDAQ, an independent non-executive director and the chairman of the Audit Committee of Tuniu Corporation, a company listed on NASDAQ and Beijing Jingkelong Company Limited, a company listed on the Stock Exchange of Hong Kong Limited.

Mr. Choi is 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), 50, 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. 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..

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

DIRECTOR AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

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

Name	Age	Position
Mr. Jiang Hailin	49	Chief Executive Officer, chairman of the finance committee
Mr. Luo Haibin	41	President
Mr. Mou Yi	51	Chief Financial Officer, general manager of Financial Management Department

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

Mr. LUO Haibin (羅海濱), 41, President. He is responsible for the business operation and daily management 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 and general manager of Zhixun Tiancheng. He has been the legal person of Zhixun Tiancheng, 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 served as the vice president of the Company from February 2015 to March 2018, and has served as the president of the Company since March 2018.

Prior to joining our Group, Mr. Luo served as the marketing director of the Department of Military Network of Beijing Jiaxun Feihong Co., Ltd., 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 17 years of experience in marketing and management.

DIRECTOR AND SENIOR MANAGEMENT

Mr. Mou Yi (牟軼), 51, is the Chief Financial Officer and general manager of Financial Management Department. He is responsible for overall financial management and investment of the Company. Mr. Mou was appointed as chief financial officer of the Company in March 2018, and has severed as general manager of Financial Management Department since October 2009, being responsible for internal financial management. Mr. Mou has served as legal person, executive director and manager of Intelligent Transportation Co., Ltd since July 2012, and has served as the supervisor of Beijing Hongrui Dake Technology Co., Ltd since November 2015. He has also served as the Director of associate Chengdu Zhida Weilute Technology Co., Ltd. since May 2010.

Mr. Mou joined our Group in October 2004 and has served as many roles of the Group. He started as vice president of Beijing RHY Technology Development Co., Ltd. and was then promoted to Group vice president of our Turnkey Solution responsible for the internal and daily operations such as financial control, human resources and other administrative functions of the Turnkey Solution business unit. In addition, Mr. Mou has served as a Director of the Company from October 2008 to June 2009, and served as the vice president of the Company from November 2011 to June 2014. He has also served as the Director of Zhixun Tiancheng from June 2011 to November 2014.

Prior to joining our Group, Mr. Mou served as vice president of Lang Chao Mobile Communication Products Co., Ltd. which is the subsidiary of Inspur International Limited, a company listed on The Stock Exchange of Hong Kong Limited (stock code: 0596), where he was responsible for the overall operational management of the company. Mr. Mou also served as vice president of Shanghai Zarva Software Application and Service Co., Ltd. where he was responsible for domestic sales and the management of branch offices in the PRC. Mr. Mou served as a manager of Legend Computer Group Co. (Qingdao branch) which is the predecessor of Lenovo Group Limited, a company listed on The Stock Exchange of Hong Kong Limited (stock code: 0992), where he was responsible for the sales and software development. Prior to that, he served as a manager of Jinan Tuopu Software Research Centre where he was also responsible for the sales and development of software.

Mr. Mou received a bachelor's degree in science and a bachelor's degree in economics from the Tianjin Nankai University in July 1990. Mr. Mou was qualified as an accountant in December 1992, and senior economist in November 2008. Mr. Mou possesses extensive experience in operational management and internal financial management.

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, 2017.

Set out below is a detailed discussion of the corporate governance practices adopted and observed by the Company for the year ended December 31, 2017.

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, 2017, there were seven Board meetings held, at which the Directors approved, among other things, the audited consolidated results of the Group for the year ended December 31, 2016 and the unaudited consolidated results of the Group for the six months ended June 30, 2017.

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

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

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

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

CORPORATE GOVERNANCE REPORT

Attendance Record

Code Provision A1.1 of the Corporate Governance Code stipulates that the Board should meet regularly and meetings should be held at least four times a year at approximately quarterly intervals. During the year ended December 31, 2017, the Board convened a total of seven Board meetings and there were two meetings for the Audit Committee, one meeting for the Remuneration Committee and one meeting for the Nomination Committee based on the need of the operation and business development of the Company. Details of attendance are as follows:

	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings	General meetings
Executive Directors					
Mr. Liao Jie *(Chairman)*	7/7	N/A	N/A	N/A	1/1
Mr. Jiang Hailin *(Chief Executive Officer)*	7/7	N/A	N/A	N/A	1/1
Non-executive Director					
Mr. Tim Tianwei Zhang	7/7	N/A	N/A	N/A	1/1
Independent Non-executive Directors					
Mr. Zhou Chunsheng	7/7	2/2	1/1	1/1	1/1
Mr. Choi Onward *(FCCA, HKICPA)*	7/7	2/2	1/1	1/1	1/1
Mr. Ye Zhou	7/7	2/2	1/1	1/1	1/1

The Chairman and the Chief Executive Officer

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

Throughout the year ended December 31, 2017, 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, 2017.

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

A summary of the work performed by the Audit Committee during the year ended December 31, 2017 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 one meeting and the draft and final version of the minutes of the Remuneration Committee have been sent to all members of the Remuneration Committee for their comment and records, respectively. All resolutions passed at the meetings were duly recorded and retained by a duly appointed secretary of the meeting or the Company Secretary.

A summary of the work performed by the Remuneration Committee during the year ended December 31, 2017 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 one meeting and draft and final version of the minutes of the Nomination Committee have been sent to all members of the Nomination Committee for their comment and records, respectively. All resolutions passed at the meetings were duly recorded and retained by a duly appointed secretary of the meeting or the Company Secretary.

A summary of the work performed by the Nomination Committee during the year ended December 31, 2017 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, 2017:

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	✔	✔	✔

ACCOUNTABILITY AND AUDIT

Auditor's Remuneration

The remuneration paid to the Company's auditors, during the year ended December 31, 2017 is set out in note 6 on page 124.

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, 2017 is set out on pages 75 to 80.

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, 2017, Mr. Leung has complied with Rule 3.29 of the Listing Rules in relation to taking of relevant professional training.

BOARD DIVERSITY POLICY

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

CORPORATE GOVERNANCE REPORT

SHAREHOLDER RIGHTS

Constitutional Documents

There has been no significant change in the Company's constitutional documents during the year ended December 31, 2017.

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 2017 annual general meeting of the Company (the "**AGM**") will be held on June 21, 2018. 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

TABLE OF CONTENTS

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

I. ABOUT THIS REPORT

This is the second Environmental, Social and Governance Report issued by China ITS (Holdings) Co., Ltd. (the "Company" or "CIC" or "We"). This report mainly introduces the Company's policies regarding environmental, social and governance ("ESG") issues and detailed measures adopted during the reporting period, which 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.

1.1 Basic Information

Scope of Coverage

This report covers CIC 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, 2017 to December 31, 2017.

Basis of Preparation

This report is prepared in accordance with the requirements of the Hong Kong Exchanges and Clearing Limited ("HKEx") Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide").

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1.2 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

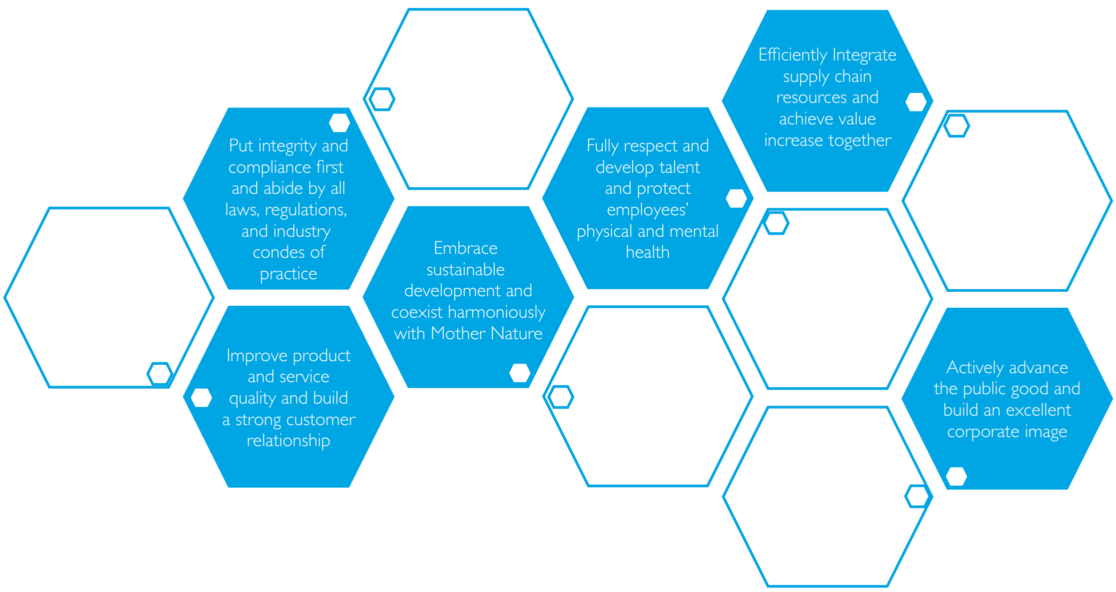
Delivering solutions which enhance safety, efficiency, convenience and sustainability for the transportation industry.

Business Goal

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

Corporate Value

Integrity, Professionalism, Innovation, and People.



1.3 Assessment of the Importance of Issues

Based on the requirements of the HKEx ESG Reporting Guide and by reference to procedures for the substantive analysis of the Global Reporting Initiative ("GRI"), the Company gathered issues concerned by major stakeholders by questionnaires and interviews, analysed and prioritised these issues so as to determine important corporate issues regarding environment, society, and governance and disclose them in the report.

1.3.1 Process of Importance Assessment

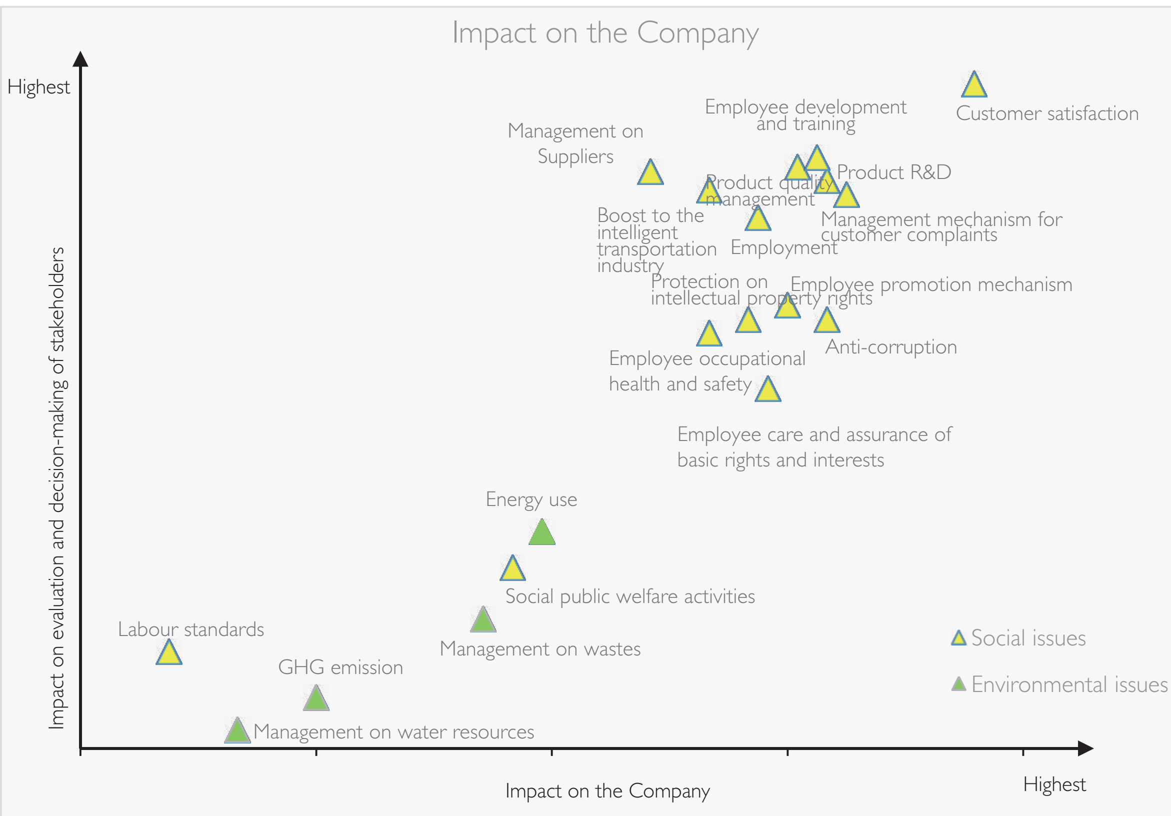
1) Identify ESG issues related to the Company by analysing the HKEx ESG Reporting Guide and the issues disclosed by peers;

2) Invite important stakeholders to assess the importance of the identified issues, among which the internal stakeholders assess such issues mainly from the perspectives of the Company's long-term development strategy, management upgrading, investment priority, and competitive advantages, while external stakeholders assess them from the perspectives of impact on the Company's evaluation and decision-making, as well as on the interests of themselves to produce the first draft of the importance matrix by integrating the assessment of both internal and external stakeholders;

3) Prioritize issues to be reviewed by the management;

4) Solicit feedbacks on the report for the period from internal and external stakeholders after the reporting period to prepare for the next report.

1.3.2 Priority Matrix of Issues



2. COMPLIANCE AND SERVICE

2.1 Eliminating Corruption in Accordance with Law

Corruption is an acne parasitising in the organisation and matters the healthy development of the Company. CIC has placed priority on the compliance to Criminal Law of the People's Republic of China, Anti-Unfair Competition Law of the People's Republic of China and fully abided by laws and regulations concerning anti-corruption, bribery, extortion, fraud, and money laundering. It is committed to establishing an effective and efficient monitoring mechanism for preventing corruption across the organisation.

On the one hand, it strictly complies with regulatory requirements for anti-corruption and gives full scope to the role of the internal joint meeting mechanism for anti-corruption by integrating internal supervision resources relating to auditing, legal compliance, accounting and risk management and putting in place an internal anticorruption 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 has introduced thoroughly thought-out investigation plans to eliminate potential corruption risk exposures and supervision loopholes in internal controls, and formulated anti-corruption measures based on those investigation results, leveraging on the Company's information network platforms.

On the other hand, the Company has committed to increasing employees' awareness of professional ethics and anti-corruption and further increased efforts to education on integrity, to create an atmosphere of integrity. The Company requires its employees to carefully study relevant written rules in the Employee Handbook: Employees are not allowed to use their positions to engage in malpractices and bribery and those who seriously derelict duties will be punished in a stringent way. At the same time, the Company launched relevant trainings to increase employees' awareness of corruption risk prevention.

In addition, the Company has improved its economic business processes and adopted supervision and control procedures at critical and key points, and properly concentrated or decentralised power to form an effective system of checks and balances. In 2017, for example, the Company adopted a market expense reimbursement system, which requires multi-level approvals, secondary review by several persons for several times, to avoid corruption. The Company incorporated anti-corruption clauses in contracts with its core suppliers and customers. Pursuant to these clauses, the supplier should warrant that it will not engage in any economic relation with employees or relatives of the purchaser and declare any affiliation with them. In the event of any de facto affiliation, the supplier should warrant that it will no longer engage in any business with the purchaser.

In 2017, 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. In future, the Company will continue to place priority on anti-corruption and integrity, strengthen supervision of anti-corruption department, expand the scope of external supervision, establish a sound internal audit system, and provide a green guarantee for the healthy development of the Company.

2.2 Active Protecting Intellectual Property Rights

The Company has attached great importance to the protection on intellectual property rights. In terms of management on intellectual property rights, the Company strictly complies with the Patent Law of the People's Republic of China, the Copyright Law of the People's Republic of China, the Trademark Law of the People's Republic of China, and their implementation rules and regulations to prevent any and all acts that infringe on or endanger the lawful rights and interests of the Company on intellectual property. The administrative department has set up intellectual property management posts, introduced and trained intellectual property management professionals, and is responsible for the maintenance, protection, management, and effective use of the Company's intellectual property.

In addition, the Company has established a complete IT management environment, using professional encryption software to ensure the security of the Company's intranet. It realised effective control and full protection on R&D materials, products, and data, preventing the leakage of corporate confidential information and data from the source.

The Company passes on the significance of protection on intellectual property to each employee through promotion and trainings from time to time, in an attempt to encourage and promote the successful protection on intellectual property.

To date, the Company has 35 software copyrights and 4 patents, including 7 software copyrights and 1 patent added in 2017.

2.3 Continuously Strengthening Product R&D

In terms of product R&D, CIC has been driven by users' demand and oriented by market to encourage innovation.

In the management on product R&D, product managers as the persons in charge of product life cycle management are responsible for conducting market research, collecting information on product R&D needs, and submitting results to the R&D team for product development. Based on feedback from users, product managers work with the team's full-time user experience designers to design solutions that enhance the product experience and deliver the solution to the R&D team for product upgrade.

The Company attaches great importance to development of the basic public platform for all R&D products and projects and of the basic platform for other products, to avoid duplicated development of products. By doing so, the Company greatly improves its development efficiency and shortens the development cycle. The Company implements the portfolio management of R&D products, provides customers with a series of product portfolio solutions, realises diversified product configurations, and meets the individual needs of customers, to ensure product diversity and enhance product market competitiveness.

