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-MONTH PERIOD ENDED JUNE 30, 2018

HIGHLIGHTS OF 2018 INTERIM RESULTS

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

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

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

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

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

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

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

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-month period ended June 30, 2018, with comparative figures, as follows:

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six-month period ended June 30, 2018

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six-month period ended June 30, 2018

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at June 30, 2018

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

	Notes	**June 30, 2018** *RMB'000* **Unaudited**	December 31, 2017 *RMB'000* Audited
CURRENT LIABILITIES			
Trade and bills payables	*13*	**416,924**	391,036
Other payables and accruals		**140,436**	271,516
Contract liabilities	*9*	**788,998**	–
Construction contracts		**–**	621,901
Interest-bearing bank borrowings		**499,650**	608,829
Amounts due to related parties		**24,579**	19,514
Income tax payable		**32,303**	46,601
Total current liabilities		**1,902,890**	1,959,397
NET CURRENT ASSETS		**1,403,757**	1,552,971
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,406,081**	2,373,797
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**305,576**	152,000
Deferred tax liabilities		**14,028**	19,307
Total non-current liabilities		**319,604**	171,307
Net assets		**2,086,477**	2,202,490
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**290**	290
Reserves		**2,086,187**	2,202,200
		2,086,477	2,202,490
Total equity		**2,086,477**	2,202,490

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**").

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

- Specialised solutions business — providing solutions to discrete problems occurring in clients' existing or planned transportation infrastructure through the design, development and implementation of hardware-based and software-based systems; and

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

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

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

Basis of presentation

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

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

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

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

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

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

IFRS 15 ***Revenue from Contracts with Customers***

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

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

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

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

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

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

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

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

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

(a) System integration solutions

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

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

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

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

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

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

(b) Presentation and disclosure

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

IFRS 9 *Financial Instruments*

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

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

The effect of adopting IFRS 9 is, as follows:

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

	Notes	Balance at December 31, 2017 *RMB'000* Audited	Adjustments due to IFRS 9 *RMB'000* Unaudited	Balance at January 1, 2018 *RMB'000* Unaudited
Assets				
Available for sale investments	*(a)*	103,236	(103,236)	–
Financial assets at fair value through profit or loss	*(a)*	–	119,060	119,060
Trade and bills receivables	*(b)*	1,094,119	(27,007)	1,067,112
Contract assets	*(b)*	–	(18,340)	(18,340)
Subtotal		**1,197,355**	**(29,523)**	**1,167,832**
Liabilities				
Deferred tax liabilities	*(a)*	19,307	2,373	21,680
Subtotal		**19,307**	**2,373**	**21,680**
Equity				
Available for sale investments revaluation reserve	*(a)*	5,946	(5,946)	–
Retained earnings	*(a)/(b)*	412,424	(25,950)	386,474
Subtotal		**418,370**	**(31,896)**	**386,474**

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

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

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

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

(a) Classification and measurement

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

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

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

(b) Impairment

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

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

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

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

3. OPERATING SEGMENT INFORMATION

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

(i) Specialised solutions: Provides solutions to discrete problems occurring in clients' existing or planned transportation infrastructure through the design, development and implementation of hardware-based and software-based systems; and

(ii) Value-added operation and services: Engages in the provision of operation outsourcing and value-added services, via intelligent transportation system platforms, servicing transportation operators and participants.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax from operations except that finance income, finance costs, exchange losses, loss on financial assets at fair value through profit or loss as well as head office and corporate expenses are excluded from this measurement.

