



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



2020
INTERIM REPORT

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FINANCIAL HIGHLIGHTS

HIGHLIGHTS OF 2020 INTERIM RESULTS

For the six-month period ended June 30, 2020 (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 RMB358.5 million from the new contracts signed, representing a decrease of 1.3% compared to the same period last year.
- Revenue of RMB237.1 million was generated, representing a decrease of 38.0% compared to the same period last year.
- As of June 30, 2020, the Group recorded RMB898.9 million from backlog, representing an increase of 7.0% compared to the end of the previous year.
- The Group generated gross profit of RMB53.9 million, which decreased by 34.6% compared to the same period last year, and recorded gross profit margin of 22.8%, representing an increase of 1.2 percentage points compared to the same period last year.
- The profit attributable to owners of the parent of the Company amounted to RMB39.4 million as compared to the profit of RMB13.7 million (restated) for the same period last year, representing an increase of 187.6% compared to the same period last year.

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. Ye Zhou

Mr. Wang Dong (*CICPA, CIMA, AAIA, CGMA*)

Mr. Zhou Jianmin

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. Zhou Jianmin

Mr. Ye Zhou

REMUNERATION COMMITTEE

Mr. Ye Zhou (*committee chairman*)

Mr. Wang Dong (*CICPA, CIMA, AAIA, CGMA*)

Mr. Zhou Jianmin

NOMINATION COMMITTEE

Mr. Zhou Jianmin (*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

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 Everbright Bank Co., Ltd. Beijing Branch
Xicheng sub-branch
China Guangfa Bank Co., Ltd. Beijing Branch
Yuetan sub-branch
Fubon Bank (China) Co., Ltd. Tianjin Branch
Ping An Bank Co., Ltd. Shanghai Pilot Free Trade Zone Branch
Shengjing Bank Beijing Branch Guanyuan sub-branch
Xiamen International Bank Co., Ltd. Beijing
Zhongguancun sub-branch
China Minsheng Banking Corp., Ltd. Beijing Branch
Sales Department
Shanghai Huarui Bank Co., Ltd.
China Construction Bank Hong Kong Branch
Shanghai Pudong Development Bank Co., Ltd. Beijing
Xuanwu sub-branch

CORPORATE INFORMATION

KEY SUBSIDIARIES

“Aproud Technology”	Beijing Aproud Technology Co., Ltd. (北京亞邦偉業技術有限公司)
“CEEC”	CEECGLOBAL LIMITED (世波工程有限公司)
“CIC Infrastructure”	CIC Infrastructure Industry Investment Limited (中智基礎產業投資有限公司)
“CIC Information”	CIC Information Technology Company Limited
“Haotian Jiajie”	Beijing Haotian Jiajie Technology Co., Ltd. (北京昊天佳捷科技有限 公司)
“Hongrui Dake”	Beijing Hongrui Dake Technology Co., Ltd. (北京宏瑞達科科技有限 公司)
“Jiangsu Zhongzhi Transportation”	Jiangsu Zhongzhi Transportation Technology Co., Ltd. (江蘇中智交通科技有限 公司)
“Jiangsu Zhongzhi Ruixin”	Jiangsu Zhongzhi Ruixin IOT Technology Co., Ltd. (江蘇中智瑞信物聯科技 有限公司)
“Zhongzhi Runbang”	Beijing Zhongzhi Runbang Technology Co., Ltd. (北京中智潤邦科技有限 公司)
“Zhixun Tiancheng”	Beijing Zhixun Tiancheng Technology Co., Ltd. (北京智訊天成技術有限 公司)
“Zhongtian Runbang”	Zhongtian Runbang Information Technology Co., Ltd. (中天潤邦信息技術有限 公司)
“Tibet Intelligent Aviation”	Tibet Intelligent Aviation Transportation Technology Co., Ltd. (西藏智航交通科技有限 公司)
“Chengdu Zhongzhi Runbang”	Chengdu Zhongzhi Runbang Transportation Technology Co., Ltd. (成都中智潤邦交通技術 有限公司)
“Jiangsu Zhixun Tiancheng”	Jiangsu Zhixun Tiancheng Technology Co., Ltd. (江蘇智訊天成技術有限 公司)
“Myanmar Ahlone”	Myanmar Ahlone Power Plant Company Limited

MANAGEMENT DISCUSSION AND ANALYSIS

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

In the First Half of the Year, the Group recorded RMB358.5 million from new contracts signed, representing a decrease of 1.3% compared to the same period last year. The Group generated revenue of RMB237.1 million, representing a decrease of 38.0% compared to the same period last year, and as of June 30, 2020, the Group recorded RMB898.9 million from backlog, representing an increase of 7.0% compared to the end of the previous year. The Group generated gross profit of RMB53.9 million, which decreased by 34.6% compared to the same period last year, and recorded gross profit margin of 22.8%, increased from 21.6% for the same period last year. The profit attributable to owners of the parent of the Company amounted to RMB39.4 million for the First Half of the Year compared to the profit of RMB13.7 million (restated) for the same period last year.

BUSINESS AND FINANCIAL REVIEW

The Company and its subsidiaries (the “**Group**”) is mainly a provider of products, specialised solutions and services related to infrastructure technology in the PRC and overseas. The main businesses of this Group are as follows:

- (a) Products and specialised solutions business (the “**Products and Specialised Solutions**”) — in the field of infrastructure construction such as railways and electric power, the Group sells products and specialised solutions to meet customers’ needs according to their requirements. It mainly includes: railway communication products, energy-base products, power communication products, power transmission and transformation equipment, power generation equipment, etc.; and
- (b) Value-added operation and services business (the “**Value-added Operation and Services**”) — We provide value-added services such as maintenance services, network optimization and network planning, and technical consulting for the products related to the communication system for railway customers, as well as the planning and technical consulting services of the infrastructure construction in relation to electric power such as power plant construction and power grid renovation for electric power customers, and power plant investment, construction and operation.