In order to secure the advantageous industry position of product R&D, we introduced and developed industry experts, senior product managers, and technical experts, in an effort to ensure our advantages of technology and business. In addition, we continuously optimise our products to meet the demands of market and users and pledge to update at least two major versions of products that we continuously invest in each year.

In terms of R&D investment, we guarantee an annual increase of more than 20%. In terms of product R&D in 2017, we formed three new products based on market demand and secured a larger market share of advantageous products. In the coming three years, we are going to add three or five product directions each year and develop marketable software products, while continuously improving and optimising existing products.

2.4 Strictly Guaranteeing Product Quality

Fully complying with the Product Quality Law of the People's Republic of China and in adherence to its corporate mission of "making railway communication safer, more efficient, and more convenient with quality service and professional solutions", 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.

In terms of project construction service, the Company as a provider of transportation solutions 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, and set up the goal of project delivery quality that passing grade is 90, if the full marks is 100. Based on varieties of service and products, the Company formulated quality management system, including the General Specifications on Hardware Quality Management. At the same time, it has also set up the Technical and Quality Department to carry out inspections and spot checks on various regional projects. In 2017, the Company completed a number of high-quality railway projects, such as the renovation project of Harbin Railway Station. We not only renovated the look of the station, but also thoroughly upgraded its communication business system, including communication, signal, information, and passenger service information system, office management information system, public security management information system, integrated wiring system, FAS system, and BAS system. To guarantee the project progress, the renovation of the communication information system and the reconstruction of the civil engineering project were carried out in the same period. From equipment installation to system commissioning, we promptly responded to any issues encountered by the client to deliver the project to its satisfaction.

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

In terms of software product quality, the Company has also formulated a series of quality standards, including the *Code for Quality Management on Data Network Product Software* and the *Code for Quality Management* on *Optical Network Product Software*. Our ultimate goal in software management is to deliver products with zero defects to clients and market. We have normative template files for deliverables at each stage in place, including code for product analysis, requirements specification, database design specification, code standard, and code for product delivery. In the specific implementation, the Company assigned full-time QA controllers and introduced experts review at key nodes to ensure high quality products. In 2017, the Company optimised its product flow and key quality control nodes and tried to use jenkins[1] for automated deployments to reduce the quality omissions caused by human involvement.

During the reporting period, the Company had no incident of non-compliance that significantly affects the Group, nor had it any sold or delivered products recalled for safety and health reasons. The Company's business does not involve advertisements, labels, or privacy.

CIC Overseas Project Receiving Gold Quality Award

On the morning of November 1, 2017, GTECH-CIC JV, a joint venture of China ITS and GTECH Services (Hong Kong) Limited, received Gold Quality Award for MTR Contract 849 and its outstanding performance in quality in 2017H2 in Hong Kong MTR Projects Quality, Safety, Environmental and Stakeholder Engagement Awards Presentation Ceremony held by Hong Kong MTR twice a year.

Since its launch in 2010, the Presentation Ceremony is designed to award contractors with outstanding performance in construction and recognise their contributions in quality, safety, environment, and general strength that set a good standard for the industry.

Among more than 100 civil engineering, vehicle, and electromechanical contractors, Contract 849 was highly recognised by the jury and clients and received Gold Quality Award for our outstanding performance in satisfactory installation and commissioning and assurance of testing quality.

1 Jenkins is an open source software programme and a Java-based continuous integration tool. It is used to monitor continuously repeated work and provide an open and easy-to-use software platform, which makes continuous integration of software possible.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The new MTR project includes West Island Line, Kwun Tong Line Extension, South Island Line (east section), Guangzhou-Shenzhen-Hong Kong Express Rail Link (Hong Kong section), and Shatin to Central Link. In early 2010, the main project of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Hong Kong section) broke ground. In 2012, the radio communication system engineering started its public bidding. After a fierce competition, GTECH-CIC JV, a joint venture of CIC — Group Company of Beijing Zhixun Tiancheng Technology Co., Ltd, and GTECH, was the bid winner. As the main body of the project integrator, the Company undertook the technology-related management on all radio communication systems of the entire project and ensured final inspection and acceptance and its management delivery and network operation maintenance and its management delivery.

Throughout the life cycle of Contract 849, the Company had taken high quality requirements and system security as the start point and delivering safe and reliable products and meeting clients' requirements as the goal, from the professional perspective. In terms of project management, Contract 849 Team had continuously explored the management methods and means suitable for the project from the very beginning, while summarizing and solidifying those methods and means with reference to MTR's project management. By doing so, it had gradually formed a set of effective and comprehensive project management methodology suitable for its own actualities. As for the products of subcontractors in an integrated management project, Contract 849 Team rolled out multidimensional management and control on products and subcontractors in terms of design, quality, system assurance, software quality, EMC, production schedule monitoring, and testing, to push forward the project with high standard and stringent requirements.

June 2017, Follow-up Test by Engineers and Technicians

2.5 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, work to their satisfaction, and build a good customer relationship.

In 2017, China ITS attained the goal of 95% customer satisfaction. In order to achieve this goal, the Company established a customer satisfaction evaluation system and conducted surveys on customers in the railway communication segment during and after the project implementation:

Written survey

- Written survey: Using the *Customer Satisfaction Survey Form* to conduct a written survey of customer satisfaction semiannually
- The Engineering Department will collect and classify opinions and suggestions received from customers and distribute related issues to various departments for feedback

Telephone interview

- It is conducted once a month and the *Customer Satisfaction Survey* Form must be completed. Content includes: Customer's evaluation of service quality and complaints, etc.

E-mail survey

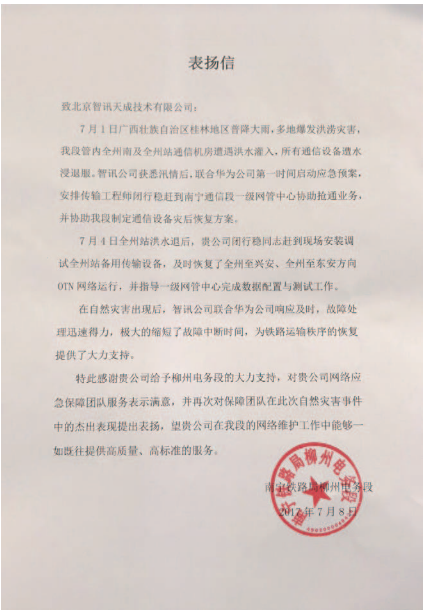
- It is conducted every quarter. Customers complete the *Customer Satisfaction Survey Form* and the Engineering Department collects and classifies such forms

The Company also set up a variety of customer complaint management mechanisms, such as on-site complaint and 400 hotline. The on-site complaint guides customers to complain level by level to simplify the communication process between us and our customers, so that we can promptly respond to and deal with customer complaints. The Company also has 400 hotline technical support and complaint channels to know customers' complaints at the first time. After resolving complaints, we will provide tracking service to know whether customers are satisfied with the solution. If there is still dissatisfaction, we will continue to follow up on customer's request. No complaint is filed directly through 400 hotline this year. Instead, we received commendatory letters for several projects.

Ruthless Disasters, Dauntless CIC!

In July 2017, China suffered high temperature, heavy rain, and lightning attacks everywhere. July was not only the flood season but also the peak period of summer passenger transport. On the one hand, it was an intensive passenger flow. On the other hand, the sudden and lasting rainstorm caused difficulties to several railways. Hengyang-Liuzhou Line and Shenyang-Jilin Line were affected mostly. In front of the storm and flood, CIC's front-line staff teamed up with local railway bureaus to fight for the safety of railway communication systems and ran against clock for the safety of railway transport.

The Company started the emergency plan at the very first time, restored the network operation in time, and instructed the network management center to complete data configuration and testing work. In addition, we established the flood prevention and protection team and activated the 24-hour uninterrupted technical support channel. We actively cooperated with customer maintenance personnel in troubleshooting the communications network, monitoring the network 24 hours a day, and preparing for the safety of railway operation.



表扬信

致北京智讯天成技术有限公司：

7月1日广西壮族自治区桂林地区普降大雨，多地爆发洪涝灾害，我段管内全州南及全州站通信机房遭遇洪水灌入，所有通信设备遭水浸退服。智讯公司获悉汛情后，联合华为公司第一时间启动应急预案，安排传输工程师闭行稳赶到南宁通信段一级网管中心协助抢通业务，并协助我段制定通信设备灾后恢复方案。

7月4日全州站洪水退后，贵公司闭行稳同志赶到现场安装调试全州站备用传输设备，及时恢复了全州至兴安、全州至东安方向OTN网络运行，并指导一级网管中心完成数据配置与测试工作。

在自然灾害出现后，智讯公司联合华为公司响应及时，故障处理迅速得力，极大的缩短了故障中断时间，为铁路运输秩序的恢复提供了大力支持。

特此感谢贵公司给予柳州电务段的大力支持，对贵公司网络应急保障团队服务表示满意，并再次对保障团队在此次自然灾害事件中的杰出表现提出表扬，望贵公司在我段的网络维护工作中能够一如既往提供高质量、高标准的服务。

南宁铁路局柳州电务段

2017年7月8日

At 21:19 on August 8, 2017, a 7.0-magnitude earthquake occurred in Jiuzhaigou county, Aba prefecture, Sichuan province. At 7:27 on August 9, a 6.6-magnitude earthquake occurred in Jinghe county, Boerta, Xinjiang. The service support team of Chengdu Railway Bureau was on standby 24 hours a day, providing on-site security at the network management centre, prioritising customer issues in the seismic region, and continuing to follow up on the equipment status.

3 ENERGY EFFICIENCY AND GREEN DEVELOPMENT

The 19th NPC report highlighted ecological civilization and green development that ushered in a new era of green development. Promoting sustainable development is an unshakable social responsibility of CIC. The Company attaches great importance to green development, strictly abides by laws and regulations related to environmental protection, including the Environmental Protection Law of the People's Republic of China, the Energy Conservation Law of the People's Republic of China, and adheres to the goal of synergistic development of corporate interests, energy conservation and environmental protection. While developing our business, back-stage departments make efforts to logistical support and green development and take various measures to achieve safe, efficient, and smart green development.

3.1 Saving Energy, No Wasting

As a non- non-production high-technology company, CIC actively implements the philosophy of energy saving and consumption reduction to a green and environment-friendly business model.

- In terms of power usage, the Company, in addition to enhancing employees' awareness of saving energy, arranged dedicated personnel patrol the office areas in 5 minutes and 15 minutes after work to turn off lights, air conditioners and other electrical appliances in a timely manner;

- In terms of corporate operation, the Company introduces OA system to realise automation and paperless office, posts the wording of "Saving Paper" in the prominent position next to the printers and copiers, and purchases office supplies as needed;

- In using gasoline,[2] the Administration Department and leaders should give priority to green transport such as metro and bus and reduce the use of business vehicle.

In terms of the use of water resources[3], the Company actively promotes water conservation, sets up water-saving tips, and encourages the reuse of water. For example, cleaners use waste water to flush toilets.

During the reporting period, the Company's total power consumption was 1,066,558.88 kWh, and its power consumption intensity was 540.54 kWh/m2.

The Company's operations do not generate packaging materials, as our products are directly distributed to customers by Huawei, the supplier.

2 Gasoline consumption: The improved statistical procedure for gasoline consumption is not established yet in the reporting period and the Company will make its statistics and disclose in the next reporting year. Energy consumption is not an important issue for the Company.

3 Total Water Consumption and Density: The clean water fee is included in the building property fee and cannot be counted. The use of water resources is not an important issue for the Company.

3.2 Controlling Emissions, Reducing Pollution

Solid wastes of the Company mainly come from the office process, including ink cartridges, toner cartridges, fluorescent tubes, batteries, and paper. We hand over hazardous solid waste (mainly ink cartridges, toner cartridges, fluorescent tubes, batteries, etc.) to qualified third party to disposal of and other non-hazardous solid wastes (mainly paper, etc.) to recycling station. In terms of wastes management, the Company formulated a solid wastes management plan for 2018 during the reporting period, requiring scientific classification, collection, and disposal of solid wastes. In addition, we are striving to decrease emissions of wastes by 10% in 2018 by enhancing employees' awareness of environmental protection in the form of trainings.

Wastes generation data:

	Wastes	Weight [4] (kg)	Per capita intensity (kg/person)
Hazardous wastes	Ink cartridge	176.40	0.50
	Toner cartridge	126	0.36
	Fluorescent tube	24	0.07
	Battery	72	0.21
Non-hazardous wastes	Paper	3,900	11.11

The Company's greenhouse gas emissions mainly come from official vehicle exhaust and office power consumption. During the reporting period, the Company produced 650.71 tons of CO2 equivalent through the use of electricity [5]. In order to reduce greenhouse gas emissions, the Company advocates low-carbon travel for its employees. It continues to adopt low-energy and low-emission equipment when purchasing office equipment. In addition, it strengthens the green plant deployment in the Company and creates a healthy office environment.

In 2017, 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.

4 Total wastes generated are calculated from monthly average production.

5 Subject to the Notice of the General Office of the National Development and Reform Commission concerning Carbon Emission Reports and Verification and the Preparation of Emission Monitoring Plan for 2016 and 2017, the emission factor is the average national grid emission factor for 2015, which is 0.6101tCO2/MWh.

4 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.

4.1 Employment and Employee Benefits

The Employee Handbook compiled and implemented by the Company contains the Company's main human resources policies, including the employees' code of conduct, hiring and dismissal, compensation and benefits, training and performance management, and employee communication and appeals. The contents of the Employee Handbook are in compliance with the relevant laws, including the Labour Contract Law and the Labour Law. The Company strictly abides by the aforesaid laws, regulations and handbooks and provides guidelines for employees.

The Company upholds the concept of long-term employment, insists on equal pay for equal work and equality between men and women, and prohibits the use of child labour and forced labour. In recruiting, the Company will not discriminate any employee based on gender, ethnicity, geography, cultural background, etc., and sign labour contracts with employees in a timely manner. In addition, it implements paid annual leave system to ensure regular work and vacation of employees. At present, the Company has a total of 351 employees. The relevant indicators are shown in the chart below:

Indicator	Unit	Value
Male employees	Person	254
Female employees	Person	97
Number of employees who have signed labour contract	Person	350
Number of employees who have signed labour service agreement	Person	1
Beijing-based employees	Person	253
Non-local employees	Person	98

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. Moreover, employees are entitled to a series of other benefits including holiday gifts, birthday gifts, food and transportation allowances, marriage and maternity gifts that effectively strengthen employees' sense of belonging.

The Company has a public platform such as the OA system and WeChat public account, which serves as a channel for the Company to communicate with employees and departments. All company rules and regulations are formulated in accordance with legal requirements and announced on the aforementioned platforms. If necessary, employees may appeal and receive feedbacks through this platform. The public platform promotes safe and effective communication between employees and the Company.

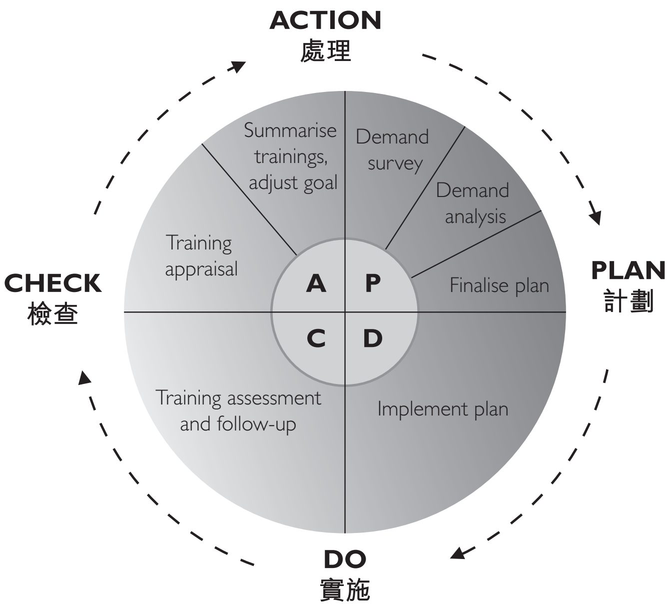
In 2017, the Company had no labour disputes caused by violations of laws and regulations, child labour or forced labour, and social insurance violations or defaults.

4.2 Employee Training and Development

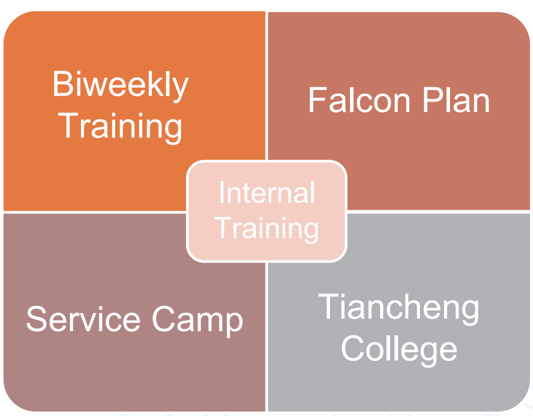
Market competition in railway communications industry continues to grow. In order to actively respond to market competition and further enhance the core competitiveness of enterprises, CIC strengthens effective training and management of human resources and strives to make learning as an important part of the Company's core competitiveness and corporate culture under the guidance of training culture of "open, unified, innovation, and sharing". The Company continued to integrate internal and external training resources. Guided by employees' professional development needs, it gradually built a three-dimensional and multi-level training system covering all employees that comprehensively improved their professional capabilities so as to ensure the continued healthy development of the Company.

