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中國城市軌道交通科技控股

CHINA CITY RAILWAY TRANSPORTATION TECHNOLOGY

中國城市軌道交通科技控股有限公司

CHINA CITY RAILWAY TRANSPORTATION TECHNOLOGY HOLDINGS COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1522)



**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

The board (the “Board”) of directors (the “Directors”) of China City Railway Transportation Technology Holdings Company Limited (the “Company”) are pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2016.

The condensed consolidated interim financial information contained in this announcement is unaudited and is extracted from the Group’s unaudited consolidated financial statements for the six months ended 30 June 2016. The Group’s unaudited consolidated financial statements for the six months ended 30 June 2016 have been reviewed by KPMG, the Company’s independent auditor, in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Accountants and, by the Company’s audit committee.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS*For the six months ended 30 June 2016 – Unaudited**(Expressed in Hong Kong dollars (“HK\$”))*

		Six months ended 30 June	
	<i>Note</i>	2016	2015
		HK\$'000	HK\$'000
Revenue	4	128,205	147,284
Cost of sales		(81,357)	(79,754)
Gross profit	4(b)	46,848	67,530
Other revenue		3,069	2,059
Other net loss		(883)	(203)
Selling, general and administrative expenses		(29,016)	(40,882)
Profit from operations		20,018	28,504
Share of losses of joint ventures	11	(1,367)	–
Profit before taxation	5	18,651	28,504
Income tax	6	(3,227)	(4,131)
Profit for the period		15,424	24,373
Attributable to:			
Equity shareholders of the Company		14,765	25,935
Non-controlling interests		659	(1,562)
Profit for the period		15,424	24,373
Earnings per share			
– Basic (HK\$)	7(a)	0.0103	0.0196
– Diluted (HK\$)	7(b)	0.0103	0.0193

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016 – Unaudited

(Expressed in HK\$)

	Six months ended 30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	15,424	24,373
Other comprehensive income for the period (after tax):		
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation into presentation currency	<u>(15,304)</u>	<u>337</u>
Total comprehensive income for the period	<u>120</u>	<u>24,710</u>
Attributable to:		
Equity shareholders of the Company	(184)	26,268
Non-controlling interests	<u>304</u>	<u>(1,558)</u>
Total comprehensive income for the period	<u>120</u>	<u>24,710</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016 – Unaudited

(Expressed in HK\$)

	<i>Note</i>	At 30 June 2016 HK\$'000	At 31 December 2015 HK\$'000
Non-current assets			
Property, plant and equipment	8	92,601	100,326
Intangible assets	9	129,785	140,734
Goodwill	10	64,084	65,265
Interests in joint ventures	11	311,074	–
Deferred tax assets		7,206	8,887
		<u>604,750</u>	<u>315,212</u>
Current assets			
Available-for-sale debt investments	12	35,100	17,904
Inventories	13	90,169	50,819
Trade and other receivables	14	473,172	535,506
Cash and cash equivalents	15	364,666	626,837
		<u>963,107</u>	<u>1,231,066</u>
Current liabilities			
Trade and other payables	16	277,644	254,975
Current taxation		33,342	44,720
		<u>310,986</u>	<u>299,695</u>
Net current assets		<u>652,121</u>	<u>931,371</u>
Total assets less current liabilities		1,256,871	1,246,583
Non-current liabilities			
Deferred tax liabilities		23,669	25,081
NET ASSETS		<u>1,233,202</u>	<u>1,221,502</u>
CAPITAL AND RESERVES			
Share capital	18	14,357	14,233
Reserves		1,208,139	1,196,867
Total equity attributable to equity shareholders of the Company		1,222,496	1,211,100
Non-controlling interests		10,706	10,402
Total equity		<u>1,233,202</u>	<u>1,221,502</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016 – unaudited

(Expressed in HK\$)

	Attributable to equity shareholders of the Company						Total HK\$'000	Non- controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Statutory reserves HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000			
Balance at 1 January 2015	13,060	712,202	21,991	19,949	12,525	205,894	985,621	13,965	999,586
Changes in equity for the six months ended 30 June 2015:									
Profit/(loss) for the period	–	–	–	–	–	25,935	25,935	(1,562)	24,373
Other comprehensive income	–	–	–	–	333	–	333	4	337
Total comprehensive income	–	–	–	–	333	25,935	26,268	(1,558)	24,710
Issuance of shares	1,146	236,173	–	–	–	–	237,319	–	237,319
Shares issued under share option scheme	13	1,196	(173)	–	–	–	1,036	–	1,036
Equity-settled share-based transactions (Note 17)	–	–	3,820	–	–	–	3,820	–	3,820
	<u>1,159</u>	<u>237,369</u>	<u>3,647</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>242,175</u>	<u>–</u>	<u>242,175</u>
Balance at 30 June 2015	<u>14,219</u>	<u>949,571</u>	<u>25,638</u>	<u>19,949</u>	<u>12,858</u>	<u>231,829</u>	<u>1,254,064</u>	<u>12,407</u>	<u>1,266,471</u>
Balance at 1 July 2015	<u>14,219</u>	<u>949,571</u>	<u>25,638</u>	<u>19,949</u>	<u>12,858</u>	<u>231,829</u>	<u>1,254,064</u>	<u>12,407</u>	<u>1,266,471</u>
Changes in equity for the six months ended 31 December 2015:									
Loss for the period	–	–	–	–	–	(2,990)	(2,990)	(903)	(3,893)
Other comprehensive income	–	–	–	–	(45,009)	–	(45,009)	(1,102)	(46,111)
Total comprehensive income	–	–	–	–	(45,009)	(2,990)	(47,999)	(2,005)	(50,004)
Shares issued under share option scheme	14	1,248	(305)	–	–	–	957	–	957
Equity-settled share-based transactions (Note 17)	–	–	4,078	–	–	–	4,078	–	4,078
Appropriation to reserves	–	–	–	3,698	–	(3,698)	–	–	–
Reclassification between reserves	–	–	–	(10,937)	–	10,937	–	–	–
	<u>14</u>	<u>1,248</u>	<u>3,773</u>	<u>(7,239)</u>	<u>–</u>	<u>7,239</u>	<u>5,035</u>	<u>–</u>	<u>5,035</u>
Balance at 31 December 2015	<u>14,233</u>	<u>950,819</u>	<u>29,411</u>	<u>12,710</u>	<u>(32,151)</u>	<u>236,078</u>	<u>1,211,100</u>	<u>10,402</u>	<u>1,221,502</u>

Attributable to equity shareholders of the Company

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Statutory reserves <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>	Non- controlling interests <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
Balance at 1 January 2016	14,233	950,819	29,411	12,710	(32,151)	236,078	1,211,100	10,402	1,221,502
Changes in equity for the six months ended 30 June 2016:									
Profit for the period	-	-	-	-	-	14,765	14,765	659	15,424
Other comprehensive income	-	-	-	-	(14,949)	-	(14,949)	(355)	(15,304)
Total comprehensive income	-	-	-	-	(14,949)	14,765	(184)	304	120
Shares issued under share option scheme (<i>Note 18(b)</i>)	124	11,299	(2,210)	-	-	-	9,213	-	9,213
Equity-settled share-based transactions (<i>Note 17</i>)	-	-	2,367	-	-	-	2,367	-	2,367
	<u>124</u>	<u>11,299</u>	<u>157</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,580</u>	<u>-</u>	<u>11,580</u>
Balance at 30 June 2016	<u>14,357</u>	<u>962,118</u>	<u>29,568</u>	<u>12,710</u>	<u>(47,100)</u>	<u>250,843</u>	<u>1,222,496</u>	<u>10,706</u>	<u>1,233,202</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2016 – Unaudited