Business Review

For the First Half of the Year, the COVID-19 pandemic broke out on a large scale in China and the world. Affected by this, the global economy went down, and the Group took active and effective response measures immediately. For the railway sector business, the Group leveraged its own technical and services advantages and made full use of Internet technology to provide customers with remote technical support services to ensure safe railway operation and improve customers satisfaction. At the same time, in response to the pandemic, the Railway sector timely launched a solution of electronic passenger tickets, which became a business highlight in the First Half of the Year. The overseas energy sector overcame the impact of the pandemic and ensured that the power plant construction project was completed and started grid-connected power generation in the First Half of the Year according to the original plan. For the company management, the Group actively organized online learning for management and employees in February 2020, during which the domestic pandemic was the worst, to improve the overall quality of the Group’s personnel. The Group also actively organized the resumption of work and production as well as pandemic prevention and control, and adopted the work mode of combining remote office and on-site office, so as to ensure that the work was not affected to the maximum extent, and all expenses were also controlled to the lowest level.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW (continued)

Business Review (continued)

1. The railway sector business was affected in the short term, but contract reserves were abundant

Products and specialised solutions are the principal business of the Group, and the Group is one of the largest providers in this segment. Affected by the COVID-19 pandemic, the delivery of some projects in the First Half of the Year was delayed, and recognized revenues of the Group decreased significantly. Although affected by the COVID-19 pandemic in the First Half of the Year, the national railway fixed asset investment in the first quarter decreased by 21% year-on-year, and the overall performance of the railway communication segment declined; however, through our own competitive advantages, the Group still maintained a high market share in products and specialised solutions business in the railway communication segment. The number of new contracts signed in the First Half of the Year was slightly lower than the same period last year. At the same time, the Group's backlog increased slightly compared with the end of previous year. On the whole, the COVID-19 pandemic has a short-term impact on the Group's products and specialised solutions business, with little impact in the future.

The intelligent value-added operation and services business of railway communication system is the key development business of the Group. Due to the high technical threshold, certain industry experience and expertise are required. This business has expanded to most nationwide railways bureaus and covered the railway backbone network by virtue of the Group's platform advantages and self-developed intelligent maintenance system. In the Second Half of the Year, the Group will endeavor to expand diversified professional technical services to ensure that the impact of the COVID-19 pandemic will be kept to a small extent.

2. The self-built power plant was put into operation for power generation, and the electric power business was steadily promoted

The Group signed the ALONE 151,000-kilowatt power plant project in Yangon, Myanmar in 2019, with a total investment of approximately RMB400 million. The power plant was put into trial operation and started grid-connected power generation in May 2020. The smooth progress of the project was a successful step taken by the Group in the field of electric power infrastructure, and it had also laid a solid foundation for the Group to further and solidly explore the infrastructure market in Southeast Asia.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW (continued)

FINANCIAL REVIEW

Revenue

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

	Six-month period ended June 30,	
	2020 RMB'000	2019 RMB'000
Revenue by business model		
Products and specialised solutions	193,102	338,288
Value-added operation and services	43,968	44,118
Elimination	–	–
Total	237,070	382,406

(i) *Products and specialised solutions*

For the First Half of the Year, revenue of RMB193.1 million was recognised from the products and specialised solutions business, representing a decrease of RMB145.2 million compared to the same period last year, and decreased by 42.9%. The business recorded RMB322.9 million from new contracts signed, representing a decrease of RMB3.3 million compared to the same period last year and the amount of backlog as of the end of the Period was RMB843.9 million, representing an increase of RMB70.2 million compared to the end of the previous year.

The decrease in revenue was due to the delay in the delivery of some projects, resulting from the significant impact of the COVID-19 pandemic on the resumption of work and production for enterprises in the First Half of the Year.

(ii) *Value-added operation and services*

Revenue recognised from the value-added operation and services business for the First Half of the Year was RMB44.0 million, representing a decrease of RMB0.1 million compared to the same period last year, and decreased by 0.3%. The business recorded RMB35.6 million from new contracts signed, representing a decrease of RMB1.5 million compared to the same period last year and the amount of backlog as of the end of the Period was RMB55.0 million, representing a decrease of RMB11.4 million compared to the end of the previous year.

Although the revenue in the First Half of the Year was the same as that of the same period last year, the value-added operation and service business of the railway sector was affected by the COVID-19 pandemic, and the implementation of some projects was delayed, and revenue decreased by RMB13.2 million compared with the same period last year. Meanwhile, the Group's self-built power plant was put into operation in the First Half of the Year, the revenue of value-added operation and service of electric power business increased by RMB13.1 million compared with the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW (continued)

FINANCIAL REVIEW (continued)

Gross Profit and the Gross Profit Margin

The Group generated gross profit of RMB53.9 million in the First Half of the Year, representing a decrease of RMB28.5 million compared to the same period last year. Gross profit margin increased from 21.6% for the same period last year to 22.8% for the First Half of the Year.

	Six-month period ended June 30,	
	2020 RMB'000	2019 RMB'000
Gross profit and the Gross Profit Margin by business model		
Products and specialised solutions	33,714	61,546
Margin %	17.5%	18.2%
Value-added operation and services	20,229	20,912
Margin %	46.0%	47.4%
Elimination	-	-
Total	53,943	82,458
Margin	22.8%	21.6%

(i) *Products and specialised solutions*

For the First Half of the Year, gross profit of RMB33.7 million was recognized from the products and specialised solutions business, representing a decrease of RMB27.8 million compared to the same period last year. The gross profit margin was 17.5%, representing a decrease of 0.7 percentage points compared to the same period last year. The decrease in gross profit was due to the decrease in revenue from the business in the First Half of the Year.

(ii) *Value-added operation and services*

Gross profit recognized from the value-added operation and services business for the First Half of the Year was RMB20.2 million, representing a decrease of RMB0.7 million compared to the same period last year. The gross profit margin of value-added operation and services was 46.0%, representing a decrease of 1.4 percentage points compared to the same period last year. The gross profit and gross profit margin of this business in the First Half of the Year remained at the same level compared to the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW (continued)

FINANCIAL REVIEW (continued)

Other Income and Gains

For the First Half of the Year, other income and gains were approximately RMB16.2 million, mainly including: 1. The impairment loss of approximately RMB6.0 million in the previous year recovered by the Group; 2. the compensation income from equity investment counterparties for not fulfilling their committed performance in relation to the equity investment held by the Group was approximately RMB4.3 million; 3. the rental income of the investment properties was approximately RMB2.5 million; 4. the government grants income was approximately RMB2.0 million; 5. and the financial assets dividend income was approximately RMB1.2 million.

Selling and Administration Expense and Impairment Losses

For the First Half of the Year, selling and administration expense and impairment losses were approximately RMB72.1 million, representing an increase of RMB8.0 million as compared to the same period last year.

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

For the First Half of the Year, selling and administration expense which was related to daily operational activities was RMB56.5 million as compared to RMB70.7 million for the same period last year, decreased by RMB14.2 million compared to the same period last year. The decrease was mainly due to the impact of the COVID-19 pandemic in the First Half of the Year, the reduction in employee travel frequency led to a reduction in travel expenses; the government reduced corporate social insurance, which led to a reduction in social insurance costs; and the reduction in the number of full-time employees led to a decrease in wages and salaries.

