China ITS (Holdings) Co., Ltd.

中国智能交通系统(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1900)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2017

HIGHLIGHTS OF 2017 INTERIM RESULTS

- The amount of backlog as at June 30, 2017 was approximately RMB1,115.9 million, compared to approximately RMB1,059.9 million as at December 31, 2016, or an approximately 5.3% increase.
- The amount of new contracts signed and orders secured for the six months ended June 30, 2017 was approximately RMB577.0 million, compared to approximately RMB1,171.1 million for the six months ended June 30, 2016 (The amount of new contracts signed and orders secured, revenue, gross profit, gross profit margin and profit attributable to owners of the parent of the company for the six months ended June 30, 2016 contained the performance of the Disposal Group[(1)]).
- Revenue for the six months ended June 30, 2017 was approximately RMB523.6 million, compared to approximately RMB1,061.9 million for the six months ended June 30, 2016.
- Gross profit for the six months ended June 30, 2017 was approximately RMB128.4 million, compared to approximately RMB210.4 million for the six months ended June 30, 2016.
- Gross profit margin for the six months ended June 30, 2017 was 24.5% which was higher than to 19.8% for the six months ended June 30, 2016.
- Profit attributable to owners of the parent of the Company for the six months ended June 30, 2017 was RMB25.8 million, compared to a profit of approximately RMB45.6 million for the six months ended June 30, 2016.
- Earnings per share[(2)] for the six months ended June 30, 2017 was approximately RMB0.02 per share.

Notes:

(1) The "Disposal Group" means, collectively, Hugecom Limited, China Traffic Holding Limited, China Expressway Intelligent Transportation Technology Group Ltd. and Beijing RHY Technology Development Co., Ltd.* (北京瑞華贏科技發展有限公司) and their respective subsidiaries.

(2) Earnings per share refers to profit attributable to owners of the parent divided by weighted average number of shares in issue, during the six months ended June 30, 2017.

INTERIM RESULTS

The board of directors (individually, a "**Director**", or collectively, the "**Board**") of China ITS (Holdings) Co., Ltd. ("**CIC**" or the "**Company**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended June 30, 2017, with comparative figures, as follows:

Interim Consolidated Statement of Profit or Loss
For the six-month period ended June 30, 2017

	Notes	**For the six-month period ended June 30, 2017** *RMB'000* **Unaudited**	2016 *RMB'000* Unaudited
REVENUE	*3*	**523,562**	1,061,917
Cost of revenue	*4*	**(395,142)**	(851,477)
Gross profit		**128,420**	210,440
Other income and gains	*3*	**5,173**	6,204
Selling, general and administrative expenses		**(79,550)**	(144,351)
Other expenses		**(1,104)**	(967)
OPERATING PROFIT		**52,939**	71,326
Finance income		**12,430**	7,473
Finance costs		**(26,518)**	(27,958)
Share of losses of joint ventures		**(59)**	(1,213)
Share of losses of associates		**(59)**	(2,921)
Loss on disposal of a subsidiary		**–**	(6)
PROFIT BEFORE TAX	*4*	**38,733**	46,701
Income tax expense	*5*	**(12,952)**	(19,509)
PROFIT FOR THE PERIOD		**25,781**	27,192
Attributable to:			
Owners of the parent		**25,783**	45,550
Non-controlling interests		**(2)**	(18,358)
		25,781	27,192
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic — For profit for the period	*6*	**RMB0.02**	RMB0.03
Diluted — For profit for the period	*6*	**RMB0.02**	RMB0.03

Interim Consolidated Statement of Comprehensive Income
For the six-month period ended June 30, 2017

	For the six-month period ended June 30,	
	2017	2016
	RMB'000	*RMB'000*
	Unaudited	Unaudited
PROFIT FOR THE PERIOD	**25,781**	27,192
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(1,710)**	(6,225)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**(1,710)**	(6,225)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**24,071**	20,967
Attributable to:		
Owners of the parent	**24,073**	39,325
Non-controlling interests	**(2)**	(18,358)
	24,071	20,967

