

# ***CIC***<sup>®</sup>

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

(incorporated in the Cayman Islands with limited liability)  
Stock Code: 1900

Interim Report  
**2019**





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# FINANCIAL HIGHLIGHTS

## HIGHLIGHTS OF 2019 INTERIM RESULTS

For the six-month period ended June 30, 2019 (the “**Period**” or the “**First Half of the Year**”), results of China ITS (Holdings) Co., Ltd. (the “**Company**”) and its subsidiaries (collectively the “**Group**”) are as follows:

- The Group recorded RMB363.3 million from new contracts signed, representing a decrease of 1.3% compared to the same period last year.
- Revenue of RMB382.4 million was generated, representing a decrease of 0.1% compared to the same period last year.
- As of June 30, 2019, the Group recorded RMB928.7 million from backlog, representing a decrease of 5.1% compared to the end of the previous year.
- The Group generated gross profit of RMB82.5 million, which increased by 32.4% compared to the same period last year and recorded gross profit margin of 21.6%, representing an increase of 5.3 percentage points compared to the same period last year.
- The profit attributable to owners of the parent of the Company amounted to RMB14.0 million as compared to the loss of RMB69.7 million for the same period last year. The improvement in the Group’s financial performance for the First Half of the Year was mainly attributable to the following factors: (i) the gross profit for the Period has increased significantly as compared to the same period last year; and (ii) the Group has adopted IFRS 9 since January 1, 2018, and the loss from changes in fair value of financial assets was relatively large for the six months period ended June 30, 2018, while the loss from changes in fair value of financial assets was relatively small for the Period.

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

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

### Independent Non-executive Directors

Mr. Tim Tianwei Zhang  
Mr. Ye Zhou  
Mr. Wang Dong (*CICPA, CIMA, AAIA, CGMA*)

## 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 1, 3/F, Block A  
Ventris Place  
19-23 Ventris Road  
Happy Valley  
Hong Kong

## AUDIT COMMITTEE

Mr. Wang Dong (*CICPA, CIMA, AAIA, CGMA*) (*committee chairman*)  
Mr. Tim Tianwei Zhang  
Mr. Ye Zhou

## REMUNERATION COMMITTEE

Mr. Ye Zhou (*committee chairman*)  
Mr. Wang Dong (*CICPA, CIMA, AAIA, CGMA*)  
Mr. Tim Tianwei Zhang

## NOMINATION COMMITTEE

Mr. Tim Tianwei Zhang (*committee chairman*)  
Mr. Ye Zhou  
Mr. Wang Dong (*CICPA, CIMA, AAIA, CGMA*)

## 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

8/F., Golden Star Building  
20-24 Lockhart Road,  
Wanchai  
Hong Kong

## COMPANY WEBSITE

[www.its.cn](http://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

Mazars CPA Limited  
Certified Public Accountants  
42/F., Central Plaza  
18 Harbour Road  
Wanchai  
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  
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  
China Minsheng Bank Beijing Branch Sales Department  
Shanghai Huarui Bank Co., Ltd.  
China Construction Bank Hong Kong Branch

# MANAGEMENT DISCUSSION AND ANALYSIS

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

In the first half of 2019, the Group recorded RMB363.3 million from new contracts signed, representing a decrease of 1.3% compared to the same period last year. The Group generated revenue of RMB382.4 million, representing a decrease of 0.1% compared to the same period last year, and as of June 30, 2019, the Group recorded RMB928.7 million from backlog, representing a decrease of 5.1% compared to the end of the previous year. The Group generated gross profit of RMB82.5 million, which increased by 32.4% compared to the same period last year, and recorded gross profit margin of 21.6%, increased from 16.3% for the same period last year. The profit attributable to owners of the parent of the Company amounted to RMB14.0 million for the Period.

## BUSINESS AND FINANCIAL REVIEW

### Business Review

#### 1. Work intensively on the Group's principal businesses

The principal business of the Group is specialised solutions (“**SS**”) of which the railway communication solutions still maintain a high market share. We are one of the largest solution providers in the railway communication segment and our solutions such as railway video integration, intelligent information integration and energy-based integration are also progressing as planned.

The intelligent value-added operation and services (“**VAOS**”) business of railway communication system embodies higher added value due to its high technical threshold. As needed in the post-construction stage, this business has expanded to most nationwide railways bureaus by virtue of our platform advantages and self-developed intelligent maintenance system. The Group attaches great importance to the technical support and service quality of value-added operation and services business, as well as the control of customer satisfaction. In the future, we endeavor to provide reliable and comprehensive techniques and operation and maintenance services for railway customers by diversifying services. In the first half of 2019, the revenue of value-added operation and services business experienced a greater growth compared to the same period last year.

#### 2. Optimize industrial structure and develop overseas markets

In the First Half of the Year, the Group has made solid progress in expanding overseas markets through the acquisition of 58% equity interests in CEECGLOBAL LIMITED which engages in investment and construction, upgrading, operation and provision of services in respect of infrastructures in electric power and communication industry to overseas customers in Southeast Asia markets. This acquisition has provided the Group with a new opportunity to explore the infrastructure market in the Southeast Asia, and to improve and optimize the industrial structure of the Company.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS AND FINANCIAL REVIEW (continued)

### Financial Review

#### Revenue

For the First Half of the Year, the Group generated revenue and gross profit as follows:

	Six-month period ended June 30,	
	2019 RMB'000	2018 RMB'000
<b>Revenue by business model</b>		
SS	338,288	365,832
VAOS	44,118	17,010
Elimination	—	—
Total	382,406	382,842

(i) SS

For the First Half of the Year, revenue of RMB338.3 million was recognised from the SS business, representing a decrease of RMB27.5 million compared to the same period last year. The business recorded RMB326.2 million from new contracts signed, representing a decrease of RMB12.0 million compared to the same period last year and the amount of backlog as of the end of the Period was RMB846.4 million, representing a decrease of RMB48.5 million compared to the end of the previous year.

(ii) VAOS

Revenue recognised from the VAOS business for the First Half of the Year was RMB44.1 million, representing an increase of RMB27.1 million compared to the same period last year. The business recorded RMB37.1 million from new contracts signed, representing an increase of RMB7.1 million compared to the same period last year and the amount of backlog as of the end of the Period was RMB82.3 million, representing a decrease of RMB0.9 million compared to the end of the previous year.

The increase in the revenue is mainly attributable to the following factors: (1) in the First Half of the Year, the revenue from the VAOS of the railway business grew rapidly, increasing by RMB22.5 million compared to the same period last year; (2) in the First Half of the Year, the Group acquired CEECGLOBAL LIMITED, and this company recorded revenue of RMB4.6 million from the VAOS business for the Period.



# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS AND FINANCIAL REVIEW (continued)

### Financial Review (continued)

#### Gross Profit

The Group generated gross profit of RMB82.5 million in the First Half of the Year, representing an increase of RMB20.2 million compared to the same period last year. Gross profit margin increased from 16.3% for the same period last year to 21.6%.