(ii) *Impairment losses*

The impairment losses for the First Half of the Year were RMB15.6 million as compared to reversal from impairment losses of RMB6.6 million for the same period last year.

Finance Revenue and Finance Cost

Finance revenue mainly comprised of interest income and finance cost mainly comprised of 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, the net financial expense was RMB16.2 million, which represented an increase of RMB12.8 million compared to the same period last year. This was mainly due to the decrease of RMB11.0 million in interest income for the First Half of the Year compared to the same period last year.

Share of Loss of Joint Venture/Associates

For the First Half of the Year, share of loss of investment entities was approximately RMB0.1 million, as compared to the profit of RMB2.0 million for the same period last year.

Proceeds from Disposal of Financial Assets

For the First Half of the Year, the Group disposed part of equity in an equity investment and obtained a profit of RMB4.4 million.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW (continued)

FINANCIAL REVIEW (continued)

Profit or Loss through Fair Value Changes

For the First Half of the Year, influenced by the market fluctuations, the Group's equity investments in Forever Opensource (stock code: 834415), CNBM Technology (stock code: 834082), and Shenzhen Hopeland led to the profit of RMB65.0 million through fair value changes, as compared to the loss of RMB4.7 million for the same period last year, representing an increase of RMB69.7 million in profit compared to the same period last year.

Income Tax Expenses

The total income tax expenses for the First Half of the Year were RMB7.8 million, which were RMB4.0 million for the same period last year.

Profit for the Period

For the First Half of the Year, the profit attributable to owners of the parent of the Company amounted to RMB39.4 million as compared to the profit of RMB13.7 million (restated) for the same period last year, representing an increase of 187.6% compared to the same period last year.

Inventory Turnover Days

The inventories of the Group mainly comprised of the products and spare parts related to railway communication. For the First Half of the Year, the inventory turnover days were 86 days (the same period last year: 31 days). The change was due to the delay in project delivery due to the impact of the COVID-19 pandemic in the First Half of the Year.

Trade Receivables Turnover Days

For the First Half of the Year, the trade receivables turnover days were 294 days (the same period last year: 389 days).

Contract Assets/Contract Liabilities Turnover Days

For the First Half of the Year, the contract assets/contract liabilities turnover days were 86 days (the same period last year: 43 days).

Trade Payables Turnover Days

For the First Half of the Year, the trade payables turnover days were 174 days (the same period last year: 192 days).

Liquidity and Financial Resources

The Group's principal sources of working capital included cash flow from operating activities, bank and other borrowings. As of June 30, 2020, the Group's current ratio (current assets divided by current liabilities) was 1.6 (as of December 31, 2019: 1.6). The Group's financial position remains healthy.

As of June 30, 2020, the Group was in a net negative cash position⁽¹⁾ of RMB362.5 million (as at the end of the previous year: negative RMB269.7 million), decreased by RMB92.8 million compared to the end of the previous year. As at June 30, 2020, the Group's gearing ratio was 0.1%, increased by 5.7 percentage points from -5.6% as at the end of the previous year.

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW (continued)

FINANCIAL REVIEW (continued)

Contingent Liabilities

As at June 30, 2020, the Group had no material contingent liability.

Charges on Group Assets

As at June 30, 2020, in addition to the pledged deposits of approximately RMB306.6 million (as at December 31, 2019: RMB319.6 million), the Group pledged a building with a net carrying amount of approximately RMB206.3 million, real estate with an appraised value of approximately RMB73.5 million, trade receivables with a carrying amount of RMB19.7 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 RMB208.5 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 June 30, 2020, the Group had no other assets charged to financial institution.

IMPORTANT EVENTS SUBSEQUENT TO THE PERIOD

There was no important event affecting the Company nor any of its subsidiaries from June 30, 2020 to the date of this report.

MATERIAL ACQUISITIONS OF SUBSIDIARIES AND ASSOCIATES

During the Period, the Group did not have any significant acquisition.

DELAY IN SETTLEMENT OF THE OUTSTANDING AMOUNTS

Reference is made to the announcements of Company dated 9 April, 2018, 3 May, 2018, 2 July, 2018, 1 July, 2019, 8 May, 2020, 30 June, 2020 and 31 August, 2020 (the “**Announcements**”) and the circular of the Company dated 6 September, 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 Announcement, the Outstanding Amounts and the interest accrued thereon as at 30 June 2019 totaled approximately RMB340.8 million. As at June 30, 2020, RMB34.2 million of the Outstanding Amounts has been settled, and the amount of the Outstanding Amount and the interest accrued thereon totaled approximately RMB319.0 million.

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, 2020.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six-month period ended June 30, 2020.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company has reviewed the accounting principles and practices, the internal control and financial reporting matters of the Company, and the unaudited interim results of the Group for the six-month period ended June 30, 2020 together with the management of the Company.

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

Save as disclosed below, as at June 30, 2020, none of the Directors and chief executive of the Company had any interests or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) (the “**SFO**”) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), to be notified to the Company and the Stock Exchange:

Name of Director	Nature of interest	Securities ⁽⁴⁾	Approximate percentage of shareholdings as at June 30, 2020 ⁽³⁾
Mr. Liao Jie ⁽¹⁾	Beneficial owner/Interest of a controlled corporation	146,494,077 (L)	8.86% (L)
Mr. Jiang Hailin ⁽²⁾	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, 2020, 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, 2020 is as follows:

Grantee	Grant date ⁽¹⁾	Vesting start date	Expiry date	Outstanding as at January 1, 2020	Exercised during the six-month period ended June 30, 2020	Lapsed or cancelled during the six-month period ended June 30, 2020	Outstanding as at June 30, 2020	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 ⁽²⁾ (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

