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, 2017 RESUMPTION OF TRADING

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.

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, 2017, with comparative figures, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended December 31, 2017

	Notes	**2017** ***RMB'000***	2016 *RMB'000* Restated
CONTINUING OPERATIONS			
REVENUE	*4*	**1,164,838**	1,551,844
Cost of sales		**(905,500)**	(1,272,736)
Gross profit		**259,338**	279,108
Other income and gains	*4*	**40,570**	45,918
Selling, general and administrative expenses		**(200,350)**	(191,025)
Other expenses		**(3,285)**	(7,301)
Finance costs		**(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		**49,087**	77,357
Income tax expense	*5*	**(24,618)**	(23,953)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**24,469**	53,404
DISCONTINUED OPERATIONS			
Profit for the year from discontinued operations		**–**	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	*7*	**0.01**	0.05
— For profit from continuing operations		**0.01**	0.03
Diluted			
— For profit for the year	*7*	**0.01**	0.05
— For profit from continuing operations		**0.01**	0.03

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2017

	2017	2016
	RMB'000	*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 investment:		
Changes in fair value	**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

Year ended December 31, 2017

	Notes	**December 31, 2017** **RMB'000**	December 31, 2016 *RMB'000*
NON-CURRENT ASSETS			
Property and equipment		**261,413**	300,388
Investment properties		**66,800**	61,800
Goodwill		**274,027**	230,664
Other intangible assets		**15,621**	9,128
Investments in joint ventures		**54,368**	16,103
Investments in associates		**6,592**	3,623
Available-for-sale investments		**103,236**	25,307
Deferred tax assets		**7,769**	17,366
Loans receivable		**31,000**	–
Prepayment for acquisition of equity interests in a company		**–**	92,000
Total non-current assets		**820,826**	756,379
CURRENT ASSETS			
Inventories		**80,257**	86,077
Construction contracts	*8*	**831,190**	586,356
Trade and bills receivables	*9*	**1,094,119**	1,274,760
Prepayments, deposits and other receivables		**365,683**	743,837
Amounts due from related parties		**638,486**	1,083,363
Other financial assets		**39,903**	–
Pledged deposits		**283,076**	211,396
Cash and cash equivalents		**179,654**	604,843
Total current assets		**3,512,368**	4,590,632
CURRENT LIABILITIES			
Trade and bills payables	*10*	**391,036**	740,579
Other payables and accruals		**271,516**	197,149
Construction contracts	*8*	**621,901**	889,468
Interest-bearing bank borrowings		**608,829**	938,863
Amounts due to related parties		**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

	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	**152,000**	81,200
Deferred tax liabilities	**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	**290**	290
Other reserves	**2,202,200**	2,164,497
	2,202,490	2,164,787
Non-controlling interests	**–**	(29)
Total equity	**2,202,490**	2,164,758

Notes:

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.

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, an available-for-sale investment 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.

3. 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 12, 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 gain/loss, changes in fair value of investment properties and other financial assets 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.

Year ended December 31, 2017	Specialised solutions	Value-added operation and services	Total
	RMB'000	*RMB'000*	*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 an available-for-sale investment			**883**
Corporate and other unallocated expenses			**(41,308)**
Profit before tax from continuing operations			**49,087**
December 31, 2017			
Other segment information:			
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.

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			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.

Geographical information

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

Information about a major customer

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

4. 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	2016
	RMB'000	*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 an available-for-sale investment	**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.

5. 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.

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 established in the PRC (2016: 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 RMB945,595,000 (2016: RMB890,448,000).

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	**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

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 *RMB'000*	*%*	Cayman Islands and British Virgin Islands *RMB'000*	*%*	Mainland China *RMB'000*	*%*	Total *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 subsidiaries	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

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
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.

6. DIVIDENDS

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

7. 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	2016
	RMB'000	*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

8. CONSTRUCTION CONTRACTS

	2017	2016
	RMB'000	*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 (year ended December 31, 2016: Nil).