	Six-month period ended June 30,	
	2019 RMB'000	2018 RMB'000
<b>Gross profit by business model</b>		
SS	<b>61,546</b>	58,506
Margin %	<b>18.2%</b>	16.0%
VAOS	<b>20,912</b>	3,772
Margin %	<b>47.4%</b>	22.2%
Elimination	–	–
Total	<b>82,458</b>	62,278
Margin	<b>21.6%</b>	16.3%

(i) SS

For the First Half of the Year, gross profit of RMB61.5 million was recognized from the SS business, representing an increase of RMB3.0 million compared to the same period last year. The gross profit margin was 18.2%, representing an increase of 2.2 percentage points compared to the same period last year.

(ii) VAOS

Gross profit recognized from the VAOS business for the First Half of the Year was RMB20.9 million, representing an increase of RMB17.1 million compared to the same period last year.

For the First Half of the Year, the gross profit margin of VAOS was 47.4%, representing an increase of 25.2 percentage points compared to the same period last year. This was mainly attributable to the following factors: (1) in the First Half of the Year, the gross profit margin from the VAOS of the railway business was higher; (2) the Group acquired CECEGLOBAL LIMITED by the Group in the First Half of the Year and this company recorded a relatively high gross profit margin from the VAOS business for the Period.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS AND FINANCIAL REVIEW (continued)

### Financial Review (continued)

#### Other Income and Gains

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

#### Selling, Distribution and Administration Expense (Impairment losses Included)

For the First Half of the Year, selling, distribution and administration expense was approximately RMB63.5 million, representing a decrease of RMB18.9 million as compared to the same period last year.

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

For the First Half of the Year, selling, distribution and administration expense which was related to daily operational activities was RMB70.1 million as compared to RMB70.8 million for the same period last year. The expenses remained flat with those for the same period last year.

(ii) *Impairment losses*

For the First Half of the Year, due to the better receivables collection of the Group, based on IFRS 9 — Financial Instruments which included the bad debts provisions for trade receivables and contract assets were measured based on expected credit loss (ECL) model, the reversal from impairment losses for the Period were RMB6.6 million, whereas the impairment losses of RMB11.6 million were recognized for the same period last year.

#### 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 finance cost minus finance revenue. For the First Half of the Year, this net financial expense was RMB3.4 million, which represented a decrease of RMB11.9 million as compared to the same period last year. The decrease was because the Group sold some of its subsidiaries in 2016 whose considerations were paid by instalments and in the First Half of the Year, their buyers needed to pay interest of approximately RMB12.4 million to the Group. Therefore, the interest income increased, leading to a decrease in the net financial expense for the First Half of the Year.

#### Share of Profit of Joint Venture/Associates

For the First Half of the Year, share of profit of investment entities was approximately RMB2.0 million, as compared to the profit of RMB0.3 million for the same period last year.

#### Profit or Loss through Fair Value Changes

For the First Half of the Year, the Group's equity investments in Forever Opensource (stock code: 834415), CNBM Technology (stock code: 834082), Shenzhen Hopeland led to a loss of RMB4.7 million through fair value changes, as compared to the loss of RMB42.1 million for the same period last year.

#### Income Tax Expenses

The total income tax expenses for the First Half of the Year were RMB4.0 million, which were negative RMB4.0 million for the same period last year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS AND FINANCIAL REVIEW (continued)

### Financial Review (continued)

#### Profit for the Period

For the First Half of the Year, the profit attributable to owners of the parent of the Company amounted to RMB14.0 million as compared to the loss of RMB69.7 million for the same period last year. The improvement in the Group's financial performance for the First Half of the Year was mainly attributable to the following factors: (i) the gross profit for the Period has increased significantly as compared to the same period last year; and (ii) the Group has adopted IFRS 9 since January 1, 2018, and the loss from changes in fair value of financial assets was relatively large for the six months period ended June 30, 2018, while the loss from changes in fair value of financial assets was relatively small for the Period.

#### Inventory Turnover Days

The inventories of the Group mainly comprised of raw materials, work-in-progress, finished goods and general merchandise for railway Specialized Solutions. For the First Half of the Year, the inventory turnover days was 31 days (the same period last year: 5 days).

#### Trade Receivables Turnover Days

For the First Half of the Year, the trade receivables turnover days was 389 days (the same period last year: 407 days).

#### Contract Assets/Contract Liabilities Turnover Days

For the First Half of the Year, the contract assets/contract liabilities turnover days was 43 days (the same period last year: 30 days).

#### Trade Payables Turnover Days

For the First Half of the Year, the trade payables turnover days was 192 days (the same period last year: 177 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 of June 30, 2019, the Group's current ratio (current assets divided by current liabilities) was 1.9, same as the previous year (as of December 31, 2018: 1.9). The Group's financial position remains healthy.

As of June 30, 2019, the Group was in a net negative cash position<sup>(1)</sup> of RMB286.8 million (as at the previous year end: negative RMB269.2 million), representing a decrease of RMB17.6 million from the previous year. As at the Period End, the Group's gearing ratio was -5.9 %, increased by 11.5% from -17.4% as at the end of the previous year.

#### Contingent Liabilities

As at June 30, 2019, the Group had no material contingent liability.

#### Charges on Group Assets

As at June 30, 2019, except for the pledged deposits of approximately RMB313.0 million (as at December 31, 2018: RMB368.7 million), the Group pledged a building with a net carrying amount of approximately RMB210.7 million and equity in a subsidiary (as at the end of the previous year, the Group pledged a building with a net carrying amount of approximately RMB212.9 million and equity in a subsidiary 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 the Period End, the Group had no other assets charged to financial institution.

(1) Net cash included: cash and cash equivalents, interest-bearing bank borrowings, pledged deposits.

# MANAGEMENT DISCUSSION AND ANALYSIS

## MATERIAL ACQUISITIONS OF SUBSIDIARIES AND ASSOCIATED COMPANY

On May 13, 2019, China ITS (Holdings) Co., Ltd., (the “**Purchaser**”) a wholly-owned subsidiary of the Company, entered into the Share Purchase Agreement with Goal High Global Limited, Totland International Limited, Mr. Hu, CEECGLOBAL LIMITED (the “**Target Company**”), pursuant which the Purchaser has conditionally agreed to purchase 58% of the equity interest of the Target Company at the consideration of RMB85.84 million (the “**Transaction**”). All the conditions of the Transaction have been satisfied and the transaction had completed.

As one of the applicable percentage ratios with respect to the Transaction was more than 5% but all of the applicable percentage ratios were less than 25%, the Transaction constituted a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules. Please refer to the announcement of the Company dated May 13, 2019 for further details.

## DELAY IN SETTLEMENT OF THE OUTSTANDING AMOUNTS

Reference is made to the announcements of Company dated April 9, 2018, May 3, 2018, July 2, 2018 and July 1, 2019 (the “**Announcements**”) and the circular of the Company dated September 6, 2018 (the “**Circular**”) in connection with the very substantial disposal and connected transaction (the “**VSD**”) of the Company as disclosed in the Announcements and the Circular.