Interim Consolidated Statement of Financial Position
As at June 30, 2017

	Notes	**June 30, 2017** *RMB'000* **Unaudited**	December 31, 2016 *RMB'000* Audited
NON-CURRENT ASSETS			
Property and equipment		**301,044**	300,388
Investment properties		**61,800**	61,800
Goodwill		**274,027**	230,664
Other intangible assets		**15,163**	9,128
Investments in joint ventures		**16,043**	16,103
Investments in associates		**3,564**	3,623
Available-for-sale investments		**75,307**	25,307
Deferred tax assets		**9,794**	17,366
Prepayment for acquisition of equity interests in a company		**–**	92,000
Total non-current assets		**756,742**	756,379
CURRENT ASSETS			
Inventories		**89,372**	86,077
Construction contracts	*8*	**652,175**	586,356
Trade and bills receivables	*9*	**1,139,046**	1,274,760
Prepayments, deposits and other receivables		**518,041**	743,837
Amounts due from related parties		**635,668**	1,083,363
Pledged deposits	*10*	**295,226**	211,396
Cash and cash equivalents	*10*	**383,425**	604,843
Total current assets		**3,712,953**	4,590,632
CURRENT LIABILITIES			
Trade and bills payables	*11*	**390,442**	740,579
Other payables and accruals		**212,617**	197,149
Construction contracts	*8*	**731,407**	889,468
Interest-bearing bank borrowings		**693,262**	938,863
Amounts due to related parties		**22,322**	246,489
Income tax payable		**48,791**	79,397
Total current liabilities		**2,098,841**	3,091,945
NET CURRENT ASSETS		**1,614,112**	1,498,687
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,370,854**	2,255,066

	June 30, 2017 *RMB'000* Unaudited	December 31, 2016 *RMB'000* Audited
TOTAL ASSETS LESS CURRENT LIABILITIES	**2,370,854**	2,255,066
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**172,810**	81,200
Deferred tax liabilities	**9,215**	9,108
Total non-current liabilities	**182,025**	90,308
Net assets	**2,188,829**	2,164,758
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**290**	290
Reserves	**2,188,570**	2,164,497
	2,188,860	2,164,787
Non-controlling interests	**(31)**	(29)
Total equity	**2,188,829**	2,164,758

Selected Notes to the Financial Statements

1. CORPORATE AND GROUP INFORMATION

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

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

Basis of presentation

The unaudited interim condensed consolidated financial statements for the six-month ended June 30, 2017 have been prepared in accordance with International Accounting Standard ("**IAS**") 34 Interim Financial Reporting and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2016. The interim condensed consolidated financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousands, except when otherwise indicated.

3. REVENUE

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

Revenue from the sales of products, represents net invoiced value of goods sold, net of value-added tax and government surcharges, and after allowances for goods returns and trade discounts.

Revenue from the rendering of services, represents net invoiced value of services rendered.

An analysis of revenue, other income and gains is as follows:

	For the six-month period ended June 30,	
	2017	2016
	RMB'000	*RMB'000*
Revenue		
Implementation of projects	**440,942**	1,036,214
Sale of products	**51,448**	11,924
Rendering of services	**31,172**	13,779
	523,562	1,061,917
Other income and gains		
Gross rental income	**4,261**	6,158
Government grants*	**912**	–
Others	**–**	46
	5,173	6,204

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

4. PROFIT BEFORE TAX

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

	For the six-month period ended June 30,	
	2017	2016
	RMB'000	*RMB'000*
Cost of services rendered for the implementation of projects	**324,163**	840,309
Cost of inventories sold	**48,776**	4,185
Cost of services provided	**22,203**	6,983
	395,142	851,477
Depreciation	**7,045**	6,269
Amortisation of prepaid land premium	**–**	150
	7,045	6,419
Minimum lease payments under operating leases	**3,871**	6,175
Auditors' remuneration	**1,076**	1,557
Wages and salaries	**19,792**	40,636
Pension scheme contributions (defined contribution scheme)	**2,631**	4,508
Social insurance costs and staff welfare	**5,780**	11,899
Directors' and senior executives' remuneration	**2,425**	2,523
	30,628	59,566
Impairment of other receivables	**4,283**	3,162
Impairment of trade receivables *(note 9)*	**1,049**	2,507
Impairment of amounts due from construction contracts *(note 8)*	**503**	–
Impairment of property and equipment	**–**	52
Rental income on investment properties	**(2,195)**	(5,009)
Foreign exchange losses, net	**33**	966
Loss on disposal of a subsidiary	**–**	6

5. INCOME TAX

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

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

Under the relevant PRC income tax law, except for certain preferential treatment available to the Group, the PRC subsidiaries of the Group are subject to income tax at a rate of 25% (2016: 25%) on their respective taxable income. During the current period, 3 entities (2016: 9 entities) of the Group were entitled to 15% preferential corporate income tax rate as High and New Technology Enterprises, and 1 entity (2016: 1 entity) of the Group which is located in Tibet was entitled to 9% preferential corporate income tax rate.