(Expressed in HK\$)

		Six months ended 30 June	
	<i>Note</i>	2016	2015
		<i>HK\$'000</i>	<i>HK\$'000</i>
Cash generated from/(used in) operations		78,167	(32,615)
Interest income received		1,865	1,725
Income tax paid		(13,948)	(11,318)
		<hr/>	<hr/>
Net cash generated from/ (used in) operating activities		66,084	(42,208)
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Investing activities			
Payments for the purchase of property, plant and equipment and intangible assets		(3,338)	(1,041)
Proceeds from disposal of property, plant and equipment		3	81
Capital contributions into joint ventures		(312,441)	–
Payment for the purchase of available-for-sale debt investments		(68,908)	–
Proceeds from sale of available-for-sale debt investments		51,308	–
		<hr/>	<hr/>
Net cash used in investing activities		(333,376)	(960)
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Financing activities			
Proceeds from issuance of new shares, net of transaction costs		–	237,319
Proceeds from the exercise of share options	<i>18(b)</i>	9,213	1,036
		<hr/>	<hr/>
Net cash generated from financing activities		9,213	238,355
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Net (decrease)/increase in cash and cash equivalents		(258,079)	195,187
Cash and cash equivalents at the beginning of the period	<i>15</i>	626,837	528,044
Effect of foreign exchange rate changes		(4,092)	78
		<hr/>	<hr/>
Cash and cash equivalents at the end of the period	<i>15</i>	364,666	723,309
		<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

(Expressed in HK\$ unless otherwise indicated)

1 CORPORATE INFORMATION

China City Railway Transportation Technology Holdings Company Limited (the “Company”) was incorporated in the Cayman Islands on 7 January 2011 as an exempted company with limited liability under the Companies Law (2011 Revision), Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company were listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 16 May 2012. The listing of the Company’s shares were transferred from the GEM to the Main Board of the Stock Exchange on 6 December 2013. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2016 comprise the Company and its subsidiaries (collectively referred to as the “Group”). The principal activities of the Group are the design, implementation and sale, and maintenance, of application solutions for the networking and controlling systems of public transport and other companies, and the lease of civil communication transmission systems to telecommunication companies.

2 BASIS OF PREPARATION

This unaudited condensed consolidated financial information for the six months ended 30 June 2016 (the “Interim Financial Information”) has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the “IASB”). It was authorised for issue on 12 August 2016.

The Interim Financial Information has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of these changes in accounting policies are set out in Note 3.

The preparation of an Interim Financial Information in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This Interim Financial Information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2015 annual financial statements. The Interim Financial Information and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

The Interim Financial Information is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants.

The financial information relating to the financial year ended 31 December 2015 that is included in the Interim Financial Information as comparative information does not constitute the Company’s statutory consolidated financial statements for that financial year but is derived from those financial statements. The financial statements for the year ended 31 December 2015 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 30 March 2016.

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group.

- *Annual Improvements to IFRSs 2012-2014 Cycle*
- Amendments to IAS 16 and IAS 38, *Clarification of acceptable methods of depreciation and amortisation*
- *Amendments to IAS 1, Presentation of financial statements: Disclosure initiative*

None of these developments have had a material effect on how the Group's performance and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

Revenue represents contract revenue from the provision of design, implementation and sale of application solution services, contract revenue from the provision of maintenance of application solution services, and rental income from the lease of civil communication transmission systems. The amount of each significant category of revenue recognised during the period is as follows:

	<u>Six months ended 30 June</u>	
	<u>2016</u>	<u>2015</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from the provision of design, implementation and sale of application solution services	54,666	95,111
Revenue from the provision of maintenance of application solution services	25,174	26,208
Rental income from the lease of civil communication transmission systems	48,365	25,965
	<u>128,205</u>	<u>147,284</u>

Further details regarding the Group's principal activities are disclosed below.

(b) Segment reporting

The Group manages its businesses by business lines. In view of the continuous integration of the design and implementation of application solutions with their related software, hardware and spare parts in the contracts with customers, the management of the Group considered it has been increasingly difficult to present these activities separately and decided to change the way in how information is to be reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment. The three operating segments, namely "Design and implementation", "Software" and "Hardware and spare parts" as previously reported for the six months ended 30 June 2015 have been combined into one operating segment, namely "System integration" for the six months ended 30 June 2016. As a result, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments:

- System integration: this segment provides design, implementation and sale of application solution services, which includes related software, hardware and space parts.

- Maintenance: this segment provides application solution maintenance services.
- Rental income: this segment leases civil communication transmission systems.

Comparative figures have been adjusted to conform to the current period's segments presentation.

(i) *Segment results*

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments. The measure used for reporting segment profit is gross profit. No inter-segment sales have occurred for the six months ended 30 June 2016 and 2015. The Group's other income and expense items, such as selling, general and administrative expenses and share of losses of joint ventures, and assets and liabilities, including the sharing of technical know-how, are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure and interest income is presented.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2016 and 2015 is set out below.

	Six months ended 30 June 2016			
	System integration <i>HK\$'000</i>	Maintenance <i>HK\$'000</i>	Rental income <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue from external customers and reportable segment revenue	<u>54,666</u>	<u>25,174</u>	<u>48,365</u>	<u>128,205</u>
Reportable segment gross profit	<u>9,619</u>	<u>13,561</u>	<u>23,668</u>	<u>46,848</u>
	Six months ended 30 June 2015			
	System integration <i>HK\$'000</i>	Maintenance <i>HK\$'000</i>	Rental income <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue from external customers and reportable segment revenue	<u>95,111</u>	<u>26,208</u>	<u>25,965</u>	<u>147,284</u>
Reportable segment gross profit	<u>38,066</u>	<u>19,157</u>	<u>10,307</u>	<u>67,530</u>

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Staff costs:

	Six months ended 30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, wages and other benefits	31,772	31,737
Contributions to defined contribution retirement plans	3,608	3,407
Equity-settled share-based payment expenses (<i>Note 17</i>)	2,367	3,820
	<u>37,747</u>	<u>38,964</u>

(b) Other items:

	Six months ended 30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories (<i>Note 13(b)</i>)	32,431	16,764
Depreciation and amortisation	17,607	13,011
Operating lease charges in respect of office premises	4,275	4,632
Interest income	(1,865)	(1,725)
Investment income	(221)	–
Net foreign exchange loss	882	261
Loss/(gain) on disposal of property, plant and equipment (<i>Note 8</i>)	<u>1</u>	<u>(65)</u>

6 INCOME TAX

Income tax in the consolidated statement of profit or loss represents:

	Six months ended 30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current taxation:		
Hong Kong Profits Tax	548	295
The People's Republic of China (the "PRC") Corporate Income Tax	2,022	8,878
	<u>2,570</u>	<u>9,173</u>
Deferred taxation:		
Origination and reversal of temporary differences	<u>657</u>	<u>(5,042)</u>
	<u>3,227</u>	<u>4,131</u>

The Company and the subsidiaries of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the six months ended 30 June 2016 (six months ended 30 June 2015: 16.5%).