The consideration for the VSD and other amounts in connection with the VSD payable (the “**Outstanding Amounts**”) by the purchaser, its owners and other associates (together, the “**Purchaser Group**”) to the Group and the interest accrued thereon have not been fully settled by the Purchaser Group. As disclosed in the Announcements and the Circular, the outstanding portion of the Outstanding Amount and the interest accrued thereon was due on June 30, 2019 and totaled approximately RMB340.8 million (consisting of the principal amount of approximately RMB316.1 million and accrued interest amount of approximately RMB24.7 million) as at June 30, 2019.

The Company is in the process of negotiating with the Purchaser Group to further vary the payment terms of the Outstanding Amounts.

# 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, 2019.

## INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six-month period ended June 30, 2019.

## 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, 2019 together with the management of the Company and its external auditor, Mazars CPA Limited.

In addition, Mazars CPA Limited, has performed an independent review of the unaudited condensed consolidated interim financial information for the six-month period ended June 30, 2019 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, 2019, 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 <sup>(4)</sup>	Approximate percentage of shareholdings as at June 30, 2019 <sup>(3)</sup>
Mr. Liao Jie <sup>(1)</sup>	Beneficial owner/Interest of a controlled corporation	146,494,077 (L)	8.86% (L)
Mr. Jiang Hailin <sup>(2)</sup>	Beneficial owner/Beneficiary of the Fino Trust	647,768,625 (L)	39.16% (L)

# DIRECTORS' REPORT

## 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 105,758,203 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 645,912,777 Shares in which Fino Trust is deemed to be interested.
- (3) (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, 2019, 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.

## 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**").

### I. 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 was conditionally granted by China ITS Co., Ltd. under the Pre-IPO Share Incentive Scheme.

All of the options under the Pre-IPO Share Incentive Scheme were expired by June 30, 2018.

# DIRECTORS' REPORT

## 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 (the "**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.

# DIRECTORS' REPORT

## 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, 2019 is as follows:

Grantee	Grant date <sup>(1)</sup>	Vesting start date	Expiry date	Outstanding as at January 1, 2019	Exercised during the six-month period ended June 30, 2019	Lapsed or cancelled during the six-month period ended June 30, 2019	Outstanding as at June 30, 2019	Exercise price per share (HK\$)
Mr. Jiang Hailin (Executive Director, Chief Executive Officer)	18/01/2012	19/04/2012	Note (2)	77,203	–	–	77,203	1.05
	18/01/2012	19/07/2012	Note (2)	77,203	–	–	77,203	1.05
	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 <sup>(2)</sup> (Executive Director, Chairman)	18/01/2012	19/04/2012	Note (2)	1,694,612	–	–	1,694,612	1.05
	18/01/2012	19/07/2012	Note (2)	1,694,612	–	–	1,694,612	1.05
	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 (Independent Non-Executive Director) (resigned on April 1, 2019)	18/01/2012	19/04/2012	Note (2)	8,232	–	–	8,232	1.05
	18/01/2012	19/07/2012	Note (2)	8,232	–	–	8,232	1.05
	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	



# DIRECTORS' REPORT

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

### 2. Share Option Scheme (continued)

Grantee	Grant date <sup>(1)</sup>	Vesting start date	Expiry date	Outstanding as at January 1, 2019	Exercised during the six-month period ended June 30, 2019	Lapsed or cancelled during the six-month period ended June 30, 2019	Outstanding as at June 30, 2019	Exercise price per share (HK\$)	
Others	18/01/2012	19/04/2012	Note (2)	1,600,561	–	–	1,600,561	1.05	
	18/01/2012	19/07/2012	Note (2)	1,600,561	–	–	1,600,561	1.05	
	18/01/2012	19/10/2012	Note (2)	1,600,561	–	–	1,600,561	1.05	
	18/01/2012	19/01/2013	Note (2)	1,600,561	–	–	1,600,561	1.05	
	18/01/2012	19/04/2013	Note (2)	2,459,580	–	–	2,459,580	1.05	
	18/01/2012	19/07/2013	Note (2)	2,459,580	–	–	2,459,580	1.05	
	18/01/2012	19/10/2013	Note (2)	2,459,580	–	–	2,459,580	1.05	
	18/01/2012	19/01/2014	Note (2)	2,459,580	–	–	2,459,580	1.05	
	18/01/2012	19/04/2014	Note (2)	3,318,590	–	–	3,318,590	1.05	
	18/01/2012	19/07/2014	Note (2)	3,318,590	–	–	3,318,590	1.05	
	18/01/2012	19/10/2014	Note (2)	3,318,590	–	–	3,318,590	1.05	
	18/01/2012	19/01/2015	Note (2)	3,330,202	–	–	3,330,202	1.05	
	Sub-total				29,526,536	–	–	29,526,536	
	<b>TOTAL:</b>				<b>72,217,082</b>	<b>–</b>	<b>–</b>	<b>72,217,082</b>	

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.

# DIRECTORS' REPORT

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

As at the June 30, 2019, 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 <sup>(1)</sup>	Beneficiary owner	Long position	645,912,777	39.05%
Best Partners <sup>(2)</sup>	Interest of controlled corporation	Long position	645,912,777	39.05%
Fino Investments <sup>(3)</sup>	Interest of controlled corporation	Long position	645,912,777	39.05%
Tesco Investments <sup>(4)</sup>	Interest of controlled corporation	Long position	645,912,777	39.05%
Credit Suisse Trust Limited <sup>(3)(4)</sup>	Trustee	Long position	645,912,777	39.05%
Central Huijin Investment Ltd.	Security interest	Long position	215,000,000	12.99%
China Construction Bank Corporation	Security interest	Long position	215,000,000	12.99%
Joyful Business Holdings Limited <sup>(5)</sup>	Beneficial owner	Long position	105,758,203	6.39%
Penbay Investments Limited <sup>(6)</sup>	Beneficial owner	Long position	98,613,367	5.96%
Chen Qi	Interest of controlled corporation	Long position	98,613,367	5.96%

# DIRECTORS' REPORT

## 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, Rockyjng Investment Limited, Key Trade Holdings Limited, Best Partners Development Limited, Joyful Business Holdings Limited, Mr. Liao Jie, Mr. Liao Daoxun, Ms. Wu Yurui, Mr. Jiang Hailin, Mr. Wang Jing, Mr. Liang Shiping, Ms. Wu Chunhong, Mr. Zhao Lisen, 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, 2019, Holdco is entitled to exercise or control the exercise of the voting rights of a total of 645,912,777 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) Joyful Business Holdings Limited is wholly-owned by Mr. Liao Jie. Mr. Liao Jie is the sole director of Joyful Business.
- (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, 2019, 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, 2019, the Group had 313 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, 2019, 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, 2019.