4.2.1 Internal Training

In the internal training, the Company pays attention to improving the managerial staff management skills and staff business skills, and establishes a standardized training model and system, namely, Plan — Do — Check — Action (PDCA closed-loop principle).



PDCA closed-loop principle: Each training is performed according to scientific management procedures



The Company has carried out various forms and wonderful training activities, including:

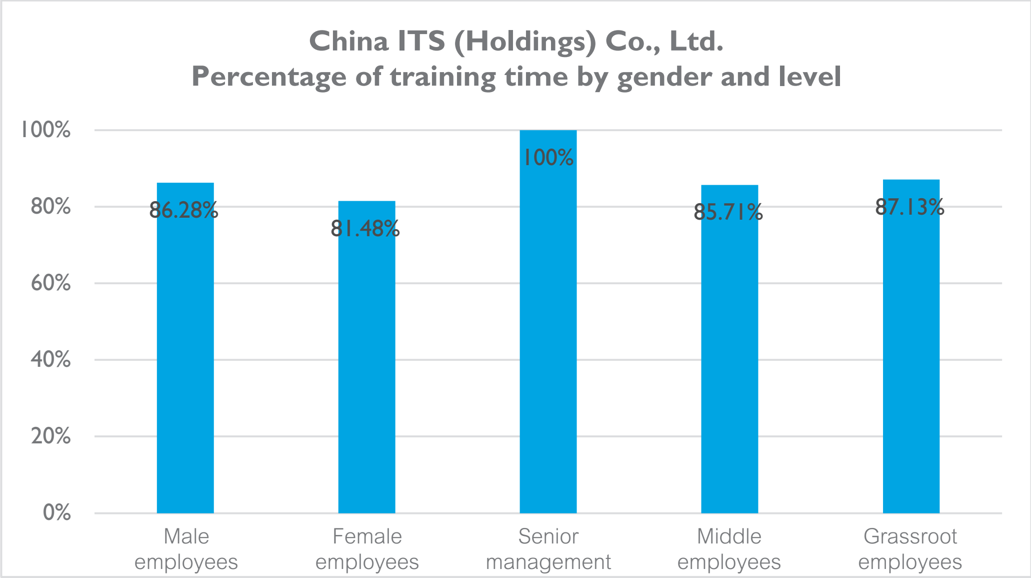
- "Biweekly Training": Internal exchange learning within the region, which is organised once every two weeks. Participating staff are all employees within the region and it has a variety of learning forms, including case sharing, project seminars, video learning, and regional exchanges. Learning mainly focuses on the issues encountered in all aspects of the business process. Through in-depth analysis, it improves knowledges and skills of each key node. The "Biweekly Training" involves the Company's 11 offices and 5 major system departments, covering the Company's personnel in all regions and strengthening the professional skills of the employees in the region through a comprehensive internal learning system.

- "Falcon Plan": The Company's salesperson skills advanced training camp, from which employees can learn methods to secure orders from the market and strategies to run projects to improve their sales skills and provide necessary knowledge and skills for obtaining market share in communications.

- "Service Camp": The post-platform ability promotion training camp, which is based on general management courses and the participants in which are mostly service support personnel. It is aimed to improve the service level and occupational quality.

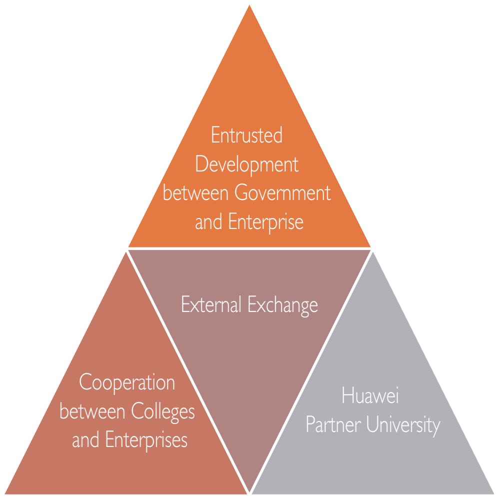
- "Tiancheng College": The entity organisations managed by the Tiancheng Group leaders, which advocates the learning culture of "reading after practicing"; uses the "greatness in simplicity, realisation at Tiancheng; knowledge as action, live and learn" as the school motto; strengthens strategic recognition and cultural identity; trains, selects, and generates cadres; teaches the methodologies required for the Company's management personnel to work with; and realizes the strategic goal of developing talents in the organization. The president and other leaders of the Company attach great importance to and participate in such trainings in succession in order to be better equipped for future work.

In 2017, the per capita training time of the Company's employees was 36.29 hours. The proportion of training time was divided by gender and level, as shown in the following figure:



4.2.2 External Exchange of Talents

While conducting internal trainings, the Company also pays attention to the external exchange of excellent talents.



- "Entrusted Development between Government and Enterprise": The Company maintains close cooperation relationship with the talent resources market in Haidian District, Beijing. In 2017, the Company trained a total of 26 people in 8 months. The training programmes mainly include "high-end leading talents", "high-end leading entrepreneurs", and "specific talent promotion for Zhongguancun strategic emerging industries". It focuses on development of business thinking of corporate managerial staff, promotes strategic deployment of enterprises, enhances innovation capabilities of the management, and explores and recognizes the frontier areas;

- "Cooperation between Colleges and Enterprises": Cooperation with a-list Chinese colleges and universities on development of human resources. For example, the Company signed the "Framework Agreement on Strategic Cooperation" with Renmin University of China, under which the Company may send 10 middle and senior management personnel to attend courses such as CHO, CFO, and MBA; in addition, the Company maintains close cooperation relationship with Tsinghua University and Beijing Jiaotong University;

- "Huawei Partner University": Close cooperation with Huawei. Based on the existing training needs, the Company and Huawei jointly launch training programmes, including Project Management: Improving Strategic Execution and McKinsey Pyramid Principle and Logic Thinking. In addition, the Company continuously participates in Huawei's programmes such as Peers Lecture and Huawei Mini-EMBA. As a strategic partner of Huawei, the Company keeps up with Huawei in management and thinking.

4.2.3 Promotion of Employees

The Company gives its employees plenty of rooms to develop, encourages employees to play to their own strengths and expertise, and guides them to be excellent in areas they are good at. The Company establishes dual channels of career development, namely management channels and professional/technical channels. Based on a comprehensive consideration of Company needs, employees' personal circumstances and professional interests, employees can choose different career development paths.

The Company has established an inventory system for qualifications. Each year, the Human Resources Department conducts an inventory of existing personnel according to the qualification model of the Company's position, and finally assesses whether employees meet the requirements of the position through assessment, examination and defense. In addition, the Company will comprehensively assess the employee's ability according to the results of the annual performance appraisal, capability evaluation and employee debriefing, and provide employees with promotion opportunities based on the assessment results and job requirements. In 2017, the Company's qualification inventory system identified not only "1" and "0", i.e. "qualified and unqualified", but also "1" and "N", i.e. qualification level. For example: Through qualification review, an employee applying for the position of senior account manager can be judged not only whether he/she is qualified for the position, but also what level of the position he/she should be at. The Company has incorporated the improvement of employees' ability to work within the scope of the inventory system and helped employees constantly improve their readiness and opportunities for promotion in light of their job descriptions.

4.3 Employee Occupational Health and Safety

The Company has always been paying attention to the occupational health and safety of its employees and strictly abided by relevant laws and regulations, including the Law of the People's Republic of China on Safe Production and the Law of the People's Republic of China on Prevention of Occupational Diseases.

The Company organises physical examinations for its employees every year and designs targeted physical examination items by gender and age. After the annual physical examination, the Company communicates with the employees for their experience and suggestions on physical examination, and adjusts items in time according to their needs.

China ITS 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. For the employees who suffer accident, the Company gives active support and rescue. In the meantime, the Company invites health experts to give lectures on health to employees from time to time and organises various sports activities to promote employees' physical and mental health.

In order to better protect the health of its employees, the Company has installed air purification device that can prevent haze in the building's fresh air system, eliminates suspended particles such as dust, smoke, pollen and large filter pathogens in indoor air and kills germs and microorganisms attached to suspended pollutants through specialized equipment, to effectively and completely purify the air. It is shown by the third-party PM2.5 detector that the indoor PM2.5 index of the air-purified headquarter building is better than the "excellent" standard value (daily average concentration is not higher than 35μg/m3) of the Ambient Air Quality Standard released by the State in 2012, to ensure that employees can work in a fresher indoor environment.

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 2017, the Company had no employees died due to work-related accidents, and the lost working days due to work-related injuries are 0.

4.4 Employee Care and Entertainment

4.4.1 Employee Care

The Company is people-centered and provides employees with employee care by multiple means, in addition to space for career development:

- On holidays, Company leaders visit the frontline staff in person in all regions, distribute holiday gifts, and keep abreast of employees' living conditions and actual needs. They also communicated with employees in depth to lift their pressures on life and work.

- Caring for employees' diet safety. CIC sets up staff canteens to control food safety. In addition, the Company provides green non-pollution vegetables every week, which is favored by employees.

- Caring for the work environment of employees. The office building being renovated has multi-function areas, work areas, fitness areas, leisure areas, etc., providing comfortable working conditions for employees.

- Caring for female employees. From the perspective of protecting the rights and interests and physical and mental health of female employees, CIC provides female employees with lectures on the prevention of gynecological diseases. On each May 8, female employees will receive a warm gift and enjoy a half-day holiday.

- Offering holiday gifts and allowances. The Company offers customized gifts on holidays and deliver them to their homes, making their family feel the warmth of the Company.

- Celebrating employee birthdays. The Company organises employee birthday party from time to time, making employees feel family-like warmth.

- The Company provides employees with convenient shuttles and fitness membership.

4.4.2 Rich Cultural and Sports Activities

In each May or June, the Company organises spring outing for all employees on the periphery of Beijing. By doing so, employees have a chance to be closer with nature and relax. In addition, the Company has funds for team building activities, and each department organises meaningful activities on its own, such as ball activities, cycling activities, outskirts, and seminars, which effectively enhances the cohesion of the department.

Yudushan Spring Outing in 2017

Organising Team Building Activities

5 PARTNERSHIP BUILDING AND SOCIAL CONTRIBUTION

5.1 Supplier Cooperation and Management

China ITS has the firm conviction that cooperation is an indispensable driver 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. For suppliers that take part in competitive bidding, only those that are assessed to be qualified in terms of safety, quality, business reputation and other indicators are included in the supplier database. 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 40 frequently used suppliers in the Company's supplier database.

5.2 Engaging in Public Welfare, Performing Corporate Social Responsibility

China ITS actively participates in community public welfare undertakings, assumes the corporate social responsibilities and obligations, feeds back the society with responsibilities and public welfare, and establishes a good corporate image. The Company is committed to integrating the concept of social charity into corporate culture, enabling volunteer services to reach the grassroots and the people, and sublimating corporate culture in public welfare activities, to improve employees' sense of honor.

On June 12, 2017, CIC employees visited Wangjiabang Primary School in Pingshan, Hebei, with gifts from all employees. We brought a variety of articles such as beautiful school bags, new skipping ropes, and shuttlecock to the students. We also sang and laughed with children in the open space.

In addition, the Company has also developed new social welfare programmes:

1. **Children's Day Activities**

   The Company provides employees with time off to spend with their children for the Children's Day, with plans to organize aid trips to poor mountainous areas where employees and their children will experience and know about different kinds of life otherwise unknown to them, with a view to inculcating traditional virtues such as diligence and frugality in the children. The Company will also call on employees to donate money and materials to bring warmth and care for children in poor mountainous areas.

2. **Aid to Schools in Mountainous Areas**

   The Company will set up a targeted sponsorship program for poor students at Zijingguan Primary School in a mountainous area of Yi County, Hebei, with continuous follow-up on their development, and will launch more similar programs.

6 LEADING INDUSTRY, PROMOTING DEVELOPMENT

China ITS is a professional system solution and service provider. After years of accumulation and development, the Company has become a hi-tech enterprise group in rail transportation and intelligent aviation. To date, Zhixun has involved in many railway lines, including Beijing-Shanghai, Beijing-Guangzhou, Harbin-Dalian, Taiyuan-Zhongwei (Yinchuan), Xi'an-Chengdu, Lanzhou-Xinjiang, Baoji-Lanzhou, Hangzhou-Changsha, and Changsha-Kunming lines. These projects amounted to hundreds of millions yuan. The market share in transmission, connection, data, and wireless products ranked first in the communication industry, accounting for more than 80%.

During the 13th Five-Year Plan period, the China National Railway Corporation will increase investment in railway construction, from four vertical lines and four horizontal lines to eight vertical lines and eight horizontal lines. This change of big picture is another opportunity for the Company to develop. CIC will continue to use its advantages on close combination of industry and capital, close attention paid by the industry, and in-depth integration of businesses. Based on the synergic effect of the three business modes, the Company will increase the reserve of human resources, improve skills of existing employees, and improve all systems such as KPIs and post assessment. At the same time, the Company will continue to improve its product R&D, project management, market development and customer service system and realise the effective management and quality control from planning and construction to delivery and operation maintenance, so as to provide customers with one-stop service on all aspects.

The Company hopes to keep up with the rapid growth of market through strategic deployment, and promote the corporate value of "integrity, professionalism, innovation, and people", and rely on our performance and reputation gained from the intelligent transportation industry, to promote the development of China's intelligent transportation industry and gradually established itself as a leader in the industry.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

ESG Reporting Guide		Page	Content	
Subject Area A. Environment				
Aspect A1: Emissions				
A1	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	42 42 43	3 3.1 3.2	Energy Efficiency and Green Development Saving Energy, No Wasting Controlling Emissions, Reducing Pollution
A1.1	The types of emissions and respective emissions data.	43	3.2	Controlling Emissions, Reducing Pollution
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	43	3.2	Controlling Emissions, Reducing Pollution
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	43	3.2	Controlling Emissions, Reducing Pollution
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	43	3.2	Controlling Emissions, Reducing Pollution
A1.5	Description of measures to mitigate emissions and results achieved.	43	3.2	Controlling Emissions, Reducing Pollution
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	43	3.2	Controlling Emissions, Reducing Pollution

ESG Reporting Guide		Page	Content
Aspect A2: Use of Resources			
A2	General Disclosure Policies on the efficient use of resources (including energy, water, and other raw materials).	42	3.1 Saving Energy, No Wasting
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	42	3.1 Saving Energy, No Wasting
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	42	3.1 Saving Energy, No Wasting
A2.3	Description of energy use efficiency initiatives and results achieved.	42	3.1 Saving Energy, No Wasting
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	42	3.1 Saving Energy, No Wasting The Company mainly uses water for cleaning office building and has not found any problem in obtaining suitable water sources.
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			
A3	General Disclosure Policies on minimising the issuer's significant impact on environment and natural resources.	42	3 Energy Efficiency and Green Development
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	42	3 Energy Efficiency and Green Development

ESG Reporting Guide		Page	Content
Subject Area B. Social			
Employment and Labour Practices			
Aspect B1: Employment			
B1	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	44 50	4.1 Employment and Employee Benefits 4.4 Employee Care and Entertainment
B1.1	Total workforce by gender, employment type, age group, and geographical region.	44	4.1 Employment and Employee Benefits
Aspect B2: Health and Safety			
B2	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	49	4.3 Employee Occupational Health and Safety
B2.1	Number and rate of work-related fatalities.	49	4.3 Employee Occupational Health and Safety
B2.2	Lost days due to work injury	49	4.3 Employee Occupational Health and Safety
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	49 50	4.3 Employee Occupational Health and Safety 4.4 Employee Care and Entertainment

ESG Reporting Guide		Page	Content
Aspect B3: Development and Training			
B3	General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	45	4.2 Employee Training and Development
B3.1	The percentage of employees trained by gender & employee category (e.g. senior management, middle management).	45	4.2 Employee Training and Development
B3.2	The average training hours completed per employee by gender and employee category.	45	4.2 Employee Training and Development
Aspect B4: Labour Standards			
B4	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have significant impact on the issuer relating to preventing child and forced labour.	44	4.1 Employment and Employee Benefits
B4.1	Description of measures to review employment practices to avoid child and forced labour.	44	4.1 Employment and Employee Benefits
B4.2	Description of steps taken to eliminate such practices when discovered.		Undisclosed
Operating Practices			
Aspect B5: Supply Chain Management			
B5	General Disclosure Policies on managing environmental and social risks of the supply chain	51	5.1 Supplier Cooperation and Management
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	51	5.1 Supplier Cooperation and Management

ESG Reporting Guide		Page	Content
Aspect B6: Product Responsibility			
B6	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	36	2.4 Strictly Guaranteeing Product Quality
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	36	2.4 Strictly Guaranteeing Product Quality
B6.2	Number of products and service related complaints received and how they are dealt with.	40	2.5 Customer Relationship Building
B6.3	Description of practices relating to observing and protecting intellectual property rights.	35	2.2 Active Protecting Intellectual Property Rights
B6.4	Description of quality assurance process and recall procedures.	36	2.4 Strictly Guaranteeing Product Quality
Aspect B7: Anti-Corruption			
B7	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	34	2.1 Eliminating Corruption in Accordance with Law
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	34	2.1 Eliminating Corruption in Accordance with Law
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	34	2.1 Eliminating Corruption in Accordance with Law

ESG Reporting Guide		Page	Content
Community			
Aspect B8: Community Investment			
B8	General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	52	5.2 Engaging in Public Welfare, Performing Corporate Social Responsibility
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	52	5.2 Engaging in Public Welfare, Performing Corporate Social Responsibility

REPORT OF THE DIRECTORS

The Board presents its report together with the audited consolidated results of the Group for the year ended December 31, 2017.