No provision for Hong Kong profits tax has been made for the six-month period ended June 30, 2017 (June 30, 2016: nil), as the Group had no assessable profits arising in Hong Kong for each of the periods.

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

	For the six-month period ended June 30,	
	2017	2016
	RMB'000	*RMB'000*
Current income tax:		
Current income tax charge in Mainland China	**6,164**	26,252
Deferred income tax:		
Relating to origination and reversal of temporary differences	**6,788**	(6,743)
Income tax expense reported in the interim condensed consolidated statement of profit or loss	**12,952**	19,509

6. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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

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

No adjustment has been made to the basic earnings per share amounts presented for the six-month periods ended June 30, 2017 and 2016 in respect of a dilution as the impact of the share option scheme outstanding has an anti-dilutive effect on the basic profit per share amounts presented.

	For the six-month period ended June 30,	
	2017	2016
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**25,783**	45,550

	For the six-month period ended June 30,	
	2017	2016
Shares		
Weighted average number of shares in issue during the period used in the basic earnings per share calculation	**1,654,024,868**	1,654,024,868

7. DIVIDENDS PROPOSED

No interim dividend was proposed by the Company for the six-month period ended June 30, 2017.

8. CONSTRUCTION CONTRACTS

	June 30, 2017	December 31, 2016
	RMB'000	*RMB'000*
Gross amount due from contract customers	**652,175**	586,356
Gross amount due to contract customers	**(731,407)**	(889,468)
	(79,232)	(303,112)
Contract costs incurred plus recognised profits less recognised losses to date	**6,184,313**	5,714,926
Less: progress billings	**(6,263,545)**	(6,018,038)
	(79,232)	(303,112)

In the current period, RMB503,000 was provided for the impairment loss of the amounts due from contract customers (year ended December 31, 2016: nil).

9. TRADE AND BILLS RECEIVABLES

	June 30, 2017 *RMB'000*	December 31, 2016 *RMB'000*
Trade receivables	**1,049,964**	1,150,953
Impairment	**(6,428)**	(5,379)
	1,043,536	1,145,574
Bills receivable	**95,510**	129,186
	1,139,046	1,274,760

Trade and bills receivables, which are non-interest-bearing, are recognised and carried at the original invoiced amount less any impairment loss. An estimate for doubtful debts is made when there is objective evidence that an impairment loss on receivables has been incurred. The Group does not hold any collateral or other credit enhancements over its trade and bills receivables balances.

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	June 30, 2017 *RMB'000*	December 31, 2016 *RMB'000*
Less than 6 months	**298,658**	601,538
6 months to 1 year	**349,033**	132,503
1 year to 2 years	**219,987**	283,906
2 years to 3 years	**164,776**	170,335
Over 3 years	**106,592**	86,478
	1,139,046	1,274,760

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

	June 30, 2017 *RMB'000*	December 31, 2016 *RMB'000*
At January 1	**5,379**	32,980
Additions	**1,049**	3,096
Amount written off	**–**	(655)
Disposal of subsidiaries	**–**	(30,042)
At period/year end	**6,428**	5,379

As at June 30, 2017, RMB144,512,000 (December 31, 2016: RMB110,520,000) of trade receivables are secured for the current bank loans of RMB98,292,000 (December 31, 2016: RMB96,249,000).

10. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	June 30, 2017 *RMB'000*	December 31, 2016 *RMB'000*
Cash and bank balances	**383,425**	604,843
Pledged deposits		
— Current deposits	**295,226**	211,396
	678,651	816,239
Less: Pledged deposits for		
— Letter of guarantee for projects	**(5,398)**	(4,818)
— Bills payables	**(5,204)**	(9,127)
— Interest-bearing bank borrowings	**(283,500)**	(195,750)
— Tenders	**(1,124)**	(1,701)
Cash and cash equivalents	**383,425**	604,843

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

The cash and bank balances and pledged deposits of the Group denominated in RMB totalled RMB675,664,000 (RMB675,647,000 is located in Mainland China and RMB17,000 is located overseas) as at June 30, 2017 (December 31, 2016: RMB812,751,000 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.