## 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, 2019.

## 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. Wang Dong, Mr. Tim Tianwei Zhang and Mr. Ye Zhou. The audit committee is chaired by Mr. Wang Dong.

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, 2019 together with the management of the Company and its external auditor, Mazars CPA Limited.

# DIRECTORS' REPORT

## 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. Tim Tianwei Zhang. 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. Tim Tianwei Zhang, Mr. Ye Zhou and Mr. Wang Dong. The nomination committee is chaired by Mr. Tim Tianwei Zhang.

## 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, 2019 are set out below:

Mr. Choi Onward resigned as an independent non-executive Director, the chairman of the audit committee, a member of the Remuneration committee and the nomination committee of the Board with effect from April 1, 2019. Mr. Tim Tianwei Zhang, who was a non-executive Director, has been re-designated as an independent non-executive Director in place of Mr. Choi with effect from April 1, 2019.

Following the resignation of Mr. Choi, (i) Mr. Wang Dong, who is the chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee, has been re-designated as the chairman of the Audit Committee and a member of the Nomination Committee with effect from April 1, 2019; and (ii) Mr. Tim Tianwei Zhang has been appointed as the chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee with effect from April 1, 2019.

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, 2019 that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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

Beijing, August 27, 2019

# REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



## 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 21 to 50, which comprises the interim condensed consolidated statement of financial position as at June 30, 2019 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 condensed consolidated 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.

#### **Mazars CPA Limited**

*Certified Public Accountants*

42/F., Central Plaza

18 Harbour Road

Wanchai, Hong Kong

August 27, 2019

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six-month period ended June 30, 2019

	Notes	For the six-month period ended June 30,	
		2019 RMB'000 Unaudited	2018 RMB'000 Unaudited
<b>REVENUE</b>	4	<b>382,406</b>	382,842
Cost of revenue	6	<b>(299,948)</b>	(320,564)
Gross profit		<b>82,458</b>	62,278
Other income and gains	5	<b>25,753</b>	10,865
Selling and distribution expenses		<b>(18,348)</b>	(16,032)
Administrative expenses		<b>(45,180)</b>	(66,335)
Other expenses		<b>(4,868)</b>	(44,007)
Finance costs		<b>(21,974)</b>	(20,804)
Share of profits and losses of:			
Joint ventures		<b>2,621</b>	753
Associates		<b>(634)</b>	(448)
<b>PROFIT/(LOSS) BEFORE TAX</b>	6	<b>19,828</b>	(73,730)
Income tax (expense)/credit	7	<b>(3,961)</b>	3,991
<b>PROFIT/(LOSS) FOR THE PERIOD</b>		<b>15,867</b>	(69,739)
Attributable to:			
Owners of the Company		<b>13,951</b>	(69,739)
Non-controlling interests		<b>1,916</b>	–
		<b>15,867</b>	(69,739)
<b>EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>			
		<b>RMB Unaudited</b>	RMB Unaudited
Basic	8	<b>0.01</b>	(0.04)
Diluted	8	<b>0.01</b>	(0.04)

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six-month period ended June 30, 2019

	For the six-month period ended June 30,	
	2019 RMB'000 Unaudited	2018 RMB'000 Unaudited
<b>PROFIT/(LOSS) FOR THE PERIOD</b>	<b>15,867</b>	(69,739)
<b>OTHER COMPREHENSIVE LOSS</b>		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<b>(9,705)</b>	(1,921)
<b>OTHER COMPREHENSIVE LOSS FOR THE PERIOD</b>	<b>(9,705)</b>	(1,921)
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD</b>	<b>6,162</b>	(71,660)
Attributable to:		
Owners of the Company	<b>4,243</b>	(71,660)
Non-controlling interests	<b>1,919</b>	–
	<b>6,162</b>	(71,660)



# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2019

	Notes	June 30, 2019 RMB'000 Unaudited	December 31, 2018 RMB'000 Audited
<b>NON-CURRENT ASSETS</b>			
Property and equipment	10	258,274	262,359
Investment properties		78,200	78,200
Goodwill	11	350,839	274,027
Other intangible assets		2,478	1,983
Investments in joint ventures		49,295	48,305
Investments in associates		4,067	3,071
Financial assets at fair value through profit or loss		103,581	117,755
Deferred tax assets		17,514	17,514
Loan receivables	14	30,000	33,000
Pledged deposits	16	125,082	134,290
Total non-current assets		1,019,330	970,504
<b>CURRENT ASSETS</b>			
Inventories	12	177,465	59,798
Contract assets	15	657,434	696,704
Trade and bills receivables	13	821,142	975,011
Prepayments, deposits and other receivables	14	484,117	343,442
Financial assets at fair value through profit or loss		–	20,000
Amounts due from related parties	23	408,971	650,811
Pledged deposits	16	187,928	234,428
Cash and cash equivalents	16	143,833	146,436
		2,880,890	3,126,630
Assets held for sale		–	8,500
Total current assets		2,880,890	3,135,130

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2019

	Notes	June 30, 2019 RMB'000 Unaudited	December 31, 2018 RMB'000 Audited
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	17	360,687	651,863
Other payables and accruals	18	701,169	556,725
Interest-bearing bank borrowings	19	467,031	363,509
Amounts due to related parties	23	1,831	27,956
Income tax payable		26,404	29,512
Total current liabilities		1,557,122	1,629,565
<b>NET CURRENT ASSETS</b>			
		1,323,768	1,505,565
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		2,343,098	2,476,069
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings	19	276,620	420,843
Deferred tax liabilities		23,086	24,537
Total non-current liabilities		299,706	445,380
Net assets		2,043,392	2,030,689
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	20	290	290
Reserves		2,034,642	2,030,399
		2,034,932	2,030,689
<b>Non-controlling interests</b>			
		8,460	–
Total equity		2,043,392	2,030,689

**Liao Jie**  
Director

**Jiang Hailin**  
Director

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended June 30, 2019

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Capital reserve RMB'000	Asset revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
<b>At January 1, 2018</b>	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)	-
<b>At June 30, 2018 (unaudited)</b>	290	1,088,725	166,229	599,593	7,782	(80,206)	304,064	2,086,477

	Attributable to owners of the Company									Non-controlling interests RMB'000	Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Capital reserve RMB'000	Asset revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000			
<b>At January 1, 2019</b>	290	1,088,725*	167,404*	598,627*	7,782*	(89,455)*	257,316*	2,030,689	-	2,030,689	
Profit for the period	-	-	-	-	-	-	13,951	13,951	1,916	15,867	
Other comprehensive loss for the period:											
Exchange differences on translation of foreign operations	-	-	-	-	-	(9,708)	-	(9,708)	3	(9,705)	
Total comprehensive income/(loss) for the period	-	-	-	-	-	(9,708)	13,951	4,243	1,919	6,162	
Non-controlling interests arising from business combination	-	-	-	-	-	-	-	-	6,541	6,541	
<b>At June 30, 2019 (unaudited)</b>	290	1,088,725*	167,404*	598,627*	7,782*	(99,163)*	271,267*	2,034,932	8,460	2,043,392	

\* These reserve accounts comprise the reserves of RMB2,034,642,000 in the unaudited interim condensed consolidated statement of financial position as at June 30, 2019 (December 31, 2018: RMB2,030,399,000).

