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

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1900)**

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2016

**HIGHLIGHTS OF 2016 ANNUAL RESULTS**

- New contracts signed and orders secured of the Group for the year ended December 31, 2016 was approximately RMB2,491.1 million which was lower to approximately RMB2,642.2 million for the year ended December 31, 2015.
- Backlog as at December 31, 2016 of the Group was approximately RMB1,059.9 million which was lower to approximately RMB2,193.1 million as at December 31, 2015 due to the disposal of the Expressway and Urban Traffic business.
- Revenue of the Group for the year ended December 31, 2016 increased by approximately RMB208.3 million to approximately RMB2,525.8 million compared to approximately RMB2,317.5 million for the year ended December 31, 2015.
- Gross profit of the Group for the year ended December 31, 2016 increased by approximately RMB71.2 million to approximately RMB464.3 million compared to approximately RMB393.1 million for the year ended December 31, 2015.
- Gross profit margin of the Group was approximately 18.4%, which is higher than that in the year of 2015.
- Profit attributable to owners of the parent of the Company for the year ended December 31, 2016 was approximately RMB75.5 million, compared to a loss of approximately RMB278.5 million for the year ended December 31, 2015.
- Earnings per share(1) was RMB0.05 per share.

*Notes:*

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

## ANNUAL RESULTS

The board of directors (individually, a "Director", or collectively, the "Board") of China ITS (Holdings) Co., Ltd. ("CIC" or the "Company") announces the audited consolidated results of the Company and its subsidiaries (together as the "Group") for the year ended December 31, 2016, with comparative figures, as follows:

## CONSOLIDATED INCOME STATEMENT

*Year ended December 31, 2016*

| | *Notes* | **2016** **RMB'000** | 2015 RMB'000 |
|---|---|---|---|
| REVENUE | *3* | **2,525,843** | 2,317,541 |
| Cost of sales | | **(2,061,530)** | (1,924,478) |
| Gross profit | | **464,313** | 393,063 |
| Other income and gains | *3* | **37,067** | 26,862 |
| Selling, general and administrative expenses | | **(311,209)** | (412,525) |
| Other expenses | | **(7,301)** | (204,390) |
| OPERATING PROFIT/(LOSS) | | **182,870** | (196,990) |
| Finance income | | **15,879** | 10,664 |
| Finance costs | | **(58,590)** | (85,600) |
| Share of profits/(losses) of: | | | |
| Joint ventures | | **941** | (280) |
| Associates | | **6,862** | 5,963 |
| Loss on disposal of joint ventures | | **–** | (4,045) |
| (Loss)/gain on disposal of subsidiaries | *10* | **(11,578)** | 126 |
| PROFIT/(LOSS) BEFORE TAX | | **136,384** | (270,162) |
| Income tax expense | *4* | **(81,550)** | (33,608) |
| PROFIT/(LOSS) FOR THE YEAR | | **54,834** | (303,770) |
| Attributable to: | | | |
| Owners of the parent | | **75,506** | (278,476) |
| Non-controlling interests | | **(20,672)** | (25,294) |
| | | **54,834** | (303,770) |
| EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| | | ***RMB*** | *RMB* |
| Basic | | | |
| — For profit/(loss) for the year | *6* | **0.05** | (0.17) |
| Diluted | | | |
| — For profit/(loss) for the year | *6* | **0.05** | (0.17) |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*Year ended December 31, 2016*

