中国智能交通系统(控股)有限公司

China ITS (Holdings) Co., Ltd.

(incorporated in the Cayman Islands with limited liabilty)

Stock Code: 1900

2018
Interim Report

CONTENTS

FINANCIAL HIGHLIGHTS

HIGHLIGHTS OF 2018 INTERIM RESULTS

- The amount of backlog as at June 30, 2018 was approximately RMB886.1 million, compared to approximately RMB900.7 million as at December 31, 2017, or an approximately 1.6% decrease.

- The amount of new contracts signed and orders secured for the six-month period ended June 30, 2018 was approximately RMB368.2 million, compared to approximately RMB577.0 million for the six-month period ended June 30, 2017.

- Revenue for the six-month period ended June 30, 2018 was approximately RMB382.8 million, compared to approximately RMB523.6 million for the six-month period ended June 30, 2017.

- Gross profit for the six-month period ended June 30, 2018 was approximately RMB62.3 million, compared to approximately RMB128.4 million for the six-month period ended June 30, 2017.

- Gross profit margin for the six-month period ended June 30, 2018 was 16.3%, compared to approximately 24.5% for the six-month period ended June 30, 2017.

- Loss attributable to owners of the parent of the Company for the six-month period ended June 30, 2018 was approximately RMB69.7 million, compared to a profit of approximately RMB25.8 million for the six-month period ended June 30, 2017.

  Besides a decrease in revenue, the adoption of IFRS 15 and IFRS 9 had some impact on the loss attributable to owners of the parent for the Period by giving rise to a total of RMB49.2 million of loss for the Period: (1) the adoption of IFRS 9 — *Financial Instruments* resulted in more bad debt provision amounted to RMB6.7 million than that under the original bad debt provision policy; (2) because of the adoption of IFRS 9 — *Financial Instruments*, both the two equity investments held by the Group during the Period were carried at fair value through profit or loss instead of at cost less impairment loss, which led to a loss of RMB9.4 million through fair value changes for the Period; and because of the adoption of IFRS 9 — *Financial Instruments*, the equity investment held by the Group in a company which is traded on the National Equities Exchange and Quotations, was carried at fair value through other comprehensive income not through profit or loss under the original rule, upon the adoption of IFRS 9, the investment was measured at fair value through profit or loss, which led to a loss of RMB32.7 million through fair value changes for the Period due to significant market fluctuations during the Period; and (3) the adoption of IFRS 15 led to revenue recognized decreased by RMB0.4 million for the Period than if IFRS 15 were not implemented. Due to these factors, there was a greater loss attributable to owners of the parent for the six-month period ended June 30, 2018 as compared to the corresponding period in 2017.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Liao Jie *(chairman of the Board)*
Mr. Jiang Hailin *(chief executive officer)*

Non-executive Director

Mr. Tim Tianwei Zhang

Independent Non-executive Directors

Mr. Choi Onward *(FCCA, HKICPA)*
Mr. Ye Zhou
Mr. Wang Dong (elected on June 21, 2018)

COMPANY SECRETARY

Mr. Leung Ming Shu *(FCCA, FCPA)*

AUTHORIZED REPRESENTATIVES

Mr. Jiang Hailin
Suite 102, 1st Unit, 8th building
1 Balizhuang Beili, Haidian District
Beijing
China

Mr. Leung Ming Shu *(FCCA, FCPA)*
Flat 2110, Block B, Tai Hang Terrace
5 Chun Fai Road
Jardine's Lookout
Hong Kong

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

REGISTERED OFFICE

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

HEAD OFFICE IN THE PRC

Building 204, No. A10,
Jiuxianqiao North Road,
Chaoyang District
Beijing 100015, China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1004
Tung Wah Mansion
199–203 Hennessy Road
Hong Kong

COMPANY WEBSITE

www.its.cn

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Suites 3301–04, 33/F
Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

AUDITOR

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

LEGAL ADVISOR

Luk & Partners
In Association with Morgan, Lewis & Bockius
Suites 1902–09, 19th Floor
Edinburgh Tower, The Landmark
15 Queen's Road Central
Hong Kong

LISTING EXCHANGE INFORMATION

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

PRINCIPAL BANKERS

Bank of Beijing Co., Ltd. Beijing Branch Cuiweilu sub-branch
China Merchants Bank Co., Ltd. Beijing Branch Beisanhuan sub-branch
China Everbright Bank Co., Ltd. Beijing Branch Xicheng sub-branch
China Guangfa Bank Beijing Branch
Fubon Bank (China) Co., Ltd. Tianjin Branch
LUSO International Banking Ltd. Macau Branch
Ping An Bank Co., Ltd. Shanghai Pilot Free Trade Zone Branch
Shengjing Bank Beijing Branch Guanyuan sub-branch
Shanghai Pudong Development Bank Co., Ltd. Waigaoqiao Free Trade Zone sub-branch
Xiamen International Bank Co., Ltd. Beijing Zhongguancun sub-branch

MANAGEMENT DISCUSSION AND ANALYSIS

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

For the six-month period ended June 30, 2018 (the "**Period**"), China ITS (Holdings) Co., Ltd. (the "**Company**") and its subsidiaries (collectively the "**Group**") recorded RMB368.2 million from new contracts signed and orders secured, and as at June 30, 2018, RMB886.1 million from backlog. For the Period, the Group generated revenue of RMB382.8 million, representing a decrease of 26.9% as compared to RMB523.6 million for the six-month period ended June 30, 2017 , overall gross profit of RMB62.3 million, representing a decrease of 51.5% compared to the first half of 2017, and gross profit margin of 16.3%, declining from 24.5% for the first half of 2017. The loss attributable to owners of the parent of the Company for the six-month period ended June 30, 2018 amounted to RMB69.7 million.

BUSINESS AND FINANCIAL REVIEW

Business Review

Consolidate main operations and fully tap customer demand

The Group is a provider of transportation infrastructure technology solutions and services in the PRC. The Group focused on developing its specialised solutions ("**SS**") and value-added operation and services ("**VAOS**") businesses.

The SS business is the Group's core business (accounting for 92.9% of the Group's revenue for the 12 months ended December 31, 2017 and 95.6% of the Group's revenue for the six-month period ended June 30, 2018), 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.

Develop overseas markets and achieve significant growth

Since 2017 the Group has been committed to exploring other overseas markets, especially Southeast Asian markets, to diversify operating risks and lay a solid foundation for its long-term development. Based on its good reputation in the industry, the Group has achieved significant business growth in overseas markets after a year of development. In the first half of 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); the Group signed the AC system equipment purchasing contract for the Astana Light Metro project in Kazakhstan (RMB38.89 million in contract value); Gtech-CIC Joint Venture signed 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). In 2018 the overseas market performance of the Group is expected to be much better than 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW (continued)

Financial Review

Revenue

During the Period, the Group carried out 972 projects of varying sizes across Mainland China. The revenue and gross profit achieved by the Group for the six-month period ended June 30, 2018 show below:

	Six-month period ended June 30,	
	2018 RMB'000	2017 RMB'000
Revenue by business sectors		
SS	**365,832**	495,354
VAOS	**17,010**	28,208
Elimination	**–**	–
Total	**382,842**	523,562

(i) *SS*

For the six-month period ended June 30, 2018, revenue of RMB365.8 million was recognised from the SS business, representing a decrease of RMB129.6 million from RMB495.4 million for the six-month period ended June 30, 2017. The amount of new contracts signed and orders secured for the six-month period ended June 30, 2018 was RMB338.2 million, and the amount of backlog as at June 30, 2018 was RMB802.3 million, representing a decrease of RMB27.7 million from RMB830.0 million as at December 31, 2017.

In early 2018, the national railway fixed assets investment budget was planned to be RMB732.0 billion, of which the national railway was RMB702.0 billion, which was the lowest planned investment since 2014. Due to the overall environment of China's railway investment, in the first half of 2018 the Group's revenue from specialised solutions was lower than the same period of 2017. With infrastructure investment being mentioned again at recent State Council executive and CPC Central Committee Political Bureau meetings, railway infrastructure projects are expected to pick up speed. With the acceleration of national infrastructure investment and increasing demand of railway rolling stock, in 2018 the national railway fixed assets investment is expected to exceed RMB800.0 billion. Therefore the Group's revenue from specialised solutions is expected to improve to some extent in the second half of 2018. On the other hand, significant market share growth has been achieved by the Group in such segments as transmission, wireless and data communication.

BUSINESS AND FINANCIAL REVIEW (continued)

Financial Review (continued)

Revenue (continued)

(ii) VAOS

Revenue recognised from the VAOS business for the six-month period ended June 30, 2018 was RMB17.0 million, representing an decrease of RMB11.2 million from RMB28.2 million for the six-month period ended June 30, 2017. The amount of new contracts signed and orders secured for the VAOS business for the six-month period ended June 30, 2018 was RMB30.0 million, and the amount of backlog as at June 30, 2018 was approximately RMB83.8 million, representing an increase of RMB13.1 million from RMB70.7 million as at December 31, 2017.

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	Astana City New Transportation System Light Rail Project Da — Qin (Datong — Qinhuangdao) Railway Project Da — Bao (Datong — Baotou) Railway Project
VAOS	Maintenance of Taiyuan railway administration

Gross Profit

Overall gross profit of the Group decreased from RMB128.4 million for the six-month period ended June 30, 2017 to RMB62.3 million for the six-month period ended June 30, 2018. Gross profit margin decreased from 24.5% for the six-month period ended June 30, 2017 to 16.3% for the six-month period ended June 30, 2018.

	Six-month period ended June 30,	
	2018 RMB'000	2017 RMB'000
Gross profit by business sectors		
SS	**58,506**	121,139
Margin %	**16.0%**	24.5%
VAOS	**3,772**	7,281
Margin %	**22.2%**	25.8%
Elimination	**–**	–
Total	**62,278**	128,420
Margin	**16.3%**	24.5%

BUSINESS AND FINANCIAL REVIEW (continued)

Financial Review (continued)

Gross Profit (continued)

(i) *SS*

Gross profit recognised from SS for the six-month period ended June 30, 2018 was RMB58.5 million, representing a decrease of RMB62.6 million from RMB121.1 million for the six-month period ended June 30, 2017. Gross profit margin of SS for the six-month period ended June 30, 2018 was 16.0%, decreasing by 8.5% from 24.5% for the six-month period ended June 30, 2017, but slightly decreasing from the 18.1% for the year ended 31 December 2017.

(ii) *VAOS*

Gross profit recognised from VAOS for the six-month period ended June 30, 2018 was RMB3.8 million, representing a decrease of RMB3.5 million from RMB7.3 million for the six-month period ended June 30, 2017. Gross profit margin of VAOS for the six-month period ended June 30, 2018 was 22.2%, decreasing by 3.6% from 25.8% for the six-month period ended June 30, 2017.

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 movements.

Selling, General and Administration Expense

For the six-month period ended June 30, 2018, selling, general and administration expense was approximately RMB82.4 million, representing an increase of RMB2.8 million as compared to approximately RMB79.6 million for the six-month period ended June 30, 2017. This expense includes selling and distribution expenses and administrative expenses.

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

For the six-month period ended June 30, 2018, selling, general and administration expense which was related to daily operational activities ("**SG&A**") was approximately RMB70.8 million, as a percentage of sales was 18.5%. For the six-month period ended June 30, 2017, selling, general and administration expense which was related to daily operational activities ("**SG&A**") was approximately RMB73.7 million, as a percentage of sales was 14.1%.