11. TRADE AND BILLS PAYABLES

	June 30, 2017	December 31, 2016
	RMB'000	*RMB'000*
Trade payables	**172,746**	534,409
Bills payable	**217,696**	206,170
	390,442	740,579

An aged 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, 2017	December 31, 2016
	RMB'000	*RMB'000*
Current or less than 1 year	**367,754**	656,741
1 to 2 years	**13,495**	53,508
Over 2 years	**9,193**	30,330
	390,442	740,579

The Group's bills payable were secured by pledged deposits of the Group of RMB5,204,000 as at June 30, 2017 (December 31, 2016: RMB9,127,000).

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

12. BUSINESS COMBINATION

On March 24, 2017, the Group acquired 100% equity interests in Chengdu Zhongzhi Runbang Transportation Technology Co., Ltd. ("**Chengdu Zhongzhi**") from Beijing Guangwei Xingye Technology Co., Ltd. ("**Beijing Guangwei**"), a third party of the Company. Chengdu Zhongzhi is specialised in providing transportation technology services and solutions in railway industry. The acquisition was made as part of the Group's strategy to expand its market share in the Southwest China. The purchase consideration for the acquisition was RMB92,000,000, which was settled by way of set-off against the principle amount and interest accrued of certain loans provided by the Company to Beijing Guangwei, which was recorded in prepayment for acquisition of equity interests in a company as at December 31, 2016.

The fair value of the identifiable assets and liabilities of Chengdu Zhongzhi as at the date of acquisition were as follows:

	RMB'000
Cash and cash equivalents	1,170
Trade and bills receivables	37,270
Construction contracts	16,209
Prepayments, deposits and other receivables	1,711
Property and equipment	146
Trade and bills payables	(4,710)
Income tax payable	(2,268)
Deferred tax liabilities	(891)
Total identifiable net assets at fair value	48,637
Goodwill on acquisition	43,363
Cash consideration settled against the prepayment for acquisition of equity interests in a company as at December 31, 2016	92,000

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash and bank balances acquired	1,170
Net inflow of cash and cash equivalents included in cash flows from investing activities	1,170

Since the acquisition, Chengdu Zhongzhi contributed RMB11,837,000 to the Group's revenue and RMB1,364,000 to the consolidated profit for the six-month period ended June 30, 2017.

Had the combination taken place at the beginning of the period, the revenue of the Group and the profit of the Group for the six-month period would have been RMB599,691,000 and RMB28,326,000, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

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

For the first half of 2017 (the "**Period**"), China ITS (Holdings) Co., Ltd. (the "**Company**") and its subsidiaries (collectively the "**Group**") recorded RMB577.0 million from new contracts signed and orders secured, and as at June 30, 2017, RMB1,115.9 million from backlog. For the Period, the Group generated revenue of RMB523.6 million, representing a decrease of 50.7% as compared to RMB1,061.9 million for the six months ended June 30, 2016, overall gross profit of RMB128.4 million, representing a decrease of 39.0% compared to the first half of 2016, and gross profit margin of 24.5%, improving from 19.8% for the first half of 2016. The profit attributable to owners of the parent of the Company for the six months ended June 30, 2017 amounted to RMB25.8 million.

BUSINESS AND FINANCIAL REVIEW

Business Review

Consolidate main operations and fully tap customer demand

In line with the Group's development strategy for the future, the Group implemented a major restructuring of its business (the "**Disposal**") in 2016, which saw it strip its turnkey solutions business (i.e. the electromechanical and information system integration business) and keep the specialised solutions ("**SS**") and value-added operation and services ("**VAOS**") businesses.

In 2017, the Group's management, based on a comprehensive and thorough analysis and planning of its existing product lines for the SS and VAOS businesses, in view of the market environment and the Group's actual conditions, decided to give full strength to the Company's advantages in resources and specialised service technologies and focus on product sales and related value-added operation and services with a product line-oriented approach.

The SS business is the Group's core business (accounting for 86.1% of the Group's revenue for the 12 months ended December 31, 2016 and 92.4% of the Group's revenue for the six months ended June 30, 2017), which has formed a strong portfolio of communication products supplemented by network and energy products and other products.

The VAOS business, as a maintenance and follow-up service following the provision of specialised solutions, provides operators with a full range of subsequent services, including maintenance and emergency response. Based on the expertise and knowledge built by the Group in the process of provision of specialised services and its judgements of the industry's future development, this business ensures the normal operation of operators' networks and, through the value-added services it provides, helps the Group to further tap customer demand.