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*Year ended December 31, 2016*

| | Notes | December 31, 2016 RMB'000 | December 31, 2015 RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property and equipment | | **300,388** | 293,073 |
| Investment properties | | **61,800** | 125,800 |
| Prepaid land premium | | **–** | 13,171 |
| Goodwill | | **230,664** | 230,664 |
| Other intangible assets | | **9,128** | – |
| Investments in joint ventures | | **16,103** | 35,920 |
| Investments in associates | | **3,623** | 78,212 |
| Available-for-sale investment | | **25,307** | 25,307 |
| Deferred tax assets | | **17,366** | 2,376 |
| Prepayment for acquisition of equity interests in a company | | **92,000** | – |
| Convertible borrowings | | **–** | 82,300 |
| Total non-current assets | | **756,379** | 886,823 |
| CURRENT ASSETS | | | |
| Inventories | | **86,077** | 31,867 |
| Construction contracts | 7 | **586,356** | 1,494,229 |
| Trade and bills receivables | 8 | **1,274,760** | 1,703,204 |
| Prepayments, deposits and other receivables | | **743,837** | 1,186,713 |
| Amounts due from related parties | | **1,083,363** | 113,377 |
| Pledged deposits | | **211,396** | 232,673 |
| Cash and cash equivalents | | **604,843** | 736,107 |
| Total current assets | | **4,590,632** | 5,498,170 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 9 | **740,579** | 1,292,190 |
| Other payables and accruals | | **197,149** | 395,010 |
| Construction contracts | 7 | **889,468** | 1,248,356 |
| Interest-bearing bank borrowings | | **938,863** | 904,701 |
| Amounts due to related parties | | **246,489** | 92,302 |
| Income tax payable | | **79,397** | 24,714 |
| Total current liabilities | | **3,091,945** | 3,957,273 |
| NET CURRENT ASSETS | | **1,498,687** | 1,540,897 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **2,255,066** | 2,427,720 |

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

## Selected Notes to the Financial Statements

### 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 Room 1004, Tung Wah Mansion 199–203 Hennessy Wanchai, Hong Kong. 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").

### 2 BASIS OF PRESENTATION

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

### 3. REVENUE, OTHER INCOME AND GAINS

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

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

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

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

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

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

## 4. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

According to PRC tax regulations, from January 1, 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, are subject to withholding tax at the rate of 10% on various types of passive income such as dividends derived from entities in the PRC. Distributions of the pre-2008 earnings are exempted from the above-mentioned withholding tax. At December 31, 2016, no deferred tax liabilities have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC (2015: nil). In the opinion of the directors, it is not probable that the Group's PRC subsidiaries will distribute profits in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB890,448,000 (2015: RMB994,968,000).

The major components of income tax expense are as follows:

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

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:

| 2016 | Hong Kong *RMB'000* | *%* | Cayman Islands and British Virgin Islands *RMB'000* | *%* | Mainland China *RMB'000* | *%* | Total *RMB'000* | *%* |
|---|---|---|---|---|---|---|---|---|
| Profit/(loss) before tax | **(565)** | | **(109,807)** | | **246,756** | | **136,384** | |
| Tax at statutory tax rate | **(93)** | **16.5** | **–** | **–** | **61,689** | **25.0** | **61,596** | **45.2** |
| Tax holiday or lower tax rates enacted by local authorities | **–** | **–** | **–** | **–** | **(28,328)** | **(11.5)** | **(28,328)** | **(20.8)** |
| Effect of withholding tax at 10% on the gain on disposal of the Group's PRC subsidiaries | **–** | **–** | **25,072** | **(22.8)** | **–** | **–** | **25,072** | **18.4** |
| Expenses not deductible for tax | **–** | **–** | **–** | **–** | **10,493** | **4.3** | **10,493** | **7.7** |
| Income not subject to tax | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Effect of tax rate change | **–** | **–** | **–** | **–** | **(559)** | **(0.2)** | **(559)** | **(0.4)** |
| Adjustments in respect of current income tax of previous periods | **–** | **–** | **–** | **–** | **1,232** | **0.5** | **1,232** | **0.9** |
| Profit attributable to joint ventures and associates* | **–** | **–** | **–** | **–** | **(2,039)** | **(0.8)** | **(2,039)** | **(1.5)** |
| Tax losses not recognised | **93** | **(16.5)** | **–** | **–** | **13,990** | **5.6** | **14,083** | **10.3** |
| Tax charge at the Group's effective rate | **–** | **–** | **25,072** | **(22.8)** | **56,478** | **22.9** | **81,550** | **59.8** |
| 2015 | | | | | | | | |
| Loss before tax | (372) | | (44,129) | | (225,661) | | (270,162) | |
| Tax at statutory tax rate | (61) | 16.4 | – | – | (56,415) | 25.0 | (56,476) | 20.9 |
| Tax holiday or lower tax rates enacted by local authorities | – | – | – | – | 18,627 | (8.3) | 18,627 | (6.9) |
| Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries | – | – | – | – | 11,250 | (5.0) | 11,250 | (4.2) |
| Expenses not deductible for tax | – | – | – | – | 39,518 | (17.5) | 39,518 | (14.6) |
| Income not subject to tax | – | – | – | – | (1,437) | 0.6 | (1,437) | 0.5 |
| Adjustments in respect of current income tax of previous periods | – | – | – | – | (671) | 0.3 | (671) | 0.2 |
| Profit attributable to joint ventures and associates* | – | – | – | – | (726) | 0.3 | (726) | 0.3 |
| Tax losses not recognised | 61 | (16.4) | – | – | 23,462 | (10.4) | 23,523 | (8.7) |
| Tax charge at the Group's effective rate | – | – | – | – | 33,608 | (14.9) | 33,608 | (12.4) |