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 RMB48.5 million for the six-month period ended June 30, 2017 to RMB42.4 million for the six-month period ended June 30, 2018, and accounting for 59.9% of the SG&A which decreased by 5.9% from 65.8% for the six-month period ended June 30, 2017, mainly due to the full-time employees of the Group decreased from 477 as at June 30, 2017 to 344 as at June 30, 2018.

Rental expenses increased from RMB3.3 million for the six-month period ended June 30, 2017 to RMB4.1 million for the six-month period ended June 30, 2018.

Research & Development expenses increased from RMB7.7 million for the six-month period ended June 30, 2017 to RMB10.8 million for the six-month period ended June 30, 2018.

BUSINESS AND FINANCIAL REVIEW (continued)

Financial Review (continued)

Selling, General and Administration Expense (continued)

(ii) Impairment losses

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. Such losses were RMB11.6 million for the six-month period ended June 30, 2018. Impairment losses were RMB5.8 million for the six-month period ended June 30, 2017.

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 RMB15.3 million for six-month period ended June 30, 2018, which represented an increase of RMB1.2 million as compared to RMB14.1 million for the six-month period ended June 30, 2017.

Share of Profit of Joint Venture/Associates

Share of profit of investment entities for the six-month period ended June 30, 2018 was approximately RMB0.3 million, as compared to the loss of RMB0.1 million for the six-month period ended June 30, 2017.

Income Tax Expenses

The total income tax expenses for the six-month period ended June 30, 2018 was negative RMB4.0 million, which was RMB13.0 million for the six-month period ended June 30, 2017.

Loss for the year

Loss attributable to the owners of the parent for the six-month period ended June 30, 2018 was approximately RMB69.7 million, compared to a profit of approximately RMB25.8 million for the six-month period ended June 30, 2017.

Besides a decrease in revenue, the adoption of IFRS 15 and IFRS 9 had some impact on the loss attributable to owners of the parent for the Period by giving rise to a total of RMB49.2 million of loss for the Period: (1) the adoption of IFRS 9 — *Financial Instruments* resulted in more bad debt provision amounted to RMB6.7 million than that under the original bad debt provision policy; (2) because of the adoption of IFRS 9 — *Financial Instruments*, both the two equity investments held by the Group during the Period were carried at fair value through profit or loss instead of at cost less impairment loss, which led to a loss of RMB9.4 million through fair value changes for the Period; and because of the adoption of IFRS 9 — *Financial Instruments*, the equity investment held by the Group in a company which is traded on the National Equities Exchange and Quotations, was carried at fair value through other comprehensive income not through profit or loss under the original rule, upon the adoption of IFRS 9, the investment was measured at fair value through profit or loss, which led to a loss of RMB32.7 million through fair value changes for the Period due to significant market fluctuations during the Period; and (3) the adoption of IFRS 15 led to revenue recognized decreased by RMB0.4 million for the Period than if IFRS 15 were not implemented. Due to these factors, there was a greater loss attributable to owners of the parent for the six-month period ended June 30, 2018 as compared to the corresponding period in 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW (continued)

Financial Review (continued)

Trade Receivables Turnover Days

The trade receivables turnover days in the six-month period ended June 30, 2018 was 407 days (in the six-month period ended June 30, 2017: 328 days).

Net Contract Assets Turnover Days

The Net Contract Assets turnover days in the six-month period ended June 30, 2018 was 30 days (in the six-month period ended June 30, 2017: net construction turnover days 42 days).

Trade Payables Turnover Days

The trade payables turnover days in the six-month period ended June 30, 2018 was 177 days (in the six-month period ended June 30, 2017: 163 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 six-month period ended June 30, 2018 was 5 days (in the six-month period ended June 30, 2017: 4 days).

LIQUIDITY AND FINANCIAL RESOURCES

The Group's principal sources of working capital included cash flow from operating activities, bank and other borrowings, the proceeds from the Global Offering. As at June 30, 2018, the Group's current ratio (current assets divided by current liabilities) was 1.7 (as at December 31, 2017: 1.8). The Group's financial position remains healthy.

As at June 30, 2018, the Group was in a net negative cash of RMB722.8 million (as at December 31, 2017: net negative cash of RMB581.1 million) which included cash and cash equivalents of RMB82.4 million (as at December 31, 2017: RMB179.7 million), interest-bearing bank borrowings of RMB805.2 million (as at December 31, 2017: RMB760.8 million). As at June 30, 2018 , the Group's gearing ratio was -14.5%, which was similar to -14.6% as at December 31, 2017. 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 June 30, 2018, the Group had no material contingent liability.

CHARGES ON GROUP ASSETS

As at June 30, 2018, in addition to the secured deposits of approximately RMB374.1 million (as at December 31, 2017: RMB283.1 million), the Group also pledged the building with a net carrying amount of approximately RMB215.2 million and equity in a subsidiary (as at December 31, 2017, the Group pledged trade receivables with a carrying amount of RMB94.2 million to banks to secure banking facilities granted to the Group) to banks to secure banking facilities granted to the Group. Save as disclosed above, as at June 30, 2018, the Group had no other asset charged to third parties.

DIRECTORS' REPORT

The board of directors (individually, a "**Director**", or collectively, the "**Board**") of China ITS (Holdings) Co., Ltd. (the "**Company**") presents its report together with the unaudited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the six-month period ended June 30, 2018.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six-month period ended June 30, 2018.

REVIEW BY AUDIT COMMITTEE AND EXTERNAL AUDITORS

The audit committee of the Company has reviewed the accounting principles and practices and has also reviewed, internal control and financial reporting matters, including the review of the unaudited interim results of the Group for the six-month period ended June 30, 2018 together with the management of the Company and its external auditor, Ernst & Young.

In addition, Ernst & Young, has performed an independent review of the unaudited condensed consolidated interim financial information for the six-month period ended June 30, 2018 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.

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

Save as disclosed below, as at June 30, 2018, none of the Directors and chief executive of the Company had any interests or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) (the "**SFO**")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), to be notified to the Company and the Stock Exchange:

Name of Director	Nature of interest	Securities[(4)]	Approximate percentage of shareholdings as at June 30, 2018[(4)]
Mr. Liao Jie[(1)]	Beneficial owner/Interest of a controlled corporation	130,044,077 (L)	7.86% (L)
Mr. Jiang Hailin[(2)]	Beneficial owner/Beneficiary of the Fino Trust	631,318,625 (L)	38.17% (L)
Mr. Choi Onward[(3)]	Beneficial owner	98,824 (L)	0.01% (L)

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

Notes:

(1) 40,735,874 of these Shares are underlying Shares subject to the exercise of share options granted to Mr. Liao Jie on January 18, 2012 under the Share Option Scheme. Mr. Liao Jie is also deemed to be interested in the 89,308,203 Shares held by Joyful Business, which is wholly-owned by Mr. Liao Jie.

(2) 1,855,848 of these Shares are underlying Shares subject to the exercise of share options granted to Mr. Jiang Hailin on January 18, 2012 under the Share Option Scheme

Mr. Jiang Hailin was also interested in all the Shares in which Fino Trust was interested as a beneficiary of Fino Trust. As the beneficial owner of Fino Investments Limited ("**Fino Investments**"), Fino Trust is deemed to be interested in all the Shares in which Fino Investments is interested. Mr. Jiang Hailin beneficially and directly owns 18,853,876 Shares, which are part of the 631,318,625 Shares.

(3) These Shares are underlying Shares subject to the exercise of share options granted to Mr. Choi Onward on January 18, 2012 under the Share Option Scheme.

(4) (L) denotes long positions.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as otherwise disclosed in the sub-section headed "Pre-IPO Share Incentive Scheme/Share Option Scheme" below, at no time during the six-month period ended June 30, 2018, was the Company or any of its subsidiaries or its holding company or any of the subsidiaries of the Company's holding company a party to any arrangement to enable the Directors or the chief executive of the Company or their respective associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors and chief executive, or their spouse and children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during such period.

DIRECTORS' REPORT

PRE-IPO SHARE INCENTIVE SCHEME/SHARE OPTION SCHEME

The terms of the Pre-IPO Share Incentive Scheme and the Share Option Scheme were disclosed in the section headed "Other information — Pre-IPO Share Incentive Scheme" and "Other information — Share Option Scheme" respectively, in Appendix VI to the prospectus of the Company dated June 30, 2010 (the "**Prospectus**").

1. Pre-IPO Share Incentive Scheme

China ITS Co., Ltd. adopted the Pre-IPO Share Incentive Scheme on December 28, 2008. The purpose of the Pre-IPO Share Incentive Scheme is to recognize and reward the contribution of certain eligible participants to the growth and development of the business(es) of the Group.

Options to subscribe for an aggregate of 116,653,105 Shares have been conditionally granted by China ITS Co., Ltd. under the Pre-IPO Share Incentive Scheme.

As at June 30, 2018, no Share which were held by Holdco may be transferred to the relevant grantees upon exercise of all options which had been granted under the Pre-IPO Share Incentive Scheme. Upon exercise of such options, Holdco transfers the relevant number of Shares to the grantee of the options. There is therefore no dilutive effect on the Shareholders resulting from the exercise of the options under the Pre-IPO Share Incentive Scheme.

Movement of the options granted under the Pre-IPO Share Incentive Scheme during the six-month period ended June 30, 2018 is as follows:

Grantee	Grant date	Vesting start date	Expiry date	Outstanding as at January 1, 2018	Exercised during the six-month period ended June 30, 2018	Lapsed or cancelled during the six-month period ended June 30, 2018	Outstanding as at June 30, 2018	Exercise price per share (RMB)
All	31/12/2008	30/06/2013	30/06/2018	7,927,257	0	7,927,257	0	4
TOTAL:				7,927,257	0	7,927,257	0	

PRE-IPO SHARE INCENTIVE SCHEME/SHARE OPTION SCHEME (continued)

2. Share Option Scheme

The Company conditionally adopted the Share Option Scheme on June 18, 2010 and the Share Option Scheme became effective as at the date of listing of the Company on July 15, 2010 (the "**Listing Date**"). The purpose of the Share Option Scheme is to enable the Company to grant options to eligible participants as incentives or rewards for their contribution or potential contribution to the Group.

The Board may, at its absolute discretion, offer an option to eligible participant to subscribe for the shares at an exercise price and subject to the other terms of the Share Option Scheme.

The total number of shares issued and to be issued upon the exercise of the options granted to or to be granted to each eligible participant under the Share Option Scheme and any other schemes of the Company or any of its subsidiaries (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue.

The Share Option Scheme will remain in force for a period of 10 years from the Listing Date and ending on the tenth anniversary of the Listing Date. Under the Share Option Scheme, each option has an exercise period not exceeding 10 years from the date of grant.

As at the Listing Date, the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company ("**Share Option Scheme Limit**") shall not in aggregate exceed 155,029,633 Shares of the Company, being 10% of the total number of Shares in issue immediately prior to the date on which dealings in the Shares commenced on the Stock Exchange.

On January 18, 2012, the Board resolved to grant share options under the Share Option Scheme to 191 grantees, which includes certain Directors, chief executive, substantial shareholders and employees of the Company to subscribe for an aggregate of 155,000,000 Shares. For further details of the abovementioned grant of share options, please refer to the announcement of the Company on January 18, 2012.