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 segment 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 88 to 89.

RESULTS AND DIVIDEND

The consolidated results of the Group for the year ended December 31, 2017 are set out on pages 81 to 87 of this annual report.

The Board recommended that no dividend will be declared for the year ended December 31, 2017.

BUSINESS REVIEW

The business review of the Group as at December 31, 2017 is set out under the section headed "Management Discussion and Analysis" of this annual report on pages 10 to 14.

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 45 to the financial statements of the Company for the year ended and as at December 31, 2017 on pages 173 to 177 for the discussion of such risks.

REPORT OF THE DIRECTORS

KEY RELATIONSHIPS

Employees

Please refer to the section headed "environmental, social and governance report — 4 EMPLOYEE CARE AND DEVELOPMENT" on page 44 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, 2017, 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, 2017, 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 — 3 ENERGY EFFICIENCY AND GREEN DEVELOPMENT" on page 42 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, 2017 and up to the date of this report, we have complied with all the relevant laws and regulations in the mainland China.

PROPERTY AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements on pages 135 to 137.

SHARE CAPITAL

Details of the movement in the Company's share capital during the year ended December 31, 2017 are set out in note 32 to the consolidated financial statements on page 154.

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, 2017 are set out in note 33 to the consolidated financial statements on page 154. As at December 31, 2017, the Group's distributable reserve is RMB1,501,149,000.

REPORT OF THE DIRECTORS

CHARITABLE DONATIONS

The Company made no charitable donations during the year ended December 31, 2017.

DIRECTORS

The Directors who held office during the year ended December 31, 2017 and up to the date of this annual report are:

	Last Re-election Date
Executive Directors	
Mr. Liao Jie *(Chairman)*	May 20, 2016
Mr. Jiang Hailin *(Chief Executive Officer)*	May 20, 2016
Non-executive Director	
Mr. Tim Tianwei Zhang	May 23, 2017
Independent Non-executive Directors	
Mr. Zhou Chunsheng	May 26, 2015
Mr. Choi Onward *(FCCA, HKICPA)*	May 23, 2017
Mr. Ye Zhou	May 23, 2017

In accordance with Article 84 of the Articles of Association of the Company and the Listing Rules, Mr. Liao Jie and Mr. Jiang Hailin shall retire by rotation, and being eligible, have offered themselves for re-election as Directors at the forthcoming annual general meeting. Mr. Zhou Chunsheng will not offer himself for re-election at the forthcoming annual general meeting.

Biographies of Directors and senior management of the Company are set out on pages 15 to 19 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.

REPORT OF THE DIRECTORS

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

Save as disclosed below, as at December 31, 2017, 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, 2017[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	631,318,625(L)	38.17%(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 629,462,777 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.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as otherwise disclosed in this annual report, at no time during the year ended December 31, 2017, 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, 2017.

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, 2017.

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 125 to 127.

EMPLOYMENT AND EMOLUMENT POLICIES

As at December 31, 2017, the Group had 350 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, 2017, a total of 7,927,257 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, 2017 is as follows:

Grantee	Grant date	Vesting start date	Expiry date	Outstanding as at January 1, 2017	Exercised during the year ended December 31, 2017	Lapsed or cancelled during the year ended December 31, 2017	Outstanding as at December 31, 2017	Exercise price per share (RMB)
All	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:				**18,565,461**	**-**	**10,638,204**	**7,927,257**	

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, 2017 is as follows:

Grantee	Grant date[1]	Vesting start date	Expiry date	Outstanding as at January 1, 2017	Exercised during the year ended December 31, 2017	Lapsed or cancelled during the year ended December 31, 2017	Outstanding as at December 31, 2017	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, 2017	Exercised during the year ended December 31, 2017	Lapsed or cancelled during the year ended December 31, 2017	Outstanding as at December 31, 2017	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	–	4,646,235	1,758,199	1.05
	18/01/2012	July 19, 2012	Note (2)	6,404,434	–	4,646,235	1,758,199	1.05
	18/01/2012	October 19, 2012	Note (2)	6,404,434	–	4,646,235	1,758,199	1.05
	18/01/2012	January 19, 2013	Note (2)	6,404,434	–	4,646,235	1,758,199	1.05
	18/01/2012	April 19, 2013	Note (2)	9,347,146	–	6,691,234	2,655,912	1.05
	18/01/2012	July 19, 2013	Note (2)	9,347,146	–	6,691,234	2,655,912	1.05
	18/01/2012	October 19, 2013	Note (2)	9,347,146	–	6,691,234	2,655,912	1.05
	18/01/2012	January 19, 2014	Note (2)	9,347,146	–	6,691,234	2,655,912	1.05
	18/01/2012	April 19, 2014	Note (2)	12,289,858	–	8,736,241	3,553,617	1.05
	18/01/2012	July 19, 2014	Note (2)	12,289,858	–	8,736,241	3,553,617	1.05
	18/01/2012	October 19, 2014	Note (2)	12,289,858	–	8,736,241	3,553,617	1.05
	18/01/2012	January 19, 2015	Note (2)	12,334,736	–	8,768,567	3,566,169	1.05
Sub–total				112,210,630	–	80,327,166	31,883,464	
TOTAL:				**155,000,000**	**–**	**80,327,166**	**74,672,834**	

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, 2017, 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	629,462,777	38.06%
Best Partners[2]	Interest of controlled corporation	Long position	629,462,777	38.06%
Fino Investment Limited[3]	Interest of controlled corporation	Long position	629,462,777	38.06%
Tesco Investments Limited[4]	Interest of controlled corporation	Long position	629,462,777	38.06%
Credit Suisse Trust Limited[3][4][5]	Trustee	Long Position	589,007,762	35.61%
Pioneer Investment Management Limited	Investment manager	Long Position	166,340,000	10.06%
Pioneer Asset Management S.A.	Investment manager	Long position	149,529,000	9.04%
Ampio International Limited[5]	Interest of controlled corporation	Long position	90,424,662	5.47%
Penbay Investments Limited[6]	Beneficial owner	Long position	98,613,367	5.96%
Chen Qi[6]	Interest of controlled corporation	Long position	98,613,367	5.96%

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, 2017, Holdco is entitled to exercise or control the exercise of the voting rights of a total of 629,462,777 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. 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 10,000,000 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, 2017.

EVENTS AFTER THE REPORTING PERIOD

Reference is made to the announcement and circular of the Company dated February 17, 2016 and March 24, 2016, respectively, in relation to the very substantial disposal (the "**VSD**") by the Company as disclosed in the announcement and the circular. As disclosed in the announcement of the Company dated April 9, 2018, as at December 31, 2017, approximately RMB508.5 million (the "**Outstanding Receivables**") of the consideration for the VSD and other amounts in connection with the VSD payable by the purchaser and its affiliates (together the "**Purchaser Group**") were outstanding.

On April 16, 2018, the Purchaser Group pledged 75% of the equity interests in Beijing RHY Technology Development Co., Ltd. (the "**Pledged Equity**") to Beijing Aproud Technology Co., Ltd., a wholly-owned subsidiary of the Company, to secure the Purchaser Group's payment obligations of the Outstanding Receivables. The Pledged Equity is valued at approximately RMB641.7 million by an independent valuer engaged by the Group.

MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES

Acquisition of Chengdu Zhongzhi Runbang

On March 24, 2017, certain subsidiaries of the Company, entered into the Equity Transfer Agreement with Beijing Guangwei Xingye Technology Co., Ltd., Chengdu Zhongzhi Runbang Transportation Technology Co., Ltd. and the Founders, pursuant to which the Group acquired 100% equity interest in Chengdu Zhongzhi Runbang from Beijing Guangwei Xingye Technology Co., Ltd. for a consideration of RMB92,000,000. Please refer to the announcement of the Company dated March 24, 2017 for details.

Subscription of Shares

On July 15, 2017, Beijing Aproud Technology Co., Ltd., ("**Subscriber**"), an indirect wholly-owned subsidiary of the Company, entered into the Share Subscription Agreement with Forever Opensource Co., Ltd. ("**Forever Opensource**"), pursuant to which the Subscriber agreed to subscribe for 8,445,945 shares in Forever Opensource at a consideration of RMB49,999,994.40. All the conditions set out in the Share Subscription Agreement have been satisfied and the completion of the subscription take place on September 18, 2017. Please refer to the announcement of the Company dated July 17, 2017 for further details.

Disposal of Intelligent Aviation

On October 16, 2017, Tibet Intelligent Aviation Transportation Technology Co., Ltd. ("**Tibet Intelligent Aviation**") entered into an asset purchase agreement with Forever Opensource Co., Ltd. ("**Forever Opensource**"), pursuant to which Tibet Intelligent Aviation sold 50% equity interest in Intelligent Aviation System Co., Ltd. ("**Intelligent Aviation**") for a total consideration of RMB37,740,000, which was satisfied by the issuance of 6,290,000 shares by Forever Opensource at the issue price of RMB6.0 per share ("**Disposal**"). The 50% equity interest of Intelligent Aviation has been transferred to Forever Opensource on November 21, 2017. Upon the completion of such transfer, Intelligent Aviation ceased to be a subsidiary of the Company and the financial results of Intelligent Aviation are no longer consolidated into the consolidated financial statements of the Group. The remaining 50% equity interest in Intelligent Aviation held by the Company is accounted for as investment in joint ventures in the consolidated statement of financial position of the Company. The issuance of the Consideration Shares have been completed on April 26, 2018. Please refer to the announcement of the Company dated October 17, 2017 for further details.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2017, the aggregate sales to the Group's five largest customers, in aggregate represented approximately 16% of the Group's total revenue and sales to the Group's largest customer amounted to approximately 4.4% of the Group's total revenue.

For the year ended December 31, 2017, the aggregate purchases attributable to the Group's five largest suppliers, in aggregate represented approximately 65.9% of the Group's total purchases and purchases attributable to the Group's largest supplier amounted to approximately 25.5% of the Group's total purchases.

For the year ended December 31, 2017, 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, 2017 are set out in note 30 to the consolidated financial statements on page 151 to 152.

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, 2017, the Company has maintained sufficient public float as required under the Listing Rules.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated February 17, 2016 and the circular of the Company dated March 24, 2016 regarding the disposal of certain companies (the "**Disposal Group**") previously owned by the Company (i.e. the VSD) and the continuing connected transactions which arose in connection with such disposal.

Framework Sales Agreement

As disclosed in the aforementioned announcement and circular, on February 17, 2016, Zhixun Tiancheng, Zhongzhi Runbang and Zhongtian Runbang (the "**Framework Agreement Suppliers**"), each being a subsidiary of the Company, entered into a framework sales agreement with Beijing RHY Technology Development Co., Ltd. ("**Beijing RHY**") pursuant to which the Framework Agreement Suppliers would sell their products to Beijing RHY with effect from December 31, 2016, the date of the offshore closing in the VSD, to December 31, 2018.

As Beijing RHY is an associate of Mr. Jiang Hailin and Mr. Liao Jie, who are Directors, and Holdco, a substantial shareholder of the Company, the Framework Sales Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company and are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Framework Sales Agreement was approved by independent shareholders at an extraordinary general meeting of the Company held on April 27, 2016.

The approved annual cap for the Framework Sales Agreement for the year ended December 31, 2017 was RMB6,000,000. The sale of products by the Framework Agreement Suppliers to Beijing RHY for the year ended December 31, 2017 was approximately RMB3,360,000.

The post-closing financial assistance

As disclosed in the aforementioned announcement and circular, prior to the VSD, certain subsidiaries of the Company, as lenders, have entered into loan agreements with the Target Companies and/or their subsidiaries, as the Borrowers, pursuant to which the lenders have provided loans to the Borrowers. Some of these loan agreements are remain in effect after December 31, 2016, the date of the offshore closing in the VSD.

Upon completion of the offshore closing, as Borrowers are associates of Mr. Jiang Hailin and Mr. Liao Jie, who are Directors, and Holdco, a substantial shareholder of the Company, the Post-closing Loan Agreements and the loans provided thereunder constitute financial assistance provided by the Group to its connected persons.

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

The maximum aggregate amount of the Post-closing Loan Agreements for the year ending June 30, 2017 is RMB297,407,320. The principle and interest as stipulated in the Post-closing Loan Agreements and supplemental agreement had been fully settled by the Borrowers within 6 months from the offshore closing date.

The Post-closing Guarantees

As disclosed in the aforementioned announcement and circular, prior to the VSD, the Disposal Group has obtained certain banking facilities from banks, which are guaranteed by certain subsidiaries of the Company. Such Post-closing Banking Facilities are expected to remain in effect after December 31, 2016, the date of the offshore closing in the VSD.

Upon completion of the Offshore Disposal, as each of the Bank Borrowers is an associate of Mr. Jiang Hailin and Mr. Liao Jie, who are Directors, and Holdco, a substantial shareholder of the Company,the Post-closing Guarantees in favour of the relevant banks given by subsidiaries of the Company in respect of the Post-closing Banking Facilities constitute financial assistance provided by the Group to its connected persons and are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Post-closing Guarantees were approved by independent shareholders at an extraordinary general meeting of the Company held on April 27, 2016.

The approved maximum aggregate amount of the Post-closing Guarantees for the years ending December 31, 2017 was RMB230,000,000. The guarantee provided by the Group to the Bank Borrowers for the year ended December 31, 2017 was RMB230,000,000.

Please refer to the announcement of the Company dated February 17, 2016 and the circular of the Company dated March 24, 2016 for further information regarding the Framework Sales Agreement, The post-closing financial assistance, the Post-closing Guarantees.

The independent non-executive Directors have reviewed all the above-mentioned continuing connected transactions and confirmed that during the year ended December 31, 2017, these transactions have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Save as disclosed above, the Company had no other non-exempt continuing connected transaction or non-exempt connected transaction for the year ended December 31, 2017.

RELATED PARTIES TRANSACTIONS

The Group was involved in a number of related party transactions during the year ended December 31, 2017, which have been disclosed in note 42 to the consolidated financial statements on pages 166 to 169.

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, 2017 or any time during the year ended December 31, 2017.

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, 2017 and found that the Non-competition Agreement has been fully complied with.

REPORT OF THE DIRECTORS

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, 2017.

Detailed information on the corporate governance practice adopted by the Company is set out in the Corporate Governance Report on pages 20 to 29.

AUDIT COMMITTEE

The Group's annual report for the year ended December 31, 2017 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 23 to 24.

AUDITOR

The consolidated financial statements of the Group for the year ended December 31, 2017 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, May 3, 2018

INDEPENDENT AUDITORS' REPORT

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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 81 to 179, which comprise the consolidated statement of financial position as at December 31, 2017, 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, 2017, 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
Impairment of amounts due from a connected person and its affiliates In 2016, the Company disposed of certain of its subsidiaries to a connected person and its affiliates, as detailed in note 11 to the financial statements. As at December 31, 2017, the total receivable amount was amounting to RMB508.5 million, which was recorded in amounts due from related parties. 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 the amounts due from a connected person and its affiliates are included in notes 3 and 42 to the financial statements.	Our audit procedures included the following: we evaluated the management's assessment of the recoverability of the receivable amount, in particular, on the pledged assets obtained by the Company after the balance sheet date from the debtors as security for the recoverability of the receivable amount. In this connection, we obtained the pledge agreements to understand the nature of the pledged assets and the arrangements as agreed between the Company and the debtors; we obtained legal opinion from external lawyer on the legal validity of the pledge arrangements; we obtained valuation report from external valuer on the valuation of the pledged assets and we involved our valuation specialists to review the underlying valuation methodology and assumptions.
Revenue recognition on construction contracts The Company derives a significant portion of its revenue from construction contracts under the percentage-of-completion ("POC") method, which accounted for approximately 86% of the Group's consolidated revenue for the year ended December 31, 2017. The POC method involves the use of significant judgement and estimates by the management including estimates of the progress towards completion, the scope of deliveries and services required, total contract cost, remaining costs to completion, total contract revenue 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 circumstances. 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 financial statements.	Our audit procedures included the following: we compared the available public bidding information with the information we obtained from the Group to understand terms of the contracts; we performed recalculation on the revenue sheet obtained using the budgeted costs estimates from the Group; we obtained the purchase contracts, invoices, goods delivery notes and examination and acceptance reports to check the status of projects; we compared the gross profit in current year to prior year for existing contracts and enquired management on significant fluctuations; we obtained the calculation of the provision for potential losses for onerous contracts and evaluated the management's assessment of the provision by reviewing the contract and budget cost of the project and enquired management on the rationale behind.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill The Group performed an impairment assessment of goodwill annually. The annual impairment assessment was significant to our audit because the balance of RMB274.0 million as at December 31, 2017 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 and the growth rates. 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 financial statements.	Our audit procedures included the following: we involved an internal valuation specialist to evaluate the assumptions and methodologies used by the Group; we compared the key assumptions used in the impairment assessment to the historical data of the Company. 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.
Impairment of loans to other companies As at December 31, 2017, the Company has lent about RMB124.8 million loans to other companies, which were recorded in other receivables or amounts due from related parties. 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, 21, 25 and 42 to the financial statements.	Our audit procedures included the following: we obtained the loan contracts and approval documentation from the management; we checked the financial position of the borrowers by performing company search; we obtained confirmations from the debtors on the outstanding balances and checked 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 repayment history.