Seek opportunities of business diversification

Subsequent to the completion of the Disposal, the Group has focused on its existing businesses as the foundation of the Group's business development, and committed itself to exploring other business opportunities and finding new strategic partners to diversify operating risks and lay a solid foundation for its long-term development.

In 2017, the Group, responding to China's Belt and Road Initiative and leveraging its excellent standing in the industry and extensive financing channels, formulated the plan to enter industries including energy and power by way of outbound investment, associates and joint venture and other methods and foray into overseas markets, especially Southeast Asian markets.

FINANCIAL REVIEW

REVENUE

During the Period, the Group carried out 1,011 projects of varying sizes across mainland China. As the revenue and gross profit achieved by the Group for the six months ended June 30, 2016 included proceeds from disposal of assets in 2016, the following revenue and gross profit data are adjusted to exclude the Disposal Group effects in order to better reflect the Group's business performance during the first half of 2017:

	Six months ended June 30,	
	2017	2016
	RMB'000	*RMB'000*
Gross profit by business sectors		
SS	**483,758**	727,883
VAOS	**39,804**	22,075
Total	**523,562**	749,958

(i) SS

For the six months ended June 30, 2017, revenue of RMB483.8 million was recognised from the SS business, representing a decrease of RMB244.1 million from RMB727.9 million for the six months ended June 30, 2016. The amount of new contracts signed and orders secured for the six months ended June 30, 2017 was RMB558.9 million, and the amount of backlog as at June 30, 2017 was RMB1,058.3 million, representing an increase of RMB77.6 million from RMB980.7 million as at December 31, 2016.

There were mainly two reasons for the decrease in revenue. The first reason was related to China's macro policy: China's railway infrastructure investment in 2017 is on par with that in last year, but it decelerated in the first half of the year and is expected to pick up in the second half to complete the year's investment tasks. On the other hand, the central government issued a risk alert in May 2017 and required stepping up financial risk prevention and control, which was accompanied by a slightly tightened monetary policy. Against this backdrop, local governments' railway construction projects experienced a capital crunch, leading to the railway investment deceleration. The second reason is the cyclical nature of upgrade and restructuring projects in the railway communication product market. Generally, the railway communication network receives an upgrade for every approximately five years. As the peak of railway communication network upgrade projects was basically completed in 2016, the cycle reached its trough in 2017. Due to the abovementioned factors, the Group's revenue from specialised solutions for the first half of 2017 experienced a decline from the same period of last year. As railway construction investment picks up speed in the second half of 2017, the specialised solutions business' revenue is expected to improve to some extent.

(ii) VAOS

Revenue recognised from the VAOS business for the six months ended June 30, 2017 was RMB39.8 million, representing an increase of RMB17.7 million from RMB22.1 million for the six months ended June 30, 2016. The amount of new contracts signed and orders secured for the VAOS business for the six months ended June 30, 2017 was RMB18.1 million, and the amount of backlog as at June 30, 2017 was approximately RMB57.6 million, representing a decrease of RMB21.6 million from RMB79.2 million as at December 31, 2016.

As maintenance and follow-up services provided after the provision of specialised solutions, the Group's VAOS business has its existing product line 100% represented by "communication products". Looking forward, the "communication products" VAOS business will remain a core business of the Group.

Business Sector	**Project Name**
SS	Jing — Shen (Beijing — Shenyang) Railway Project Lian — Yan (Lianyungang — Yancheng) Railway Project Yang Ping Guan — Ankang Railway Project
VAOS	Maintenance of Shanghai railway administration Maintenance of Taiyuan railway administration

GROSS PROFIT

Overall gross profit of the Group decreased from RMB139.7 million for the six months ended June 30, 2016 to RMB128.4 million for the six months ended June 30, 2017. Gross profit margin increased from 18.6% for the six months ended June 30, 2016 to 24.5% for the six months ended June 30, 2017.

	Six months ended June 30,	
	2017	2016
	RMB'000	*RMB'000*
Gross profit by business sectors		
SS	**120,433**	132,094
Margin %	**24.9%**	18.1%
VAOS	**7,987**	7,559
Margin %	**20.1%**	34.2%
Total	**128,420**	139,653
Margin	**24.5%**	18.6%

(i) SS

Gross profit recognised from SS for the six months ended June 30, 2017 was RMB120.4 million, representing a decrease of RMB11.7 million from RMB132.1 million for the six months ended June 30, 2016. Gross profit margin of SS for the six months ended June 30, 2017 was 24.9%, increasing by 6.8% from 18.1% for the six months ended June 30, 2016.