Following the grant of share options on January 18, 2012, the remaining mandate not utilized under the above Share Option Scheme Limit is 29,633 Shares. On February 29, 2012, shareholders of the Company approved the refreshment of the Share Option Scheme Limit for the purpose of future grants of share options to the eligible participants under the Share Option Scheme. Under the refreshed Share Option Scheme Limit, the total number of Shares which may be issued upon exercise of options which may be granted under the Share Option Scheme and any other share option scheme(s) of the Company shall not exceed 10% of the total number of Shares of the Company in issue at the date of passing the relevant resolutions on refreshment of the Share Option Scheme Limit, i.e. 161,281,776 Shares. Options previously granted under the Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme or exercised options and those options granted on January 18, 2012) will not be counted for the purpose of calculating the 10% refreshed Share Option Scheme Limit.

PRE-IPO SHARE INCENTIVE SCHEME/SHARE OPTION SCHEME (continued)

2. Share Option Scheme (continued)

Movement of the options granted under the Share Option Scheme during the six-month period ended June 30, 2018 is as follows:

Grantee	Grant date(1)	Vesting start date	Expiry date	Outstanding as at January 1, 2018	Exercised during the six-month period ended June 30, 2018	Lapsed or cancelled during the six-month period ended June 30, 2018	Outstanding as at June 30, 2018	Exercise price per share (HK$)
Mr. Jiang Hailin	18/01/2012	19/04/2012	Note (2)	77,203	–	–	77,203	1.05
(Executive Director,	18/01/2012	19/07/2012	Note (2)	77,203	–	–	77,203	1.05
Chief Executive Officer)	18/01/2012	19/10/2012	Note (2)	77,203	–	–	77,203	1.05
	18/01/2012	19/01/2013	Note (2)	77,203	–	–	77,203	1.05
	18/01/2012	19/04/2013	Note (2)	154,592	–	–	154,592	1.05
	18/01/2012	19/07/2013	Note (2)	154,592	–	–	154,592	1.05
	18/01/2012	19/10/2013	Note (2)	154,592	–	–	154,592	1.05
	18/01/2012	19/01/2014	Note (2)	154,592	–	–	154,592	1.05
	18/01/2012	19/04/2014	Note (2)	231,981	–	–	231,981	1.05
	18/01/2012	19/07/2014	Note (2)	231,981	–	–	231,981	1.05
	18/01/2012	19/10/2014	Note (2)	231,981	–	–	231,981	1.05
	18/01/2012	19/01/2015	Note (2)	232,725	–	–	232,725	1.05
Sub-total				1,855,848	–	–	1,855,848	
Mr. Liao Jie(3)	18/01/2012	19/04/2012	Note (2)	1,694,612	–	–	1,694,612	1.05
(Executive Director,	18/01/2012	19/07/2012	Note (2)	1,694,612	–	–	1,694,612	1.05
Chairman)	18/01/2012	19/10/2012	Note (2)	1,694,612	–	–	1,694,612	1.05
	18/01/2012	19/01/2013	Note (2)	1,694,612	–	–	1,694,612	1.05
	18/01/2012	19/04/2013	Note (2)	3,393,298	–	–	3,393,298	1.05
	18/01/2012	19/07/2013	Note (2)	3,393,298	–	–	3,393,298	1.05
	18/01/2012	19/10/2013	Note (2)	3,393,298	–	–	3,393,298	1.05
	18/01/2012	19/01/2014	Note (2)	3,393,298	–	–	3,393,298	1.05
	18/01/2012	19/04/2014	Note (2)	5,091,984	–	–	5,091,984	1.05
	18/01/2012	19/07/2014	Note (2)	5,091,984	–	–	5,091,984	1.05
	18/01/2012	19/10/2014	Note (2)	5,091,984	–	–	5,091,984	1.05
	18/01/2012	19/01/2015	Note (2)	5,108,282	–	–	5,108,282	1.05
Sub-total				40,735,874	–	–	40,735,874	
Mr. Choi Onward	18/01/2012	19/04/2012	Note (2)	8,232	–	–	8,232	1.05
(Independent	18/01/2012	19/07/2012	Note (2)	8,232	–	–	8,232	1.05
Non-Executive Director)	18/01/2012	19/10/2012	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19/01/2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19/04/2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19/07/2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19/10/2013	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19/01/2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19/04/2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19/07/2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19/10/2014	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19/01/2015	Note (2)	8,272	–	–	8,272	1.05
Sub-total				98,824	–	–	98,824	

PRE-IPO SHARE INCENTIVE SCHEME/SHARE OPTION SCHEME (continued)

2. Share Option Scheme (continued)

Grantee	Grant date[1]	Vesting start date	Expiry date	Outstanding as at January 1, 2018	Exercised during the six-month period ended June 30, 2018	Lapsed or cancelled during the six-month period ended June 30, 2018	Outstanding as at June 30, 2018	Exercise price per share (HK$)
Others	18/01/2012	19/04/2012	Note (2)	1,766,431	–	–	1,766,431	1.05
	18/01/2012	19/07/2012	Note (2)	1,766,431	–	–	1,766,431	1.05
	18/01/2012	19/10/2012	Note (2)	1,766,431	–	–	1,766,431	1.05
	18/01/2012	19/01/2013	Note (2)	1,766,431	–	–	1,766,431	1.05
	18/01/2012	19/04/2013	Note (2)	2,664,144	–	–	2,664,144	1.05
	18/01/2012	19/07/2013	Note (2)	2,664,144	–	–	2,664,144	1.05
	18/01/2012	19/10/2013	Note (2)	2,664,144	–	–	2,664,144	1.05
	18/01/2012	19/01/2014	Note (2)	2,664,144	–	–	2,664,144	1.05
	18/01/2012	19/04/2014	Note (2)	3,561,849	–	–	3,561,849	1.05
	18/01/2012	19/07/2014	Note (2)	3,561,849	–	–	3,561,849	1.05
	18/01/2012	19/10/2014	Note (2)	3,561,849	–	–	3,561,849	1.05
	18/01/2012	19/01/2015	Note (2)	3,574,441	–	–	3,574,441	1.05
Sub-total				31,982,288	–	–	31,982,288	
TOTAL:				**74,672,834**	**–**	**–**	**74,672,834**	

Notes:

(1) The closing price of the Company's shares immediately before the grant date (i.e. January 18, 2012) of share options was HK$1.05.

(2) Expiry date of these share options shall be the earlier of: (i) the date on which the share option lapses in accordance with the Share Option Scheme or (ii) the date falling ten (10) years from the date of acceptance by the grantee.

(3) The total number of Shares to be issued upon exercise of the share options granted to Mr. Liao Jie would exceed 1% of the Shares in issue in the 12-month period up to and including the date of the grant. Such further grant of share options to Mr. Liao Jie was approved by shareholders of the Company in an extraordinary general meeting on February 29, 2012.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at the June 30, 2018, so far as is known to any Director or chief executive of the Company, other than a Director or chief executive of the Company, the following persons had interests or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the issuer under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name	Capacity	Long position/ Short position	Number of Shares	Percentage to Company's issued share capital
Holdco(1)	Beneficiary owner	Long position	629,462,777	38.06%
Best Partners(2)	Interest of controlled corporation	Long position	629,462,777	38.06%
Fino Investments(3)	Interest of controlled corporation	Long position	629,462,777	38.06%
Tesco Investments(4)	Interest of controlled corporation	Long position	629,462,777	38.06%
Credit Suisse Trust Limited(3)(4)5)	Trustee	Long position	589,007,762	35.61%
Amundi Asset Management	Investment manager	Long position	124,804,000	7.55%
Amundi Luxembourg S.A.	Investment manager	Long position	115,004,000	6.95%
Ampio International(5)	Interest of controlled corporation	Long position	90,424,662	5.47%
Penbay Investments Limited(6)	Beneficial owner	Long position	98,613,367	5.96%
Chen Qi	Interest of controlled corporation	Long position	98,613,367	5.96%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

Notes:

(1) As disclosed in the prospectus of the Company dated June 30, 2010, to facilitate the management and operation of the Company, certain major shareholders of the Company have entered into voting agreements delegating their voting rights in the Company to Holdco prior to the listing of the Company, and Holdco has been a controlling shareholder (as defined under the Listing Rules) of the Company since the listing of the Company in 2010. In connection with this arrangement and as a result of previous restructuring exercises of the Group, as at the Latest Practicable Date, Holdco, Pride Spirit Company Limited, Sea Best Investments Limited, Joy Bright Success Limited, Gouver Investments Limited, Kang Yang Holdings Limited, Huaxin Investments Limited, Rockyjing Investment Limited, Key Trade Holdings Limited, Speedy Fast Investments Limited, Best Partners Development Limited, Joyful Business Holdings Limited, Mr. Liao Jie, Mr. Lu Xiao, Mr. Liao Daoxun, Ms. Wu Yurui, Mr. Jiang Hailin, Mr. Wang Jing, Mr. Liang Shiping, Ms. Wu Chunhong, Mr. Zhao Lisen, Mr. Yuan Chuang, Mr. Zhang Qian, Mr. Guan Xiong, Mr. Zheng Hui, Mr. Lv Xilin, Ms. Wang Li, Mr. Dang Kulun, Mr. Pan Jianguo and Mr. Jing Yang, were parties to a series of shareholders voting agreements (the "**Shareholders Voting Agreements**"), pursuant to which each of the parties (other than Holdco) to the Shareholder Voting Agreements has authorized Holdco to exercise their voting rights in the Company on their behalves.

As at June 30, 2018, Holdco is entitled to exercise or control the exercise of the voting rights of a total of 629,462,777 Shares, representing the aggregate number of Shares held by all of the parties to the Shareholder Voting Agreements. Holdco is wholly-owned by Best Partners. Two of our Directors Mr. Jiang Hailin and Mr. Liao Jie are also directors of Holdco.

(2) The issued share capital of Best Partners is held as to 91.2015% by Fino Investments Limited and as to 8.7985% by Tesco Investments Limited. By virtue of the Shareholder Voting Agreements, Best Partners Development Limited is deemed to be controlled by Fino Investments Limited and Tesco Investments Limited. Our Directors Mr. Liao Jie is also a director of Best Partners.

(3) Fino Investments Limited is owned as to 50% by Serangoon Limited and as to 50% by Seletar Limited, as nominees and trustees for Credit Suisse Trust Limited, which is the trustee holding such interest on trust for the beneficiaries of Fino Trust, namely Mr. Liao Daoxun, Ms. Wu Yurui, Mr. Liang Shiping, Mr. Jiang Hailin and Ms. Wu Chunhong. The Fino Trust is an irrevocable discretionary trust established under the laws and regulations of Singapore.

(4) Tesco Investments Limited is owned as to 50% by Serangoon Limited and as to 50% by Seletar Limited, as nominees and trustees for Credit Suisse Trust Limited, which is the trustee holding such interest on trust for the beneficiaries of Tesco Trust, namely Mr. Wang Jing, Mr. Zhang Qian, Mr. Guan Xiong, Mr. Zheng Hui and Ms. Wang Li. The Tesco Trust is an irrevocable discretionary trust established under the laws and regulations of Singapore.

(5) Ampio International Limited is owned as to 50% by Serangoon Limited and as to 50% by Seletar Limited, as nominees and trustees for Credit Suisse Trust Limited, which is the trustee holding such interest on trust for the beneficiaries of Ampio Trust, namely Mr. Pan Jianguo and Mr. Jing Yang. The Ampio Trust is an irrevocable discretionary trust established under the laws and regulations of Singapore.