The Company and the subsidiaries of the Group incorporated in countries other than the PRC (including Hong Kong) are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.

The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% for the six months ended 30 June 2016 (six months ended 30 June 2015: 25%).

A subsidiary of the Group established in the PRC has obtained approval from the tax bureau to be taxed as enterprise with advanced and new technologies, and therefore enjoyed a preferential PRC Corporate Income Tax rate of 15% for the calendar years from 2015 to 2017.

Another two subsidiaries of the Group established in the PRC are in the process of applying to be taxed as an enterprise with advanced and new technologies for the calendar years from 2016 to 2018, i.e. preferential PRC Corporate Income Tax rate of 15%. The Directors consider the two subsidiaries have satisfied the conditions of being an enterprise with advanced and new technologies, and accordingly, the Directors are of the opinion that the preferential PRC Corporate Income Tax rate shall be applied for these subsidiaries.

7 BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2016 is based on the profit attributable to ordinary equity shareholders of the Company of HK\$14,765,000 (six months ended 30 June 2015: HK\$25,935,000) and the weighted average of 1,428,762,000 ordinary shares (six months ended 30 June 2015: 1,323,338,000 ordinary shares) in issue during the six months 30 June 2016, calculated as follows:

Weighted average number of ordinary shares:

	<u>Six months ended 30 June</u>	
	2016 '000	2015 '000
Issued ordinary shares at 1 January	1,423,321	1,305,976
Effect of shares issued under share option scheme (<i>Note 18(b)</i>)	5,441	898
Effect of issuance of shares	–	16,464
	<u>1,428,762</u>	<u>1,323,338</u>

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2016 is based on the profit attributable to ordinary equity shareholders of the Company of HK\$14,765,000 (six months ended 30 June 2015: HK\$25,935,000) and the weighted average number of ordinary shares (diluted) of 1,435,940,000 (six months ended 30 June 2015: 1,344,928,000 ordinary shares (diluted)), calculated as follows:

	<u>Six months ended 30 June</u>	
	2016 '000	2015 '000
Weighted average number of ordinary shares at 30 June	1,428,762	1,323,338
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	7,178	21,590
	<u>1,435,940</u>	<u>1,344,928</u>

8 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group acquired items of property, plant and equipment with a cost of HK\$3,796,000 (six months ended 30 June 2015: HK\$1,026,000).

Property, plant and equipment with a carrying amount of HK\$4,000 was disposed of during the six months ended 30 June 2016, resulting in a net loss on disposal of HK\$1,000 (six months ended 30 June 2015: carrying amount of HK\$16,000 was disposed of, resulting in a net gain on disposal of HK\$65,000).

9 INTANGIBLE ASSETS

Intangible assets of the Group at 30 June 2016 mainly comprised self-developed software and income rights acquired with an aggregate carrying amount of HK\$128,889,000 (31 December 2015: HK\$139,793,000).

10 GOODWILL

Goodwill is allocated to the Group's cash-generating units identified according to the operations of the Group as follows:

		At 30 June 2016 <i>HK\$'000</i>	At 31 December 2015 <i>HK\$'000</i>
Operations in the provision of design, implementation and sale of application solutions services	<i>(i)</i>	53,594	54,562
Operations related to the civil communication transmission systems business	<i>(ii)</i>	10,490	10,703
		<u>64,084</u>	<u>65,265</u>

Notes

(i): Goodwill was arisen from the Group's acquisition of the 100% equity interests of Innovation Holding Co., Ltd. in 2013.

(ii): Goodwill was arisen from the Group's acquisition of the civil communication transmission systems and the respective income rights of seven subway lines and the civil communication income rights of the airport line of the Beijing Subway in 2014.

11 INTERESTS IN JOINT VENTURES

	At 30 June 2016 HK\$'000	At 31 December 2015 HK\$'000
Unlisted costs	312,441	–
Add: share of losses	(1,367)	–
	<u>311,074</u>	<u>–</u>

Details of the Group's interests in joint ventures, which are accounted for using the equity method in the condensed consolidated interim financial statements, are as follows:

Name of joint venture	Place of establishment and operations	Particulars of registered and paid up capital	Proportion of ownership interest			Principal activities
			The Group's effective interest	Held by the Company	Held by a subsidiary	
Beijing Metro Science and Technology Development Co., Ltd. * 北京地鐵科技發展有限公司	The PRC	Renminbi ("RMB") 30,000,000	49%	–	49%	Maintenance of application solutions for the networking and controlling systems of public transport companies
Beijing Metro Co., Ltd.* 北京京城地鐵有限公司	The PRC	RMB 500,000,000	49%	49%	–	Subway operations management

* *The English translation of the names are for reference only and the official names of these entities are in Chinese.*

12 AVAILABLE-FOR-SALE DEBT INVESTMENTS

	At 30 June 2016 HK\$'000	At 31 December 2015 HK\$'000
Unlisted debt investments	<u>35,100</u>	<u>17,904</u>

The unlisted debt investments represent wealth management products issued by financial institutions with guaranteed principal amounts plus variable returns.

13 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	At 30 June 2016 HK\$'000	At 31 December 2015 HK\$'000
Application solutions related software, hardware and spare parts	89,893	50,681
Materials to be assigned to service contracts	276	138
	<u>90,169</u>	<u>50,819</u>

- (b) The analysis of the amount of inventories recognised as an expense and included in the consolidated statement of profit or loss during the period is as follows:

	<u>Six months ended 30 June</u>	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Carrying amount of inventories sold	32,431	16,764

14 TRADE AND OTHER RECEIVABLES

	At 30 June 2016 HK\$'000	At 31 December 2015 <i>HK\$'000</i>
Trade receivables due from (<i>Notes 14(a) and 14(c)</i>):		
– third parties	214,902	269,977
– the ultimate holding company of the Company	28	28
– an affiliate of an equity shareholder of the Company	60,304	63,993
– an equity holder of the non-controlling equity holder of a subsidiary of the Group	21,565	32,883
	296,799	366,881
Gross amount due from customers for contract work (<i>Note 14(b)</i>):		
– third parties	115,624	106,782
– an affiliate of an equity shareholder of the Company	18,312	21,402
– an equity holder of the non-controlling equity holder of a subsidiary of the Group	3,106	3,169
	137,042	131,353
Amounts due from related parties (<i>Note 14(d)</i>):		
– equity shareholders of the Company and their affiliates	184	688
– the ultimate holding company of the Company	–	8,911
	184	9,599
Prepayments, deposits and other receivables	39,147	27,673
	473,172	535,506

All of the trade and other receivables are expected to be settled or recognised as expenses within one year.

(a) **Ageing analysis**

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date, is as follows:

	At 30 June 2016 <i>HK\$'000</i>	At 31 December 2015 <i>HK\$'000</i>
Within 1 month	14,048	169,682
More than 1 month but less than 3 months	4,271	26,076
More than 3 months but less than 6 months	7,259	12,594
More than 6 months	271,221	158,529
	<u>296,799</u>	<u>366,881</u>

The Group generally requires customers to settle progress billings and retention receivables in accordance with contracted terms. Credit terms of 30 days may be granted to certain customers for progress billings. In accordance with general industry practices, one to three years may be granted to customers for retention receivables.