(ii) VAOS

Gross profit recognised from VAOS for the six months ended June 30, 2017 was RMB8.0 million, representing an increase of RMB0.4 million from RMB7.6 million for the six months ended June 30, 2016. Gross profit margin of VAOS for the six months ended June 30, 2017 was 20.1%, decreasing by 14.1% from 34.2% for the six months ended June 30, 2016.

Other Income and Gains

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

Selling, General and Administration Expense

In the year ended June 30, 2017, selling, general and administration expenses was approximately RMB79.6 million, representing a decrease of RMB64.8 million as compared to approximately RMB144.4 million for the six months ended June 30, 2016. This decrease was mainly due to that the selling, general and administration expenses for the six months ended June 30, 2016 contained the completion of the Disposal.

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

For the six months ended June 30, 2017, selling, general and administration expenses which was related to daily operational activities ("**SG&A**") was approximately RMB73.7 million, as a percentage of sales was 14.1% which was similar to 13.1% for the six months ended June 30, 2016.

Staff costs remained as a large component of the Group's SG&A while travelling, entertainment and business expansion expenses ("**T&E Expenses**") and office supplies expenses are highly correlated with the headcount numbers. Therefore, the total amount of the aforesaid expenses (headcount related cost) constituted the largest portion of the Group's SG&A. The headcount related cost decreased from RMB97.4 million in the six months ended June 30, 2016 to RMB48.5 million for the six months ended June 30, 2017, and accounting for 65.8% of the SG&A representing a decrease as compared to 70.2% for the six months ended June 30, 2016. This fluctuation was mainly due to that the Group adopted a variety of methods to effectively control the cost of office expenses and vehicle expenses.

Rental expenses decreased from RMB6.0 million for the six months ended June 30, 2016 to RMB3.3 million for the six months ended June 30, 2017 due to that in November 2015, the Group moved its office from World Financial Center to the self-owned property building, which resulted in the decrease of the rental expenses.

Research & Development expenses decreased from RMB8.2 million for the six months ended June 30, 2016 to RMB7.7 million for the six months ended June 30, 2017. In addition, in the first half of 2017, the Group has invested RMB6.0 million to develop and purchase intangible asset.

(ii) *Bad debts expenses*

Bad debt expenses mainly represented one-off write-down expenses provided for receivables which the Group considered with no or minimal recoverability according to recognised criteria of bad debts on an individual basis. Such expense were RMB5.8 million for the six months ended June 30, 2017 which were RMB5.7 million for the six months ended June 30, 2016.

Finance Revenue and Finance Cost

Finance revenue comprised of mainly interest income and finance cost comprised of mainly interest expenses for interest-bearing bank loan. The net financial expenses represented the total finance cost minus finance revenue. This financial expense was RMB14.1 million for six months ended June 30, 2017, which represented a decrease of RMB6.4 million as compared to RMB20.5 million for six months ended June 30, 2016.

Share of Losses of Joint Venture/Associates

Share of losses of investment entities for the six months ended June 30, 2017 was approximately RMB0.1 million, as compared to the loss of RMB4.1 million for the six months ended June 30, 2016.

Income Tax Expenses

The total income tax expenses for the six months ended June 30, 2017 was RMB13.0 million, which was lower to RMB19.5 million for the six months ended June 30, 2016.

Profit for the year

Profit attributable to the owners of the parent for the six months ended June 30, 2017 was approximately RMB25.8 million, compared to a profit of approximately RMB45.6 million for the six months ended June 30, 2016.

Trade Receivables Turnover Days

The trade receivables turnover days in the six months ended June 30, 2017 was 328 days (in the six months ended June 30, 2016: 282 days).

Net Construction Turnover Days

The net amount due from contract customer turnover days in the six months ended June 30, 2017 was 42 days (in the six months ended June 30, 2016: 38 days).

Trade Payables Turnover Days

The trade payables turnover days in the six months ended June 30, 2017 was 163 days (in the six months ended June 30, 2016: 253 days).