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month period ended June 30, 2019

	Notes	For the six-month period ended June 30,	
		2019 RMB'000 Unaudited	2018 RMB'000 Unaudited
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit/(loss) before tax		19,828	(73,730)
Adjustments for:			
Depreciation and amortisation		6,181	5,311
Net loss on disposal of property and equipment		–	6
Impairment of other receivables		–	300
(Reversal of impairment)/impairment of trade receivables		(6,403)	7,997
Impairment of assets held for sale		–	2,476
(Reversal of impairment)/impairment of contracts assets		(209)	837
Share of profits and losses of joint ventures and associates		(1,986)	(305)
Loss on financial assets at fair value through profit or loss		4,730	42,101
Fair value gain on investment property transferred from inventory		–	(1,244)
Finance income		(18,555)	(5,544)
Finance costs		21,974	20,804
		25,560	(991)
Changes in assets and liabilities:			
Increase in inventories		(117,666)	–
Decrease in contracts assets/liabilities		76,672	145,305
Decrease/(Increase) in trade and bills receivables		153,869	(86,711)
Decrease/(Increase) in prepayments, deposits and other receivables		183,957	(90,400)
Decrease in amounts due from related parties		26,125	12,269
Decrease/(Increase) in pledged deposits		55,708	(24,484)
(Decrease)/Increase in trade and bills payables		(291,176)	25,888
Increase/(Decrease) in other payables and accruals		144,443	(13,326)
(Decrease)/Increase in amounts due to related parties		(26,125)	5,065
Cash generated from/(used in) operations		231,367	(27,385)
Interest paid		(15,252)	(19,956)
Interest received		1,991	2,428
Income tax paid		(13,149)	(21,427)

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month period ended June 30, 2019

	Notes	For the six-month period ended June 30,	
		2019 RMB'000 Unaudited	2018 RMB'000 Unaudited
Net cash flows generated from/(used in) operating activities		204,957	(66,340)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property and equipment		(522)	(6,891)
Additions to other intangible assets		(532)	–
Acquisition of a subsidiary	22	(44,151)	–
Net cash flows used in investing activities		(45,205)	(6,891)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from interest-bearing bank borrowings		47,269	316,185
Repayment of interest-bearing bank borrowings		(87,970)	(271,788)
Increase in pledged deposits for bank loans		(55,708)	(66,500)
Net cash flows used in financing activities		(96,409)	(22,103)
Net decrease in cash and cash equivalents		63,343	(95,334)
Effect of foreign exchange rate changes, net		(1,909)	(1,921)
Cash and cash equivalents at beginning of period		82,399	179,654
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	16	<b>143,833</b>	82,399

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2019

## I. CORPORATE AND GROUP INFORMATION

China ITS (Holdings) Co., Ltd. (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 8/F., Golden Star Building, 20–24 Lockhart 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 Company and its subsidiaries (the “**Group**”) is a provider of transportation infrastructure technology solutions and services, mainly in the PRC and Myanmar. During the six-month period ended June 30, 2019, 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.

## 2. BASIS OF PRESENTATION AND CHANGES IN ACCOUNTING POLICIES

### Basis of presentation

The unaudited interim condensed consolidated financial statements of the Group for the six-month period ended June 30, 2019 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 of Hong Kong Limited.

The unaudited interim condensed consolidated financial statements of the Group 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 for the year ended December 31, 2018. 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/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 used in the preparation of the Group’s annual consolidated financial statements for the year ended December 31, 2018, except for the adoption of following new/revised IFRSs that are effective for the Group’s financial year beginning on January 1, 2019.

Annual Improvements to IFRSs	2015–2017 Cycle
IFRS 16	Leases
IFRIC 23	Uncertainty over income tax treatments
Amendments to IAS 19	Employee benefits
Amendments to IAS 28	Investments in Associates and Joint Ventures
Amendments to IFRS 9	Prepayment Features with Negative Compensation

Except for IFRS 16 which is explained below, the adoption of the new/revised IFRSs did not result in substantial changes to the Group’s accounting policies and amounts reported for the six-month period ended June 30, 2019 and prior years.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2019

## 2. BASIS OF PRESENTATION AND CHANGES IN ACCOUNTING POLICIES (continued)

### IFRS 16 “Leases”

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation (and, if applicable, impairment loss) of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the condensed consolidated statement of cash flows applying IAS 7.

IFRS 16 substantially carries forward the lessor accounting requirements of the superseded IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group has reviewed the impact of IFRS 16 on all its contracts that are, or that contain, leases with effect from January 1, 2019. The Group has opted for the modified retrospective application permitted by IFRS 16. Accordingly, IFRS 16 has been applied from January 1, 2019 (i.e. the initial application period) onwards. Modified retrospective application requires the recognition of the cumulative impact of adoption of IFRS 16 on all contracts at January 1, 2019 in equity.

Modified retrospective application of IFRS 16 requires the Group to recognise a lease liability at the date of initial application for leases previously classified as an operating lease under the superseded IAS 17, measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. As a practical expedient under IFRS 16, the Group has not reassessed whether a contract is, or contains, a lease at the date of initial application. Instead, the Group applied IFRS 16 to contracts that were previously identified as leases applying IAS 17 and did not apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17.

Based on the practical expedients under IFRS 16, the Group has elected not to apply the requirements of IFRS 16 in respect of recognition of lease liability and right-of-use asset to leases for which the lease term ends within twelve months of the date of initial application.

The Group has reviewed all of its leases which the lease term ends after twelve months of the date of initial application and assessed that the overall impact of those leases to the Group is insignificant. Therefore, no lease liability or right-of-use asset has been recognised in the unaudited interim condensed 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: 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
- (ii) 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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2019

## 3. OPERATING SEGMENT INFORMATION (continued)

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 except that finance income, finance costs, exchange differences, changes in fair value of financial assets at fair value through profit or loss as well as head office and corporate income and 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.