(b) **Project contracts in progress**

At 30 June 2016, the aggregate amount of costs incurred plus recognised profits less recognised losses to date, included in the gross amount due from customers for contract work, is HK\$431,631,000 (31 December 2015: HK\$382,089,000).

(c) **Retention receivables**

At 30 June 2016, included in trade receivables are retention receivables in respect of project contracts of HK\$22,760,000 (31 December 2015: HK\$16,292,000).

(d) **Amounts due from related parties**

Amounts due from related parties are unsecured, non-interest bearing and have no fixed terms of repayment.

15 CASH AND CASH EQUIVALENTS

	At 30 June 2016 <i>HK\$'000</i>	At 31 December 2015 <i>HK\$'000</i>
Cash at bank and on hand	<u>364,666</u>	<u>626,837</u>

The Group's operations in the PRC are conducted in RMB. RMB is not a freely convertible currency and the remittance of RMB out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

16 TRADE AND OTHER PAYABLES

	At 30 June 2016 HK\$'000	At 31 December 2015 HK\$'000
Trade payables due to third parties (<i>Note 16(a)</i>):	159,537	185,683
Bills payable (<i>Note 16(a)</i>)	39,143	3,467
	<u>198,680</u>	<u>189,150</u>
Amounts due to related parties (<i>Note 16(b)</i>):		
– an affiliate of an equity shareholder of the Company	2,518	–
– a non-controlling equity holder of a subsidiary of the Group	5,400	–
	<u>7,918</u>	<u>–</u>
Other taxes payables	6,966	12,614
Accrued expenses and other payables	4,064	12,364
	<u>11,030</u>	<u>24,978</u>
Financial liabilities measured at amortised cost	217,628	214,128
Receipts in advance from third parties	60,016	40,847
	<u>277,644</u>	<u>254,975</u>

At 30 June 2016, all of the trade and other payables are expected to be settled or recognised as revenue within one year or are repayable on demand.

(a) Ageing analysis

Included in trade and other payables are trade and bills payables with the following ageing analysis, based on the maturity date, as of the end of the reporting period:

	At 30 June 2016 HK\$'000	At 31 December 2015 HK\$'000
Due within 1 month or on demand	169,925	185,683
Due after 1 month but within 6 months	28,755	3,467
	<u>198,680</u>	<u>189,150</u>

(b) Amounts due to related parties

The amounts are unsecured and non-interest bearing. Except for an amount of HK\$5,400,000 at 30 June 2016 (31 December 2015: HK\$Nil) which is repayable within one year, all of the remaining balances have no fixed term of repayment.

17 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme which was adopted on 8 December 2011 and revised on 24 September 2013 whereby the Directors are authorised, at their discretion, to invite (i) any employee or proposed employee (whether full-time or part-time) of any member of the Group or any entity in which any member of the Group holds an equity interest (“Invested Entity”); (ii) any executive or non-executive directors including independent non-executive directors of any member of the Group or any Invested Entity; (iii) any supplier of goods or services to any member of the Group or any Invested Entity; (iv) any customer of the Group or any Invested Entity; (v) any shareholder of any member of the Group or any Invested Entity; or (vi) any other group or classes of participants from time to time determined by the Directors as having contributed or may contribute by way of joint ventures, business alliances or other business arrangements to the developments and growth of the Group, to take up options at HK\$1.00 as consideration to subscribe for ordinary shares in the Company.

For the share options granted on 26 July 2012, 31 December 2013 and 5 December 2014, 20% will vest after one year from the date of grant; another 50% will vest after two years from the date of grant; and the remaining 30% will vest after three years from the date of grant. The share options granted will lapse on 25 July 2017, 30 December 2018 and 4 December 2019 respectively. Each share option gives the holder the right to subscribe for one ordinary share in the Company.

(a) The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to Directors:			
– on 26 July 2012	480,000	One year from the date of grant	5 years
– on 26 July 2012	1,200,000	Two years from the date of grant	5 years
– on 26 July 2012	720,000	Three years from the date of grant	5 years
– on 5 December 2014	100,000	One year from the date of grant	5 years
– on 5 December 2014	250,000	Two years from the date of grant	5 years
– on 5 December 2014	150,000	Three years from the date of grant	5 years
Options granted to equity shareholder:			
– on 5 December 2014	260,000	One year from the date of grant	5 years
– on 5 December 2014	650,000	Two years from the date of grant	5 years
– on 5 December 2014	390,000	Three years from the date of grant	5 years
Options granted to employees:			
– on 26 July 2012	7,360,000	One year from the date of grant	5 years
– on 26 July 2012	18,400,000	Two years from the date of grant	5 years
– on 26 July 2012	11,040,000	Three years from the date of grant	5 years
– on 31 December 2013	4,000,000	One year from the date of grant	5 years
– on 31 December 2013	10,000,000	Two years from the date of grant	5 years
– on 31 December 2013	6,000,000	Three years from the date of grant	5 years
– on 5 December 2014	3,640,000	One year from the date of grant	5 years
– on 5 December 2014	9,100,000	Two years from the date of grant	5 years
– on 5 December 2014	5,460,000	Three years from the date of grant	5 years
Total share options granted	<u>79,200,000</u>		

(b) The number and weighted average exercise price of share options are as follows:

	Six months ended 30 June 2016		Year ended 31 December 2015	
	Weighted average exercise price	Number of share options '000	Weighted average exercise price	Number of share options '000
Outstanding at the beginning of the period	HK\$1.593	51,800	HK\$1.548	55,136
Exercised during the period	HK\$0.742	(12,416)	HK\$0.731	(2,728)
Forfeited during the period	HK\$2.690	(750)	HK\$1.325	(608)
Outstanding at the end of the period	HK\$1.846	<u>38,634</u>	HK\$1.593	<u>51,800</u>
Exercisable at the end of the period	HK\$1.370	<u>17,394</u>	HK\$1.116	<u>29,960</u>

The weighted average share price at the date of exercise for share options exercised during the six months ended 30 June 2016 was HK\$1.33 (year ended 31 December 2015: HK\$2.12).

The share options outstanding at 30 June 2016 had a weighted average exercise price of HK\$1.846 (31 December 2015: HK\$1.593) and a weighted average remaining contractual life of 2.86 years (31 December 2015: 3.01 years).

18 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the interim period

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: HK\$Nil).

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved during the interim period

The Directors did not recommend a final dividend for the year ended 31 December 2015 and the eighteen months ended 31 December 2014.

(b) Issuance of shares under share option scheme

During the six months ended 30 June 2016, share options were exercised to subscribe for 12,416,000 ordinary shares in the Company at a consideration of HK\$9,213,000, of which HK\$124,000 was credited to share capital and the remaining balance of HK\$9,089,000 was credited to the share premium account. HK\$2,210,000 has been transferred from the capital reserve to the share premium account.

(c) **Terms of unexpired and unexercised share options at the end of the reporting period**

Exercise period	Exercise price	At 30 June 2016 Number '000
26 July 2013 to 25 July 2017	HK\$0.656	306
26 July 2014 to 25 July 2017	HK\$0.656	773
26 July 2015 to 25 July 2017	HK\$0.656	1,505
31 December 2014 to 30 December 2018	HK\$1.080	2,800
31 December 2015 to 30 December 2018	HK\$1.080	8,200
31 December 2016 to 30 December 2018	HK\$1.080	6,000
5 December 2015 to 4 December 2019	HK\$2.690	3,810
5 December 2016 to 4 December 2019	HK\$2.690	9,525
5 December 2017 to 4 December 2019	HK\$2.690	5,715
		38,634

Each share option entitles the holder to subscribe for one ordinary share in the Company. Further details of these share options are set out in Note 17 to the Interim Financial Information.