* The share of tax attributable to joint ventures and associates amounting to RMB2,039,000 (2015: RMB726,000) is included in "Share of profits/(losses) of joint ventures" and "Share of profits of associates" in the consolidated statement of profit or loss.

## 5. DIVIDENDS

No dividend was proposed by the Company for the years ended December 31, 2016 and December 31, 2015.

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

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

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

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended December 31, 2016 and December 31, 2015 in respect of a dilution as the impact of the share option scheme outstanding has an anti-dilutive effect on the basic earnings/(loss) per share amounts presented.

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

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

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

## 7. CONSTRUCTION CONTRACTS

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

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

## 8. TRADE AND BILLS RECEIVABLES

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

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

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

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

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

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

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

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

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

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

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

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

As at December 31, 2016, trade receivables of RMB110,520,000 (2015: RMB41,900,000) are secured for the current bank loans of RMB96,249,000 (2015: RMB24,438,000).

## 9. TRADE AND BILLS PAYABLES

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

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

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

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

## 10. DISPOSAL OF SUBSIDIARIES

**2015**

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

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

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

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

**2016**

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

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.

| | XJR<br>*RMB'000* | Disposal Group<br>*RMB'000* |
|---|---|---|
| Net assets disposed of: | | |
| 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 |

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

| | XJR<br>*RMB'000* | Disposal Group<br>*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) |

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Overview

In 2016, the Group has undergone a major restructuring of its business by disposing of its business in the Expressway and Urban Traffic segments and consolidating its resources to focus on the development of its business in the Railway and Civil Aviation segments. On February 17, 2016, the Company and King Victory Holdings Limited entered into a Master Sale and Purchase Agreement, pursuant to which the Company conditionally agreed to sell and King Victory Holdings Limited conditionally agreed to purchase, among other things, the entire issued share capital of each of Hugecom Limited, China Traffic Holding Limited, China Expressway Intelligent Transportation Technology Group Ltd. and Beijing RHY Technology Development Co., Ltd.* (北京瑞華贏科技發展有限公司) (together with their respective subsidiaries, the "**Disposal Group**"), which are principally engaged in the provision of Intelligent Transportation System solutions and services to expressway and urban traffic segments in the PRC. In this announcement, members of the Group which are not members of the Disposal Group are collectively referred to as the "**Remaining Group**".

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

*(i) Railway*

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

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

*(ii) Civil Aviation*

The Civil Aviation business is relatively new to the Group as compared with other segments and thus it is expected that more resources will be utilized to develop and expand this business. The future development of the Civil Aviation business will be mainly focused on the informatization of airport ground services through the establishment of airport wireless solutions and obtaining sales revenues from supplying communication services, surveillance services and value-added operation and services.