INDEPENDENT AUDITORS' REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the Management Discussion and Analysis of the Annual Report, which we obtained prior to the date of this auditor's report, and the other sections of the Annual Report not including the financial statements and the auditor's report thereon ("the Other Sections"), which are expected to be made available to us after that date.

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 on the information that we obtained prior to the date of this auditor's report, 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.

When we read the Other Sections of the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee.

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.

- 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.

INDEPENDENT AUDITORS' REPORT

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

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
May 3, 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended December 31, 2017

	Notes	2017 RMB'000	2016 RMB'000 Restated
CONTINUING OPERATIONS			
REVENUE	5	**1,164,838**	1,551,844
Cost of sales		**(905,500)**	(1,272,736)
Gross profit		**259,338**	279,108
Other income and gains	5	**40,570**	45,918
Selling, general and administrative expenses		**(200,350)**	(191,025)
Other expenses		**(3,285)**	(7,301)
Finance costs	7	**(47,806)**	(52,592)
Share of profits and losses of:			
Joint ventures		**1,651**	(304)
Associates		**(1,031)**	3,553
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	6	**49,087**	77,357
Income tax expense	10	**(24,618)**	(23,953)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**24,469**	53,404
DISCONTINUED OPERATIONS			
Profit for the year from discontinued operations	11	**–**	1,430
PROFIT FOR THE YEAR		**24,469**	54,834
Attributable to:			
Owners of the parent		**24,490**	75,506
Non-controlling interests		**(21)**	(20,672)
		24,469	54,834
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
		RMB	RMB
Basic			
— For profit for the year	13	**0.01**	0.05
— For profit from continuing operations		**0.01**	0.03
Diluted			
— For profit for the year	13	**0.01**	0.05
— For profit from continuing operations		**0.01**	0.03

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2017

	Notes	2017 RMB'000	2016 RMB'000
PROFIT FOR THE YEAR		**24,469**	54,834
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value	20	**5,946**	–
Exchange differences:			
Exchange differences on translation of foreign operations		**7,267**	(3,277)
Reclassification adjustments for foreign operations disposed of during the year		**–**	(22,293)
		7,267	(25,570)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**13,213**	(25,570)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**37,682**	29,264
Attributable to:			
Owners of the parent		**37,703**	49,936
Non-controlling interests		**(21)**	(20,672)
		37,682	29,264

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2017

	Notes	December 31, 2017 RMB'000	December 31, 2016 RMB'000
NON-CURRENT ASSETS			
Property and equipment	14	**261,413**	300,388
Investment properties	15	**66,800**	61,800
Goodwill	16	**274,027**	230,664
Other intangible assets	17	**15,621**	9,128
Investments in joint ventures	18	**54,368**	16,103
Investments in associates	19	**6,592**	3,623
Available-for-sale investments	20	**103,236**	25,307
Deferred tax assets	31	**7,769**	17,366
Loan receivables	21	**31,000**	–
Prepayment for acquisition of equity interests in a company		**–**	92,000
Total non-current assets		**820,826**	756,379
CURRENT ASSETS			
Inventories	22	**80,257**	86,077
Construction contracts	23	**831,190**	586,356
Trade and bills receivables	24	**1,094,119**	1,274,760
Prepayments, deposits and other receivables	25	**365,683**	743,837
Amounts due from related parties	42	**638,486**	1,083,363
Pledged deposits	26	**283,076**	211,396
Cash and cash equivalents	26	**179,654**	604,843
Other financial assets	27	**39,903**	–
Total current assets		**3,512,368**	4,590,632
CURRENT LIABILITIES			
Trade and bills payables	28	**391,036**	740,579
Other payables and accruals	29	**271,516**	197,149
Construction contracts	23	**621,901**	889,468
Interest-bearing bank borrowings	30	**608,829**	938,863
Amounts due to related parties	42	**19,514**	246,489
Income tax payable		**46,601**	79,397
Total current liabilities		**1,959,397**	3,091,945
NET CURRENT ASSETS		**1,552,971**	1,498,687
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,373,797**	2,255,066

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2017

	Notes	December 31, 2017 RMB'000	December 31, 2016 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,373,797**	2,255,066
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	30	**152,000**	81,200
Deferred tax liabilities	31	**19,307**	9,108
Total non-current liabilities		**171,307**	90,308
Net assets		**2,202,490**	2,164,758
EQUITY			
Equity attributable to owners of the parent			
Share capital	32	**290**	290
Other reserves	33	**2,202,200**	2,164,497
		2,202,490	2,164,787
Non-controlling interests		**–**	(29)
Total equity		**2,202,490**	2,164,758

Liao Jie
Director

Jiang Hailin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2017

		Attributable to owners of the parent										
	Notes	Share capital RMB'000 note 32	Share premium RMB'000	Statutory reserve RMB'000 note 33	Capital reserve RMB'000 note 33	Asset revaluation reserve* RMB'000	Available-for-sale investments revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
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	36	–	–	–	–	–	–	(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
At January 1, 2017		**290**	**1,088,725**	**155,487**	**630,851**	**7,782**	**–**	**(85,552)**	**367,204**	**2,164,787**	**(29)**	**2,164,758**
Profit/(loss) for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**24,490**	**24,490**	**(21)**	**24,469**
Other comprehensive income for the year:												
Changes in fair value of available-for-sale investments, net of tax		**–**	**–**	**–**	**–**	**–**	**5,946**	**–**	**–**	**5,946**	**–**	**5,946**
Exchange differences related to foreign operations		**–**	**–**	**–**	**–**	**–**	**–**	**7,267**	**–**	**7,267**	**–**	**7,267**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**5,946**	**7,267**	**24,490**	**37,703**	**(21)**	**37,682**
Disposal of a subsidiary	36	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**50**	**50**
Share-based payment transactions	34	**–**	**–**	**–**	**(31,258)**	**–**	**–**	**–**	**31,258**	**–**	**–**	**–**
Transfer from retained earnings		**–**	**–**	**10,528**	**–**	**–**	**–**	**–**	**(10,528)**	**–**	**–**	**–**
At December 31, 2017		**290**	**1,088,725***	**166,015***	**599,593***	**7,782***	**5,946***	**(78,285)***	**412,424***	**2,202,490**	**–**	**2,202,490**

* These reserve accounts comprise the consolidated other reserves of RMB2,202,200,000 (2016: RMB2,164,497,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:			
From continuing operations		**49,087**	77,357
From discontinued operations		**–**	59,027
Adjustments for:			
Depreciation	6	**13,314**	12,266
Amortisation	6	**1,129**	300
Net loss on disposal of items of property and equipment	6	**57**	–
Loss on disposal of subsidiaries	6	**94**	11,578
Gain on disposal of available-for-sale investments	5	**(883)**	–
Impairment of construction contracts	6	**5,650**	–
Impairment of trade receivables	6	**5,803**	3,096
Impairment of other receivables	6	**14,847**	3,162
Impairment of investment in a joint venture	6	**3,000**	–
Share of profits and losses of joint ventures and associates		**(620)**	(7,803)
Fair value gain on investment properties	5	**(5,000)**	(14,600)
Fair value loss on other financial assets	6	**407**	–
Finance income	5	**(22,198)**	(15,879)
Finance costs	7	**47,806**	58,590
		112,493	187,094
Changes in assets and liabilities:			
Increase in inventories		**(35,175)**	(54,357)
(Increase)/decrease in construction contracts		**(501,842)**	24,258
Decrease/(increase) in trade and bills receivables		**191,498**	(118,987)
Decrease in prepayments, deposits and other receivables		**347,548**	22,570
Decrease/(increase) in amounts due from related parties		**412,515**	(1,130,348)
Increase in loan receivables		**(31,000)**	–
Decrease in pledged deposits		**9,570**	10,447
(Decrease)/increase in trade and bills payables		**(342,872)**	160,594
(Decrease)/increase in amounts due to related parties		**(196,074)**	808,721
Increase/(decrease) in other payables and accruals		**85,872**	(22,530)
Cash generated from/(used in) operations		**52,533**	(112,538)
Interest received		**16,078**	6,410
Interest paid		**(47,756)**	(57,548)
Income tax paid		**(42,812)**	(32,032)
Net cash flows used in operating activities		**(21,957)**	(195,708)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of items of property and equipment		**–**	4
Purchases of items of property and equipment		**(30,743)**	(24,043)
Additions to other intangible assets		**(9,618)**	(10,497)
Dividend received from investments		**40,658**	5,270
Purchase of a shareholding in a joint venture		**(2,000)**	–
Disposal of subsidiaries	36	**(357)**	(87,662)
Disposal of available-for-sale investments		**30,883**	–
Acquisition of a subsidiary	35	**1,170**	–
Purchase of available-for-sale investments		**(100,000)**	(3,000)
Net cash flows used in investing activities		**(70,007)**	(119,928)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from interest-bearing bank borrowings		**912,180**	1,155,343
Repayment of interest-bearing bank borrowings		**(1,171,414)**	(927,681)
Increase in pledged deposits for bank loans		**(81,250)**	(17,350)
Net cash flows (used in)/from financing activities		**(340,484)**	210,312
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(432,448)**	(105,324)
Effect of foreign exchange rate changes, net		**7,259**	(25,940)
Cash and cash equivalents at beginning of year		**604,843**	736,107
CASH AND CASH EQUIVALENTS AT END OF YEAR	26	**179,654**	604,843

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 located at 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) 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

(b) 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 principal subsidiaries are as follows:

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered capital	Percentage of equity interest attributable to the Company Direct	Percentage of equity interest attributable to the Company Indirect	Principal activities
Jiangsu Zhongzhi Ruixin IOT Technology Co., Ltd.	PRC/Mainland China November 19, 2013	RMB100 million	–	100	Internet information technology, real estate development, and sale of electronics
Zhongtian Runbang Information Technology Co., Ltd. ("Zhongtian Runbang")	PRC/Mainland China December 8, 2014	RMB50 million	–	100	Technology specialised services and sale of electronics
Beijing Hongrui Dake Technology Co., Ltd. ("Hongrui Dake")	PRC/Mainland China October 17, 2014	RMB196 million	–	100	Commercial properties leasing
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	RMB100 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 Zhongzhi Transportation Technology Co., Ltd. ("Jiangsu Zhongzhi Transportation")	PRC/Mainland China December 15, 2011	US$30 million	–	100	Intelligent Transportation system service
Tibet Intelligent Aviation Traffic Technology Co., Ltd. ("Tibet Intelligent Aviation")	PRC/Mainland China June 8, 2017	RMB10 million	–	100	Communications specialised solutions and value-added operation and services
Chengdu Zhongzhi Runbang Transportation Technology Co., Ltd. ("Chengdu Zhongzhi Runbang")	PRC/Mainland China November 26, 2009	RMB30 million	–	100	Communications specialised solutions and value-added operation and services

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 is a wholly-foreign-owned enterprise under PRC law. The other subsidiaries registered in Mainland China are domestic companies with limited liability under PRC law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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, available-for-sale investments and other financial assets, 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, 2017. 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 revised IFRSs for the first time for the current year's financial statements.

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual Improvements to IFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

Other than as explained below regarding the impact of IAS 7, the adoption of the above revised standards has had no significant financial effect on these financial statements.

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

(a) 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. Disclosure of the changes in liabilities arising from financing activities is provided in note 37(b) to the financial statements.

(b) Amendments to IAS 12 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 amendments have had no impact on the financial position or performance of the Group.

(c) Amendments to IFRS 12 clarify that the disclosure requirements in IFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements as the Group has no subsidiaries, joint ventures or associates classified as held for sale as at December 31, 2017.

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*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[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*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28[1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[2]

[1] Effective for annual periods beginning on or after January 1, 2018
[2] Effective for annual periods beginning on or after January 1, 2019
[3] Effective for annual periods beginning on or after January 1, 2021
[4] No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below. Of those standards, IFRS 9 and IFRS 15 will be applicable for the Group's financial year ending December 31, 2018 and are expected to have a significant impact upon adoption. Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group, including expectations of the application of transitional provision options and policy choices. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally adopted.

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

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 will 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 will adopt IFRS 9 from January 1, 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at January 1, 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of IFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification of its financial assets, but expect a significant impact on the measurement, as the equity investments currently held as available for sale will be measured at fair value through profit or loss as the Group expects to apply the option to present fair value changes in profit or loss.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group does not expect the adoption of IFRS 9 will have a significant impact on the impairment of its financial instruments.

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

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 December 2015 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 adoption now.

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. 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 will adopt IFRS 15 on January 1, 2018, and plans to adopt the transitional provisions in IFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at January 1, 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before January 1, 2018. The Group expects that the transitional adjustment to be made on January 1, 2018 upon initial adoption of IFRS 15 will not be material. However, the expected changes in accounting policies, as further explained below, might have a material impact on the Group's financial statements from 2018 onwards. During 2017, the Group has performed a detailed 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 summarised as follows:

(a) Warranty obligations

The Group generally provides for warranties 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 Group then recognises the allocated revenue when the warranty service is provided. IFRS 15 explicitly identifies two types of warranties: an assurance-type or service-type warranty. The Group has assessed that the warranty services provided in the sales transaction as assurance-type warranty, which provides the customer with assurance that the products comply with the agreed-upon specifications and should be accounted for as warranty obligations and the estimated cost of satisfying them is accrued in accordance with the requirements in IAS 37.

(b) Goods transferred to the customer but the integration service not yet occurred

The Group provides construction on intelligent transportation systems to many of its customers. Currently, the Group recognises revenue using percentage of completion, and the stage of completion is determined by reference to the contract costs incurred to date. Any contract costs that relate to future activity on the contract must be excluded. This includes the costs of materials that have been delivered to a contract site or set aside for use in a contract but not yet installed, used or applied during contract performance, unless the materials have been made especially for the contract. Under IFRS 15, if an entity is using a percentage-of-completion method based on costs incurred to measure its progress, when goods are delivered to the customer site, and control of the individual goods has transferred to the customer, but the entity has not yet integrated the goods into the overall project, the entity should recognise revenue at an amount equal to the cost of the goods used to satisfy the performance obligation.

(c) Presentation and disclosure

The presentation and disclosure requirements in IFRS 15 are more detailed than those under the current standards. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In addition, as required by IFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

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

IFRS 16, issued in January 2016, 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 elective 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, or relates to a class of property, plant and equipment to which the revaluation model is applied. 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. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt IFRS 16 from January 1, 2019. The Group is currently assessing the impact of IFRS 16 upon adoption, and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 39(b) to the financial statements, at December 31, 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB2,074,000. Upon adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

Amendments to IAS 28 issued in January 2018 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on January 1, 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on January 1, 2019 using the transitional requirements in the amendments. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Amendments to IAS 40, issued in December 2016, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from January 1, 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

IFRIC 22, issued in December 2016, provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from January 1, 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

IFRIC 23, issued in June 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from January 1, 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

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, other financial instruments and available-for-sale 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.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

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.

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)

Operating 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 lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

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 investments 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 investments 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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

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 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.

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 and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the statement of profit or loss over the expected useful life of the relevant asset 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits

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.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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

Foreign currencies

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

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of foreign operations. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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 foreign operations, the component of other comprehensive income relating to that particular foreign operations is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of foreign operations 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 operations 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. No impairment of goodwill was recognised for the year ended December 31, 2017 (2016: Nil). 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, 2017 was RMB66,800,000 (2016: RMB61,800,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 15 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 a joint venture recognised for the year ended December 31, 2017 was nil (2016: Nil), nil (2016: Nil) and RMB3,000,000 (2016: Nil), 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, 2017 for amounts due from construction contracts, trade receivables and other receivables amounted to RMB5,650,000 (2016: Nil), RMB5,803,000 (2016: RMB726,000) and RMB14,847,000 (2016: RMB3,162,000), 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, 2017 was RMB7,769,000 (2016: RMB17,366,000).

4. OPERATING SEGMENT INFORMATION

Prior to 2017, the Group had operating segments of expressway, railway and urban traffic based on industry sectors. As a result of the disposal as disclosed in note 11 to the financial statements, the Company focuses on railway sector since then. In the current year, for management purposes, the Group changed to the following operating segments based on its business units:

(i) Specialised solutions: Provides 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

(ii) Value-added operation and services: Engages in the provision of operation outsourcing and value-added services, via intelligent transportation system platforms, servicing transportation operators and participants.

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, exchange gains/losses, changes in fair value of investment properties and other financial assets, gain on disposal of available-for-sale investments 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.

The segment information for the year 2016 has been restated due to the change of operating segments in 2017.