19 OPERATING LEASE COMMITMENTS

- (a) At 30 June 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2016 HK\$'000	At 31 December 2015 HK\$'000
Within 1 year	6,032	8,902
After 1 year but within 5 years	652	2,301
	6,684	11,203

The Group leases certain office premises under operating leases. The leases typically run for an initial period of 1 to 5 years, with an option to renew when all terms are renegotiated. None of the leases includes contingent lease rentals.

- (b) At 30 June 2016, the total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	At 30 June 2016 HK\$'000	At 31 December 2015 HK\$'000
Within 1 year	70,554	67,320
After 1 year but within 5 years	83,501	78,764
	154,055	146,084

The Group leases out its civil communication transmission systems to telecommunication companies under operating leases. The leases typically run for an initial period of 1 to 5 years, with an option to renew the leases when all terms are renegotiated. None of the leases includes contingent lease rentals.

20 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the balances disclosed elsewhere in this Interim Financial Information, the material related party transactions entered into by the Group during the six months ended 30 June 2016 are set out below.

(a) Transactions with equity shareholders of the Company and their affiliates

	<u>Six months ended 30 June</u>	
	<u>2016</u>	<u>2015</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision of design, implementation and sale of application solution services	–	6,691
Provision of maintenance of application solution services	19,931	21,805
Operating lease expenses	2,556	2,956
Net (decrease)/increase in advances granted	(504)	500

(b) Transactions with an equity holder of the non-controlling equity holder of a subsidiary of the Group

	<u>Six months ended 30 June</u>	
	<u>2016</u>	<u>2015</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net increase in advances received	–	8,306

(c) Transaction with a non-controlling equity holder of a subsidiary of the Group

	<u>Six months ended 30 June</u>	
	<u>2016</u>	<u>2015</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Increase in advance received	5,400	–

(d) Key management personnel remuneration

	<u>Six months ended 30 June</u>	
	<u>2016</u>	<u>2015</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term employee benefits	5,728	6,640
Retirement scheme contributions	278	274
Equity compensation benefits	671	1,348
	6,677	8,262

Total remuneration is included in “staff costs” (see Note 5(a)).

(e) Transactions with other state-controlled entities in the PRC

The ultimate holding company of the Company, Beijing Infrastructure Investment Co., Ltd. (“BII”), is a state-controlled enterprise controlled by the PRC government. Apart from transactions with BII and its affiliates which were disclosed in Note 20(a) above, the Group also has transactions with other state-controlled entities including but not limited to the following:

- provision of design, implementation and sale of application solution services;
- lease of civil communication transmission systems;
- bank deposits; and
- purchase of available-for-sale debt investments.

21 COMPARATIVE FIGURES

In view of the continuous integration of the design and implementation of application solutions with their related software, hardware and spare parts in the contracts with customers, the management of the Group considered it has been increasingly difficult to present these activities separately. As a result, certain information reported internally to the Group’s most senior executive management for the purposes of resource allocation and performance assessment has been changed for the six months ended 30 June 2016. Accordingly, certain comparative figures have been adjusted to conform to current period’s presentation. Further details are set out in Note 4(b) .

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Being the only listed company in Hong Kong that provides a full range of information system application solutions and operation maintenance services at both network-level and line-level, the Company’s information system business achieved a series of progress during the period under review. This includes a joint bid between ERG Transit Systems (Beijing) Limited (“ERG BJ”), a wholly-owned subsidiary of the Company, and Shanghai Baosight Software Co., Ltd.* (上海寶信軟件股份有限公司) winning the tender to purchase construction equipment, system integration and services from Chengdu Coordination and Command Center on 17 June 2016. The total contract sum amounted to approximately RMB115,675,287. By way of joint bid, the Group further expands its scope of business to other provinces and cities outside of Beijing and demonstrates the Group’s competitiveness in the industry.

ERG Transit Systems (HK) Limited (“ERG HK”), a wholly-owned subsidiary of the Company in Hong Kong, has always maintained amiable relationships with MTR Corporation Limited (“MTR”), New World First Bus Services Limited (“NWFB”) and Citybus Limited (“CTB”). During the period under review, ERG HK upgraded 174 ticket vending machines for Light Rail in Hong Kong, as well as designed, installed and delivered new ticketing systems that allowed passengers to purchase tickets and to add value for their Octopus cards in any ticket machines, each of which features a graphical user interface and an interactive voice system to guide the visually impaired. ERG HK entered into a contract with each of NWFB and CTB in relation to the supply of a new Automatic Fare Collection (“AFC”) system in May 2014. The system is used to enhance bill processing and efficiency of information collection in fare clearing and settlement. The system was set and the trial operation started in May this year. It is expected to be completed and deployed for the use of passengers by the end of this year.

Beijing BII Technology Development Co., Ltd.* (北京京投卓越科技發展有限公司) (“BII Zhuoyue”), a wholly-owned subsidiary of the Company, as purchaser, and Beijing Infrastructure Investment Co., Ltd.* (北京市基礎設施投資有限公司) (“BII”), as vendor, entered into the sales and purchase agreements on 8 July 2014 and 29 June 2015, respectively. BII, being a substantial shareholder of the Company, has undertaken to transfer, at an appropriate time, the fixed assets and income rights to be derived from the civil communication transmission systems for all lines of the Beijing Subway in which BII has invested in and constructed but yet to complete and settle to the Group at reasonable price. Further, BII has undertaken not to engage in any business or activities similar to, or which directly or indirectly compete, or are likely to compete with the business of the Group. For the future lines of the civil communication transmission system of the Beijing Subway, the Group can carry out its own investment. The Group began investment and construction of the civil communication transmission system of Phase II of the Changping Line of Beijing Subway at the end of 2015. The construction of the civil communication transmission systems of the six stations of the Changping Line have been completed and such systems have been in use since the beginning of 2016. The Group will be standing at a very favorable position when negotiating with the operators for resources utilisation or joint venture in the future.

As at 30 June 2016, since the Group’s acquisition of Beijing BII-ERG Transportation Technology Co. Ltd.* (北京京投億雅捷交通科技有限公司) (“BII-ERG”), it has committed to enhance the Group’s overall capabilities in design and provision of application solutions at both network-level and line-level; to efficiently integrate the two system levels and ensure their compatibility, while at the same time maintaining and managing such systems efficiently so as to enhance the Group’s competitiveness and to provide all-rounded services to the existing customers. In addition, BII-ERG was granted the tender to purchase construction equipment from Beijing Metro Energy Management Center (Energy Consumption & Monitoring Platform) on 11 April 2016. The contract amounted to approximately RMB30.53 million. BII-ERG will set up a platform to analyse macro data of energy consumption for the Beijing Subway. Such macro data analyses will help the Beijing Subway to achieve precise analyses on its energy consumption so as to improve its energy-saving potential.