Each of Joy Bright (the sole shareholder of Gouver), and Rockyjing Investment Limited is wholly-owned by Ampio International Limited. Accordingly, Ampio International Limited is deemed to be interested in the 80,424,662 Shares and 10,000,000 Shares in which Joy Bright Success Limited and Rockyjing Investment Limited are interested, respectively.

(6) Penbay Investments Limited is controlled by Mr. Chen Qi and therefore Mr. Chen Qi is deemed to be interested in the 98,613,367 shares of the Company beneficially owned by Penbay Investments Limited.

Save as disclosed in the paragraphs headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" and "Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares" above, as at June 30, 2018, no Director or proposed director is a director or employee of a company which has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

DIRECTORS' REPORT

EMPLOYMENT AND EMOLUMENT POLICIES

As at June 30, 2018 , the Group had 344 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six-month period ended June 30, 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

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 contained in the code of corporate governance practices (the "**CG Code**") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The Company has complied with the code provisions in the CG Code throughout the six-month period ended June 30, 2018.

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules (the "**Model Code**") as the standards for the Directors' dealings in the securities of the Company. 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 six-month period ended June 30, 2018.

AUDIT COMMITTEE

The audit committee of the Company was established on June 18, 2010 with effect from the listing of the Company. The current terms of reference of the audit committee have been adopted on December 22, 2015 in compliance with the CG Code. 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. Wang Dong 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 internal control and financial reporting matters, including the review of the unaudited interim results of the Group for the six-month period ended June 30, 2018 together with the management of the Company and its external auditor, Ernst & Young.

REMUNERATION COMMITTEE

The Company has established a remuneration committee on June 18, 2010 with effect from the listing of the Company. The current terms of reference of the remuneration committee have been adopted on March 28, 2012 in compliance with the CG Code.

The primary duties of the remuneration committee is to evaluate and make recommendations to the Board regarding the compensation of the Directors. In addition, the remuneration committee conducts reviews of the performance, and determines the compensation structure of senior management of the Group.

The remuneration committee comprises three independent non-executive Directors, being Mr. Ye Zhou, Mr. Wang Dong and Mr. Choi Onward. The remuneration committee is chaired by Mr. Ye Zhou.

NOMINATION COMMITTEE

The Company established a nomination committee on June 18, 2010 with effect from the listing of the Company. The current terms of reference of the nomination committee have been adopted on March 28, 2012 in compliance with the CG Code.

The primary duty of the nomination committee is to make recommendations to the Board regarding candidates to fill vacancies on the board of directors.

The nomination committee comprises three independent non-executive Directors, being Mr. Wang Dong, Mr. Choi Onward and Mr. Ye Zhou. The nomination committee is chaired by Mr. Wang Dong.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Director in the six-month period ended June 30, 2018 are set out below:

Mr. Zhou Chunsheng had not offered himself for re-election and Mr. Wang Dong was elected as an independent non-executive Director in place of Mr. Zhou Chunsheng at the Annual General Meeting held on June 21 2018. Please refer to the announcement of the Company on May 21, 2018.

Mr. Choi Onward was appointed as an independent non-executive director and the chairman of the Audit Committee of Wise Talent Information Technology Co., Ltd., a company listed on the Hong Kong Stock Exchange (Stock Code: 06100) on June 9, 2018.

Save for the information disclosed above, there is no other information related to Directors of the Company in the six-month period ended June 30, 2018 that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

IMPORTANT EVENTS AFFECTING THE GROUP AFTER THE REPORTING PERIOD

Subscription of Shares

On July 13, 2018, Tibet Intelligent Aviation Transportation Technology Co., Ltd. ("**Tibet Aviation**"), an indirect wholly-owned subsidiary of the Company, entered into the Share Subscription Agreement with China National Building Materials Technology Co., Ltd. ("**CNBM**"), pursuant to which Tibet Aviation agreed to subscribe for 1,333,333 shares in CNBM ("**Subscription Shares**") at a consideration of approximately RMB20,000,000. The Subscription Shares subscribed by Tibet Aviation represent approximately 0.89% of the enlarged issued share capital of CNBM upon completion of the issuance of new shares under the Share Issuance Proposal. All the conditions set out in the Share Subscription Agreement have been satisfied and the completion of the subscription is pending the completion of registration of the relevant registration authority. Such investment in the Subscription Shares is expected to be recorded as assets measured at fair value in the accounts of the Company.

VARIATION OF TERMS IN RELATION TO A VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION

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 and connected transaction (the "**VSD**") of the Company as disclosed in the announcement and the circular. As disclosed in the announcement of the Company dated April 9, 2018, as at June 30, 2018, approximately RMB509.74 million (the "**Outstanding Amounts**") 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.

Reference is made to the announcement of the Company dated July 2, 2018, the Group entered into the Supplemental Agreements with the relevant parties of Purchaser Group in relation to the Group conditionally agreed to extend the due date of the Outstanding Amounts.

As entering into the Supplemental Agreements constitutes a material variation of the terms of VSD, the Supplemental Agreements are subject to reporting and announcement requirements under the Listing Rules and will be subject to the approval of the Independent Shareholders taken by poll at the EGM in accordance with the Listing Rules. The Company estimates that the circular in relation to the EGM will be dispatched on or before September 6, 2018.

On behalf of the Board of Directors
China ITS (Holdings) Co., Ltd.
Liao Jie
Chairman

Beijing, August 27, 2018

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Ernst & Young
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真:+852 2868 4432
ey.com

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

INTRODUCTION

We have reviewed the accompanying interim condensed consolidated financial statements of China ITS (Holdings) Co., Ltd. (the "**Company**") and its subsidiaries set out on pages 24 to 66, which comprises the interim condensed consolidated statement of financial position as at June 30, 2018 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* ("**IAS 34**") issued by the International Accounting Standards Board.

The directors of the Company are responsible for the preparation and presentation of the interim financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review 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. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong

August 27, 2018

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six-month period ended June 30, 2018

	Notes	For the six-month period ended June 30, 2018 RMB'000 Unaudited	2017 RMB'000 Unaudited
REVENUE	4	**382,842**	523,562
Cost of revenue	5	**(320,564)**	(395,142)
Gross profit		**62,278**	128,420
Other income and gains	4	**10,865**	17,603
Selling and distribution expenses		**(16,032)**	(21,509)
Administrative expenses		**(66,335)**	(58,041)
Other expenses		**(44,007)**	(1,104)
Finance costs		**(20,804)**	(26,518)
Share of profits and losses of:			
Joint ventures		**753**	(59)
Associates		**(448)**	(59)
(LOSS)/PROFIT BEFORE TAX	5	**(73,730)**	38,733
Income tax expense	6	**3,991**	(12,952)
(LOSS)/PROFIT FOR THE PERIOD		**(69,739)**	25,781
Attributable to:			
Owners of the parent		**(69,739)**	25,783
Non-controlling interests		**–**	(2)
		(69,739)	25,781
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
		RMB Unaudited	RMB Unaudited
Basic — For (loss)/profit for the period	7	**(0.04)**	0.02
Diluted — For (loss)/profit for the period	7	**(0.04)**	0.02

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended June 30, 2018

	For the six-month period ended June 30,	
	2018	2017
	RMB'000	RMB'000
	Unaudited	Unaudited
(LOSS)/PROFIT FOR THE PERIOD	**(69,739)**	25,781
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(1,921)**	(1,710)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**(1,921)**	(1,710)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	**(71,660)**	24,071
Attributable to:		
Owners of the parent	**(71,660)**	24,073
Non-controlling interests	**–**	(2)
	(71,660)	24,071

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2018

	Notes	**June 30, 2018 RMB'000 Unaudited**	December 31, 2017 RMB'000 Audited
NON-CURRENT ASSETS			
Property and equipment	9	**264,642**	261,413
Investment properties		**71,800**	66,800
Goodwill	10	**274,027**	274,027
Other intangible assets	11	**13,966**	15,621
Investments in joint ventures	12	**44,145**	54,368
Investments in associates	13	**6,144**	6,592
Financial assets at fair value through profit or loss		**96,862**	–
Deferred tax assets		**11,238**	7,769
Loan receivables	17	**34,000**	31,000
Available-for-sale investments		**–**	103,236
Pledged deposits	18	**185,500**	–
Total non-current assets		**1,002,324**	820,826
CURRENT ASSETS			
Inventories	14	**76,501**	80,257
Contract assets	15	**702,749**	–
Construction contracts		**–**	831,190
Trade and bills receivables	16	**1,145,826**	1,094,119
Prepayments, deposits and other receivables	17	**455,895**	365,683
Amounts due from related parties	25	**626,217**	638,486
Financial assets at fair value through profit or loss		**20,000**	39,903
Pledged deposits	18	**188,560**	283,076
Cash and cash equivalents	18	**82,399**	179,654
		3,298,147	3,512,368
Assets of investment in a joint venture classified as held for sale	19	**8,500**	–
Total current assets		**3,306,647**	3,512,368

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2018

	Notes	June 30, 2018 RMB'000 Unaudited	December 31, 2017 RMB'000 Audited
CURRENT LIABILITIES			
Trade and bills payables	20	**416,924**	391,036
Other payables and accruals	21	**140,436**	271,516
Contract liabilities	15	**788,998**	–
Construction contracts		**–**	621,901
Interest-bearing bank borrowings	22	**499,650**	608,829
Amounts due to related parties	25	**24,579**	19,514
Income tax payable		**32,303**	46,601
Total current liabilities		**1,902,890**	1,959,397
NET CURRENT ASSETS		**1,403,757**	1,552,971
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,406,081**	2,373,797
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,406,081**	2,373,797
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	22	**305,576**	152,000
Deferred tax liabilities		**14,028**	19,307
Total non-current liabilities		**319,604**	171,307
Net assets		**2,086,477**	2,202,490
EQUITY			
Equity attributable to owners of the parent			
Issued capital	23	**290**	290
Reserves		**2,086,187**	2,202,200
		2,086,477	2,202,490
Total equity		**2,086,477**	2,202,490

Liao Jie
Director

Jiang Hailin
Director

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month ended June 30, 2018

	Attributable to owners of the parent										
	Issued capital RMB'000 note 23	Share premium RMB'000	Statutory reserve RMB'000	Capital reserve RMB'000	Asset revaluation reserve RMB'000	Available-for-sale investments revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At January 1, 2017	290	1,088,725	155,487	630,851	7,782	–	(85,552)	367,204	2,164,787	(29)	2,164,758
Profit for the period	–	–	–	–	–	–	–	25,783	25,783	(2)	25,781
Other comprehensive loss for the period:											
Exchange differences on translation of foreign operations	–	–	–	–	–	–	(1,710)	–	(1,710)	–	(1,710)
Total comprehensive income/(loss) for the period	–	–	–	–	–	–	(1,710)	25,783	24,073	(2)	24,071
Transfer from retained earnings	–	–	5,566	–	–	–	–	(5,566)	–	–	–
At June 30, 2017 (unaudited)	290	1,088,725	161,053	630,851	7,782	–	(87,262)	387,421	2,188,860	(31)	2,188,829