DIRECTORS' REPORT

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

2. Share Option Scheme (continued)

Grantee	Grant date ⁽¹⁾	Vesting start date	Expiry date	Outstanding as at January 1, 2020	Exercised during the six-month period ended June 30, 2020	Lapsed or cancelled during the six-month period ended June 30, 2020	Outstanding as at June 30, 2020	Exercise price per share (HK\$)	
Others	18/01/2012	19/04/2012	Note (2)	1,042,925	–	–	1,042,925	1.05	
	18/01/2012	19/07/2012	Note (2)	1,042,925	–	–	1,042,925	1.05	
	18/01/2012	19/10/2012	Note (2)	1,042,925	–	–	1,042,925	1.05	
	18/01/2012	19/01/2013	Note (2)	1,042,925	–	–	1,042,925	1.05	
	18/01/2012	19/04/2013	Note (2)	1,534,348	–	–	1,534,348	1.05	
	18/01/2012	19/07/2013	Note (2)	1,534,348	–	–	1,534,348	1.05	
	18/01/2012	19/10/2013	Note (2)	1,534,348	–	–	1,534,348	1.05	
	18/01/2012	19/01/2014	Note (2)	1,534,348	–	–	1,534,348	1.05	
	18/01/2012	19/04/2014	Note (2)	2,025,760	–	–	2,025,760	1.05	
	18/01/2012	19/07/2014	Note (2)	2,025,760	–	–	2,025,760	1.05	
	18/01/2012	19/10/2014	Note (2)	2,025,760	–	–	2,025,760	1.05	
	18/01/2012	19/01/2015	Note (2)	2,032,911	–	–	2,032,911	1.05	
	Sub-total				18,419,283	–	–	18,419,283	
	TOTAL:				61,011,005	–	–	61,011,005	

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, 2020, so far as is known to any Director or chief executive of the Company, other than a Director or chief executive of the Company, the following persons had interests or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the issuer under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name	Capacity	Long position/ Short position	Number of Shares	Percentage to Company's issued share capital
Holdco ⁽¹⁾	Beneficiary owner	Long position	645,912,777	39.05%
Best Partners ⁽²⁾	Interest of controlled corporation	Long position	645,912,777	39.05%
Fino Investments ⁽³⁾	Interest of controlled corporation	Long position	645,912,777	39.05%
Tesco Investments ⁽⁴⁾	Interest of controlled corporation	Long position	645,912,777	39.05%
Credit Suisse Trust Limited ⁽³⁾⁽⁴⁾	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 ⁽⁵⁾	Beneficial owner	Long position	105,758,203	6.39%
Penbay Investments Limited ⁽⁶⁾	Beneficial owner	Long position	98,613,367	5.96%
Chen Qi	Interest of controlled corporation	Long position	98,613,367	5.96%

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, 2020, 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, 2020, 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, 2020, the Group had 307 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, 2020, 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, 2020.

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, 2020.

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 by the Company 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 the financial reporting process and internal control systems of the Company.

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

The audit committee has reviewed the accounting principles and practices adopted by the Group and discussed with the management of the Company on financial reporting matters including a review of the unaudited interim financial information of the Group for the six months ended June 30, 2020.

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. Zhou Jianmin. 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. Zhou Jianmin, Mr. Ye Zhou and Mr. Wang Dong. The nomination committee is chaired by Mr. Zhou Jianmin.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

In the six months ended June 30, 2020, there were no changes to information related to Directors of the Company 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, 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six-month period ended June 30, 2020

	Notes	For the six-month period ended June 30,	
		2020 RMB'000 Unaudited	2019 RMB'000 Unaudited (Restated)
REVENUE	4	237,070	382,406
Cost of revenue	6	(183,127)	(299,948)
Gross profit		53,943	82,458
Other income and gains	5	93,177	25,753
Selling, distribution and administrative expenses		(56,912)	(64,042)
Impairment losses on financial and contract assets, net		(15,569)	–
Other expenses		(121)	(4,868)
Finance costs		(23,784)	(21,974)
Share of profits and losses of:			
Joint ventures		–	2,621
Associates		(84)	(634)
PROFIT BEFORE TAX	6	50,650	19,314
Income tax expense	7	(7,838)	(3,961)
PROFIT FOR THE PERIOD		42,812	15,353
Attributable to:			
Owners of the Company		39,449	13,653
Non-controlling interests		3,363	1,700
		42,812	15,353
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY		RMB Unaudited	RMB Unaudited
Basic	8	0.02	0.01
Diluted	8	0.02	0.01

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six-month period ended June 30, 2020

	For the six-month period ended June 30,	
	2020 RMB'000 Unaudited	2019 RMB'000 Unaudited (Restated)
PROFIT FOR THE PERIOD	42,812	15,353
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	9,495	(9,705)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	9,495	(9,705)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	52,307	5,648
Attributable to:		
Owners of the Company	48,349	3,945
Non-controlling interests	3,958	1,703
	52,307	5,648

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2020

	Notes	June 30, 2020 RMB'000 Unaudited	December 31, 2019 RMB'000 Audited (Restated)
NON-CURRENT ASSETS			
Prepayment for acquisition of property and equipment		–	124,708
Property and equipment	10	475,538	251,158
Investment properties		83,710	83,710
Goodwill	11	222,622	222,622
Other intangible assets		35,168	38,717
Investments in joint ventures		–	2,067
Investments in associates		1,943	2,027
Contingent consideration		–	6,479
Financial assets at fair value through profit or loss		241,371	182,977
Loan receivables	14	30,000	30,000
Pledged deposits	16	–	70,000
Total non-current assets		1,090,352	1,014,465
CURRENT ASSETS			
Inventories	12	297,863	206,684
Contract assets	15	476,075	449,616
Contingent consideration		6,479	–
Trade and bills receivables	13	610,287	909,025
Prepayments, deposits and other receivables	14	512,022	473,419
Amounts due from related parties	23	361,186	386,096
Pledged deposits	16	306,574	249,617
Cash and cash equivalents	16	126,901	258,722
Total current assets		2,697,387	2,933,179

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2020

	Notes	June 30, 2020 RMB'000 Unaudited	December 31, 2019 RMB'000 Audited (Restated)
CURRENT LIABILITIES			
Trade and bills payables	17	317,739	388,251
Contract liabilities, other payables and accruals	18	586,990	671,954
Interest-bearing bank borrowings	19	755,677	701,767
Amounts due to related parties	23	–	4,769
Income tax payable		30,836	31,244
Total current liabilities		1,691,242	1,797,985
NET CURRENT ASSETS		1,006,145	1,135,194
TOTAL ASSETS LESS CURRENT LIABILITIES		2,096,497	2,149,659
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	19	40,250	146,250
Deferred tax liabilities		9,460	8,929
Total non-current liabilities		49,710	155,179
Net assets		2,046,787	1,994,480
EQUITY			
Equity attributable to owners of the Company			
Share capital	20	290	290
Reserves		2,014,009	1,965,660
		2,014,299	1,965,950
Non-controlling interests		32,488	28,530
Total equity		2,046,787	1,994,480

Liao Jie
Director

Jiang Hailin
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended June 30, 2020