On 5 November 2015, the Company entered into a joint venture agreement with Beijing Mass Transit Railway Operation Corp., Ltd.* (北京市地鐵運營有限公司) (“Beijing MTR Operation”), in relation to the establishment of a joint venture, Beijing City Metro Ltd.* (北京京城地鐵有限公司) (“Beijing City Metro”), formed by the Company and Beijing MTR Operation. Beijing City Metro was established on 15 February 2016 with a registered capital of RMB500 million, of which 51% was held by Beijing MTR Operation and the remaining 49% was held by the Company. The Beijing MTR Operation and the Company invested RMB255 million and RMB245 million, respectively, with reference to their respective proportion of equity held. The main scope of operation of Beijing City Metro encompasses investment, construction, operation, management, value-added services and property development of subway lines, including the management of the operating income rights of the existing airport lines and new lines of the Beijing Subway. In order to expand the business of the Group to become the most important operating entity in the city railway transportation industry and to diversify future business development of the Group, the Company intends to acquire, through Beijing City Metro, the operating income rights of the existing airport lines of the Beijing Subway which is owned by BII, and to secure operating income rights of the new airport lines in the future.

To achieve the Company's targets of focusing on the design of the AFC systems, integration of business to develop a full service chain of design, construction, operation and maintenance of the AFC systems, as well as the expansion of scope of business and sources of income of the Group, China City Railway Transportation Technology Investment Company Limited (中國城市軌道交通科技投資有限公司) ("CCRTTI"), a subsidiary held as to 70% indirectly by the Company, and Beijing MTR Operation established a joint venture, Beijing Metro Technology Development Co., Ltd.* (北京地鐵科技發展有限公司) ("Metro Technology Development"), on 18 February 2016 with a registered capital of RMB30 million, of which 51% was held by Beijing MTR Operation and the remaining 49% was held by CCRTTI. Beijing MTR Operation and CCRTTI invested RMB15.3 million and RMB14.7 million in Metro Technology Development, respectively, with reference to their respective proportion of equity held. The main scope of operation of Metro Technology Development includes the design, installation, maintenance and research of subway AFC system equipment, the development of traffic system softwares and traffic network technology, technical consultation and services. The cooperation with the Beijing MTR Operation enables the Group to effectively deal with existing issues and challenges arising from the design, maintenance and management of the AFC systems and to create conditions for the expansion of AFC business in other provinces and cities outside of Beijing.

Meanwhile, the Group is also committed to expanding the varieties of originally designed products. In order to resolve the existing technical problems of purchasing subway tickets, long queue time for ticket inspection and high equipment costs, the Group has developed a set of ticket purchasing softwares. Users can download the softwares to quickly purchase tickets by way of scanning QR codes, thereby improving the efficiency of ticket purchasing in subway stations. This technology is based on identification of QR codes for purchasing and inspecting subway tickets through smartphones whereby ticket purchases and inspection can be immediately completed upon scanning of QR codes. This invention improves the efficiency of ticket purchases and reduces costs of tickets, cut down consumption of papers, and, at the same time, guarantees the timeliness and uniqueness of tickets for quick, efficient and safe subway ticket purchases and inspection. The research has been completed and the softwares are underway for deployment and installation in AFC for actual use within the Beijing Subway.

During the period under review, the business of the Group mainly focuses on three aspects: 1) provision of system integration related application solution services (mainly to provide the application system according to the needs of the clients, and to provide the clients with concrete and all-rounded application solutions and the required softwares and hardwares according to their needs; 2) provision of operation and maintenance of application solution services; and 3) leasing of civil communication transmission system of subways.

FINANCIAL REVIEW

The Group's revenue decreased by approximately 13% from approximately HK\$147.3 million for the six months ended 30 June 2015 to approximately HK\$128.2 million for the six months ended 30 June 2016, while the Group's cost of sales increased by approximately 2% from approximately HK\$79.8 million for the six months ended 30 June 2015 to approximately HK\$81.4 million for the six months ended 30 June 2016, resulting in a decrease in the Group's gross profit by approximately 31% from approximately HK\$67.5 million for the six months ended 30 June 2015 to approximately HK\$46.8 million for the six months ended 30 June 2016.

Taking into account the effect of other revenue, other net loss, overhead expenses, investment gain and loss, income tax and non-controlling interests, the Group recorded a decrease in net profit attributable to equity shareholders of the Company of approximately 43% from approximately HK\$25.9 million for the six months ended 30 June 2015 to approximately HK\$14.8 million for the six months ended 30 June 2016.

Further discussions on the Group's financial performance are set out below.

Revenue

Provision of system integration related application solution services

The Group recorded revenue of approximately HK\$54.7 million from provision of system integration related application solution services for the six months ended 30 June 2016, representing a decrease of approximately 42% as compared to that of the revenue of HK\$95.1 million for the six months ended 30 June 2015.

Such decrease was mainly because most projects recently implemented were in the process of initial design and hardware supply, for which software development and system integration have not been completed. As such, for the six months ended 30 June 2016, the Group merely recognised partial revenue derived from hardware supply, while the majority of revenue from software and services has not been recognised. Besides, the number of urban railway transportation construction projects offered for tender decreased recently in Beijing, and the bidding of expected projects relating to construction of new railway lines and metro network system have not yet commenced.

Provision of operation and maintenance of application solution services

The Group's revenue arising from the provision of operation and maintenance of application solution services decreased by approximately 4% from approximately HK\$26.2 million for the six months ended 30 June 2015 to approximately HK\$25.2 million for the six months ended 30 June 2016. The revenue generated from the provision of maintenance of application solution services basically remained stable as all of the service contracts were still within the contract period during the period under review, with a slight decrease as of 30 June 2016 as compared to the corresponding period in 2015 due to the provision of a small scale one-off spare parts maintenance service during the six months ended 30 June 2015.

Leasing of civil communication transmission system of subways

The Group's revenue arising from civil communication transmission system leasing service was approximately HK\$48.4 million for the six months ended 30 June 2016, representing an increase of approximately 86% as compared to approximately HK\$26.0 million for the six months ended 30 June 2015. There was no such revenue in relation to other three lines of civil communication assets of BII for the six months ended 30 June 2015 as the Group completed the acquisition of such three lines in August 2015 as disclosed in the announcements of the Company dated 29 June 2015 and the circular of the Company dated 27 July 2015. No related revenue from the aforesaid three lines was recorded for the six months ended 30 June 2015.

The revenue for the six months ended 30 June 2016 comprised 2G and 3G leasing income from three telecom operators as well as 4G leasing income from two telecom operators arising from the acquisition of the civil communication transmission systems in September 2014 and August 2015, respectively.

It is expected that this line of business will provide a sustainable rental income for the Group and will continue to grow as the Group will continue to construct or acquire other civil communication transmission systems, and the 4G transmission systems of all of the civil communication transmission systems owned by the Group are yet to be fully leased to all telecom operators in Beijing.

Cost of sales

The Group's cost of sales increased by approximately 2% from approximately HK\$79.8 million for the six months ended 30 June 2015 to approximately HK\$81.4 million for the six months ended 30 June 2016. During the period under review, the Group's revenue was mainly generated from the provision of system integration related application solution services, provision of operation and maintenance of application solution services, and leasing of civil communication transmission system of subways, of which the costs were mainly related to equipment procurement, direct labor force, and maintenance and depreciation of civil communication transmission systems. In order to calculate costs on a more accurate basis, the project management team and project implementation team in respect of system integration business were consolidated for calculation of the operating cost for the six months ended 30 June 2016, which led to an increase in operating cost and a corresponding decrease in administrative expense. In addition, the relevant operating cost increased as the acquisition of civil communication transmission systems has been completed.