**Revenue**

***By Industry Segments***

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

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

*(i) Railway*

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

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

*(ii) Others*

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

**Business pattern and major projects**

The Remaining Group's business is highly correlated with the macroeconomic policies on infrastructure investment of the PRC central government and has an unique seasonal character. Most of the construction projects were in bidding stage and commenced implementations in the first half of 2016. Therefore, the new contracts were confirmed in the first half of the year and the revenue was recognized in the second half of the year, which resulted in a higher backlog amount in comparison with the figure at year end.

During 2016, the Remaining Group had implemented more than 1,756 projects of various sizes, covering most of the regions in Mainland China. The following table sets out the major projects generating revenue in each industry segment:

| Industry segments | Project name |
|---|---|
| Railway: | Nanchang Data Network Reform Project |
| | Harbin Data Network Reform Project |
| | Wuhan Data Network Reform Project |
| Others: | Shenzhen Airlines terminal sales projects |
| | China International Airlines terminal leasing and software services projects |

***By Business sectors***

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

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

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

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

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

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

## Cost of Sales

Cost of sales was incurred on a project-by-project basis for individual legal entities and was subsequently aggregated at sector or segment and corporate level. The cost of sales was based on the equipment and other direct relevant costs incurred for completion of each of the relevant projects. The cost of sales of the Remaining Group constituted 80.5% of the Remaining Group's revenue in the year ended December 31, 2016, which is lower than 81.4% as recorded for the year ended 31 December 2015.

***By Industry Segments***

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

*(i) Railway*

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

*(ii) Others*

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

***By Business Sectors***

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

*(i) SS*

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

*(ii) VAOS*

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

**Gross Profit**

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

*By Industry Segment*

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

*(i) Railway*

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

*(ii) Others*

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

*By Business Sectors*

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

*(i) SS*

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

*(ii) VAOS*

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

**Other Income and Gains**

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

**Other Expenses**

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

**Selling, General and Administration Expenses**

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

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

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

The staff costs remained as a large component of the Group's SG&A while the travelling, entertainment and business expansion expenses ("**T&E Expenses**") and office supplies expenses are highly correlated with the headcount numbers. Therefore, the total amount of the aforesaid expenses (headcount related cost) constituted the largest portion of the Group's SG&A. The headcount related cost was RMB211.2 million for the year ended December 31, 2016 which was similar to the RMB211.0 million for the year ended December 31, 2015. During 2016, on one hand, the Group increased staff costs to retain and attract good talent, on the other hand, saved office expenses and travel expenses through using effective management tools.

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

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

*(ii) Bad debt expenses*

Bad debt expenses mainly represented one-off write-down expenses provided for receivables which the Group considered with no or minimal recoverability according to the Group's provisioning policy of bad debts on individual basis. Such expenses were RMB6.3 million for the year ended December 31, 2016 which was significantly lower to approximately RMB70.4 million for the year ended December 31, 2015.

**Finance Revenue and Finance Cost**

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

**Share of Profits of Joint Ventures/Associates**

Share of Profits of investment entities in the year ended December 31, 2016 was approximately RMB7.8 million, which represented an increase from the amount of RMB5.7 million for the year ended December 31, 2015. The investment income was mainly from share of profit of several associates in both the Expressway and the Urban Traffic segments.

**Income Tax Expenses**

The total income tax expense in the year ended December 31, 2016 was RMB81.6 million, which was higher than the income tax expenses for the year ended December 31, 2015, and was mainly due to the income taxes of RMB37.6 million as the Company transfers the equity of China Toprise Limited and Beijing Zhongzhi Runbang Technology Co., Ltd. transfers the equity of Beijing RHY Technology Development Co., Ltd..