	Attributable to owners of the parent								
	Issued capital RMB'000 note 23	**Share premium RMB'000**	**Statutory reserve RMB'000**	**Capital reserve RMB'000**	**Asset revaluation reserve RMB'000**	**Available-for-sale investments revaluation reserve RMB'000**	**Exchange fluctuation reserve RMB'000**	**Retained earnings RMB'000**	**Total RMB'000**
At 31 December 2017, as previously reported	**290**	**1,088,725***	**166,015***	**599,593***	**7,782***	**5,946***	**(78,285)***	**412,424***	**2,202,490**
Adjustment on adoption of IFRS 9 and IFRS 15 (note 2)	**–**	**–**	**–**	**–**	**–**	**(5,946)**	**–**	**(38,407)**	**(44,353)**
At January 1, 2018 (unaudited)	**290**	**1,088,725**	**166,015**	**599,593**	**7,782**	**–**	**(78,285)**	**374,017**	**2,158,137**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(69,739)**	**(69,739)**
Other comprehensive loss for the period:									
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**(1,921)**	**–**	**(1,921)**
Total comprehensive loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**(1,921)**	**(69,739)**	**(71,660)**
Transfer from retained earnings	**–**	**–**	**214**	**–**	**–**	**–**	**–**	**(214)**	**–**
At June 30, 2018 (unaudited)	**290**	**1,088,725***	**166,229***	**599,593***	**7,782***	**–***	**(80,206)***	**304,064***	**2,086,477**

* These reserve accounts comprise the consolidated reserves of RMB2,086,187,000 (unaudited) (December 31, 2017: RMB2,202,200,000 (audited)) in the unaudited interim condensed consolidated statement of financial position.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month period ended June 30, 2018

	Notes	For the six-month period ended June 30, 2018 RMB'000 Unaudited	2017 RMB'000 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(73,730)**	38,733
Adjustments for:			
Depreciation and amortisation	5	**5,311**	7,045
Net loss on disposal of items of property, plant and equipment	5	**6**	–
Impairment of other receivables	5	**300**	4,283
Impairment of trade receivables	5	**7,997**	1,049
Impairment of assets held for sale	5	**2,476**	–
Impairment of contracts assets	5	**837**	–
Impairment of amounts due from construction contracts	5	**–**	503
Share of profits and losses of joint ventures and associates		**(305)**	118
Fair value loss on financial assets at fair value through profit or loss	5	**42,101**	–
Fair value gain on investment property transferred from inventory	4	**(1,244)**	–
Finance income	4	**(5,544)**	(12,430)
Finance costs		**20,804**	26,518
		(991)	65,819
Changes in assets and liabilities:			
Increase in inventories		**–**	(3,295)
Decrease/(increase) in construction contracts assets/liabilities		**145,305**	(208,174)
(Increase)/decrease in trade and bills receivables		**(86,711)**	171,935
(Increase)/decrease in prepayments, deposits and other receivables		**(90,400)**	224,350
Decrease in amounts due from related parties		**12,269**	396,469
(Increase)/decrease in pledged deposits		**(24,484)**	3,920
Increase/(decrease) in trade and bills payables		**25,888**	(354,847)
(Decrease)/increase in other payables and accruals		**(13,326)**	5,249
Increase/(decrease) in amounts due to related parties		**5,065**	(224,167)
Cash (used in)/generated from operations		**(27,385)**	77,259
Interest paid		**(19,956)**	(26,244)
Interest received		**2,428**	11,005
Income tax paid		**(21,427)**	(39,090)
Net cash flows (used in)/generated from operating activities		**(66,340)**	22,930
Net cash flows (used in)/generated from operating activities		**(66,340)**	22,930

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month period ended June 30, 2018

	Notes	For the six-month period ended June 30, 2018 RMB'000 Unaudited	2017 RMB'000 Unaudited
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment	9	**(6,891)**	(7,554)
Additions to other intangible assets		**–**	(6,035)
Investment in available for sale investments		**–**	(40,000)
Acquisition of a subsidiary		**–**	1,170
Dividends received		**–**	51,226
Net cash flows used in investing activities		**(6,891)**	(1,193)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from interest-bearing bank borrowings		**316,185**	541,781
Repayment of interest-bearing bank borrowings		**(271,788)**	(695,772)
Increase in pledged deposits for bank loans		**(66,500)**	(87,750)
Net cash flows used in financing activities		**(22,103)**	(241,741)
Net decrease in cash and cash equivalents		**(95,334)**	(220,004)
Effect of foreign exchange rate changes, net		**(1,921)**	(1,414)
Cash and cash equivalents at beginning of period		**179,654**	604,843
CASH AND CASH EQUIVALENTS AT END OF PERIOD	18	**82,399**	383,425

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2018

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on February 20, 2008. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, the Cayman Islands. The Company's principal place of business in Hong Kong is in Room 1004, Tung Wah Mansion, 199–203 Hennessy Road, Wanchai. The principal executive office of the Company is located at Building 204, No. A10, Jiuxianqiao North Road, Chaoyang District, Beijing, 100015, the People's Republic of China (the "PRC").

The Group is a provider of transportation infrastructure technology solutions and services in the PRC. During the period, the Group was involved in the following principal activities:

- Specialised solutions 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

- Value-added operation and services — engaging in the provision of operation outsourcing and value-added services, via intelligent transportation system platforms, servicing transportation operators and participants.

The Group's principal operations and geographic market are in Mainland China.

2. BASIS OF PRESENTATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

Basis of presentation

The unaudited interim condensed consolidated financial statements for the six-month period ended June 30, 2018 have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2017. The unaudited interim condensed consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousands, except when otherwise indicated.

Impact of new and revised International Financial Reporting Standards ("IFRSs")

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2017, except for the adoption of new standards and interpretations effective as at January 1, 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* that require restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the unaudited interim condensed consolidated financial statements of the Group.

2. BASIS OF PRESENTATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

Impact of new and revised International Financial Reporting Standards ("IFRSs") (continued)

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The Group adopted IFRS 15 using the modified retrospective method of adoption. The effect of adopting IFRS 15 is, as follows:

Impact on the consolidated statement of financial position (increase/(decrease)) as at January 1, 2018:

	Note	Balance at December 31, 2017 RMB'000 Audited	Adjustments Due to IFRS 15 RMB'000 Unaudited	Balance at January 1, 2018 RMB'000 Unaudited
Assets				
Construction contracts	(a)	831,190	(831,190)	–
Contract assets	(a)	–	818,733	818,733
Subtotal		**831,190**	**(12,457)**	**818,733**
Liabilities				
Other payables and accruals	(a)	271,516	(97,984)	173,532
Construction contracts	(a)	621,901	(621,901)	–
Contract liabilities	(a)	–	719,885	719,885
Subtotal		**893,417**	**–**	**893,417**
Retained earnings	(a)	412,424	(12,457)	399,967

2. BASIS OF PRESENTATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

Impact of new and revised International Financial Reporting Standards ("IFRSs") (continued)

Impact on the consolidated statement of profit or loss (increase/(decrease)) for the six-month period ended June 30, 2018:

	Note	For the six-month period ended June 30, 2018		
		As reported	Without adoption of IFRS 15	Effect of change higher/(lower)
		RMB'000	RMB'000	RMB'000
		Unaudited	Unaudited	Unaudited
Revenue	(a)	382,842	383,240	(398)
Loss for the period		**69,739**	**69,341**	**398**

There is no material impact on other comprehensive loss, the consolidated statement of cash flows and loss per share attributable to ordinary equity holders of the Company.

The Group's principal activities consist of specialised solution business and value-added operation and services. The impacts arising from the adoption of IFRS 15 on the Group are summarised as follows:

(a) System integration solutions

The Group provides construction on intelligent transportation systems to many of its customers.

Prior to the adoption of IFRS 15, the Group recognises revenue using percentage of completion, and the stage of completion is determined by reference to the contract costs incurred to date. Any contract costs that relate to future activity on the contract must be excluded. This includes the costs of materials that have been delivered to a contract site or set aside for use in a contract but not yet installed, used or applied during contract performance, while if the materials are made especially for the contract, they should be included in the contract cost.

Under IFRS 15, the Group assessed all of the goods and services promised in the system integration solution contract as a single performance obligation, and concluded that revenue from system integration solution will continue to be recognised over time, using an input method to measure progress towards complete satisfaction of the obligation similar to the previous accounting policy.

Under IFRS 15, if an entity is using a percentage-of-completion method based on costs incurred to measure its progress, when goods are delivered to the customer site, and control of the individual goods has transferred to the customer, but the entity has not yet integrated the goods into the overall project, the entity should recognise revenue at an amount equal to the cost of the goods used to satisfy the performance obligation.

2. BASIS OF PRESENTATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

Impact of new and revised International Financial Reporting Standards ("IFRSs") (continued)

(a) System integration solutions (continued)

Moreover, under IFRS 15, any earned consideration that is conditional should be recognised as a contract asset, while it was recorded in construction contracts (asset), and a contract liability should be recorded when the payment received in advance of performance under the contract while it was recorded in construction contracts (liability) and other payables and accruals. Therefore, upon adoption of IFRS 15, the Group made classification from construction contracts (assets) to contract assets, from construction contracts (liabilities) to contract liabilities, and from other payables and accruals to contract liabilities.

The consolidated statement of financial statement position as at December 31, 2017 was not restated, and the impact upon the adoption of IFRS 15 was recorded in the opening balance as at January 1, 2018, resulting in: recognition of contract assets amounting to RMB818,733,000 (unaudited), decrease in amount due from construction contracts amounting to RMB831,190,000 (unaudited), recognition of contract liabilities amounting to RMB719,885,000 (unaudited), decrease in amount due to construction contracts amounting to RMB621,901,000 (unaudited), decrease in other payables and accruals amounting to RMB97,984,000 (unaudited), and decrease in retained earnings amounting to RMB12,457,000 (unaudited). The consolidated statement of profit or loss for the six-month period ended June 30, 2017 was also not restated, and the adoption of IFRS 15 resulted in the decrease of revenue amounting to RMB398,000 (unaudited) in the current period compared with that without adoption of IFRS 15.

(b) Presentation and disclosure

As required for the unaudited interim condensed financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Refer to Note 4 for the disclosure on disaggregated revenue.

IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018 bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied IFRS 9 retrospectively, with the initial application date of January 1, 2018. In accordance with the transitional provision under IFRS 9, comparative figures are not required to be restated. As a result, any adjustments to carrying amounts of financial assets or financial liabilities are recognised at the beginning of the current reporting period, with the difference recognised in the opening retained earnings (or other component of equity, as appropriate) of the reporting period that includes the date of initial application.

2. BASIS OF PRESENTATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

Impact of new and revised International Financial Reporting Standards ("IFRSs") (continued)

The effect of adopting IFRS 9 is, as follows:

Impact on the consolidated statement of financial position (increase/(decrease)) as at January 1, 2018:

	Notes	Balance at December 31, 2017 RMB'000 Audited	Adjustments due to IFRS 9 RMB'000 Unaudited	Balance at January 1, 2018 RMB'000 Unaudited
Assets				
Available for sale investments	(a)	103,236	(103,236)	–
Financial assets at fair value through profit or loss	(a)	39,903	119,060	158,963
Trade and bills receivables	(b)	1,094,119	(27,007)	1,067,112
Contract assets	(b)	–	(18,340)	(18,340)
Subtotal		**1,237,258**	**(29,523)**	**1,207,735**
Liabilities				
Deferred tax liabilities	(a)	19,307	2,373	21,680
Subtotal		**19,307**	**2,373**	**21,680**
Equity				
Available-for-sale investments revaluation reserve	(a)	5,946	(5,946)	–
Retained earnings	(a)/(b)	412,424	(25,950)	386,474
Subtotal		**418,370**	**(31,896)**	**386,474**

2. BASIS OF PRESENTATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

Impact of new and revised International Financial Reporting Standards ("IFRSs") (continued)

Impact on the consolidated statement of profit or loss (increase/(decrease)) for the six-month period ended June 30, 2018:

		For the six-month period ended June 30, 2018		
	Notes	**As reported** RMB'000 Unaudited	**Balance without adoption of IFRS 9** RMB'000 Unaudited	**Changes** RMB'000 Unaudited
Administrative expenses	(b)	66,335	59,635	6,700
Other expenses	(a)	44,007	1,906	42,101
Loss for the period		**69,739**	**20,938**	**48,801**
Other comprehensive loss	(a)	–	32,693	(32,693)

There is no material impact on the consolidated statement of cash flows. The impact on basic and diluted loss per share is, as follows:

	RMB
Basic and diluted loss for the period attributable to the ordinary equity holders of the Company	(0.03)

(a) Classification and measurement

Prior to the adoption of IFRS 9, the Group held three equity investments, which was recorded in available-for-sale investments, including two unlisted equity investments measured at cost less impairment losses, and one equity investment listed in National Equities Exchange and Quotations measured at fair value through other comprehensive income.