Six-month period ended June 30, 2019 (Unaudited)	Specialised solutions RMB'000	Value-added operation and services RMB'000	Total RMB'000
<b>Segment revenue</b>			
Sales to external customers	338,288	44,118	382,406
<b>Segment results</b>	22,307	20,911	43,218
<i>Reconciliation:</i>			
Finance income			18,555
Finance costs			(21,974)
Foreign exchange losses			(121)
Loss on financial assets at fair value through profit or loss			(4,730)
Corporate and other unallocated expenses			(15,120)
Profit before tax			19,828
<b>Other segment information:</b>			
Share of profits of joint ventures	2,621	–	2,621
Share of losses of associates	(634)	–	(634)
Impairment losses	(6,129)	(483)	(6,612)
Depreciation and amortisation	4,574	1,607	6,181
Capital expenditure*	1,006	474	1,480

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



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2019

## 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
<b>Segment revenue</b>			
Sales to external customers	365,832	17,010	382,842
<b>Segment results</b>			
<i>Reconciliation:</i>	(437)	(1,230)	(1,667)
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)
<b>Other segment information:</b>			
Share of profits of joint ventures	(753)	–	(753)
Share of losses of associates	448	–	448
Reversal of impairment losses	10,945	365	11,310
Depreciation and amortisation	402	142	544
Capital expenditure*	605	31	636

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2019

## 3. OPERATING SEGMENT INFORMATION (continued)

### Geographical information

#### (a) Revenue from external customers

	For the six-month period ended June 30,	
	2019 RMB'000 Unaudited	2018 RMB'000 Unaudited
Overseas	30,068	20,306
Mainland China	352,338	362,536
	<b>382,406</b>	382,842

#### (b) Non-current assets

The non-current assets of the Group, excluding deferred tax assets and financial instruments, are located in Mainland China.

### Information about major customers

No individual customer of the Group contributed 10% or more of the Group's revenue during the six-month periods ended June 30, 2019 and 2018.

## 4. REVENUE

An analysis of revenue is as follows:

	For the six-month period ended June 30,	
	2019 RMB'000 Unaudited	2018 RMB'000 Unaudited
Revenue from contracts with customers within IFRS 15	<b>382,406</b>	382,842

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2019

## 4. REVENUE (continued)

### (i) Disaggregated revenue information

For the six-month period ended June 30, 2019

Segments	Specialised solutions RMB'000	Value-added operation and services RMB'000	Total RMB'000
<b>Type of goods or services</b>			
System integration solution services	275,356	–	275,356
Sale of products	62,932	–	62,932
Maintenance services	–	44,118	44,118
Revenue from contracts with customers	338,288	44,118	382,406
<b>Geographical markets</b>			
Mainland China			352,338
Others			30,068
Revenue from contracts with customers			382,406
<b>Timing of revenue recognition</b>			
Goods transferred at a point in time	62,932	–	62,932
Services transferred over time	275,356	44,118	319,474
Revenue from contracts with customers	338,288	44,118	382,406

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2019

## 4. REVENUE (continued)

### (i) Disaggregated revenue information (continued)

For the six-month period ended June 30, 2018

Segments	Specialised solutions RMB'000	Value-added operation and services RMB'000	Total RMB'000
<b>Type of goods or services</b>			
System integration solution services	330,205	–	330,205
Sale of products	35,627	–	35,627
Maintenance services	–	17,010	17,010
Revenue from contracts with customers	365,832	17,010	382,842
<b>Geographical markets</b>			
Mainland China			362,536
Others			20,306
Revenue from contracts with customers			382,842
<b>Timing of revenue recognition</b>			
Goods transferred at a point in time	35,627	–	35,627
Services transferred over time	330,205	17,010	347,215
Revenue from contracts with customers	365,832	17,010	382,842

## 5. OTHER INCOME AND GAINS

	For the six-month period ended June 30,	
	2019 RMB'000 Unaudited	2018 RMB'000 Unaudited
Finance income	18,555	5,544
Gross rental income	6,331	2,551
Fair value gain on investment property transferred from inventory	–	1,244
Government grants*	–	1,500
Others	867	26
	25,753	10,865

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2019

## 6. PROFIT/(LOSS) BEFORE TAX

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

	For the six-month period ended June 30,	
	2019 RMB'000 Unaudited	2018 RMB'000 Unaudited
Cost of system integration solutions	221,464	276,036
Cost of sale of products	55,278	31,294
Cost of maintenance services	23,206	13,234
	<b>299,948</b>	320,564
Depreciation of property and equipment	6,144	3,656
Amortisation of intangible assets	37	1,655
	<b>6,181</b>	5,311
Short term lease payments	2,111	–
Minimum lease payments under operating leases	–	3,868
Auditors' remuneration	2,619	1,455
Wages and salaries	24,368	20,003
Pension scheme contributions (defined contribution scheme)	3,305	3,073
Social insurance costs and staff welfare	4,182	6,156
	<b>31,855</b>	29,232
(Reversal of impairment)/impairment of trade receivables (note 13)	(6,403)	7,997
(Reversal of impairment)/impairment of contract assets (note 15)	(209)	837
Impairment of assets held for sale	–	2,476
Impairment of prepayments, deposits and other receivables (note 14)	–	300
Loss on financial assets at fair value through profit or loss	4,730	42,101
Loss on disposal of property and equipment	–	6
Rental income on investment properties	(6,331)	(2,551)
Foreign exchange losses, net	121	495

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2019

## 7. 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.

PRC subsidiaries of the Group are subject to PRC Enterprise Income Tax at a rate 25% (June 30, 2018: 25%) on their respective taxable income, except for those subsidiaries which are qualified as High and New Technology Enterprises and are entitled to 15% (June 30, 2018: 15%) preferential income tax rate.

No provision for Hong Kong profits tax has been made for the six-month period ended June 30, 2019 (June 30, 2018: nil), as the Group had no assessable profits arising in Hong Kong for each of the periods.

No provision for corporate income tax for the subsidiaries of the Group in Myanmar and Indonesia has been made for the six-month period ended June 30, 2019 (June 30, 2018: nil), as the Group's subsidiaries in Myanmar and Indonesia had no assessable profits arising in Myanmar and Indonesia 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. As at June 30, 2019, 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 (2018: 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 Group is subject to withholding tax in Myanmar at the rate of 2.5% on the service income charged to the companies in Myanmar by non-Myanmar subsidiaries.

The major components of income tax expense/(credit) are as follows:

	<b>For the six-month period ended June 30,</b>	
	<b>2019 RMB'000 Unaudited</b>	<b>2018 RMB'000 Unaudited</b>
Current income tax:		
PRC Enterprise Income Tax	<b>5,296</b>	7,130
Others	<b>115</b>	–
Deferred income tax:		
Relating to origination and reversal of temporary differences	<b>(1,450)</b>	(11,121)
Income tax expense/(credit)	<b>3,961</b>	(3,991)

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2019

## 8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) for the period attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the six-month periods ended June 30, 2019 and 2018.

The calculation of the diluted earnings/(loss) per share is based on the profit/(loss) for the period attributable to owners of the Company, and the weighted average number of ordinary shares in issue during the six-month periods ended June 30, 2019 and 2018, 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.

Diluted earnings/(loss) per share is the same as basic earnings/(loss) per share for the six-month periods ended June 30, 2019 and 2018 as the share options have an anti-dilutive effect.

	For the six-month period ended June 30,	
	2019 RMB'000 Unaudited	2018 RMB'000 Unaudited
<b>Earnings/(loss)</b>		
Profit/(loss) attributable to owners of the Company, used in the basic earnings/(loss) per share calculation	13,951	(69,739)

	For the six-month period ended June 30,	
	2019 Unaudited	2018 Unaudited
<b>Shares</b>		
Weighted average number of shares in issue, used in the basic earnings/(loss) per share calculation	1,654,024,868	1,654,024,868

## 9. DIVIDENDS PROPOSED

No dividend was declared or proposed by the Company for the six-month period ended June 30, 2019 (June 30, 2018: nil).