Gross profit

The Group's gross profit decreased by approximately 31% from approximately HK\$67.5 million for the six months ended 30 June 2015 to approximately HK\$46.8 million for the six months ended 30 June 2016. The decrease in gross profit was mainly the result of the counter drop in revenue and the increase in cost of sales for the six months ended 30 June 2016 as compared to the corresponding period in 2015.

Selling, general and administrative expenses

The Group's selling, general and administrative expenses reduced by approximately 29% from approximately HK\$40.9 million for the six months ended 30 June 2015 to approximately HK\$29.0 million for the six months ended 30 June 2016. Such decrease was mainly attributable to the reduction of selling expense and management expense, which was partly due to an increase of operating cost and a decrease of selling expense resulting from the aforesaid of personnel restructuring. Besides, it was also attributable to decrease of intermediary service expense during the period under review as compared to the corresponding period in 2015.

Profit attributable to equity shareholders of the Group

The Group's profit attributable to equity shareholders of the Group decreased by approximately 43% from approximately HK\$25.9 million for the six months ended 30 June 2015 to approximately HK\$14.8 million for the six months ended 30 June 2016. Such decrease was mainly attributable to the decrease of gross profit from our projects during the six months ended 30 June 2016 as compared to the corresponding period in 2015.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Capital structure

As at 30 June 2016, the Company's total number of issued shares was 1,435,737,203 ordinary shares of HK\$0.01 each (31 December 2015: 1,423,321,203 ordinary shares of HK\$0.01 each).

Cash position

As at 30 June 2016, the Group's cash and cash equivalents amounted to approximately HK\$364.7 million (31 December 2015: approximately HK\$626.8 million).

Bank borrowings and charges on the Group's assets

As at 30 June 2016, the Group has no bank borrowings or charges on assets (31 December 2015: Nil).

Working capital and gearing ratio

As at 30 June 2016, the Group had current assets of approximately HK\$963.1 million (31 December 2015: approximately HK\$1,231.1 million), while its current liabilities were approximately HK\$311.0 million (31 December 2015: approximately HK\$299.7 million), resulting in net current assets of approximately HK\$652.1 million (31 December 2015: approximately HK\$931.4 million). Current ratio as at 30 June 2016, calculated based on current assets divided by current liabilities, was approximately 3.1 (31 December 2015: approximately 4.1).

Gearing ratio is calculated based on total debt at the end of the period divided by total assets at the end of the period multiplied by 100%. As at 30 June 2016, the Group had no bank borrowings, long term debts and payables not incurred in the ordinary course of business, thus the gearing ratio was nil (31 December 2015: Nil).

FOREIGN EXCHANGE EXPOSURE

The Group has four main operating subsidiaries and two main operating associates, among which, one of such subsidiaries is located in Hong Kong and the other three subsidiaries and the two associates are located in the PRC. All of these subsidiaries and associates earn revenue and incur costs in its local currency. The Directors consider the impact of foreign exchange exposure of the Group is minimal.

CONTINGENT LIABILITIES

As at 30 June 2016, the Group had no material contingent liabilities (31 December 2015: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2016, the Group had 276 employees (including executive Directors) (30 June 2015: 267). The total staff costs, including Directors' remuneration, were approximately HK\$37.7 million (for the six months ended 30 June 2015: HK\$39.0 million).

Remuneration package is reviewed annually with reference to market conditions and individual employees' performance, qualification and experience. In addition to basic salaries, bonuses will be paid based on the Group's performance and individual employees' contribution. Other staff benefits include share options, contributions to the PRC social insurance scheme, contributions to Hong Kong Mandatory Provident Fund scheme and insurance. The Company also organised professional and vocational trainings for its employees.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES, AND PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As disclosed in the announcements of the Company dated 20 May 2015 and 5 November 2015, the Company and Beijing MTR Operation established Beijing City Metro on 15 February 2016 with a registered capital of RMB500 million, of which 51% was held by Beijing MTR Operation and the remaining 49% was held by the Company. Beijing MTR Operation and the Company invested RMB255 million and RMB245 million in Beijing City Metro, respectively, with reference to their respective proportion of equity interests held.

In addition, CCRTTI, a subsidiary held as to 70% indirectly by the Company, together with Beijing MTR Operation established Metro Technology Development on 18 February 2016 with a registered capital of RMB30 million, of which 51% was held by Beijing MTR Operation and the remaining 49% was held by CCRTTI. Beijing MTR Operation and CCRTTI invested RMB15.3 million and RMB14.7 million in Metro Technology Development, respectively, with reference to their respective proportion of equity interests held.

Save as disclosed above, there were no other significant investments, material acquisition or disposal of subsidiaries and affiliated companies, or other plans for material investments or assets during the six months ended 30 June 2016.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016 (for the six months ended 30 June 2015: Nil). The Group will retain cash to finance the continuing development of its business as well as prospective investment opportunities.

OUTLOOK

With rapid economic development and population increase in China, the Chinese government intends to vigorously develop urban public transport systems. Urban railway construction, the vastly beneficial and efficient way to relieve urban traffic issues, possesses great potential for development. The Three-Year Plan of the Construction of Major Transport Infrastructure Projects, jointly issued by the National Development and Reform Commission and the Ministry of Transportation recently, stipulates that during 2016 to 2018, the country intends to focus on a total of 303 projects relating to railway, highways, waterways, airports, and city railway transportation, and the total investment of the projects amounts to approximately RMB4.7 trillion. The city railway transportation projects would focus on implementing the preliminary construction work for 103 projects of city railway. The construction work for over 2,000 kilometres of new urban railways would be undertaken with a total investment of RMB1.6 trillion. The projects to be completed during the 13th Five-Year Plan period is expected to be 50% to 70% more than that of the period of the 12th Five-Year Plan.

There may be an expansion of coverage in cities in the PRC where construction of city railway transportation is feasible, and the urban population requirements for development of city railway transportation will be adjusted downward from over 3 million to over 1.5 million. The lower threshold of population requirements for the construction of city railway transportation implies that more prefectural cities may be included. In the medium term, the total mileage of city railway transportation of China in 2018 will reach 6,341 kilometres, with the annual compound growth rate of 23.81%, and an investment of at least RMB3 trillion is expected to be required. It is also expected that the total number of cities covered by city railway transportation will reach 50 and the scale of such transportation will reach approximately 7,000 kilometres while the investment amount will hit nearly RMB4 trillion by 2020. In the long term, the lines planning to be covered by China's city railway transportation will increase to 289, and the total operating mileage will reach 11,700 kilometres by 2050. The next 30 years will be the golden period of rapid development and construction of city railway transportation in China.