4. OPERATING SEGMENT INFORMATION (continued)

Year ended December 31, 2017	Specialised solutions RMB'000	Value-added operation and services RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	1,080,994	83,844	1,164,838
Intersegment sales	1,673	16,430	18,103
	1,082,667	100,274	1,182,941
Reconciliation:			
Elimination of intersegment sales			(18,103)
Revenue			1,164,838
Segment results	67,762	45,501	113,263
Reconciliation:			
Finance income			22,198
Finance costs			(47,806)
Exchange losses			(2,736)
Changes in fair value of investment properties			5,000
Changes in fair value of other financial assets			(407)
Gain on disposal of available-for-sale investments			883
Corporate and other unallocated expenses			(41,308)
Profit before tax from continuing operations			49,087
December 31, 2017			
Share of profits/(losses) of:			
Joint ventures	1,441	210	1,651
Associates	(1,007)	(24)	(1,031)
Impairment losses recognised in the statement of profit or loss	(18,249)	(568)	(18,817)
Depreciation and amortisation	(7,423)	(1,333)	(8,756)
Capital expenditure*	14,297	1,388	15,685

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

4. OPERATING SEGMENT INFORMATION (continued)

Year ended December 31, 2016 Restated	Specialised solutions RMB'000	Value-added operation and services RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	1,474,324	77,520	1,551,844
Intersegment sales	–	44,923	44,923
	1,474,324	122,443	1,596,767
Reconciliation:			
Elimination of intersegment sales			(44,923)
Revenue			1,551,844
Segment results	174,254	(24,085)	150,169
Reconciliation:			
Finance income			14,498
Finance costs			(52,592)
Exchange losses			(968)
Changes in fair value of investment properties			14,600
Corporate and other unallocated expenses			(48,350)
Profit before tax from continuing operations			77,357
December 31, 2016			
Other segment information:			
Share of profits/(losses) of:			
Joint ventures	(304)	–	(304)
Associates	3,553	–	3,553
Impairment losses recognised in the statement of profit or loss	(1,223)	(11)	(1,234)
Depreciation and amortisation	(3,329)	(905)	(4,234)
Capital expenditure*	22,603	10,568	33,171

* Capital expenditure represents the additions to property and equipment, and intangible assets.

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

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

Information about a major customer

No individual customer of the Group contributed 10% or more to 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 from continuing operations is as follows:

	2017 RMB'000	2016 RMB'000 Restated
Revenue		
Implementation of projects	**1,000,660**	1,211,181
Sale of products	**87,625**	259,509
Rendering of services	**76,553**	81,154
	1,164,838	1,551,844
Other income		
Finance income	**22,198**	14,498
Gross rental income	**7,256**	5,732
Government grants*	**3,565**	11,085
Others	**1,668**	3
	34,687	31,318
Gains		
Gain on disposal of available-for-sale investments	**883**	–
Changes in fair value of investment properties	**5,000**	14,600
	40,570	45,918

* 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 BEFORE TAX

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

	2017 RMB'000	2016 RMB'000 Restated
Cost of services rendered for the implementation of projects	**798,940**	1,000,850
Cost of inventories sold	**68,508**	222,880
Cost of services provided	**38,052**	49,006
	905,500	1,272,736
Depreciation (note 14)	**13,314**	9,415
Amortisation of intangible assets* (note 17)	**1,129**	–
Amortisation of prepaid land premium	**–**	300
Minimum lease payments under operating leases	**9,170**	5,853
Auditors' remuneration	**3,537**	4,002
Wages and salaries	**46,463**	42,681
Pension scheme contributions (defined contribution scheme)	**6,226**	5,858
Social insurance costs and staff welfare	**10,408**	9,123
	63,097	57,662
Impairment of construction contracts (note 23)	**5,650**	–
Impairment of trade receivables (note 24)	**5,803**	726
Impairment of other receivables (note 25)	**14,847**	3,162
Impairment of investment in a joint venture (note 18)	**3,000**	–
Changes in fair value of investment properties (note 15)	**(5,000)**	(14,600)
Changes in fair value of other financial assets (note 27)	**407**	–
Rental income on investment properties	**(4,254)**	(4,157)
Net loss on disposal of items of property and equipment	**57**	–
Loss on disposal of a subsidiary (note 36)	**94**	–
Gain on disposal of available-for-sale investments	**(883)**	–
Exchange losses	**2,736**	968

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

7. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2017 RMB'000	2016 RMB'000 Restated
Interest on bank loans, overdrafts and other loans	**47,806**	52,592
Total interest expense on financial liabilities not at fair value through profit or loss	**47,806**	52,592

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:

	2017 RMB'000	2016 RMB'000
Fees	**1,554**	1,337
Other emoluments:		
Salaries, allowances and benefits in kind	**2,070**	2,074
Pension scheme contributions	**50**	47
	2,120	2,121
	3,674	3,458

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 (2016: 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. In the current year, there was no equity-settled share option expense 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:

	2017 RMB'000	2016 RMB'000
Mr. Choi Onward	190	191
Mr. Ye Zhou	190	88
Mr. Zhou Chunsheng	190	191
	570	470

(b) Executive directors and non-executive directors

2017	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:				
Mr. Jiang Hailin	867	521	50	1,438
Mr. Liao Jie	–	1,549	–	1,549
	867	2,070	50	2,987
Non-executive director:				
Mr. Zhang Tianwei	117	–	–	117
	984	2,070	50	3,104

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors (continued)

2016	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:				
Mr. Jiang Hailin	867	522	47	1,436
Mr. Liao Jie	–	1,552	–	1,552
	867	2,074	47	2,988
Non-executive director:				
Mr. Zhang Tianwei	–	–	–	–
	867	2,074	47	2,988

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2016: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2016: three) non-director highest paid employees are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	**1,393**	1,585
Pension scheme contributions	**143**	94
	1,536	1,679

9. FIVE HIGHEST PAID EMPLOYEES (continued)

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

	Number of employees	
	2017	2016
Nil to HK$500,000 (Nil to RMB433,000)	**–**	1
HK$500,001 to HK$1,000,000 (RMB433,001 to RMB866,000)	**3**	2
	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. In the current year, there was no equity-settled share option expenses 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% (2016: 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 2017 are as follows:

(i) Zhixun Tiancheng was designated and approved as a High and New Technology Enterprise ("HNTE") in December 2017 for a period of three years from 2017 and was entitled to a preferential tax rate of 15% for 2017.

(ii) Zhongzhi Runbang was designated and approved as an HNTE in November 2015 for a period of three years from 2015 and was entitled to a preferential tax rate of 15% for 2017.

(iii) Zhongtian Runbang and Tibet Intelligent Aviation are companies set up in Tibet, and were entitled to a preferential tax rate of 9% for 2017.

10. INCOME TAX (continued)

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, 2017, 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 and joint ventures established in Mainland China (2016: Nil). In the opinion of the directors, it is not probable that these subsidiaries and joint ventures will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries and joint ventures in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB945,595,000 (2016: RMB890,448,000) and RMB6,304,000 (2016: RMB6,373,000), respectively.

The major components of income tax expense are as follows:

	2017 RMB'000	2016 RMB'000 Restated
Current income tax:		
Current income tax charge in Mainland China	**7,696**	27,176
Deferred income tax:		
Relating to origination and reversal of temporary differences (note 31)	**16,922**	(3,223)
Total tax charge for the year from continuing operations	**24,618**	23,953
Total tax charge for the year from discontinued operations	**–**	57,597
	24,618	81,550

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:

2017	Hong Kong		Cayman Islands and British Virgin Islands		Mainland China		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax from continuing operations	(10,603)		(2,508)		62,198		49,087	
Tax at statutory tax rates	(1,750)	16.5	–	–	15,550	25.0	13,800	28.1
Tax holiday or lower tax rates enacted by local authorities	–	–	–	–	(19,144)	(30.8)	(19,144)	(39.0)
Effect of withholding tax at 10% on the gain on disposal of the Group's PRC subsidiary	2,553	(24.1)	–	–	–	–	2,553	5.2
Expenses not deductible for tax	–	–	–	–	18,237	29.3	18,237	37.2
Effect of tax rate change	–	–	–	–	338	0.5	338	0.7
Adjustments in respect of current income tax of previous periods	–	–	–	–	166	0.3	166	0.3
Profit attributable to joint ventures and associates*	–	–	–	–	76	0.1	76	0.2
Tax losses not recognised	1,750	(16.5)	–	–	6,842	11.0	8,592	17.5
Tax charge at the Group's effective rate	2,553	(24.1)	–	–	22,065	35.5	24,618	50.2
Tax charge from continuing operations at the effective rate	2,553	(24.1)	–	–	22,065	35.5	24,618	50.2

10. INCOME TAX (continued)

2016 Restated	Hong Kong RMB'000	%	Cayman Islands and British Virgin Islands RMB'000	%	Mainland China RMB'000	%	Total RMB'000	%
Profit/(loss) before tax from continuing operations	(565)		(14,661)		92,583		77,357	
Profit/(loss) before tax from discontinued operations	–		4,520		54,507		59,027	
	(565)		(10,141)		147,090		136,384	
Tax at statutory tax rates	(93)	16.5	–	–	36,773	25.0	36,680	26.9
Tax holiday or lower tax rates enacted by local authorities	–	–	–	–	(18,362)	(12.5)	(18,362)	(13.5)
Effect of withholding tax at 10% on the gain on disposal of the Group's PRC subsidiaries	–	–	25,072	(247.2)	–	–	25,072	18.4
Expenses not deductible for tax	–	–	–	–	25,443	17.3	25,443	18.7
Income not subject to tax	–	–	–	–	–	–	–	–
Effect of tax rate change	–	–	–	–	(559)	(0.4)	(559)	(0.4)
Adjustments in respect of current income tax of previous periods	–	–	–	–	1,232	0.8	1,232	0.9
Loss attributable to joint ventures and associates*	–	–	–	–	(2,039)	(1.4)	(2,039)	(1.5)
Tax losses not recognised	93	(16.5)	–	–	13,990	9.5	14,083	10.3
Tax charge at the Group's effective rate	–	–	25,072	(247.2)	56,478	38.3	81,550	59.8
Tax charge from continuing operations at the effective rate	–	–	–	–	23,953	25.9	23,953	30.9
Tax charge from discontinued operations at the effective rate	–	–	25,072	554.7	32,525	59.7	57,597	97.6

* The share of tax attributable to joint ventures and associates amounting to RMB76,000 (2016: RMB2,039,000) is included in "Share of profits and losses of joint ventures" and "Share of profits and losses of associates" in the consolidated statement of profit or loss.

11. DISCONTINUED OPERATIONS

On February 17, 2016, the Company announced the decision of its board of directors to dispose 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 a total consideration of RMB664,545,000 to King Victory Holdings Limited ("King Victory") and its affiliates. In connection with the disposal as disclosed in the Company's circular dated March 24, 2016, King Victory is an associate of two executive directors and one of the controlling shareholders of the Company, and accordingly King Victory is a connected person of the Company. The Disposal Group engaged in construction contracts in expressway and urban traffic. The disposal was completed on December 31, 2016.

The results of the Disposal Group for the year ended December 31, 2016 are presented below:

	RMB'000
Revenue	973,999
Cost of sales	(788,794)
Other income and gains	7,028
Expenses	(120,190)
Finance costs	(5,998)
Share of profits and losses of:	
Joint ventures	1,245
Associates	3,309
Profit from the discontinued operations	70,599
Loss recognised on the disposal of the discontinued operations	(11,572)
Profit before tax from the discontinued operations	59,027
Income tax:	
Related to pre-tax profit	(19,989)
Related to the disposal of the discontinued operations	(37,608)
Profit for the year from the discontinued operations	1,430
Attributable to:	
Owners of the parent	21,072
Non-controlling interests	(19,642)

11. DISCONTINUED OPERATIONS (continued)

The net cash inflows/(outflows) of the Disposal Group for the year ended December 31, 2016 are as follows:

	RMB'000
Operating activities	(313,829)
Investing activities	(8,329)
Financing activities	227,600
Net cash outflow	(94,558)

	RMB
Earnings per share:	
Basic, from the discontinued operations	0.013
Diluted, from the discontinued operations	0.013

The calculations of basic and diluted earnings per share from the discontinued operations in 2016 are based on:

	RMB'000
Profit attributable to ordinary equity holders of the parent from the discontinued operations (note 13)	21,072

	Number of shares
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation (note 13)	1,654,024,868

12. DIVIDENDS

No dividend was proposed by the Company for the years ended December 31, 2017 and December 31, 2016.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

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

No adjustment has been made to the basic earnings per share amounts presented for the years ended December 31, 2017 and December 31, 2016 in respect of a dilution as the impact of the share option scheme outstanding has an anti-dilutive effect on the basic earnings per share amounts presented.

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

	2017 RMB'000	2016 RMB'000 Restated
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:		
From continuing operations	**24,490**	54,434
From discontinued operations	**–**	21,072
	24,490	75,506

	Number of shares 2017	 2016
Shares		
Weighted average number of shares in issue during the year used in the basic earnings per share calculation	**1,654,024,868**	1,654,024,868

14. 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, 2017								
At January 1, 2017								
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
At January 1, 2017, net of accumulated depreciation and impairment	221,809	14,610	150	2,171	442	985	60,221	300,388
Additions	4,613	7,164	884	–	223	432	17,427	30,743
Transfers	–	4,421	–	–	–	–	(4,421)	–
Acquisition of a subsidiary (note 35)	–	13	32	101	–	–	–	146
Disposals	–	(2)	(1)	(54)	–	–	–	(57)
Disposal of a subsidiary	–	(15,029)	(762)	–	(7)	(167)	(13,135)	(29,100)
Impairment	–	–	–	–	–	–	(27,393)	(27,393)
Depreciation provided during the year	(4,475)	(6,544)	(281)	(1,044)	(93)	(877)	–	(13,314)
At December 31, 2017, net of accumulated depreciation	221,947	4,633	22	1,174	565	373	32,699	261,413
At December 31, 2017								
Cost	231,613	12,466	1,343	10,791	1,036	1,264	32,699	291,212
Accumulated depreciation	(9,666)	(7,833)	(1,321)	(9,617)	(471)	(891)	–	(29,799)
Net carrying amount	221,947	4,633	22	1,174	565	373	32,699	261,413

14. 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, 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 36)	(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

14. PROPERTY AND EQUIPMENT (continued)

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

	2017 RMB'000	2016 RMB'000
Lease term less than 50 years	**221,947**	221,809

15. INVESTMENT PROPERTIES

	2017 RMB'000	2016 RMB'000
Carrying amount at January 1	**61,800**	125,800
Net gain from fair value adjustment	**5,000**	14,600
Disposal of subsidiaries (note 36)	**–**	(78,600)
Carrying amount at December 31	**66,800**	61,800

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, 2017, an independent firm of professional valuers, at RMB66,800,000. 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.

The investment properties are leased to third parties under operating lease, further summary details of which are included in note 39(a) to the financial statements.

15. INVESTMENT PROPERTIES (continued)

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, 2017 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	–	–	66,800	66,800

	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

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 (2016: Nil).

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

Commercial properties	2017 RMB'000	2016 RMB'000
Carrying amount at January 1	61,800	125,800
Net gain from fair value adjustment recognised in other income and gains in profits or loss	5,000	14,600
Disposal of subsidiaries (note 36)	–	(78,600)
Carrying amount at December 31	66,800	61,800

15. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

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

	Valuation technique	Significant unobservable inputs	Weighted average 2017	Weighted average 2016
Commercial properties	Income approach	Estimated rental value (per sq.m. and per month)	**274**	246
		Capitalisation rate	**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.

16. GOODWILL

	2017 RMB'000	2016 RMB'000
At January 1	**230,664**	230,664
Acquisition of a subsidiary (note 35)	**43,363**	–
Net carrying amount at December 31	**274,027**	230,664

Impairment testing of goodwill

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

- Aproud subgroup
- Chengdu Zhongzhi Runbang

16. GOODWILL (continued)

Impairment testing of goodwill (continued)

Aproud subgroup

Aproud Technology and its subsidiaries (collectively "Aproud subgroup"), which principally engages in communications specialised solutions in railway business. The recoverable amount of Aproud subgroup in 2017 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% (2016: 20%) for Aproud subgroup. The growth rate used to extrapolate the cash flows beyond the five-year period is 3% (2016: 3%) for Aproud subgroup.

Chengdu Zhongzhi Runbang

Chengdu Zhongzhi Runbang is a subsidiary which is newly acquired by the Company in 2017, which principally engages in communications specialised solutions and value-added operation and services. The recoverable amount of Chengdu Zhongzhi Runbang in 2017 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% for Chengdu Zhongzhi Runbang. The growth rate used to extrapolate the cash flows beyond the five-year period is 3% for Chengdu Zhongzhi Runbang.

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

	2017 **RMB'000**	2016 RMB'000
Aproud subgroup	**230,664**	230,664
Chengdu Zhongzhi Runbang	**43,363**	–
	274,027	230,664

Assumptions were used in the value in use calculation of each cash-generating unit for December 31, 2017 and December 31, 2016. 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 rates — The discount rates 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 rates — The Group determines the growth rates 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 rates are consistent with external information sources.

17. OTHER INTANGIBLE ASSETS

December 31, 2017	Deferred development cost RMB'000
Cost at January 1, 2017, net of accumulated amortisation	**9,128**
Additions	**9,618**
Amortisation provided during the year	**(1,129)**
Reversal	**(1,996)**
At December 31, 2017	**15,621**
At December 31, 2017	
Cost	**16,750**
Accumulated amortisation	**(1,129)**
Net carrying amount	**15,621**

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

18. INVESTMENTS IN JOINT VENTURES

	2017 RMB'000	2016 RMB'000
Share of net assets	**29,662**	16,103
Goodwill on acquisition	**27,706**	–
	57,368	16,103
Impairment	**(3,000)**	–
	54,368	16,103

The Group's receivable and payable balances with the joint ventures are disclosed in note 42 to the financial statements.