## 10. PROPERTY AND EQUIPMENT

During the six-month period ended June 30, 2019, the Group purchased equipment with a cost of RMB522,000 (June 30, 2018: RMB6,891,000).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2019

## 11. GOODWILL

	June 30, 2019 RMB'000 Unaudited	December 31, 2018 RMB'000 Audited
At beginning of period/year	274,027	274,027
Addition (note 22)	76,812	–
At end of period/year	350,839	274,027

## 12. INVENTORIES

	June 30, 2019 RMB'000 Unaudited	December 31, 2018 RMB'000 Audited
Raw materials	117,667	–
Properties	59,798	59,798
	177,465	59,798

## 13. TRADE AND BILLS RECEIVABLES

	June 30, 2019 RMB'000 Unaudited	December 31, 2018 RMB'000 Audited
Trade receivables	782,459	920,309
Impairment	(69,530)	(75,437)
	712,929	844,872
Bills receivable	108,213	130,139
	821,142	975,011

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



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2019

## 13. TRADE AND BILLS RECEIVABLES (continued)

In view of the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its balances of trade receivables.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	June 30, 2019 RMB'000 Unaudited	December 31, 2018 RMB'000 Audited
Less than 6 months	243,761	461,207
6 months to 1 year	236,048	113,224
1 year to 2 years	111,014	138,766
2 years to 3 years	73,448	75,312
Over 3 years	48,658	56,363
	<b>712,929</b>	844,872

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

	June 30, 2019 RMB'000 Unaudited	December 31, 2018 RMB'000 Audited
At beginning of period/year	75,437	35,189
(Reversal of impairment loss)/impairment loss	(6,403)	46,158
Amount written off	-	(5,910)
Acquisition of a subsidiary	496	-
At end of period/year	<b>69,530</b>	75,437

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2019

## 14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	June 30, 2019 RMB'000 Unaudited	December 31, 2018 RMB'000 Audited
Prepayments to suppliers for purchases of goods	279,900	172,817
Loan receivables (Note)	67,562	69,930
Tender deposits	22,050	18,250
Contract deposits	8,978	27,915
Advances to staff	44,657	20,671
Interest receivable	10,705	8,714
Dividend receivable	4,438	4,266
Others	110,220	88,270
	<b>548,510</b>	410,833
Impairment allowances	<b>(34,393)</b>	(34,391)
	<b>514,117</b>	376,442
Less: loan receivables — non-current (Note)	<b>30,000</b>	33,000
	<b>484,117</b>	343,442

Note: The balance represents unsecured loans to other companies which are unsecured, repayable within one year and interest-free except that: Loan of RMB30,000,000 to an independent third party, for the subscription of shares of Forever Opensource Co., Ltd. ("**Forever Opensource**"), is repayable in 2023, bears interest at a rate of 8% per annum, and is secured by the pledge of the related shares of Forever Opensource, which is mainly engaged in providing software design and application development services.

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

	June 30, 2019 RMB'000 Unaudited	December 31, 2018 RMB'000 Audited
At beginning of period/year	34,391	29,219
Additions	—	5,172
Acquisition of a subsidiary	2	—
At end of period/year	<b>34,393</b>	34,391

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2019

## 15. CONTRACT ASSETS

	<b>June 30, 2019 RMB'000 Unaudited</b>	December 31, 2018 RMB'000 Audited
Contract assets arising from:		
System integration solution services	<b>676,587</b>	690,059
Maintenance services	<b>12,479</b>	38,486
	<b>689,066</b>	728,545
Impairment	<b>(31,632)</b>	(31,841)
	<b>657,434</b>	696,704

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

	<b>June 30, 2019 RMB'000 Unaudited</b>	December 31, 2018 RMB'000 Audited
At beginning of period/year	<b>31,841</b>	35,640
Reversal	<b>(209)</b>	(3,799)
At end of period/year	<b>31,632</b>	31,841

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2019

## 16. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	<b>June 30, 2019 RMB'000 Unaudited</b>	December 31, 2018 RMB'000 Audited
Cash and bank balances	<b>143,833</b>	146,436
Pledged deposits		
— Current deposits	<b>187,928</b>	234,428
— Non-current deposits	<b>125,082</b>	134,290
	<b>456,843</b>	515,154
Less: Pledged deposits for		
— Letter of guarantee for projects	<b>(50,370)</b>	(45,758)
— Bills payables	<b>(10,800)</b>	(15,894)
— Interest-bearing bank borrowings (note 19)	<b>(251,494)</b>	(306,790)
— Tenders	<b>(346)</b>	(276)
Cash and cash equivalents	<b>143,833</b>	146,436

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

The cash and bank balances and pledged deposits of the Group denominated in RMB amounted to RMB395,078,000 (RMB367,454,000 in Mainland China and RMB27,624,000 in overseas) as at June 30, 2019 (December 31, 2018: RMB470,961,000 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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2019

## 17. TRADE AND BILLS PAYABLES

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, 2019 RMB'000 Unaudited	December 31, 2018 RMB'000 Audited
Current or less than 1 year	188,442	569,619
1 to 2 years	98,462	70,386
Over 2 years	73,783	11,858
	<b>360,687</b>	651,863

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

## 18. OTHER PAYABLES AND ACCRUALS

	June 30, 2019 RMB'000 Unaudited	December 31, 2018 RMB'000 Audited
Contract liabilities (a)	351,286	361,727
Business advance deposits	32,157	13,732
Staff costs and welfare accruals	12,867	12,902
Other borrowings	50,176	28,173
Other taxes payable	106,023	84,720
Interest payables	2,131	2,652
Others	146,529	52,819
	<b>701,169</b>	556,725

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2019

## 18. OTHER PAYABLES AND ACCRUALS (continued)

(a) Details of contract liabilities are as follows:

	June 30, 2019 RMB'000 Unaudited	December 31, 2018 RMB'000 Audited
Short-term advances received from customers		
System integration solution services	331,821	344,156
Sales of products	15,521	11,186
Maintenance services	3,944	6,385
	<b>351,286</b>	361,727

## 19. INTEREST-BEARING BANK BORROWINGS

	Notes	Contractual rate (%)	June 30, 2019 RMB'000 Unaudited	December 31, 2018 RMB'000 Audited
<b>Current</b>				
Bank loans — secured and repayable within one year	(i),(iii)	4.75–5.7	189,118	87,620
Bank loans — guaranteed and repayable within one year	(ii)	6.7–7.0	190,000	190,000
Bills receivable endorsed			87,913	85,889
			<b>467,031</b>	363,509
<b>Non-current</b>				
Bank loans — secured and repayable within two years	(i),(iii)	HIBOR	276,620	98,923
Bank loans — secured and repayable within two years			—	321,920
			<b>276,620</b>	420,843
			<b>743,651</b>	784,352