	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		
At January 1, 2019	290	1,088,725	167,404	598,627	7,782	(89,455)	257,316	2,030,689	–	2,030,689
Profit for the period (restated)	–	–	–	–	–	–	13,653	13,653	1,700	15,353
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)	13,653	3,945	1,703	5,648
Non-controlling interests arising from business combination	–	–	–	–	–	–	–	–	6,541	6,541
At June 30, 2019 (unaudited)	290	1,088,725	167,404	598,627	7,782	(99,163)	270,969	2,034,634	8,244	2,042,878

	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	Non-controlling interests RMB'000	Total RMB'000
At January 1, 2020	290	1,088,725	191,274	594,028	7,782	(101,690)	193,574	1,973,983	13,468	1,987,451
Adjustment (note 22)	–	–	–	–	–	–	(8,033)	(8,033)	15,062	7,029
At January 1, 2020, as restated	290	1,088,725*	191,274*	594,028*	7,782*	(101,690)*	185,541*	1,965,950	28,530	1,994,480
Profit for the period	–	–	–	–	–	–	39,449	39,449	3,363	42,812
Other comprehensive income for the period: Exchange differences on translation of foreign operations	–	–	–	–	–	8,900	–	8,900	595	9,495
Total comprehensive income for the period	–	–	–	–	–	8,900	39,449	48,349	3,958	52,307
Transfer from retained earnings	–	–	15,863	–	–	–	(15,863)	–	–	–
At June 30, 2020 (unaudited)	290	1,088,725*	207,137*	594,028*	7,782*	(92,790)*	209,127*	2,014,299	32,488	2,046,787

* These reserve accounts comprise the reserves of RMB2,014,009,000 (December 31, 2019: RMB1,965,660,000 (restated)) in the condensed consolidated statement of financial position as at June 30, 2020.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month period ended June 30, 2020

	Notes	For the six-month period ended June 30,	
		2020 RMB'000 Unaudited	2019 RMB'000 Unaudited (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		50,650	19,314
Adjustments for:			
Depreciation and amortisation		10,788	6,695
Gain on disposal of financial assets at fair value through profit or loss		(4,355)	–
Impairment of financial assets included in prepayment, deposits and other receivables		18,341	–
Reversal of impairment of trade receivables		(2,612)	(6,403)
Reversal of impairment of contracts assets		(160)	(209)
Share of profits and losses of joint ventures and associates		84	(1,986)
Changes in fair value of financial assets at fair value through profit or loss		(64,993)	4,730
Dividend income from financial assets at fair value through profit or loss		(1,186)	–
Finance income		(7,609)	(18,555)
Finance costs		23,784	21,974
		22,732	25,560
Changes in assets and liabilities:			
Inventories		(104,014)	(117,666)
Contracts assets		(26,299)	76,672
Trade and bills receivables		301,350	153,869
Prepayments, deposits and other receivables		(58,650)	183,957
Amounts due from related parties		24,910	26,125
Pledged deposits		(88,757)	55,708
Trade and bills payables		(70,512)	(291,176)
Contract liabilities, other payables and accruals		(84,964)	144,443
Amounts due to related parties		(4,769)	(26,125)
Cash (used in) generated from operations		(88,973)	231,367
Interest paid		(23,784)	(15,252)
Interest received		11,382	1,991
Income tax paid		(7,715)	(13,149)
Net cash flows (used in) generated from operating activities		(109,090)	204,957

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month period ended June 30, 2020

	Notes	For the six-month period ended June 30,	
		2020 RMB'000 Unaudited	2019 RMB'000 Unaudited (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment		(93,922)	(522)
Dividend received from investments		1,186	–
Disposal of financial assets at fair value through profit or loss		10,954	–
Additions to other intangible assets		(154)	(532)
Acquisition of a subsidiary	22	–	(44,151)
Net cash flows used in investing activities		(81,936)	(45,205)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from interest-bearing bank borrowings		310,933	47,269
Repayment of interest-bearing bank borrowings		(363,023)	(87,970)
Decrease/(Increase) in pledged deposits for bank loans		101,800	(55,708)
Net cash flows generated from (used in) financing activities		49,710	(96,409)
Net (decrease)/increase in cash and cash equivalents		(141,316)	63,343
Effect of foreign exchange rate changes, net		9,495	(1,909)
Cash and cash equivalents at beginning of period		258,722	82,399
CASH AND CASH EQUIVALENTS AT END OF PERIOD	16	126,901	143,833

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2020

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 at 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 mainly a provider of products and specialised solutions and services related to infrastructure technology in the PRC and overseas. During the six-month period ended June 30, 2020, the main businesses of the Group are as follows:

- (a) Products and specialised solutions business (the “**Products and Specialised Solutions**”) — in the field of infrastructure construction such as railways and electric power, the Group sells products and specialised solutions to meet customers’ needs according to their requirements. It mainly includes: railway communication products, energy-base products, power communication products, power transmission and transformation equipment, power generation equipment, etc.; and
- (b) Value-added operation and services business (the “**Value-added Operation and Services**”) — We provide value-added services such as maintenance services, network optimization and network planning, and technical consulting for the products related to the communication system for railway customers, as well as the planning and technical consulting services of the infrastructure construction in relation to electric power such as power plant construction and power grid renovation for electric power customers, and power plant investment, construction and operation.

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, 2020 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, 2019. 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2020

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

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, 2019, except for the adoption of following new/revised IFRSs that are effective for the Group’s financial year beginning on January 1, 2020.

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendments to IFRS 3	Definition of a Business

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, 2020 and prior years.

3. OPERATING SEGMENT INFORMATION

For management purpose, the Group has the following operating segments based on its business units:

- (i) Products and specialised solutions business (the “**Products and Specialised Solutions**”) — in the field of infrastructure construction such as railways and electric power, the Group sells products and specialised solutions to meet customers’ needs according to their requirements. It mainly includes: railway communication products, energy-base products, power communication products, power transmission and transformation equipment, power generation equipment, etc.; and
- (ii) Value-added operation and services business (the “**Value-added Operation and Services**”) — We provide value-added services such as maintenance services, network optimization and network planning, and technical consulting for the products related to the communication system for railway customers, as well as the planning and technical consulting services of the infrastructure construction in relation to electric power such as power plant construction and power grid renovation for electric power customers, and power plant investment, construction and operation.