According to IFRS 9, the Group elected to measure these equity investments at fair value through profit or loss. Upon the adoption of IFRS 9, the difference between the fair value and the carrying amount of the equity investments as at January 1, 2018 was recorded in the retained earnings, and fair value changes which had been previous recognised under available-for-sale investments revaluation reserve was reclassified to retained earnings as at January 1, 2018.

2. BASIS OF PRESENTATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

Impact of new and revised International Financial Reporting Standards ("IFRSs") (continued)

(a) Classification and measurement (continued)

For the equity investments, the impact of the adoption of IFRS 9 on the consolidated statement of financial position as at January 1, 2018 including: decrease in available-for-sale investments revaluation reserve amounting to RMB5,946,000 (unaudited), increase in retained earnings amounting to RMB19,397,000 (unaudited), decrease in available-for-sale investments amounting to RMB103,236,000 (unaudited), increase in deferred tax liabilities amounting to RMB2,373,000 (unaudited), and increase in financial assets at fair value through profit or loss amounting to RMB119,060,000 (unaudited). The consolidated statement of profit or loss and comprehensive income for the six-month period ended June 30, 2017 was also not restated, and the adoption of IFRS 9 resulted in the increase of other expenses amounting to RMB42,101,000 (unaudited), and decrease in other comprehensive loss amounting to RMB32,693,000 (unaudited) in the current period compared with that without adoption of IFRS 9.

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For contract assets and trade receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The adoption of the ECL requirements of IFRS 9 resulted in increase in impairment allowances of the Group's financial assets. The increase in allowance resulted in adjustment to retained earnings. Upon the adoption of IFRS 9, the difference was recorded in the opening balance of the consolidated statement of financial position as at January 1, 2018, resulting in the decrease in trade and bills receivables amounting to RMB27,007,000 (unaudited), decrease in contract assets amounting to RMB18,340,000 (unaudited), and decrease in retained earnings amounting to RMB45,347,000 (unaudited). The consolidated statement of profit or loss for the six-month period ended June 30, 2017 was also not restated, and the adoption of IFRS 9 resulted in the increase of administrative expenses amounting to RMB6,700,000 (unaudited) in the current period compared with that without adoption of IFRS 9.

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Considerations*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This interpretation does not have any impact on the Group's consolidated financial statements.

2. BASIS OF PRESENTATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

Amendments to IAS 40 *Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. In addition, the Group has no cash-settled share-based payments and share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

3. OPERATING SEGMENT INFORMATION

For management purpose, the Group has 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 resources 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 operations except that finance income, finance costs, exchange losses, loss on financial assets at fair value through profit or loss 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.

3. OPERATING SEGMENT INFORMATION (continued)

Six-month period ended June 30, 2018 (Unaudited)	Specialised solutions RMB'000	Value-added operation and services RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	365,832	17,010	382,842
Intersegment sales	–	–	–
Reconciliation:	365,832	17,010	382,842
Elimination of intersegment sales			–
Revenue			382,842
Segment results	(437)	(1,230)	(1,667)
Reconciliation:			
Finance income			5,544
Finance costs			(20,804)
Foreign exchange losses			(495)
Loss on financial assets at fair value through profit or loss			(42,101)
Corporate and other unallocated expenses			(14,207)
Loss before tax			(73,730)
Other segment information:			
Share of profits of joint ventures	(753)	–	(753)
Share of losses of associates	448	–	448
Impairment losses recognised in the statement of profit or loss	10,945	365	11,310
Depreciation and amortisation	402	142	544
Capital expenditure*	605	31	636

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

3. OPERATING SEGMENT INFORMATION (continued)

Six-month period ended June 30, 2017 (Unaudited)	Specialised solutions RMB'000	Value-added Operation and services RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	495,354	28,208	523,562
Intersegment sales	–	–	–
Reconciliation:	495,354	28,208	523,562
Elimination of intersegment sales			–
Revenue			523,562
Segment results	69,280	1,524	70,804
Reconciliation:			
Finance income			12,430
Finance costs			(26,518)
Foreign exchange losses			(33)
Corporate and other unallocated expenses			(17,950)
Profit before tax			38,733
Other segment information:			
Share of losses of joint ventures	59	–	59
Share of losses of associates	59	–	59
Impairment losses recognised in the statement of profit or loss	5,795	40	5,835
Depreciation and amortisation	3,751	454	4,205
Capital expenditure*	12,836	556	13,392

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

3. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	For the six-month period ended June 30,	
	2018 RMB'000 Unaudited	2017 RMB'000 Unaudited
Overseas	**20,306**	41,560
Mainland China	**362,536**	482,002
	382,842	523,562

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	June 30, 2018 RMB'000 Unaudited	December 31, 2017 RMB'000 Audited
Mainland China	**803,547**	785,683
Others	**–**	25,307
Hong Kong	**2,067**	2,067
	805,614	813,057

The non-current assets information above is based on the locations of the assets and excludes deferred tax assets.

Information about a major customer

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

4. REVENUE, OTHER INCOME AND GAINS

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

Revenue from the sales of products, represents 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 are as follows:

	For the six-month period ended June 30,	
	2018	2017
	RMB'000	RMB'000
	Unaudited	Unaudited
Type of goods or services		
System integration solutions	**327,087**	440,942
Sale of products	**35,627**	51,448
Rendering of services	**20,128**	31,172
Total revenue from contracts with customers	**382,842**	523,562
Timing of revenue recognition		
Service transferred over time	**347,215**	472,114
Goods transferred at a point in time	**35,627**	51,448
Total revenue from contracts with customers	**382,842**	523,562
Other income and gains		
Finance income	**5,544**	12,430
Gross rental income	**2,551**	4,261
Fair value gain on investment property transferred from inventory	**1,244**	–
Government grants*	**1,500**	912
Others	**26**	–
	10,865	17,603

* 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. PROFIT/(LOSS) BEFORE TAX

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

	For the six-month period ended June 30,	
	2018 RMB'000 Unaudited	2017 RMB'000 Unaudited
Cost of system integration solutions	**273,496**	324,163
Cost of sale of products	**31,294**	48,776
Cost of rendering of services	**15,774**	22,203
	320,564	395,142
Depreciation (note 9)	**3,656**	7,045
Amortisation of intangible assets (note 11)	**1,655**	–
	5,311	7,045
Minimum lease payments under operating leases	**3,868**	3,871
Auditors' remuneration	**1,455**	1,076
Wages and salaries	**20,003**	22,120
Pension scheme contributions (defined contribution scheme)	**3,073**	2,728
Social insurance costs and staff welfare	**6,156**	5,780
	29,232	30,628
Impairment of trade receivables (note 16)	**7,997**	1,049
Impairment of contract assets (note 15)	**837**	–
Impairment of amounts due from construction contracts	**–**	503
Impairment of assets held for sale (note 19)	**2,476**	–
Impairment of other receivables (note 17)	**300**	4,283
Changes in fair value of financial assets	**42,101**	–
Loss on disposal items of property, plant and equipment	**6**	–
Rental income on investment properties	**(2,551)**	(2,195)
Foreign exchange losses, net	**495**	33

6. INCOME TAX

The Group is subject to income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The determination of current and deferred income taxes was based on the enacted tax rates.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

Under the relevant PRC income tax law, except for certain preferential treatment available to the Group, the PRC subsidiaries of the Group are subject to income tax at a rate of 25% (2017: 25%) on their respective taxable income. During the current period, 1 entity (2017: 3 entities) of the Group was entitled to 15% preferential corporate income tax rate as High and New Technology Enterprises, and 2 entities (2017: 1 entity) of the Group which are located in Tibet were entitled to 15% (2017: 9%) preferential corporate income tax rate.

No provision for Hong Kong profits tax has been made for the six-month period ended June 30, 2018 (June 30, 2017: nil), as the Group had no assessable profits arising in Hong Kong for each of the periods.

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 June 30, 2018, no deferred tax liabilities have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and joint ventures established in Mainland China (2017: nil). In the opinion of the directors, it is not probable that these subsidiaries and joint ventures will distribute such earnings in the foreseeable future.

The major components of income tax expense in the unaudited interim condensed consolidated statement of profit or loss are as follows:

	For the six-month period ended June 30,	
	2018 RMB'000 Unaudited	2017 RMB'000 Unaudited
Current income tax:		
Current income tax charge in Mainland China	**7,130**	6,164
Deferred income tax:		
Relating to origination and reversal of temporary differences	**(11,121)**	6,788
Income tax expense reported in the unaudited interim condensed consolidated statement of profit or loss	**(3,991)**	12,952

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

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

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

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the six-month periods ended June 30, 2018 and 2017 in respect of a dilution as the impact of the share option scheme outstanding has an anti-dilutive effect on the basic profit/(loss) per share amounts presented.

	For the six-month period ended June 30,	
	2018	2017
	RMB'000	RMB'000
	Unaudited	Unaudited
Earnings/(loss)		
(Loss)/profit attributable to ordinary equity holders of the Company, used in the basic earnings/(loss) per share calculation	**(69,739)**	25,783

	For the six-month period ended June 30,	
	2018	2017
	Unaudited	Unaudited
Shares		
Weighted average number of shares in issue during the period used in the basic earnings/(loss) per share calculation	**1,654,024,868**	1,654,024,868

8. DIVIDENDS PROPOSED

No interim dividend was proposed by the Company for the six-month period ended June 30, 2018 (June 30, 2017: nil).

9. PROPERTY AND EQUIPMENT

During the six-month period ended June 30, 2018, the Group purchased equipment with a cost of RMB6,891,000 (unaudited) (June 30, 2017: RMB7,554,000 (unaudited)).

The depreciation charged during the six-month period ended June 30, 2018 was RMB3,656,000 (unaudited) (June 30, 2017: RMB7,045,000 (unaudited)).

During the six-month period ended June 30, 2018, the Group disposed equipment with net value of RMB6,000 (unaudited) (June 30, 2017: nil (unaudited)).

At June 30, 2018, certain of the Group's buildings with a net carrying amount of approximately RMB215,154,000 (unaudited) were pledged to secure general banking facilities granted to the Group (note 22).