**Profit for the year**

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

**Trade Receivables Turnover Days**

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

**Net Construction Turnover Days**

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

**Trade Payables Turnover Days**

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

**Inventory Turnover Days**

The inventories of the Group mainly comprised of raw materials, work-in-progress, finished goods and general merchandise for surveillances Specialized Solutions. The inventory turnover days in the year ended December 31, 2016 was 6 days (in the year ended December 31, 2015: 5 days).

**Liquidity and Financial Resources**

The Group's principal sources of working capital included cash flow from operating activities, banks and other borrowings, the proceeds from the Global Offering, and the proceeds from bond issued. As at December 31, 2016, the Group's current ratio (current assets divided by current liabilities) was 1.5 (as at December 31, 2015: 1.4). The Group's financial position remains healthy.

As at December 31, 2016, the Group was in a net negative cash of RMB323.2 million (as at December 31, 2015: net negative cash of RMB367.5 million) which included cash and cash equivalents of RMB604.8 million (as at December 31, 2015: RMB736.1 million), convertible borrowings nil (as at December 31, 2015: RMB82.3 million), held-to-maturity investment of RMB92.0 million (as at December 31, 2015: nil), interest-bearing bank borrowings of RMB1,020.1 million (as at December 31, 2015: RMB1,185.9 million). As at December 31, 2016, the Group's gearing ratio was -22.4%, which has decrease from 5.3% for the Group as at December 31, 2015, due to the decrease of due to related parties, representing the increase in cash and cash equivalents due to the completion of the sale of the Disposal Group. Gearing ratio refers to adjusted cash (interest-bearing bank borrowings plus due to related parties minus pledged deposits, short-term deposits, convertible borrowings, held-to-maturity investment and cash and bank balances) divide total equity.

**Contingent Liabilities**

As at December 31, 2016, the Group had no material contingent liability.

### Charges on Group Assets

As at December 31, 2016, expect for the secured deposits (current portion) of approximately RMB211.4 million (as at December 31, 2015: RMB232.7 million), the Group pledged its buildings having net book values of approximately RMB61.8 million (as at December 31, 2015: RMB125.8 million), trade receivables with a total value of RMB110.5 million (as at December 31, 2015: 41.9 million) and its equity interests in a subsidiary amount of approximately RMB227.0 million (as at December 31, 2015: RMB227.0 million) to banks to secure banking facilities granted to the Group. Save as disclosed above, as at December 31, 2016, the Group had no other asset charged to financial institution.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the year ended December 31, 2016.

## MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES

### Very Substantial Disposal

As disclosed in the announcement of the Company dated February 17, 2016 and the circular of the Company dated March 24, 2016, the Company and King Victory Holdings Limited ("**Purchaser**") entered into the master sale and purchase agreement (the "**Master SPA**"), pursuant to which the Company conditionally agreed to sell and the Purchaser conditionally agreed to purchase the entire issued share capital of each of Hugecom Limited, China Traffic Holding Limited, China Expressway Intelligent Transportation Technology Group Ltd., Beijing RHY Technology Development Co., Ltd. and certain amounts receivable by the Company from China Traffic Holding Limited and China Toprise Limited for a total consideration of RMB979,840,000 (subject to adjustment) (the "**Disposal**"). In addition, pursuant to the Master SPA, Beijing Zhongzhi Runbang Technology Co., Ltd. and Beijing Wuzhouzhitong Traffic Technology Co., Ltd. entered into the PRC Sale and Purchase Agreement ("**PRC SPA**") on December 17, 2016.

The Disposal and certain other matters in connection to it have been approved by the independent shareholders of the Company at extraordinary general meeting held on April 27, 2016.

All the conditions of the offshore closing as stipulated in the Master SPA have been fulfilled and the offshore closing was completed on December 31, 2016. All the conditions of the onshore closing as stipulated in the PRC SPA had also been fulfilled and the onshore closing is pending completion of registration with the authority of the PRC.