According to Beijing Statistical Yearbook published by Beijing Municipal Audit Bureau in 2015, the railway network in Beijing, including underground railway network, faced increasing pressure on passengers flow. The annual passenger flow of railway transportation network increased from approximately 3200 million passengers in 2013 to approximately 3390 million passengers in 2014 with an annual growth rate of approximately 5.94%. A substantial increase in passenger flow will require further expansion of Beijing's railway transportation network. The IT Application Office of Government of Beijing Municipality and Beijing Municipal Commission of Development and Reform jointly held a press conference in respect of the Outline of the 13th Five-Year Plan for the National Economic and Social Development in Beijing (《北京市國民經濟和社會發展第十三個五年規劃綱要》) on 5 May 2016 and announced the implementation of the policy of "Railway Connecting Each District" in Beijing during the 13th Five-Year Plan period, with the purpose of providing railway connection for each district in Beijing. According to the second phase of the construction plan of the urban railway transport project in Beijing, there will be 12 projects undertaken with an investment of approximately RMB212.3 billion from 2015 to 2021. By 2020, the railway transportation network in Beijing will encompass a total length of approximately 1,000 kilometres.

Moreover, during the course of integration of Beijing, Tianjin and Hebei, the municipal governments of Beijing, Tianjin and Hebei and China Railway Corporation jointly established Beijing Tianjin Hebei Intercity Railway Investment Co. Ltd. (京津冀城際鐵路投資有限公司) with a capital contribution proportion of 3:3:3:1 by BII, Tianjin Railway Construction Investment Holdings (Group) Co., Ltd., Hebei Construction Transportation and Investment Co., Ltd. and Beijing Railway Bureau, respectively, and BII taking up the chairing unit. It is planned that 23 inter-city railways with a total length of 3,400 kilometres connecting Beijing, Tianjin and Hebei will be constructed in the future.

In light of the implementation of the above national policy, the Group possesses significant growth potential. As one of the major suppliers of railway transportation systems in China, the Group will adhere to the principle of “innovation, pragmatism and integrity” and undertake to build the asset-light “Beijing version of MTR”.

The Group endeavours to provide systematic and technical professional support to the network operation of Beijing railway transportation through project enhancement and technology research and development. While implementing our long term goal towards commercialising and standardising application solutions for the industry, we will continue to build on our industry experience, construct a marco data analysis platform on Internet of Things, and control and manage the operation of railway facilities in Beijing. Through segregation of business and technology, the Group provides customers with a complete command and control center to implement solutions and hence consolidate our market position in Beijing. The Group also continually explores business opportunities in other provinces and cities in China and expects to bring its extensive experience, operation models and products obtained in Beijing to China’s second-tier, third-tier or fourth-tier cities, and expand our customer base. In the second half of 2016, there will be several new high-valued open tenders for Beijing railway transportation at both network-level and line-level, including but not limited to phase two of the improvement of the ticketing system of the Beijing Subway, full reconstruction of AFC system for the Beijing Subway, construction of AFC system for new subway lines, construction of subway platform doors, construction and improvement of passenger information system, and construction of passenger information system control.

With the continuous expansion of “smart cities” and the prominent importance of subways in public transport, a convenient and efficient communication services to citizens travelling on urban railway has been an integral part of the value-added services provided by subway, so as to satisfy passengers’ diversified communication needs while they are on the move. The Group plans to further acquire civil communication transmission system assets of other Beijing Subway lines from BII in this year. After such acquisition, the Group would have completed the acquisition of all civil communication transmission system assets of the Beijing Subway from BII. In the second half of 2016, the Group will speed up its progress on the investment and construction of civil communication transmission system assets of the Beijing Subway, hence further expanding the scope of its civil communication business. The Group will also follow the technological development trends in the civil communication field, such as 4G, 5G and 5.8G technologies. It will also research on the development trends of the internet in order

to establish a development model which accommodates the characteristics of subways. In order to enhance the standard of subway integrated services and to influence the society, the Group will actively explore new value-added information system business, such as rental of information channels business and WiFi business. By deploying and setting up WiFi hotspots along the Beijing Subway lines and in the stations, it will provide high-quality wireless broadband internet access for passengers, including basic internet access, portal site access, as well as innovative and diversified value-added businesses, such as advertising business and self-operated websites business.

The Group seizes the opportunity of working with Beijing MTR Operation by jointly establishing Beijing City Metro, and this helps the Group to gain experience in managing and operating the Beijing Subway while completing the expansion and transformation of the Group's business to cover operation of subway. With the support from Beijing MTR Operation as an experienced business partner, the acquisition of the operating income rights derived from the Airport Express line of the Beijing Subway was our first step to commence the operation of the Beijing Subway lines. The Group has laid a solid foundation for its future development with the replicability and scalability of its operation model.

In addition, the Group, through the development of Metro Technology Development with Beijing MTR Operation, has created a market-oriented operation platform for maintenance, production and management of AFC equipment, which has enhanced the Group's core competitiveness. Through the provision of technical support to the maintenance and renovation of the AFC equipment and to the construction projects of new subway lines, the Group will be able to establish sustainable development and will turn itself to be the top-notch, innovative and professional railway transport service provider as well as a major force in the development of information technology in the domestic railway transportation industry.

The Group will actively seize market opportunities and continue to seek high quality assets acquisition opportunities relating to city railway, so as to enhance the Group's core competitiveness and profitability, and share the future revenue growth with its shareholders and investors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has devised its own code of conduct for securities transactions regarding Directors' and employees' dealings in the Company's securities (the "Securities Dealing Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and employees to whom the Securities Dealing Code applies. The Directors have confirmed that they have complied with the Securities Dealing Code throughout the six months ended 30 June 2016. No incident of non-compliance of the Securities Dealing Code by the employees was noted by the Company.

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

During the six months ended 30 June 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") with written terms of reference in compliance with Rule 3.21 and Rule 3.22 of the Listing Rules. The written terms of reference of the Audit Committee was adopted in compliance with paragraphs C.3.3 and C.3.7 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee, among other things, are to make recommendation to the Board on the appointment, re-appointment and removal of external auditor; review the financial statements and material advice in respect of financial reporting; and oversee risk management and internal control systems of the Company.

As at 30 June 2016, the Audit Committee comprises three independent non-executive Directors, namely Mr. Luo Zhenbang *CPA* (Chairman of the Audit Committee), Mr. Bai Jinrong and Mr. Huang Lixin.

REVIEW OF INTERIM FINANCIAL INFORMATION

The Interim Financial Information are unaudited, but have been reviewed by KPMG, the Company's independent auditor, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants, whose report on review of the Interim Financial Information will be included in the 2016 interim report of the Company and nothing has come to their attention that causes them to believe that such information have not been prepared, in all material aspects, in accordance with International Accounting Standard 34, Interim Financial Reporting.

In addition, the Audit Committee has also reviewed the Interim Financial Information and is of the opinion that such information comply with applicable accounting standards, the requirements under the Listing Rules and other applicable legal requirements, and that adequate disclosures have been made.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Board considers that the Company has complied with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2016.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the website of the Company (www.ccrtt.com.hk) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The 2016 interim report of the Company will be despatched to shareholders of the Company and available on the above websites in due course.

By order of the Board
**China City Railway Transportation
Technology Holdings Company Limited**
Cao Wei
Executive Director
Chief Executive Officer

Hong Kong, 12 August 2016

As at the date of this announcement, the executive Directors are Mr. Cao Wei, Ms. Xuan Jing and Mr. Shao Kai; the non-executive Directors are Dr. Tian Zhenqing, Mr. Hao Weiya and Mr. Guan Jifa; and the independent non-executive Directors are Mr. Bai Jinrong, Mr. Luo Zhenbang and Mr. Huang Lixin.

* *For identification purposes only*