Particulars of the Group's material joint venture are as follows:

			Percentage of			
Name	Particulars of issued shares held	Place of registration and business	Ownership interest	Voting power	Profit sharing	Principal activities
Intelligent Aviation System Co., Ltd. ("Intelligent Aviation")	Registered capital of RMB50 million	PRC/ Mainland China	50	50	50	Civil aviation technology and surveillance specialised solutions value-added operation and services

The above investment is indirectly held by the Company.

18. INVESTMENTS IN JOINT VENTURES (continued)

The following table illustrates the summarised financial information in respect of Intelligent Aviation adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements:

	2017 RMB'000
Cash and cash equivalents	5,686
Other current assets	46,288
Current assets	51,974
Non-current assets, excluding goodwill	32,949
Goodwill on acquisition of the joint venture	27,706
Financial liabilities, excluding trade and other payables and provisions	(44,542)
Other current liabilities	(17,141)
Current liabilities	(61,683)
Non-controlling interests	26
Net assets	(50,972)
Net asset, excluding goodwill	(23,266)
Reconciliation to the Group's interest in the joint venture:	
Proportion of the Group's ownership	50%
Group's share of net assets of the joint venture, excluding goodwill	11,620
Goodwill on acquisition	27,706
Carrying amount of the investment	39,326
Revenue	12,794
Depreciation and amortisation	432
Tax	–
Profit and total comprehensive income for the year	3,439

18. INVESTMENTS IN JOINT VENTURES (continued)

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

	2017 RMB'000	2016 RMB'000
Share of the joint ventures' losses for the year	**(68)**	(304)
Share of the joint ventures' total comprehensive income	**(68)**	(304)
Aggregate carrying amount of the Group's investments in the joint ventures	**15,042**	16,103

19. INVESTMENTS IN ASSOCIATES

	2017 RMB'000	2016 RMB'000
Share of net assets	**6,592**	3,623

The Group's receivables and payables with the associates are disclosed in note 42 to the financial statements.

The following table illustrates the aggregate financial information of the Group's associates:

	2017 RMB'000	2016 RMB'000
Share of the associates' (losses)/profits for the year	**(1,031)**	3,553
Share of the associates' total comprehensive income	**(1,031)**	3,553
Aggregate carrying amount of the Group's investments in the associates	**6,592**	3,623

20. AVAILABLE-FOR-SALE INVESTMENTS

	2017 RMB'000	2016 RMB'000
Unlisted equity investments, at fair value	**57,929**	–
Unlisted equity investments, at cost	**45,307**	25,307
	103,236	25,307

During the year, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income was amounted to RMB5,946,000.

The unlisted equity investment with a carrying amount of RMB45,307,000 (2016: RMB25,307,000) was stated at cost less impairment because the directors are of the opinion that the fair value cannot be measured reliably.

21. LOAN RECEIVABLES

In the current year, the Group lent RMB30,000,000 to 馬越, an independent third party of the Company, for the purchase of shares of Forever Opensource Co., Ltd. ("Forever Opensource"). The loan is repayable in 2023, bears an interest rate of 8% per annum, and is secured by the pledge of shares of Forever Opensource. Forever Opensource is mainly engaged in providing software designing and application development service.

In the current year, Aproud Technology, a subsidiary of the Company, entered into a cooperation agreement with 啟東世紀(北京)節能環保科技有限公司 ("啟東世紀"). Pursuant to the agreement, Aproud Technology and 啟東世紀 set up a joint venture, and Aproud Technology lent RMB1,000,000 to 啟東世紀at an interest rate of 7% per annum, which is due in December 2019.

22. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	**1,535**	3,565
Properties	**71,955**	67,555
Finished goods	**6,767**	14,957
	80,257	86,077

23. CONSTRUCTION CONTRACTS

	2017 RMB'000	2016 RMB'000
Gross amount due from contract customers	**831,190**	586,356
Gross amount due to contract customers	**(621,901)**	(889,468)
	209,289	(303,112)
Contract costs incurred plus recognised profits less recognised losses to date	**6,322,035**	5,714,926
Less: Progress billings	**(6,112,746)**	(6,018,038)
	209,289	(303,112)

In the current year, RMB5,650,000 was provided for the impairment loss of the amounts due from contract customers (2016: Nil).

24. TRADE AND BILLS RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	**974,298**	1,150,953
Impairment	**(8,182)**	(5,379)
	966,116	1,145,574
Bills receivable	**128,003**	129,186
	1,094,119	1,274,760

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. Trade receivables are non-interest-bearing.

24. TRADE AND BILLS RECEIVABLES (continued)

An aging 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:

	2017 RMB'000	2016 RMB'000
Less than 6 months	**476,611**	601,538
6 months to 1 year	**89,056**	132,503
1 year to 2 years	**286,727**	283,906
2 years to 3 years	**116,092**	170,335
Over 3 years	**125,633**	86,478
	1,094,119	1,274,760

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

	2017 RMB'000	2016 RMB'000
At January 1	**5,379**	32,980
Additions	**5,803**	3,096
Amount written off	**(3,000)**	(655)
Disposal of subsidiaries	**–**	(30,042)
At December 31	**8,182**	5,379

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB3,743,000 (2016: RMB647,000) with a carrying amount before provision of RMB3,743,000 (2016: RMB647,000).

24. TRADE AND BILLS RECEIVABLES (continued)

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

	2017 RMB'000	2016 RMB'000
Less than 6 months	**476,611**	601,538
6 months to 1 year	**89,056**	132,503
1 year to 2 years	**286,727**	283,906
2 years to 3 years	**116,092**	170,335
	968,486	1,188,282

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, 2017, trade receivables of RMB94,235,000 (2016: RMB110,520,000) are secured for the current bank loans of RMB74,541,000 (2016: RMB96,249,000) (note 30).

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	2017 RMB'000	2016 RMB'000
Prepayments to suppliers for purchases of goods		**160,125**	499,787
Loan receivables	(a)	**75,807**	67,501
Tender deposits		**20,737**	19,870
Contract deposits		**17,455**	10,459
Advances to staff		**16,194**	16,913
Interest receivable		**7,590**	1,469
Dividend receivable		**14,243**	16,231
Others		**82,751**	126,769
		394,902	758,999
Impairment		**(29,219)**	(15,162)
		365,683	743,837

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Note:

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

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

	2017 RMB'000	2016 RMB'000
At January 1	**15,162**	16,007
Additions	**14,847**	3,162
Amount written off	**(790)**	–
Disposal of subsidiaries	**–**	(4,007)
At December 31	**29,219**	15,162

Included in the above provision for impairment of other receivables is a provision for individually impaired other receivables of RMB29,219,000 (2016: RMB15,162,000) with a carrying amount before provision of RMB45,764,000 (2016: RMB32,210,000).

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2017 RMB'000	2016 RMB'000
Cash and bank balances	**179,654**	604,843
Pledged deposits		
— Current deposits	**283,076**	211,396
	462,730	816,239
Less: Pledged deposits for		
— Letter of guarantee for projects	**(4,885)**	(4,818)
— Bills payable (note 28)	**(60)**	(9,127)
— Interest-bearing bank borrowings (note 30)	**(277,000)**	(195,750)
— Tenders	**(1,131)**	(1,701)
Cash and bank balances	**179,654**	604,843

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (continued)

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 amounted to RMB454,855,000 (RMB454,534,000 in Mainland China and RMB321,000 in overseas) as at December 31, 2017 (2016: RMB812,751,000 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. OTHER FINANCIAL ASSETS

	RMB'000
Carrying amount at January 1, 2017	–
Consideration receivable arising on the disposal of a subsidiary (note 36)	40,310
Fair value adjustment	(407)
Carrying amount at December 31, 2017	39,903

28. TRADE AND BILLS PAYABLES

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

	2017 RMB'000	2016 RMB'000
Current or less than 1 year past due	**348,011**	656,741
1 to 2 years past due	**36,854**	53,508
Over 2 years past due	**6,171**	30,330
	391,036	740,579

The Group's bills payable were secured by pledged deposits of the Group of RMB60,000 as at December 31, 2017 (2016: RMB9,127,000).

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

29. OTHER PAYABLES AND ACCRUALS

	2017 RMB'000	2016 RMB'000
Advances from customers	**97,984**	20,090
Business advance deposits	**5,518**	1,515
Staff costs and welfare accruals	**11,853**	11,340
Other borrowings	**14,734**	14,116
Other taxes payable	**99,335**	108,053
Interest payables	**1,395**	1,345
Others	**40,697**	40,690
	271,516	197,149

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

30. INTEREST-BEARING BANK BORROWINGS

	Contractual rate (%)	2017 RMB'000	2016 RMB'000
Current			
Bank loans — secured and repayable within one year	2.5–5.2	**476,629**	650,753
Bank loans — guaranteed and repayable within one year	5.4–6.7	**68,000**	220,000
Bills receivable endorsed	–	**64,200**	68,110
		608,829	938,863
Non-current			
Bank loans — guaranteed and repayable within two years	6.7	**152,000**	–
Bank loans — secured and repayable within two years	8.0	**–**	81,200
		152,000	81,200
		760,829	1,020,063

30. INTEREST-BEARING BANK BORROWINGS (continued)

Notes:

(i) Bank loans of RMB160.0 million as at December 31, 2017 (2016: RMB160.0 million) were secured by properties of Beijing RHY Technology Development Co., Ltd., a related party of the Group.

(ii) Bank loans of RMB74.5 million as at December 31, 2017 (2016: RMB96.2 million) were secured by trade receivables with a total amount of RMB94.2 million (2016: RMB110.5 million).

(iii) Bank loans of RMB242.1 million as at December 31, 2017 (2016: RMB294.6 million) were secured by a pledged deposit of RMB277.0 million by Zhixun Tiancheng, a subsidiary of the Group (2016: RMB195.8 million) (note 26).

(iv) Bank loans of RMB8.0 million as at December 31, 2017 (2016: RMB160.0 million) were guaranteed by Beijing RHY Technology Development Co., Ltd., a related party of the Group.

(v) Bank loans of RMB60.0 million as at December 31, 2017 (2016: RMB60.0 million) were guaranteed by the Company.

(vi) The non-current bank loans of RMB152.0 million as at December 31, 2017 (2016: Nil) were guaranteed by Beijing RHY Technology Development Co., Ltd., a related party of the Group.

As at December 31, 2017, the Group had unutilised available bank borrowing facilities amounted to RMB70.0 million (2016: RMB0.04 million) and HKD239.0 million (2016: Nil).

As at December 31, 2017, the Group's bank loans of RMB346.6 million were charged at fixed interest rates and bank loans of RMB350.0 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

	Accrued expenses RMB'000	Intangible assets RMB'000	Revenue recognition RMB'000	Total RMB'000
2017				
At January 1, 2017	**849**	**–**	**16,517**	**17,366**
Deferred tax (charged)/credited to the statement of profit or loss during the year	**1,929**	**–**	**(11,526)**	**(9,597)**
At December 31, 2017	**2,778**	**–**	**4,991**	**7,769**
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 36)	–	(213)	–	(213)
At December 31, 2016	849	–	16,517	17,366

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	Fair value adjustments arising from available-for-sale investments RMB'000	Total RMB'000
2017					
At January 1, 2017	**9,108**	**–**	**–**	**–**	**9,108**
Deferred tax charged to the statement of profit or loss during the year	**1,512**	**–**	**5,813**	**–**	**7,325**
Deferred tax charged to other comprehensive income during the year	**–**	**–**	**–**	**1,982**	**1,982**
Deferred tax liabilities acquired by business combination (note 35)	**–**	**–**	**892**	**–**	**892**
At December 31, 2017	**10,620**	**–**	**6,705**	**1,982**	**19,307**
2016					
At January 1, 2016	18,086	627	1,667	–	20,380
Deferred tax charged to the statement of profit or loss during the year	2,945	–	10,594	–	13,539
Deferred tax liabilities included in the disposal of subsidiaries (note 36)	(11,923)	(627)	(12,261)	–	(24,811)
At December 31, 2016	9,108	–	–	–	9,108

* 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 RMB73,752,000 arising in Mainland China (2016: RMB15,087,000) 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

	2017 RMB'000	2016 RMB'000
Issued and fully paid:		
1,654,024,868 (2016: 1,654,024,868) ordinary shares of HK$0.0002 each	**290**	290

There was no movements in the Company's share capital during the year of 2016 and 2017.

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 85.

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 to the financial statements; 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:

	2017		2016	
	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	3.68	18,566	3.20	28,475
Expired during the year	3.45	(10,639)	2.31	(9,909)
At December 31	4.00	7,927	3.68	18,566

A numbers of 10,639,000 (2016: 9,909,000) share options expired during the year ended December 31, 2017, 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:

2017

Batches	Number of options '000	Exercise price RMB per share	Exercise period
Batch 7	7,927	4.00	June 30, 2013 to June 29, 2018
	7,927		

34. SHARE OPTION SCHEME (continued)

Pre-IPO Scheme (continued)

2016

Batches	Number 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		

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:

	2017 Weighted average exercise price HK$ per share	**2017** Number of options '000	2016 Weighted average exercise price HK$ per share	2016 Number of options '000
At January 1	**1.05**	**155,000**	1.05	155,000
Lapsed during the year	**1.05**	**(80,327)**	–	–
At 31 December	**1.05**	**74,673**	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:

2017

Batches	Number of options '000	Exercise price HK$ per share	Exercise period
Batch 1	3,546	1.05	April 19, 2012 to January 18, 2022
Batch 2	3,546	1.05	July 19, 2012 to January 18, 2022
Batch 3	3,546	1.05	October 19, 2012 to January 18, 2022
Batch 4	3,546	1.05	January 19, 2013 to January 18, 2022
Batch 5	6,220	1.05	April 19, 2013 to January 18, 2022
Batch 6	6,220	1.05	July 19, 2013 to January 18, 2022
Batch 7	6,220	1.05	October 19, 2013 to January 18, 2022
Batch 8	6,220	1.05	January 19, 2014 to January 18, 2022
Batch 9	8,895	1.05	April 19, 2014 to January 18, 2022
Batch 10	8,895	1.05	July 19, 2014 to January 18, 2022
Batch 11	8,895	1.05	October 19, 2014 to January 18, 2022
Batch 12	8,924	1.05	January 19, 2015 to January 18, 2022
	74,673		

34. SHARE OPTION SCHEME (continued)

Post-IPO Scheme (continued)

2016

Batches	Number 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.

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.

80,327,000 share options lapsed during the year resulted in the reclassification of capital reserve and retained earnings amounted to RMB31,258,000.

As at December 31, 2017, the Company had 74,673,000 share options outstanding under the scheme, which represented approximately 4.51% of the Company's shares in issue at that date (2016: 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 74,673,000 additional ordinary shares of the Company and additional issued capital of HK$15,000 (equivalent to RMB12,000) and share premium of HK$78,392,000 (equivalent to RMB65,528,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 74,673,000 share options outstanding under the scheme, which represented approximately 4.51% of the Company's shares in issue at that date.

35. BUSINESS COMBINATION

On March 24, 2017, the Group acquired 100% equity interests in Chengdu Zhongzhi Runbang Transportation Technology Co., Ltd. ("Chengdu Zhongzhi Runbang") from Beijing Guangwei Xingye Technology Co., Ltd. ("Beijing Guangwei"), an independent third party of the Company. Chengdu Zhongzhi Runbang is specialised in providing transportation technology services and solutions in railway industry. The acquisition was made as part of the Group's strategy to expand its market share in the Southwest China. The purchase consideration for the acquisition was RMB92,000,000.

The fair values of the identifiable assets and liabilities of Chengdu Zhongzhi Runbang as at the date of acquisition were as follows:

	RMB'000
Cash and cash equivalents	1,170
Trade and bills receivables	37,270
Construction contracts	16,209
Prepayments, deposits and other receivables	1,712
Property and equipment	146
Trade and bills payables	(4,710)
Income tax payable	(2,268)
Deferred tax liabilities	(892)
Total identifiable net assets at fair value	48,637
Goodwill on acquisition	43,363
Cash consideration settled against the prepayment for acquisition of equity interests in a company as at December 31, 2016	92,000

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash and bank balances acquired	1,170
Net inflow of cash and cash equivalents included in cash flows from investing activities	1,170

Since the acquisition, Chengdu Zhongzhi Runbang contributed RMB76,962,000 to the Group's revenue and RMB9,902,000 to the consolidated profit for the year ended December 31, 2017.

Had the combination taken place at the beginning of the period, the revenue of the Group and the profit of the Group for the year would have been RMB1,166,422,000 and RMB23,800,000, respectively.

36. DISPOSAL OF SUBSIDIARIES

2017

On November 21, 2017, the Group disposed of its 50% share interest in Intelligent Aviation System Co., Ltd. ("Intelligent Aviation"), to Forever Opensource Co., Ltd. ("Forever Opensource") in exchange for the subscription of 6,290,000 shares of Forever Opensource. As at December 31, 2017, the 50% shares of Intelligent Aviation has been transferred to Forever Opensource, while the issuance of the shares by Forever Opensource is pending for the completion of registration of National Equities Exchange and Quotations Co., Ltd. (全國中小企業股份轉讓系統有限責任公司) and China Securities Depository and Clearing Corporation Limited (中國證券登記結算有限責任公司). Thus, the consideration receivable was recorded in other financial assets, and its changes in fair value upon recognition to the balance sheet date was recorded in profit or loss. In connection with the disposal of Intelligent Aviation, Intelligent Aviation transferred certain assets to other subsidiaries of the Group prior to the disposal, which resulted in an impairment loss amounted to RMB58,161,000. Such transfer of assets was considered as the same series of transactions together with the disposal of Intelligent Aviation by the Group.