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2020

3. OPERATING SEGMENT INFORMATION (continued)

Intersegment sales are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

For the six-month period ended June 30, 2020 (Unaudited)	Products and specialised solutions RMB'000	Value-added operation and services RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	193,102	43,968	237,070
Segment results	18,788	20,231	39,019
<i>Reconciliation:</i>			
Finance income			7,609
Finance costs			(23,784)
Changes in fair value of financial assets at fair value through profit or loss			64,993
Corporate and other unallocated expenses			(37,187)
Profit before tax			50,650
Other segment information:			
Share of losses of associates	(84)	-	(84)
Impairment losses	13,286	2,283	15,569
Depreciation and amortisation	8,342	2,446	10,788
Capital expenditure*	10,270	234,857	245,127

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2020

3. OPERATING SEGMENT INFORMATION (continued)

For the six-month period ended June 30, 2019 (Unaudited)	Products and specialised Solutions RMB'000	Value-added operation and services RMB'000	Total RMB'000 (Restated)
Segment revenue			
Sales to external customers	338,288	44,118	382,406
Segment results			
Reconciliation:	22,307	20,911	43,218
Finance income			18,555
Finance costs			(21,974)
Foreign exchange losses			(121)
Changes in fair value of financial assets at fair value through profit or loss			(4,730)
Corporate and other unallocated expenses			(15,634)
Profit before tax			19,314
Other segment information:			
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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2020

4. REVENUE

An analysis of revenue is as follows:

	For the six-month period ended June 30,	
	2020 RMB'000 Unaudited	2019 RMB'000 Unaudited
Revenue from contracts with customers within IFRS 15	237,070	382,406

(i) Disaggregated revenue information

For the six-month period ended June 30, 2020 (Unaudited)

Segments	Products and specialised solutions RMB'000	Value-added operation and services RMB'000	Total RMB'000
Type of goods or services			
Sale of products and provision of specialised solutions	193,102	–	193,102
Maintenance services	–	43,968	43,968
Total revenue from contracts with customers	193,102	43,968	237,070
Geographical markets			
Mainland China			210,882
Others			26,188
Revenue from contracts with customers			237,070
Timing of revenue recognition			
Goods and services transferred at a point in time	97,603	–	97,603
Goods and services transferred over time	95,499	43,968	139,467
Revenue from contracts with customers	193,102	43,968	237,070

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2020

4. REVENUE (continued)

(i) Disaggregated revenue information (continued)

For the six-month period ended June 30, 2019 (Unaudited)

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

5. OTHER INCOME AND GAINS

	For the six-month period ended June 30,	
	2020 RMB'000 Unaudited	2019 RMB'000 Unaudited
Finance income	7,609	18,555
Gross rental income	2,505	6,331
Dividend income from financial assets at fair value through profit or loss	1,186	–
Changes in fair value of financial assets at fair value through profit or loss	64,993	–
Gain on disposal of financial assets at fair value through profit or loss	4,355	–
Government grants*	2,013	–
Bad debts recovered	5,953	–
Others	4,563	867
	93,177	25,753

* 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2020

6. PROFIT BEFORE TAX

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

	For the six-month period ended June 30,	
	2020 RMB'000 Unaudited	2019 RMB'000 Unaudited (Restated)
Cost of inventories	183,127	299,948
Depreciation	7,429	6,144
Amortisation of intangible assets, including in selling, distribution and administrative expenses	3,359	551
	10,788	6,695
Wages and salaries	23,318	24,368
Pension scheme contributions (defined contribution scheme)	2,714	3,305
Social insurance costs and staff welfare	3,798	4,182
	29,830	31,855
Reversal of impairment of trade receivables	(2,612)	(6,403)
Reversal of impairment of contract assets	(160)	(209)
Impairment of financial assets included in prepayments, deposits and other receivables	18,341	–
Short-term lease payments	1,672	2,111
Auditors' remuneration	2,990	2,619
Changes in fair value of financial assets at fair value through profit or loss	(64,993)	4,730
Rental income on investment properties	(2,505)	(6,331)
Exchange losses, net	364	121

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2020

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, 2019: 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, 2019: 15%) preferential income tax rate.

No provision for Hong Kong profits tax has been made for the six-month period ended June 30, 2020 (June 30, 2019: nil), as the Group had no assessable profits arising in Hong Kong for the period.

The Group is subject to withholding tax in Myanmar at the rate of 2.5% (June 30, 2019: 2.5%) on the service income charged to the companies in Myanmar by non-Myanmar subsidiaries.

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, 2020, no deferred tax liabilities have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China (2019: nil). In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

The major components of income tax expense are as follows:

	For the six-month period ended June 30,	
	2020 RMB'000 Unaudited	2019 RMB'000 Unaudited
Current income tax:		
PRC Enterprise Income Tax	6,838	5,296
Others	468	115
Deferred income tax:		
Origination and reversal of temporary differences	532	(1,450)
Income tax expense	7,838	3,961

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2020

8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

Basic earnings per share is calculated by dividing the profit 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, 2020 and 2019.

The calculation of the diluted earnings per share is based on the profit 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, 2020 and 2019, as used in the basic earnings per share calculation, plus the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed conversion of all the dilutive potential ordinary shares into ordinary shares.

Diluted earnings per share is the same as basic earnings per share for the six-month periods ended June 30, 2020 and 2019 as the share options have an anti-dilutive effect.

	For the six-month period ended June 30,	
	2020	2019
	RMB'000	RMB'000
	Unaudited	Unaudited (Restated)
Earnings		
Profit attributable to owners of the Company	39,449	13,653
	For the six-month period ended June 30,	
	2020	2019
	Unaudited	Unaudited
Shares		
Weighted average number of shares in issue	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, 2020 (June 30, 2019: nil).

10. PROPERTY AND EQUIPMENT

During the six-month period ended June 30, 2020, the Group purchased equipment with a cost of RMB93,922,000 (June 30, 2019: RMB522,000).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2020

11. GOODWILL

	June 30, 2020 RMB'000 Unaudited	December 31, 2019 RMB'000 Audited (Restated)
At beginning of period/year	222,622	274,027
Addition (note 22)	–	46,411
	222,622	320,438
Impairment	–	(97,816)
At end of period/year	222,622	222,622

12. INVENTORIES

	June 30, 2020 RMB'000 Unaudited	December 31, 2019 RMB'000 Audited
Properties	50,866	50,208
Materials, parts and equipment	246,997	156,476
	297,863	206,684

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2020

13. TRADE AND BILLS RECEIVABLES

	June 30, 2020 RMB'000 Unaudited	December 31, 2019 RMB'000 Audited
Trade receivables	608,187	744,692
Impairment	(68,436)	(77,806)
	539,751	666,886
Bills receivable	70,536	242,139
	610,287	909,025

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.