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

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

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

On 24 March 2017, Jiangsu Zhongzhi Transportation Technology Co., Ltd.* (江蘇中智交通科技有限公司) ("**Jiangsu Zhongzhi**") and Beijing Zhixun Tiancheng Technology Co., Ltd.* (北京智訊天成技術有限公司) ("**Beijing Zhixun**"), both of which are indirectly wholly-owned subsidiaries of the Company, entered into an equity transfer agreement with Beijing Guangwei, Chengdu Zhongzhi Runbang Transportation Technology Co., Ltd.* (成都中智潤邦交通技術有限公司) ("**Zhongzhi Runbang**") and the owners of Beijing Guangwei, pursuant to which Jiangsu Zhongzhi has conditionally agreed to acquire and Beijing Guangwei conditionally agreed to transfer 100% equity interest in Zhongzhi Runbang, a wholly-owned subsidiary of the Beijing Guangwei, to Beijing Zhixun with effect from the Equity Interest Date for a consideration of RMB92,000,000, and Jiangsu Zhongzhi agreed to waive the outstanding accrued interest in the amount of RMB4,000,000 under certain convertible loan agreement between Jiangsu Zhongzhi and Beijing Guangwei, subject to compliance by Beijing Guangwei, Zhongzhi Runbang and the owner of Beijing Guangwei of the equity transfer agreement.

As one of the applicable percentage ratios is more than 5% but all of the applicable percentage ratios are less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. Upon completion of the acquisition, Zhongzhi Runbang will become an indirect wholly-owned subsidiary of the Company and its financial statements will be consolidated to those of the Group. Please refer to the announcement of the Company dated 24 March 2017 for further details.

## EMPLOYMENT AND EMOLUMENT POLICIES

As at December 31, 2016, the Group had 431 full-time employees. The emolument policy of the employees of the Group is set up by the Board on the basis of individual performance, the nature and responsibilities of the individual concerned and the performance of our Group and market conditions.

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

## CORPORATE GOVERNANCE

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

The Company has adopted the code provisions (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The Company has complied with the code provisions contained in the CG Code for the year ended December 31, 2016.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers as contained in the Model Code 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.

## AUDIT COMMITTEE

The audit committee of the Company was established on June 18, 2010 with effect from the Listing with written terms of reference. The Board has adopted the latest terms of reference for the Audit Committee on December 22, 2015.

The primary duties of the audit committee are, among other things, to review and supervise our financial reporting process and internal control systems.

The audit committee comprises three independent non-executive Directors, being Mr. Choi Onward, Mr. Zhou Chunsheng and Mr. Ye Zhou. The audit committee is chaired by Mr. Choi Onward. The audit committee has reviewed the accounting principles and practices and has also reviewed auditing, internal control and financial reporting matters, including the review of the final results of the Group for the year ended December 31, 2016 together with the management of the Company and external auditor, Ernst & Young.

In addition, the Company's external auditor, Ernst & Young, has performed an independent audit of the Group's consolidated financial statements for the year ended December 31, 2016 in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants.

## FINAL DIVIDEND

The Board did not recommend the payment of a final dividend.

## ANNUAL GENERAL MEETING

It is proposed that the upcoming annual general meeting of the Company (the "**Annual General Meeting**") will be held on May 19, 2017. Notice of the Annual General Meeting will be published and dispatched to the shareholders of the Company in the manner as required by the Listing Rules in due course.

## PUBLICATION OF ANNUAL REPORT

The 2016 Annual Report of the Company containing all the information as required by Appendix 16 of the Listing Rules will be dispatched to the shareholders and available on the Company's website at www.its.cn and the Stock Exchange's website at www.hkexnews.hk in due course.

## ACKNOWLEDGEMENT

The Chairman of the Company would like to thank the Board, management and all members of our staff for their commitment and diligence. The Chairman of the Company would also like to thank our shareholders and business associates for their strong support to the Group.

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

Hong Kong, March 27, 2017

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