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2019

## 19. INTEREST-BEARING BANK BORROWINGS (continued)

Notes:

- (i) Current bank loans of RMB119.1 million and non-current bank loans of RMB116.6 million as at June 30, 2019 (December 31, 2018: in aggregate RMB278.4 million) were secured by pledged deposits of RMB251.5 million (December 31, 2018: RMB306.8 million) of the Group (note 16).
- (ii) Bank loans of RMB30.0 million as at June 30, 2019 (December 31, 2018: RMB30.0 million) were guaranteed by the Company. Bank loans of RMB160.0 million as at June 30, 2019 (December 31, 2018: RMB160 million) were guaranteed by a subsidiary of King Victory, which is an associate of the two executive directors, Jiang Hailin and Liao Jie and one of the controlling shareholders of the Company.
- (iii) Current bank loans of RMB70.0 million and non-current bank loans of RMB160.0 million as at June 30, 2019 (December 31, 2018: in aggregate RMB230.0 million) were secured by properties of the Group with a carrying amount of RMB210.7 million (December 31, 2018: RMB212.9 million), and shares of Aproud Technology, a subsidiary of the Company.

## 20. SHARE CAPITAL

	June 30, 2019 RMB'000 Unaudited	December 31, 2018 RMB'000 Audited
Issued and fully paid: 1,654,024,868 ordinary shares of HK\$0.0002 each	290	290

## 21. 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 executive 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 expense recognised during the six-month period ended June 30, 2019 (June 30, 2018: nil).

There was no movement of the outstanding share options during the six-month period ended June 30, 2019. The following table illustrates the numbers and the weighted average exercise price ("WAEP") of the share options as at June 30, 2019 and December 31, 2018:

	Number '000	WAEP HK\$ per share
Outstanding as at June 30, 2019 and December 31, 2018	72,217	1.05
Exercisable as at June 30, 2019 and December 31, 2018	72,217	1.05

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2019

## 22. BUSINESS COMBINATION

On May 13, 2019, the Group entered into a share purchase agreement with the vendors, pursuant to which the Group shall acquire 58% equity interest in CEECGlobal Limited (“**CEEC**”) at a cash consideration of RMB85,840,000 (the “**Acquisition**”). The vendors warrant to the Group that in respect of the two years ended December 31, 2019 and 2020 (the “**Profit Guarantee Period**”), the aggregate audited consolidated profits after tax of CEEC for the Profit Guarantee Period shall be no less than RMB62,000,000. If the guaranteed profits during the Profit Guarantee Period are not achieved, the Group is entitled to a compensation amount, details of which are set out in the Company’s announcement dated May 13, 2019. The Acquisition was completed in late May 2019.

CEEC is primarily engaged in investment, sales and integration of equipment for various segments of electric power and communication industry in Southeast Asia. The Acquisition will provide the Group with an instant access into the infrastructure market in the Southeast Asia countries, and is in accordance with the Group’s expansion strategy.

The following summarises the consideration paid and the amounts of the assets acquired and liabilities assumed, as well as the amount of non-controlling interest recognised at the date of acquisition:

	RMB'000
Cash and cash equivalents	1,689
Trade and bills receivables	32,924
Prepayment, deposits and other receivables	39,184
Property and equipment	83
Trade and other payables	(58,315)
Total identifiable net assets at fair value	15,565
Non-controlling interests	(6,537)
Goodwill on Acquisition	76,812
Consideration for Acquisition	85,840

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

	RMB'000
Cash and bank balances acquired	1,689
Consideration paid	(45,840)
	(44,151)

The initial accounting for the Acquisition is provisional mainly for the fair values of intangible assets acquired and the consideration transferred as the valuations of these items have not been completed. Once the valuations are finalised, the values of the intangible assets acquired and the consideration transferred together with deferred tax and goodwill are expected to change.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2019

## 22. BUSINESS COMBINATION (continued)

Since the Acquisition, CEEGlobal Limited contributed RMB4,588,000 to the Group's revenue and RMB4,607,000 to the Group's profit for the six-month period ended June 30, 2019.

Had the combination taken place at the beginning of the period, the revenue of the Group and the profit of the Group for the year would have been RMB39,072,000 and RMB9,122,000, respectively.

## 23. 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, 2019:

	Notes	For the six-month period ended June 30,	
		2019 RMB'000 Unaudited	2018 RMB'000 Unaudited
<b>King Victory and its affiliates</b>			
Sale of products		984	112
Interest income	(i)	12,361	1,197
Rental income		2,411	–
<b>Associate</b>			
Loans advance to		–	2,968

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2019

## 23. RELATED PARTY TRANSACTIONS (continued)

	Notes	June 30, 2019 RMB'000 Unaudited	December 31, 2018 RMB'000 Audited
<b>Due from related parties</b>			
Associates		2,909	5,048
Joint ventures		30,559	38,166
King Victory and its affiliates	(i)	375,503	607,597
Total		408,971	650,811
<b>Due to related parties</b>			
Associates		1,000	5,000
Joint ventures		–	10,273
King Victory and its affiliates		831	12,683
Total		1,831	27,956

Note

- (i) As at June 30, 2019, RMB341 million (December 31, 2018: RMB509 million) was secured by the pledge of 75% equity interests in a subsidiary of King Victory. The interest rates was 3.804% (June 30, 2018: 3.487% to 6.479%).

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, 2019 RMB'000 Unaudited	2018 RMB'000 Unaudited
Salaries, bonuses, allowances and benefits in kind	1,009	1,109
Pension plan contributions	72	79
Total compensation paid to key management personnel	1,081	1,188

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2019

## 24. PLEDGE OF ASSETS

Details of the Group's bank borrowings, which are secured by the assets of the Group, are included in note 19 to the unaudited interim condensed consolidated financial statements.

## 25. 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, 2019 RMB'000 Unaudited	December 31, 2018 RMB'000 Audited
Within one year	14,421	10,643
In the second to fifth years, inclusive	11,252	12,590
	<b>25,673</b>	23,233

## 26. CAPITAL COMMITMENTS

The Group had the following capital commitments as at June 30, 2019:

	June 30, 2019 RMB'000 Unaudited	December 31, 2018 RMB'000 Audited
Contracted, but not provided for: Land and buildings	75,090	63,806
	<b>75,090</b>	63,806

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2019

## 27. FAIR VALUE OF FINANCIAL INSTRUMENTS

### Fair value hierarchy

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

#### Assets measured at fair value

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through profit or loss	-	-	103,581	103,581

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through profit or loss	-	-	137,755	137,755

The Group did not have any financial liabilities measured at fair value as at June 30, 2019 and December 31, 2018.

During the six-month period ended June 30, 2019, there were no transfers of fair value measurement between level 1 and level 2 and no transfer into or out of level 3 (June 30, 2018: nil).

## 28. 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, 2019.