10. GOODWILL

	June 30, 2018 RMB'000 Unaudited	December 31, 2017 RMB'000 Audited
At January 1	**274,027**	230,664
Acquisition of a subsidiary	**–**	43,363
Net carrying amount at period/year end	**274,027**	274,027

11. OTHER INTANGIBLE ASSETS

	Deferred development cost RMB'000 Unaudited
Cost at January 1, 2018 net of accumulated amortisation	**15,621**
Amortisation provided during the period	**(1,655)**
At June 30, 2018	**13,966**
At June 30, 2018	
Cost	**16,750**
Accumulated amortisation	**(2,784)**
Net carrying amount	**13,966**

12. INVESTMENTS IN JOINT VENTURES

	June 30, 2018 RMB'000 Unaudited	December 31, 2017 RMB'000 Audited
Share of net assets	**16,439**	29,662
Goodwill on acquisition	**27,706**	27,706
	44,145	57,368
Impairment	**–**	(3,000)
	44,145	54,368

The Group's receivables due from and payable to joint ventures are disclosed in note 25 to the unaudited interim condensed consolidated financial statements.

13. INVESTMENTS IN ASSOCIATES

	June 30, 2018 RMB'000 Unaudited	December 31, 2017 RMB'000 Audited
Share of net assets	**6,144**	6,592

The Group's receivables due from and payable to associates are disclosed in note 25 to the unaudited interim condensed consolidated financial statements.

14. INVENTORIES

	June 30, 2018 RMB'000 Unaudited	December 31, 2017 RMB'000 Audited
Raw materials	**1,535**	1,535
Properties under development	**68,199**	71,955
Finished goods	**6,767**	6,767
	76,501	80,257

No impairment loss was provided for inventories for the six-month period ended June 30, 2018 (June 30, 2017: nil).

15. CONTRACT ASSETS AND CONTRACT LIABILITIES

Net contract assets (liabilities) consisted of the following at June 30, 2018:

	June 30, 2018 RMB'000 Unaudited
Contract assets	**702,749**
Contract liabilities	**(788,998)**
Net contract liabilities	**(86,249)**
Revenue recognised in the period from:	
Amounts included in contract liabilities at the beginning of the period	**68,304**
Performance obligations satisfied in previous periods	**15,152**

The timing difference of revenue recognition, billings and cash collection results in trade receivables, contract assets, and contract liabilities. The Group receive payments from customers based on a billing schedule, as established in the contracts which is mainly upon achievement of contractual milestones. Contract assets relates to the conditional right to consideration for the completed performance under the contract when billing occurs subsequent to revenue recognition. Trade receivables are recognised when the right to consideration becomes unconditional. Contract liabilities relates to the payments received in advance of performance under the contract. Contract liabilities are recognised as revenue as or when the Group perform under the contract.

15. CONTRACT ASSETS AND CONTRACT LIABILITIES (continued)

The movements in the impairment of contract assets are as follows:

	June 30, 2018 RMB'000 Unaudited	December 31, 2017 RMB'000 Audited
At January 1	**17,300**	11,650
Effect of adoption of IFRS 9 (note 2)	**18,340**	–
Additions	**837**	5,650
At period/year end	**36,477**	17,300

16. TRADE AND BILLS RECEIVABLES

	June 30, 2018 RMB'000 Unaudited	December 31, 2017 RMB'000 Audited
Trade receivables	**1,124,946**	974,298
Impairment	**(43,186)**	(8,182)
	1,081,760	966,116
Bills receivable	**64,066**	128,003
	1,145,826	1,094,119

Trade and bills receivables, which are non-interest-bearing, are recognised and carried at the original invoiced amount less any impairment loss. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The Group does not hold any collateral or other credit enhancements over its trade and bills receivables balances.

16. TRADE AND BILLS RECEIVABLES (continued)

An ageing 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:

	June 30, 2018 RMB'000 Unaudited	December 31, 2017 RMB'000 Audited
Less than 6 months	**478,649**	476,611
6 months to 1 year	**243,967**	89,056
1 year to 2 years	**83,126**	286,727
2 years to 3 years	**171,412**	116,092
Over 3 years	**168,672**	125,633
	1,145,826	1,094,119

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

	June 30, 2018 RMB'000 Unaudited	December 31, 2017 RMB'000 Audited
At January 1	**8,182**	5,379
Effect of adoption of IFRS 9 (note 2)	**27,007**	–
Additions	**7,997**	5,803
Amount written off	**–**	(3,000)
At period/year end	**43,186**	8,182

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2018

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	June 30, 2018 RMB'000 Unaudited	December 31, 2017 RMB'000 Audited
Prepayments to suppliers for purchases of goods	**248,211**	160,125
Loans to other companies (Note)	**107,051**	106,807
Tender deposits	**17,566**	20,737
Contract deposits	**36,044**	17,455
Advances to staff	**20,110**	16,194
Interest receivable	**10,706**	7,590
Dividend receivable	**13,571**	14,243
Others	**66,155**	82,751
	519,414	425,902
Impairment	**(29,519)**	(29,219)
	489,895	396,683
Less: loan receivables-non current (Note)	**34,000**	31,000
	455,895	365,683

Note: The balance represents unsecured loans to other companies which are due within one year and interest free except: (i) balance of RMB5,000,000 (unaudited) bears an interest rate of 7% per annum and is due in the second half of 2018; (ii) RMB30,000,000 (unaudited) loans to 馬越, an independent third party of the Company, for the purchase of shares of Forever Opensource Co., Ltd. ("Forever Opensource"), is repayable in 2023, bears an interest rate of 8% per annum, and is secured by the pledge of shares of Forever Opensource, which is mainly engaged in providing software designing and application development service; (iii) RMB4,000,000 (unaudited) unsecured loans to an independent third party with an interest rate of 7% and is due in 2020.

The movements in provision for impairment of prepayments, deposits and other receivables are as follows:

	June 30, 2018 RMB'000 Unaudited	December 31, 2017 RMB'000 Audited
At January 1	**29,219**	15,162
Additions	**300**	14,847
Amount written off	**–**	(790)
At period/year end	**29,519**	29,219

18. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	June 30, 2018 RMB'000 Unaudited	December 31, 2017 RMB'000 Audited
Cash and bank balances	**82,399**	179,654
Pledged deposits		
— Current deposits	**188,560**	283,076
— Non-current deposits	**185,500**	–
	456,459	462,730
Less: Pledged deposits for		
— Interest-bearing bank borrowings (note 22)	**(343,500)**	(277,000)
— Letter of guarantee for projects	**(29,918)**	(4,885)
— Bills payables	**–**	(60)
— Tenders	**(642)**	(1,131)
Cash and cash equivalents	**82,399**	179,654

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

The cash and bank balances and pledged deposits of the Group denominated in RMB totalled RMB451,635,000 (unaudited) (RMB449,871,000 (unaudited) is located in Mainland China and RMB1,764,000 (unaudited) is located overseas) as at June 30, 2018 (December 31, 2017: RMB454,855,000 (audited) in total). In Mainland China, RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

19. ASSETS OF INVESTMENT IN A JOINT VENTURE CLASSIFIED AS HELD FOR SALE

On June 10, 2018, the Group entered into an equity transfer agreement with 清大國宏(北京)工程技術有限公司("清大國宏"), pursuant to which the Group has conditionally agreed to dispose and 清大國宏 has conditionally agreed to purchase 51% equity interests in Chengdu Zhida Weilute Technology Co., Ltd. ("Chengdu Zhida"), which was a joint venture of the Group, at a consideration of RMB8,500,000. By June 30, 2018, all the shareholders of Chengdu Zhida have approved the transaction, but the change of industrial and commercial registration has not completed, which is expected to be completed in the second half year of 2018. As the Group has signed the disposal agreement with 清大國宏, and the investment is available for immediate sale in its present condition, the investment in Chengdu Zhida was classified as assets held for sale, and measured at the lower of its carrying amount and fair value less costs to sell, which resulted in an impairment loss amounted to RMB2,476,000 (unaudited).

20. TRADE AND BILLS PAYABLES

	June 30, 2018 RMB'000 Unaudited	December 31, 2017 RMB'000 Audited
Trade payables	**319,664**	386,538
Bills payable	**97,260**	4,498
	416,924	391,036

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

	June 30, 2018 RMB'000 Unaudited	December 31, 2017 RMB'000 Audited
Current or less than 1 year	**337,992**	348,011
1 to 2 years	**67,920**	36,854
Over 2 years	**11,012**	6,171
	416,924	391,036

As at June 30, 2018, trade payables are non-interest-bearing and generally have credit terms ranging from 1 to 360 days.

21. OTHER PAYABLES AND ACCRUALS

	June 30, 2018 RMB'000 Unaudited	December 31, 2017 RMB'000 Audited
Advances from customers	**–**	97,984
Business advance deposits	**1,737**	5,518
Staff costs and welfare accruals	**12,013**	11,853
Other borrowings	**2,364**	14,734
Other taxes payable	**70,199**	99,335
Interest payables	**2,244**	1,395
Others	**51,879**	40,697
	140,436	271,516

As at June 30, 2018, other payables are non-interest-bearing and have no fixed terms of repayment.

22. INTEREST-BEARING BANK BORROWINGS

	Notes	Contractual interest rate (%)	June 30, 2018 RMB'000 Unaudited	December 31, 2017 RMB'000 Audited
Current				
Bank loans — secured and repayable within one year	(i),(ii)	2.5–6.2	**299,240**	476,629
Bank loans — guaranteed and repayable within one year	(iii),(iv)	5.4–7.0	**158,610**	68,000
Bills receivable endorsed		–	**41,800**	64,200
			499,650	608,829
Non-current				
Bank loans — guaranteed and repayable within two years	(v)	6.7	**61,390**	152,000
Bank loans — secured and repayable within two years	(i),(vi)	5.2–6.2	**244,186**	–
			305,576	152,000
			805,226	760,829

22. INTEREST-BEARING BANK BORROWINGS (continued)

Notes:

(i) The current bank loans of RMB160.0 million (unaudited) and non-current bank loans of RMB70.0 million (unaudited) as at June 30, 2018 were secured by properties with a carrying amount of RMB215.2 million (unaudited) of Beijing Hongrui Dake Technology Co., Ltd., and shares of Beijing Aproud Technology Co.,Ltd., both of which are subsidiaries of the Group. As at December 31, 2017, the current bank loans amounting to RMB160.0 million (audited) were secured by properties of Beijing RHY Technology Development Co., Ltd., a related party of the Group.

(ii) Bank loans of RMB139.2 million (unaudited) as at June 30, 2018 (December 31, 2017: RMB242.1 million (audited)) were secured by a pledged deposit of RMB158.0 million (unaudited) (December 31, 2017: RMB277.0 million (audited)) by Beijing Zhixun Tiancheng Technology Co., Ltd., a subsidiary of the Group.

(iii) Bank loans of RMB98.6 million (unaudited) as at June 30, 2018 (December 31, 2017: RMB8.0 million (audited)) were guaranteed by Beijing RHY Technology Development Co., Ltd., a related party of the Group.

(iv) Bank loans of RMB60.0 million (unaudited) as at June 30, 2018 (December 31, 2017: RMB60.0 million (audited)) were guaranteed by the Company.

(v) The non-current bank loans of RMB61.4 million (unaudited) as at June 30, 2018 (December 31, 2017: RMB152.0 million (audited)) were guaranteed by Beijing RHY Technology Development Co., Ltd., a related party of the Group.

(vi) The non-current bank loans of RMB174.2 million (unaudited) as at June 30, 2018 (December 31, 2017: nil (audited)) were secured by a non-current pledged deposit of RMB185.5 million (unaudited) (December 31, 2017: nil (audited)) by Beijing Zhixun Tiancheng Technology Co., Ltd., a subsidiary of the Group.