Inventory Turnover Days

The inventories of the Group mainly comprised of raw materials, work-in-progress, finished goods and general merchandise for surveillances Specialized Solutions. The inventory turnover days in the six months ended June 30, 2017 was 4 days (in the six months ended June 30, 2016: 5 days).

Liquidity and Financial Resources

The Group's principal sources of working capital included cash flow from operating activities, bank and other borrowings, the proceeds from the Global Offering, and the proceeds from bond issued. As at June 30, 2017, the Group's current ratio (current assets divided by current liabilities) was 1.8 (as at December 31, 2016: 1.5). The Group's financial position remains healthy.

As at June 30, 2017, the Group was in a net negative cash of RMB482.7 million (as at December 31, 2016: net negative cash of RMB415.2 million) which included cash and cash equivalents of RMB383.4 million (as at December 31, 2016: RMB604.8 million), interest-bearing bank borrowings of RMB866.1 million (as at December 31, 2016: RMB1,020.1 million). As at June 30, 2017, the Group's gearing ratio was -19.5%, which has decreased from -29.2% as at December 31, 2016, due to the decrease of due to related parties. Gearing ratio refers to adjusted cash (interest-bearing bank borrowings plus due to related parties minus pledged deposits, short-term deposits, and cash and bank balances) divided by total equity.

Contingent Liabilities

As at June 30, 2017, the Group had no material contingent liability.

Charges on Group Assets

As at June 30, 2017, except for the secured deposits (current portion) of approximately RMB295.2 million (as at December 31, 2016: RMB211.4 million), the Group pledged its building with a net book values of approximately RMB61.8 million (as at December 31, 2016: RMB61.8 million) and trade receivables with a carrying amount of RMB144.5 million (as at December 31, 2016: RMB110.5 million) and its equity interests in a subsidiary amount of approximately RMB227.0 million (as at December 31, 2016: RMB227.0 million) to banks to secure banking facilities granted to the Group. Save as disclosed above, as at June 30, 2017, the Group had no other asset charged to financial institution.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANY

On March 24, 2017 (after trading hours), certain subsidiaries of the Company, entered into the Equity Transfer Agreement with Beijing Guangwei Xingye Technology Co., Ltd., Chengdu Zhongzhi Runbang Transportation Technology Co., Ltd. and the Founders, pursuant to which certain subsidiaries of the Company have conditionally agreed to acquire and Beijing Guangwei conditionally agreed to transfer 100% equity interest in Chengdu Zhongzhi Runbang, which is a wholly-owned subsidiary of Beijing Guangwei, with effect from the Equity Interest Date for a consideration of RMB92,000,000. Please refer to the announcement of the Company dated March 24, 2017 for details.

EMPLOYMENT AND EMOLUMENT POLICIES

As at June 30, 2017, the Group had 477 full-time employees. The remuneration of the existing employees includes basic salaries, discretionary bonuses and social security contributions. 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.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended June 30, 2017, 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 months ended June 30, 2017.

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 months ended June 30, 2017.

AUDIT COMMITTEE

The audit committee of the Company was established on June 18, 2010 with effect from the listing of the Company. The current terms of reference of the audit committee have been adopted on March 28, 2012 in compliance with the CG Code. The primary duties of the audit committee are, among other things, to review and supervise our financial reporting process and internal control systems.

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

The audit committee has reviewed the accounting principles and practices and has also reviewed auditing, internal control and financial reporting matters, including the review of the interim results of the Group for the six months ended June 30, 2017 together with the management of the Company and external auditor, Ernst & Young.

PUBLICATION OF THE 2017 INTERIM REPORT

The 2017 Interim Report of the Company containing all the information as required under Appendix 16 of the Listing Rules will be dispatched to the shareholders and available on the Company's website at www.its.cn and the Stock Exchange's website at *www.hkexnews.hk* in due course.

ACKNOWLEDGEMENT

The Chairman of the Company would like to thank the Board, management and all members of our staff for their commitment and diligence. The Chairman of the Company would also like to thank our shareholders and business associates for their strong support to the Group.

By Order of the Board
China ITS (Holdings) Co., Ltd.
Liao Jie
Chairman

Beijing, August 28, 2017

As at the date of this announcement, the executive directors of the Company are Mr. Liao Jie and Mr. Jiang Hailin, the non-executive director of the Company is Mr. Tim Tianwei Zhang, and the independent non-executive directors of the Company are Mr. Zhou Chunsheng, Mr. Choi Onward and Mr. Ye Zhou.