Net assets disposed of:	Intelligent Aviation RMB'000
Cash and cash equivalents	357
Trade and bills receivables	20,610
Prepayments, deposits and other receivables	2,973
Inventories	3,449
Amounts due from related parties	21,093
Property and equipment	29,100
Trade and bills payables	(11,381)
Accrued expenses and other payables	(15,502)
Amounts due to related parties	(30,901)
Non-controlling interests	50
Total identifiable net assets	19,848
Impairment loss of the non-performing assets	58,161
Fair value of the residual investment	(37,605)
Net loss on disposal of a subsidiary	(94)
	40,310
Satisfied by:	
Financial instruments recorded in other financial assets (note 27)	40,310

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

	Intelligent Aviation RMB'000
Cash and bank balances disposed of	357
Net outflow of cash and cash equivalents in respect of disposal of a subsidiary	357

36. DISPOSAL OF SUBSIDIARIES (continued)

2016

On January 22, 2016, the Group disposed of a 50% share interest in Xinjiang XinRui JiYe Intelligent Technology Co., Ltd. ("XJR"), a subsidiary of the Group with a 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.

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

36. 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)

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

On March 24, 2017, the Group acquired 100% equity interests in Chengdu Zhongzhi Runbang from Beijing Guangwei, an independent third party of the Company. The purchase consideration for the acquisition was RMB92,000,000, which was settled against the prepayment made by the Company to Beijing Guangwei, as recorded in the prepayment for acquisition of equity interests in a company as at December 31, 2016.

On November 21, 2017, the Group disposed of its 50% share interest in Intelligent Aviation, a subsidiary of the Group, to Forever Opensource in exchange for the subscription of 6,290,000 shares of Forever Opensource.

(b) Changes in liabilities arising from financing activities

	Bank and other loans RMB'000
At 1 January 2017	1,020,063
Changes from financing cash flows	(259,234)
	760,829

38. PLEDGE OF ASSETS

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

39. OPERATING LEASE COMMITMENTS

(a) As lessor

The Group leases its investment properties (note 15 to the financial statements) and leased offices to certain independent third parties, with leases negotiated for terms ranging from one year to four 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, 2017, the Group had total future minimum lease receivables under non-cancellable operating lease with its tenants falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	5,368	4,480
In the second to fifth years, inclusive	13,569	1,130
	18,937	5,610

(b) 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 three years.

At December 31, 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	1,396	956
In the second to fifth years, inclusive	678	123
	2,074	1,079

40. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 39 above, the Group had the following capital commitments as at December 31, 2017:

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for:		
Land and buildings	**83,090**	8,314
	83,090	8,314

41. CONTINGENT LIABILITIES

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

42. RELATED PARTY TRANSACTIONS

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

	Notes	2017 RMB'000	2016 RMB'000
Sales to related parties:			
武漢光谷智能交通科技有限公司	(b)	**10,386**	729
Beijing RHY Technology Development Co., Ltd.	(b)	**3,360**	–
Guangzhou Communication Information Co., Ltd.	(b)	**–**	571
Wuhan Chenguang Transportation Technology Development Co., Ltd.	(b)	**–**	354
Nanjing Communication Information Co., Ltd.	(b)	**–**	171
Xi'an Communication Information Co., Ltd.	(b)	**–**	47
Total		**13,746**	1,872
Purchases from related parties:			
Xi'an Communication Information Co., Ltd.	(b)	**1,874**	6,850
武漢光谷智能交通科技有限公司	(b)	**–**	11,186
Nanjing Communication Information Co., Ltd.	(b)	**–**	7,993
Wuhan Chenguang Transportation Technology Development Co., Ltd.	(b)	**–**	7,513
北京綠通暢達交通技術有限公司	(d)	**–**	4,773
北京鑫虹智顯科技發展有限公司	(g)	**–**	2,277
Guangzhou Communication Information Co., Ltd.	(b)	**–**	25
Total		**1,874**	40,617
Loan to a related party:			
常州天博投資管理中心(有限合夥)	(e)	**35,000**	–
Total		**35,000**	–
Interest income from related parties:			
Beijing Wuzhouzhitong Traffic Technology Co., Ltd.	(b)	**7,667**	–
King Victory	(a)	**4,358**	–
Total		**12,025**	–
Rental income from related parties:			
Beijing RHY Technology Development Co., Ltd.	(b)	**1,045**	–
Beijing Newcom Traffic Technology Co., Ltd.	(b)	**1,015**	–
Total		**2,060**	–

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.

42. RELATED PARTY TRANSACTIONS (continued)

(ii) Other transactions with related parties

Beijing RHY Technology Development Co., Ltd., a related party of the Group, has secured certain bank loans made to the Group of up to RMB160.0 million by its properties, and has guaranteed certain bank loans made to the Group of up to RMB160.0 million as at December 31, 2017, as further detailed in note 30 (i), (iv) and (vi).

Aproud Technology has guaranteed certain bank loans made to Beijing RHY Technology Development Co., Ltd. amounted to RMB230.0 million as at December 31, 2017.

(iii) Outstanding balances with related parties

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

	Notes	2017 RMB'000	2016 RMB'000
Due from related parties:			
King Victory	(a),(h)	**285,830**	227,759
Beijing Wuzhouzhitong Traffic Technology Co., Ltd.	(b),(h)	**107,626**	104,331
Beijing RHY Technology Development Co., Ltd.	(b),(h)	**69,132**	151,002
China Toprise Limited	(b),(h)	**60,592**	215,712
China Traffic Holding Ltd.	(b)	**33,979**	46,868
Intelligent Aviation System Co., Ltd.	(f)	**29,181**	–
Beijing Wancheng Internet Investment Co., Ltd.	(b),(h)	**20,000**	20,000
常州天博投資管理中心(有限合夥)	(e)	**18,000**	25,000
Beijing Stone Intelligent Transportation System Integration Co., Ltd.	(b)	**7,635**	224,983
Beijing Bailian Zhida Technology Development Co., Ltd.	(b)	**3,101**	17,380
Beijing Newcom Traffic Technology Co., Ltd.	(b)	**2,812**	1,767
GTECH-CIC	(f)	**350**	14,312
Beijing Aproud Transportation Technology Co., Ltd.	(b)	**248**	9,857
江蘇智通潤邦信息科技有限公司	(c)	**–**	17,061
Beijing Lihe Datong Technology Co., Ltd.	(b)	**–**	5,548
武漢光谷智能交通科技有限公司	(b)	**–**	853
Beijing Huading Jiaye Technology Co., Ltd.	(b)	**–**	595
Guangzhou Yabang Xincheng Communication Technology Co., Ltd.	(b)	**–**	221
Jiangsu Zhongzhi Jiaye Electronic Technology Co., Ltd.	(b)	**–**	114
Total		**638,486**	1,083,363

42. RELATED PARTY TRANSACTIONS (continued)

(iii) Outstanding balances with related parties (continued)

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

	Notes	2017 RMB'000	2016 RMB'000
Due to related parties:			
Beijing RHY Technology Development Co., Ltd.	(b)	**13,570**	153,645
Beijing Aproud Transportation Technology Co., Ltd.	(b)	**3,297**	24,821
Xi'an Communication Information Co., Ltd.	(b)	**1,647**	3,527
北京綠通暢達交通技術有限公司	(d)	**1,000**	1,000
GTECH-CIC	(f)	**–**	50,377
江蘇智通潤邦信息科技有限公司	(c)	**–**	8,662
Guangzhou Yabang Xincheng Communication Technology Co., Ltd.	(b)	**–**	2,976
Guangzhou Communication Information Co., Ltd.	(b)	**–**	1,481
Total		**19,514**	246,489

Notes:

(a) The entity is an associate of the two executive directors of Jiang Hailin and Liao Jie and one of the controlling shareholders of the Company.

(b) The entity is an affiliate of King Victory.

(c) The entity was jointly controlled by a key management personnel of the Group, and the personnel resigned as a key management of the Group in 2017.

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

(e) The entity is jointly controlled by a close family member of Liao Jie, who is a director of the Company.

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

(g) The entity was controlled by a key management personnel of the Group and the personnel resigned as a key management of the Group.

(h) These balances comprised of the amount due from related parties arose from the disposal of certain subsidiaries by the Company to King Victory, a connected person, and its affiliates in 2016, as disclosed in note 11 to the financial statements, at a total consideration of RMB664,545,000. As at December 31, 2016, RMB332,500,000 of the consideration had been settled by King Victory and its affiliates. The outstanding balance of the consideration receivable amounted to RMB332,045,000 with an interest charge of RMB7,291,000 as at December 31, 2017. In connection with the disposal, the Group assigned receivables to King Victory, giving rise to an additional amount of RMB121,170,000 due from King Victory. During the year ended December 31, 2017, RMB67,051,000 out of the RMB121,170,000 were settled by King Victory and its affiliates, and RMB54,119,000 remained outstanding as at December 31, 2017. In addition, dividends amounted to RMB138,750,000 had been declared by the disposal group to the Group before the disposal, of which RMB43,658,000 was settled during the year ended December 31, 2017, and RMB95,092,000 remained outstanding as at December 31, 2017. In connection with the disposal, the Group also disposed of certain entities to the affiliates of King Victory, which resulted in RMB74,564,000 due from the affiliates of King Victory, and RMB20,000,000 remained outstanding as at December 31, 2017. Accordingly, the amounts due from King Victory and its affiliates totalling RMB508,547,000 were included in amounts due from related parties in the consolidated statement of financial position as at December 31 2017.

Subsequent to the balance sheet date, on April 16, 2018, the shareholders of Beijing RHY Technology Development Co., Ltd., affiliates of King Victory, pledged 75% of the equity interests in Beijing RHY Technology Development Co., Ltd. to the Group to secure King Victory and its affiliates' payment obligations to the Group.

42. RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel of the Group

	2017 RMB'000	2016 RMB'000
Salaries, bonuses, allowances and benefits in kind	**2,184**	4,506
Pension scheme contributions	**123**	115
Total compensation paid to key management personnel	**2,307**	4,621

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

43. 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

2017

	Designated as financial assets at fair value through profit or loss upon initial recognition RMB'000	Loans and receivables RMB'000	Available-for-sale investments RMB'000	Total RMB'000
Available-for-sale investments	**–**	**–**	**103,236**	**103,236**
Trade and bills receivables	**–**	**1,094,119**	**–**	**1,094,119**
Loan receivables	**–**	**31,000**	–	**31,000**
Financial assets included in prepayments, deposits and other receivables	**–**	**189,364**	**–**	**189,364**
Amounts due from related parties	**–**	**638,486**	**–**	**638,486**
Other financial assets	**39,903**	**–**	**–**	**39,903**
Pledged deposits	**–**	**283,076**	**–**	**283,076**
Cash and cash equivalents	**–**	**179,654**	**–**	**179,654**
	39,903	**2,415,699**	**103,236**	**2,558,838**

43. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial assets (continued)

2016

	Loans and receivables RMB'000	Available-for-sale investments RMB'000	Total RMB'000
Available-for-sale investments	–	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

Financial liabilities

	2017 Financial liabilities at amortised cost RMB'000	2016 Financial liabilities at amortised cost RMB'000
Trade and bills payables	**391,036**	740,579
Financial liabilities included in other payables and accruals	**21,647**	16,976
Interest-bearing bank borrowings — current	**608,829**	938,863
Amounts due to related parties	**19,514**	246,489
Interest-bearing bank borrowings — non-current	**152,000**	81,200
	1,193,026	2,024,107

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments 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, available-for-sale investments, financial assets included in prepayments, deposits and other receivables, other financial assets, 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 loans receivable 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 loans receivable and interest-bearing bank borrowings as at December 31, 2017 was assessed to be insignificant.

The fair values of available-for-sale investments 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.

44. 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, 2017

	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				
Derivative financial instruments	–	39,903	–	39,903
Available-for-sale investments	–	57,929	–	57,929
	–	97,832	–	97,832

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

Liabilities measured at fair value

The Group did not have any financial liabilities measured at fair value as at December 31, 2017 and 2016.

Liabilities for which fair values are disclosed:

As at December 31, 2017

	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	–	608,829	–	608,829
Interest-bearing bank borrowings — non-current	–	152,000	–	152,000
	–	760,829	–	760,829

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Liabilities measured at fair value (continued)

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

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, cash and cash equivalents, and 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 available-for-sale investments, other financial assets, 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 RMB185,000 for the year ended December 31, 2017 (2016: RMB3,347,000).

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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, 2017 and 2016 to a reasonably possible change in the US$ and HK$ exchange rate, with all other variables held constant, of the Group's profit or loss before tax and the Group's equity.

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit or loss before tax RMB'000	Increase/ (decrease) in equity* RMB'000
December 31, 2017			
If RMB weakens against US$	**5**	**229**	**–**
If RMB strengthens against US$	**(5)**	**(229)**	**–**
If RMB weakens against HK$	**5**	**(13,444)**	**73,113**
If RMB strengthens against HK$	**(5)**	**13,444**	**(73,113)**
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)

* Excluding retained earnings

45. 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, 2017

	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	320,192	70,844	–	–	391,036
Financial liabilities included in other payables and accruals	20,252	–	1,395	–	21,647
Interest-bearing bank borrowings — current	–	252,913	355,916	–	608,829
Amounts due to related parties	19,514	–	–	–	19,514
Interest-bearing bank borrowings — non-current	–	–	10,108	156,614	166,722
	359,958	323,757	367,419	156,614	1,207,748

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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

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, 2017 and December 31, 2016.

45. 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 27% 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:

	2017 RMB'000	2016 RMB'000
Interest-bearing bank borrowings	**760,829**	1,020,063
Amounts due to related parties	**19,514**	246,489
Less: Cash and cash equivalents	**(179,654)**	(604,843)
Net debt	**600,689**	661,709
Equity attributable to owners of the parent	**2,202,490**	2,164,787
Adjusted capital	**2,202,490**	2,164,787
Net debt to capital ratio	**27.3%**	30.6%

46. COMPARATIVE AMOUNTS

The comparative statement of profit or loss has been restated to reflect the discontinued operations in 2016, as disclosed in note 11 to the financial statements.

47. EVENTS AFTER THE REPORTING PERIOD

As disclosed in note 36, the Group disposed of its 50% share interest in Intelligent Aviation to Forever Opensource in exchange for the subscription of 6,290,000 shares of Forever Opensource in 2017. Subsequent to the balance sheet date, on April 26, 2018, the issuance of the shares was completed by Forever Opensource.

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**581,582**	611,905
Investment in a joint venture	**2,067**	2,067
Available-for-sale investments	**25,307**	25,307
Total non-current assets	**608,956**	639,279
CURRENT ASSETS		
Prepayments, deposits and other receivables	**19,583**	43,832
Amounts due from subsidiaries	**1,003,577**	972,008
Amounts due from related parties	**352,673**	465,088
Cash and cash equivalents	**7,486**	4,603
Total current assets	**1,383,319**	1,485,531
CURRENT LIABILITIES		
Interest-bearing bank borrowings	**242,088**	273,367
Other payables and accruals	**65,328**	70,054
Amounts due to related parties	**806**	50,377
Amounts due to subsidiaries	**112,715**	66,730
Income tax payable	**–**	25,078
Total current liabilities	**420,937**	485,606
NET CURRENT ASSETS	**962,382**	999,925
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,571,338**	1,639,204
Net assets	**1,571,338**	1,639,204
EQUITY		
Share capital	**290**	290
Other reserves (note)	**1,571,048**	1,638,914
Total equity	**1,571,338**	1,639,204

48. 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	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000
At January 1, 2016	1,066,708	612,522	(80,097)	(83,026)	1,516,107
Profit for the year	–	–	–	61,317	61,317
Exchange differences related to foreign operations	–	–	61,490	–	61,490
Total comprehensive income for the year	–	–	61,490	61,317	122,807
At December 31, 2016 and January 1, 2017	1,066,708	612,522	(18,607)	(21,709)	1,638,914
Loss for the year	**–**	**–**	**–**	**(2,509)**	**(2,509)**
Exchange differences related to foreign operations	**–**	**–**	**(65,357)**	**–**	**(65,357)**
Total comprehensive income for the year	**–**	**–**	**(65,357)**	**(2,509)**	**(67,866)**
Share-based payment transactions*	**–**	**(9,807)**	**–**	**9,807**	**–**
At December 31, 2017	**1,066,708**	**602,715**	**(83,964)**	**(14,411)**	**1,571,048**

* 12,450,000 share options lapsed during the year resulted in the reclassification of capital reserve and retained earnings amounted to RMB9,807,000.

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on May 3, 2018.

PARTICULARS OF PROPERTIES

December 31, 2017

INVESTMENT PROPERTIES

Location	Use	Tenure	Attributable interest of the Group
Room C2201, C2202, C2203, C2205, Building 8, No.1 Zhong Guan Cun Dong Road, Haidian District, Beijing, the PRC	Office	Long-term lease	100%