9. 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.

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).

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

	2017	2016
	RMB'000	*RMB'000*
Neither past due nor impaired	**476,611**	601,538
Past due but not impaired:		
Less than 6 months past due	**89,056**	132,503
6 months to 1 year past due	**143,363**	141,953
1 year to 2 years past due	**201,409**	227,121
2 years to 3 years past due	**58,047**	85,167
	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).

10. 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	2016
	RMB'000	*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.

11. BUSINESS COMBINATION

On March 24, 2017, the Group acquired 100% equity interests in Chengdu Zhongzhi Runbang Transportation Technology Co., Ltd. ("**Chengdu Zhongzhi**") from Beijing Guangwei Xingye Technology Co., Ltd. ("**Beijing Guangwei**"), a third party of the Company. Chengdu Zhongzhi 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, which was settled by way of set-off against the principal amount and interest accrued of certain loans provided by the Company to Beijing Guangwei, which was recorded in the prepayment for acquisition of equity interests in a company as at December 31, 2016.

The fair values of the identifiable assets and liabilities of Chengdu Zhongzhi 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 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.

12. DISPOSAL OF SUBSIDIARIES

2017

On November 21, 2017, the Group disposed of 50% share interest in Intelligent Aviation System Co., Ltd. and its affiliates ("**Intelligent Aviation**"), subsidiaries of the Group, to Forever Opensource Co., Ltd. ("**Forever Opensource**") for subscribing 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 shares of Forever Opensource is pending 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). In connection with the disposal of Intelligent Aviation, Intelligent Aviation transferred certain assets prior to the disposal to other subsidiaries of the Group, which resulted in impairment losses amounted to RMB58,161,000 recorded by the Group. The transfer 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
Fair value of the residual investment	37,605
Gain on disposal of subsidiaries	58,067
Less: Impairment loss of the non-performing assets	(58,161)
Net loss on disposal of subsidiaries	(94)
Satisfied by:	
Financial instrument recorded in other financial assets	40,310

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of the subsidiaries 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 the subsidiaries	357

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.

	XJR	**Disposal Group**
Net assets disposed of:	*RMB'000*	*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

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

	XJR	Disposal Group
	RMB'000	*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)

13. 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 and its affiliates. 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	(120,184)
Finance costs	(5,998)
Share of profits and losses of joint ventures	1,245
Share of profits and losses of associates	3,309
Loss on disposal of a subsidiary	(6)
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)

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	0.02
Diluted, from the discontinued operations	0.02

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	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	1,654,024,868

14. COMPARATIVE AMOUNTS

The comparative statement of profit or loss has been restated to reflect the discontinued operations in 2016, as disclosed in note 13.

MANAGEMENT DISCUSSION AND ANALYSIS

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 AND FINANCIAL REVIEW

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.

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.

FINANCIAL REVIEW

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.

(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	2016
	RMB'000	*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 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).

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, and the proceeds from bond issued. 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), 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, short-term 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.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANY

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 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 Aviation**") entered into an asset purchase agreement with Forever Opensource Co., Ltd. ("**Forever Opensource**"), pursuant to which Tibet 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.

IMPORTANT EVENTS AFFECTING THE GROUP AFTER THE END OF THE FINANCIAL YEAR

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 北京瑞華贏科技發展有限公司 (Beijing RHY Technology Development Co., Ltd.)* (the "**Pledged Equity**") to 北京亞邦偉業技術有限公司 (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.

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.

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.

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, 2017 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, 2017 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.

PUBLICATION OF ANNUAL REPORT

The 2017 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.

RESUMPTION OF TRADING

At the request of the Company, trading in the shares of the Company has been suspended from 9:00 a.m. on March 29, 2018 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading of the shares of the Company on the Stock Exchange with effect from 9:00 a.m. on May 4, 2018.

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, May 3, 2018

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.