As at June 30, 2018, the Group had unutilised available bank borrowing facilities amounting to RMB174.3 million (unaudited) (December 31, 2017: RMB70.0 million (audited)), and nil (unaudited) in HKD (December 31, 2017: HKD239.0 million (audited)).

As at June 30, 2018, the Group's bank loans of RMB303.4 million (unaudited) were charged at fixed interest rates and bank loans of RMB460.0 million (unaudited) were charged at floating interest rates based on the benchmark interest rates announced by the People's Bank of China. The carrying amounts of the Group's current borrowings approximate to their fair values.

23. ISSUED CAPITAL

Shares

	June 30, 2018 RMB'000 Unaudited	December 31, 2017 RMB'000 Audited
Issued and fully paid:		
1,654,024,868 ordinary shares of HK$0.0002 each	**290**	290

24. SHARE OPTION SCHEME

Pre-IPO Share Incentive Scheme

On December 28, 2008, China ITS Co., Ltd. launched a share option scheme. Pursuant to the scheme, China ITS Co., Ltd. granted 116,653,105 options to the eligible employees of the Group and directors of the Company, of which 58,170,393 share options were vested on the grant date and the remaining 58,482,712 share options would be vested over six equal semi-annual instalments starting from the second anniversary of the grant date provided that these employees remain in service at the respective vesting dates. The expiration dates for the share options are five years after their respective vesting dates. Exercise prices are RMB0.60 per share for the first batch, RMB2.00 for the second and third batches, RMB3.00 for the fourth and fifth batches and RMB4.00 for the last two batches. There are no cash settlement alternatives.

No share option expenses were recognised during the six-month period ended June 30, 2018 (June 30, 2017: nil).

Numbers of 7,927,000 share options were expired during the six-month period ended June 30, 2018, and no share option was exercised or cancelled. There was no outstanding share options as at June 30, 2018.

Share Option Scheme

On January 18, 2012, the board of directors resolved to grant share options under the share option scheme adopted by the Company on June 18, 2010 to 191 grantees, which included directors, independent non-executive directors and certain employees of the Group to subscribe for an aggregate of 155,000,000 ordinary shares. A total of 155,000,000 share options would be vested over twelve quarterly instalments from three months after the grant date provided these grantees remain in service at the respective vesting dates. The exercise price is HK$1.05 per share. There are no cash settlement alternatives.

There was no share option expenses recognised during the six-month period ended June 30, 2018 (June 30, 2017: nil).

There was no movement for the outstanding numbers of the share options during the six-month period ended June 30, 2018. The following table illustrates the numbers and WAEP of the share options as at June 30, 2018:

	Number '000	WAEP RMB per share
Outstanding as at June 30, 2018	**74,673**	**1.05**
Exercisable as at June 30, 2018	**74,673**	**1.05**

The fair value of the share options at the grant date was estimated by an independent firm of professional valuers, American Appraisal China Limited, using the Binomial Model, taking into account the terms and conditions upon which the share options were granted.

25. RELATED PARTY TRANSACTIONS

In addition to the transactions or balances as detailed elsewhere in the unaudited interim condensed consolidated financial statements, the Group had the following major transactions with related parties during the six-month period ended June 30, 2018:

	Notes	For the six-month period ended June 30, 2018 RMB'000 Unaudited	2017 RMB'000 Unaudited
Sales to related parties:			
Beijing RHY Technology Development Co., Ltd.	(a)	**112**	744
Total		**112**	744
Loans to related parties:			
北京智訊雲技術有限公司	(c)	**2,968**	–
常州天博投資管理中心(有限合夥)	(d)	**–**	35,000
Total		**2,968**	35,000
Interest income from related parties:			
Beijing Wuzhouzhitong Traffic Technology Co., Ltd.	(a)	**1,197**	7,464
King Victory Holdings Limited	(a)	**–**	2,111
Total		**1,197**	9,575

25. RELATED PARTY TRANSACTIONS (continued)

	Notes	June 30, 2018 RMB'000 Unaudited	December 31, 2017 RMB'000 Audited
Due from related parties:			
King Victory Holdings Limited	(a),(f)	**285,830**	285,830
Beijing Wuzhouzhitong Traffic Technology Co., Ltd.	(a),(f)	**108,823**	107,626
China Expressway Intelligent Transportation Technology Group Ltd.	(a),(f)	**60,592**	60,592
Beijing RHY Technology Development Co., Ltd.	(a),(f)	**69,880**	69,132
China Traffic Holding Ltd.	(a)	**33,979**	33,979
Intelligent Aviation System Co., Ltd.	(e)	**29,673**	29,181
Beijing Wancheng Internet Investment Co., Ltd.	(a),(f)	**20,000**	20,000
Beijing Stone Intelligent Transportation System Integration Co., Ltd.	(a)	**7,635**	7,635
Beijing Bailian Zhida Technology Development Co., Ltd.	(a)	**3,101**	3,101
Beijing Newcom Traffic Technology Co., Ltd.	(a)	**2,812**	2,812
北京智訊雲技術有限公司	(c)	**2,968**	–
GTECH-CIC	(e)	**924**	350
Beijing Aproud Transportation Technology Co., Ltd.	(a)	**–**	248
常州天博投資管理中心(有限合夥)	(d)	**–**	18,000
Total		**626,217**	638,486
Due to related parties:			
Beijing RHY Technology Development Co., Ltd.	(a)	**13,143**	13,570
Xi'an Communication Information Co., Ltd.	(b)	**1,526**	1,647
Beijing Aproud Transportation Technology Co., Ltd.	(a)	**2,910**	3,297
北京綠通暢達交通技術有限公司	(c)	**1,000**	1,000
北京智訊雲技術有限公司	(c)	**4,000**	–
常州天博投資管理中心（有限合夥）	(d)	**2,000**	–
Total		**24,579**	19,514

25. RELATED PARTY TRANSACTIONS (continued)

Notes:

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

(b) The entity is an associate of Beijing Wancheng Internet Investment Co., Ltd., which is controlled by the ultimate shareholders of the Company.

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

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

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

(f) Included in the balance, there were RMB509.7 million (unaudited) secured by 75% share of the equity interests in Beijing RHY Technology Development Co., Ltd., a related party controlled by the ultimate shareholders of the Company.

In the opinion of the directors, the transactions between the Group and the related parties were conducted in the ordinary course of business and based on prices mutually agreed between the related parties and the Group.

Compensation of key management personnel of the Group

	For the six-month period ended June 30,	
	2018	2017
	RMB'000	RMB'000
	Unaudited	Unaudited
Salaries, bonuses, allowances and benefits in kind	**1,109**	2,328
Pension plan contributions	**79**	97
Total compensation paid to key management personnel	**1,188**	2,425

26. PLEDGE OF ASSETS

Details of the Group's bank borrowings, which are secured by the assets of the Group, are included in note 22 to the unaudited interim condensed consolidated financial statements.

27. OPERATING LEASE COMMITMENTS

As lessor

The Group leases its investment properties and offices properties to certain independent third parties and a related party, with leases negotiated for terms of six months to three years. Future minimum rental receivables under non-cancellable operating leases are as follows:

	June 30, 2018 RMB'000 Unaudited	December 31, 2017 RMB'000 Audited
Within one year	**7,925**	5,368
In the second to fifth years, inclusive	**20,052**	13,569
	27,977	18,937

As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years.

As at June 30, 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	June 30, 2018 RMB'000 Unaudited	December 31, 2017 RMB'000 Audited
Within one year	**452**	1,396
In the second to fifth years, inclusive	**461**	678
	913	2,074

28. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 27 above, the Group had the following capital commitments as at June 30, 2018:

	2018 RMB'000 Unaudited	2017 RMB'000 Audited
Contracted, but not provided for:		
Consideration payable to an equity investment (note 31)	**20,000**	–
Land and buildings	**78,009**	83,090
	98,009	83,090

29. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

June 30, 2018 (Unaudited)

	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Financial assets at fair value through profit or loss — current	**20,000**	**–**	**20,000**
Financial assets at fair value through profit or loss — non-current	**96,862**	**–**	**96,862**
Trade and bills receivables	**–**	**1,145,826**	**1,145,826**
Financial assets included in prepayments, deposits and other receivables	**–**	**221,574**	**221,574**
Amounts due from related parties	**–**	**626,217**	**626,217**
Pledged deposits — current	**–**	**188,560**	**188,560**
Pledged deposits — non-current	**–**	**185,500**	**185,500**
Cash and cash equivalents	**–**	**82,399**	**82,399**
	116,862	**2,450,076**	**2,566,938**

29. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial assets (continued)

December 31, 2017 (Audited)

	Designated as financial assets at fair value through profit or loss upon initial recognition RMB'000	Loans and receivables RMB'000	Available-for-sale investments RMB'000	Total RMB'000
Available-for-sale investments	–	–	103,236	103,236
Trade and bills receivables	–	1,094,119	–	1,094,119
Financial assets included in prepayments, deposits and other receivables	–	220,364	–	220,364
Amounts due from related parties	–	638,486	–	638,486
Financial assets at fair value through profit or loss	39,903	–	–	39,903
Pledged deposits	–	283,076	–	283,076
Cash and cash equivalents	–	179,654	–	179,654
	39,903	2,415,699	103,236	2,558,838

Financial liabilities

	June 30, 2018 financial liabilities at amortised cost RMB'000 Unaudited	December 31, 2017 financial liabilities at amortised cost RMB'000 Audited
Trade and bills payables	**416,924**	391,036
Financial liabilities included in other payables and accruals	**6,345**	21,647
Interest-bearing bank borrowings — current	**499,650**	608,829
Amounts due to related parties	**24,579**	19,514
Interest-bearing bank borrowings — non-current	**305,576**	152,000
	1,253,074	1,193,026

30. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments are reasonably approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade and bills receivables, trade and bills payables, financial assets at fair value through profit or loss, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals and amounts due from/to related parties approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of pledge deposits and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at June 30, 2018 was assessed to be insignificant.

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

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value

As at June 30, 2018 (Unaudited)

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets				
Financial assets at fair value through profit or loss-current	**–**	**20,000**	**–**	**20,000**
Financial assets at fair value through profit or loss-non-current	**–**	**96,862**	**–**	**96,862**
	–	**116,862**	**–**	**116,862**

As at December 31, 2017 (Audited)

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets				
Derivative financial instruments	–	39,903	–	39,903
Available-for-sale investments	–	57,929	–	57,929
	–	97,832	–	97,832

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

Liabilities for which fair values are disclosed:

As at June 30, 2018 (Unaudited)

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank borrowings				
— current	–	499,650	–	499,650
— non-current	–	305,576	–	305,576
	–	805,226	–	805,226

As at December 31, 2017 (Audited)

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank borrowings				
— current	–	608,829	–	608,829
— non-current	–	152,000	–	152,000
	–	760,829	–	760,829

31. EVENT AFTER THE REPORTING PERIOD

On July 13, 2018, the Company entered into a share subscription agreement with China National Building Materials Technology Co., Ltd. ("CNBM"), pursuant to which the Company has agreed to subscribe for 1,333,333 shares in CNBM at a consideration of RMB20,000,000, which is 0.89% of the enlarged issued share capital of CNBM. The entity is mainly engaged in technology development, import and export of goods.

32. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on August 27, 2018.