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, 2020 RMB'000 Unaudited	December 31, 2019 RMB'000 Audited
Less than 6 months	100,096	199,283
6 months to 1 year	176,876	264,444
1 year to 2 years	142,156	98,013
2 years to 3 years	61,583	62,677
Over 3 years	59,040	42,469
	539,751	666,886

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2020

13. TRADE AND BILLS RECEIVABLES (continued)

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

	June 30, 2020 RMB'000 Unaudited	December 31, 2019 RMB'000 Audited
At beginning of period/year	77,806	75,437
(Reversal of impairment loss)/impairment loss	(2,612)	1,815
Amount written off as uncollectible	(6,758)	–
Acquisition of a subsidiary	–	554
At end of period/year	68,436	77,806

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	June 30, 2020 RMB'000 Unaudited	December 31, 2019 RMB'000 Audited
Prepayments to suppliers for purchases of goods	287,050	279,961
Loan receivables (Note)	61,250	71,306
Tender deposits	33,988	31,760
Contract deposits	32,752	30,674
Advances to staff	34,914	31,822
Interest receivable	8,921	12,694
Dividend receivable	3,571	3,571
Others	122,881	91,464
Impairment	585,327 (43,305)	553,252 (49,833)
	542,022	503,419
Less: loan receivables — non-current (Note)	30,000	30,000
	512,022	473,419

Note: The balance represents loans to other companies which are unsecured, repayable within one year and interest-free except for a loan of RMB30,000,000 (December 31, 2019: RMB30,000,000) to an independent third party which is repayable in 2023, bears interest at a rate of 8% per annum and is secured by the pledge of the shares of Forever Opensource Co, Ltd. ("Forever Opensource")*.

* On April 14, 2020, the Group entered into a pledge release agreement pursuant to which the parties agreed to release the pledge of the shares of Forever Opensource and the borrower shall provide security with the value equivalent to the pledged shares of Forever Opensource within 180 days.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2020

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

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

	June 30, 2020 RMB'000 Unaudited	December 31, 2019 RMB'000 Audited
At beginning of period/year	49,833	34,391
Additions	18,341	21,607
Write-off	(24,869)	(6,165)
At end of period/year	43,305	49,833

15. CONTRACT ASSETS

	June 30, 2020 RMB'000 Unaudited	December 31, 2019 RMB'000 Audited
Contract assets arising from:		
Products and specialised solutions	478,497	450,844
Maintenance services	27,096	28,450
Impairment	505,593 (29,518)	479,294 (29,678)
	476,075	449,616

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

	June 30, 2020 RMB'000 Unaudited	December 31, 2019 RMB'000 Audited
At beginning of period/year	29,678	31,841
Reversal	(160)	(2,163)
At end of period/year	29,518	29,678

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2020

16. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	June 30, 2020 RMB'000 Unaudited	December 31, 2019 RMB'000 Audited
Cash and bank balances	126,901	258,722
Pledged deposits		
— Current deposits	306,574	249,617
— Non-current deposits	—	70,000
	433,475	578,339
Less: Pledged and fixed deposits for		
— Maturity over 3 months	(45,313)	(47,066)
— Letter of guarantee for projects	(25,798)	(29,952)
— Bills payables	(104,694)	(9,994)
— Interest-bearing bank borrowings (note 19)	(130,006)	(231,806)
— Tenders	(763)	(799)
Cash and cash equivalents	126,901	258,722

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 RMB380,294,000 (RMB380,276,000 in Mainland China and RMB18,000 in overseas) as at June 30, 2020 (December 31, 2019 RMB389,914,000 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2020

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, 2020 RMB'000 Unaudited	December 31, 2019 RMB'000 Audited
Current or less than 1 year	271,878	286,496
1 to 2 years	24,644	76,539
Over 2 years	21,217	25,216
	317,739	388,251

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

18. CONTRACT LIABILITIES, OTHER PAYABLES AND ACCRUALS

	June 30, 2020 RMB'000 Unaudited	December 31, 2019 RMB'000 Audited
Contract liabilities (a)	363,518	357,009
Business advance deposits	24,094	34,973
Staff costs and welfare accruals	34,234	17,175
Other borrowings	39,524	133,128
Other taxes payable	96,309	103,931
Interest payables	2,131	2,206
Others	27,180	23,532
	586,990	671,954

(a) Details of contract liabilities are as follows:

	June 30, 2020 RMB'000 Unaudited	December 31, 2019 RMB'000 Audited
Short-term advances received from customers		
Products and specialised solutions	358,888	350,110
Maintenance services	4,630	6,899
Total contract liabilities	363,518	357,009

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2020

19. INTEREST-BEARING BANK BORROWINGS

	June 30, 2020		December 31, 2019	
	Effective Interest rate (%)	RMB'000 Unaudited	Effective Interest rate (%)	RMB'000 Audited
Current				
Short term bank loans — secured	2.8–9.0	407,190	2.8–7.0	548,216
Bills receivable discounted or endorsed	0–5.4	348,487	0–4.1	153,551
		755,677		701,767
Non-current				
Long term bank loans — secured	LPR+15	40,250	HIBOR/4.1–5.7	146,250
		40,250		146,250
		795,927		848,017

Notes:

- (i) Bank loans of RMB113.7 million as at June 30, 2020 (December 31, 2019: RMB224.4 million) were secured by pledged deposits of RMB130.0 million (December 31, 2019: RMB232.0 million) of the Group (note 16).
- (ii) Bank loans of RMB3.5 million as at June 30, 2020 (December 31, 2019: RMB30.0 million) were guaranteed by the Company. Bank loans of nil as at June 30, 2020 (December 31, 2019: 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 RMB230.0 million as at June 30, 2020 (December 31, 2019: RMB230.0 million) were secured by properties of the Group with a carrying amount of RMB206.3 million (December 31, 2019: RMB208.5 million), and shares of Aproud Technology, a subsidiary of the Company.
- (iv) Current bank loans of RMB59.8 million and non-current bank loans of RMB40.3 million (December 31, 2019: in aggregate RMB50 million) were secured by properties and accounts receivable of the Group with a carrying amount of RMB73.5 million (December 31, 2019: RMB73.5 million) and RMB19.7 million (December 31, 2019: nil) and a corporate guarantee by Zhixun Tiancheng.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2020

20. SHARE CAPITAL

	June 30, 2020 RMB'000 Unaudited	December 31, 2019 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, 2020 (June 30, 2019: nil).

There was no movement in the number of outstanding share options during the six-month period ended June 30, 2020. The following table illustrates the number and weighted average exercise price ("WAEP") of the share options as at June 30, 2020:

	Number '000	WAEP RMB per share
Outstanding as at June 30, 2020 and December 31, 2019	61,011	1.05
Exercisable as at June 30, 2020 and December 31, 2019	61,011	1.05

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2020

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 subgroup 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 (“**Profit Guarantee**”), details of which are set out in the Company’s announcement dated May 13, 2019. The Acquisition was completed in late May 2019.

The initial accounting for the Acquisition was provisional for the year ended December 31, 2019 mainly because the valuations of the intangible assets acquired and the consideration transferred had not been completed. The valuations were finalised during the six-month period ended June 30, 2020 and the following adjustments were made to the amounts of the assets acquired and liabilities assumed, as well as the amount of non-controlling interest recognised at the date of the Acquisition:

	As reported RMB'000	Adjustments RMB'000	Adjusted RMB'000
Cash and cash equivalents	1,689	–	1,689
Trade and bills receivables	29,535	–	29,535
Prepayment, deposits and other receivables	39,243	–	39,243
Property and equipment	22	–	22
Intangible assets	–	32,779	32,779
Trade and other payables	(58,074)	–	(58,074)
Total identifiable net assets at fair value	12,415	32,779	45,194
Non-controlling interests	(5,215)	(11,681)	(16,896)
Goodwill on Acquisition	78,640	(32,229)	46,411
Consideration for the Acquisition	85,840	(11,131)	74,709
Cash consideration	85,840	–	85,840
Contingent consideration	–	(11,131)	(11,131)
Consideration for the Acquisition	85,840	(11,131)	74,709

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2020

22. BUSINESS COMBINATION (continued)

In addition, the following table summarises the impact of the valuations on the condensed consolidated statement of financial position as at December 31, 2019:

	As reported RMB'000	Adjustments RMB'000	Adjusted RMB'000
NON-CURRENT ASSETS			
Goodwill	254,851	(32,229)	222,622
Other intangible assets	5,938	32,779	38,717
Contingent consideration	–	6,479	6,479
EQUITY			
Equity attributable to owners of the Company			
Reserves	1,973,693	(8,033)	1,965,660
Non-controlling interests	13,468	15,062	28,530

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, 2020:

	Notes	For the six-month period ended June 30,	
		2020 RMB'000 Unaudited	2019 RMB'000 Unaudited
King Victory and its affiliates			
Rental income	(i)	1,968	2,411
Sale of products	(ii)	–	984
Interest income	(iii)	6,146	12,361
Joint ventures			
Sale of products	(ii)	7,464	–
Associate			
Rental income	(i)	29	–

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2020

23. RELATED PARTY TRANSACTIONS (continued)

	Notes	June 30, 2020 RMB'000 Unaudited	December 31, 2019 RMB'000 Audited
Due from related parties			
Associates	(iv)	5,046	4,869
King Victory and its affiliates	(v)	356,140	381,227
Total		361,186	386,096
Due to related parties			
Associates	(iv)	–	–
Joint ventures	(iv)	–	4,615
King Victory and its affiliates	(iv)	–	154
		–	4,769

Notes:

- (i) The rental income from associates and King Victory and its affiliates arose from the rental of the Company's office building, and was based on prices mutually agreed by both parties.
- (ii) The sales to King Victory and its affiliates and joint ventures were made on prices mutually agreed by both parties.
- (iii) The interest income arose from the outstanding receivables due from King Victory and its affiliates which was caused by the disposal of certain subsidiaries by the Company in 2016 and was due in June 30, 2019.
- (iv) The amounts due are unsecured, non-interest bearing and repayable on demand.
- (v) As at June 30, 2020, RMB319 million (December 31, 2019: RMB347 million) was secured by the pledge of 50.56% equity interests in Beijing RHY Technology Development Co., Ltd. The interest rates was 3.804% to 7.068% (June 30, 2019: 3.487% to 6.479%).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2020

23. RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel of the Group

	For the six-month period ended June 30,	
	2020 RMB'000 Unaudited	2019 RMB'000 Unaudited
Salaries, bonuses, allowances and benefits in kind	1,265	1,009
Pension plan contributions	11	72
Total compensation paid to key management personnel	1,276	1,081

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.

Below is a maturity analysis of undiscounted lease payments to be received from the leasing of investment properties and offices properties.

	June 30, 2020 RMB'000 Unaudited	December 31, 2019 RMB'000 Audited
Year 1	5,223	13,632
Year 2	1,354	5,205
Year 3	920	1,215
Undiscounted lease payments to be received	7,497	20,052

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2020

26. CAPITAL COMMITMENTS

As at June 30, 2020, the Group had the following capital commitments:

	June 30, 2020 RMB'000 Unaudited	December 31, 2019 RMB'000 Audited
Contracted, but not provided for equipment	202,702	223,740

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

Valuation processes

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

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments measured at fair value as at June 30, 2020:

As at June 30, 2020 (Unaudited)	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	36,349	182,642	22,380	241,371
Contingent consideration	–	–	6,479	6,479

As at December 31, 2019 (Audited)	Fair value measurement using			Total RMB'000 (Restated)
	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	29,897	120,669	32,411	182,977
Contingent consideration	–	–	6,479	6,479

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2020

27. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Movements in level 3 fair value measurements

	June 30, 2020 RMB'000 Unaudited	December 31, 2019 RMB'000 Audited (Restated)
At beginning of period/year	38,890	42,790
Addition	–	6,479
Disposal	–	(9,444)
Total gains and losses in profit or loss	(10,031)	(935)
At end of period/year	28,859	38,890

During the six-month period ended June 30, 2020, there were no transfers of fair value measurement between level 1 and level 2 and no transfer into or out of level 3 (December 31, 2019: nil).

Quantitative information of the significant unobservable inputs used in level 3 fair value measurements

The fair values of unlisted equity investments at fair value through profit or loss have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation (“**EV/EBITDA**”) multiple and price to earnings (“**P/E**”) multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the condensed consolidated statement of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The fair value of the contingent consideration is estimated based on the expected profit of CEEC for the year ending December 31, 2020.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2020

27. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Quantitative information of the significant unobservable inputs used in level 3 fair value measurements (continued)

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investments	Market Approach	Average EV/EBITDA multiple of peers	27.65 (December 31, 2019: 19.9)	1% increase/decrease in multiple would result in increase/decrease in fair value by RMB218,000 (December 31, 2019: RMB319,000)
		Discount for lack of market ability	35% (December 31, 2019: 35%)	1% increase/decrease in discount would result in decrease/increase in fair value by RMB218,000 (December 31, 2019: RMB319,000)
Profit Guarantee	Net Income Model	Expected profit of CEEC	N/A	1% increase/decrease in expected profit would result in decrease/increase in fair value by RMB923,000 (December 31, 2019: RMB923,000)

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

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, 2020.