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

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

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

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

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

Geographical information

(a) Revenue from external customers

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

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

(b) Non-current assets

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

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

Information about a major customer

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

4. REVENUE, OTHER INCOME AND GAINS

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

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

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

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

	For the six-month period ended June 30,	
	2018	2017
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Type of goods or services		
System integration solutions	**327,087**	440,942
Sale of products	**35,627**	51,448
Rendering of services	**20,128**	31,172
Total revenue from contracts with customers	**382,842**	523,562
Timing of revenue recognition		
Service transferred over time	**347,215**	472,114
Goods transferred at a point in time	**35,627**	51,448
Total revenue from contracts with customers	**382,842**	523,562

	For the six-month period ended June 30,	
	2018	2017
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Other income and gains		
Finance income	**5,544**	12,430
Gross rental income	**2,551**	4,261
Fair value gain on investment property transferred from inventory	**1,244**	–
Government grants*	**1,500**	912
Others	**26**	–
	10,865	17,603

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

5. PROFIT/(LOSS) BEFORE TAX

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

	For the six-month period ended June 30,	
	2018	2017
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Cost of system integration solutions	**273,496**	324,163
Cost of sale of products	**31,294**	48,776
Cost of rendering of services	**15,774**	22,203
	320,564	395,142
Depreciation	**3,656**	7,045
Amortisation of intangible assets	**1,655**	–
	5,311	7,045
Minimum lease payments under operating leases	**3,868**	3,871
Auditors' remuneration	**1,455**	1,076
Wages and salaries	**20,003**	22,120
Pension scheme contributions (defined contribution scheme)	**3,073**	2,728
Social insurance costs and staff welfare	**6,156**	5,780
	29,232	30,628
Impairment of trade receivables *(note 10)*	**7,997**	1,049
Impairment of contract assets *(note 9)*	**837**	–
Impairment of amounts due from construction contracts	**–**	503
Impairment of assets held for sale *(note 12)*	**2,476**	–
Impairment of other receivables	**300**	4,283
Changes in fair value of financial assets	**42,101**	–
Loss on disposal items of property, plant and equipment	**6**	–
Rental income on investment properties	**(2,551)**	(2,195)
Foreign exchange losses, net	**495**	33

6. INCOME TAX

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

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

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

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

According to PRC tax regulations, from January 1, 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, are subject to withholding tax at the rate of 10% on various types of passive income such as dividends derived from entities in the PRC. Distributions of the pre-2008 earnings are exempted from the above-mentioned withholding tax. At June 30, 2018, no deferred tax liabilities have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and joint ventures established in Mainland China (2017: nil). In the opinion of the directors, it is not probable that these subsidiaries and joint ventures will distribute such earnings in the foreseeable future.

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

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

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

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

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

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

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

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

8. DIVIDENDS PROPOSED

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

9. CONTRACT ASSETS AND CONTRACT LIABILITIES

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

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

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

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

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

10. TRADE AND BILLS RECEIVABLES

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

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

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

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

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

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

11. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

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

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

The cash and bank balances and pledged deposits of the Group denominated in RMB totalled RMB451,635,000 (unaudited) (RMB449,871,000 (unaudited) is located in Mainland China and RMB1,764,000 (unaudited) is located overseas) as at June 30, 2018 (December 31, 2017: RM454,855,000 (audited) in total). In Mainland China, RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

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

13. TRADE AND BILLS PAYABLES

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

BUSINESS AND FINANCIAL REVIEW

Business Review

Consolidate main operations and fully tap customer demand

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

The SS business is the Group's core business (accounting for 92.9% of the Group's revenue for the 12 months ended December 31, 2017 and 95.6% of the Group's revenue for the six-month period ended June 30, 2018), which has formed a strong portfolio of communication products supplemented by video surveillance and communication power supply and engine room professional AC products.

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

Develop overseas markets and achieve significant growth

Since 2017 the Group has been committed to exploring other overseas markets, especially Southeast Asian markets, to diversify operating risks and lay a solid foundation for its long-term development. Based on its good reputation in the industry, the Group has achieved significant business growth in overseas markets after a year of development. In the first half of 2018, the Group signed the equipment purchasing contract for Malaysia's East Coast Rail Link camp network and video engineering project (RMB8.15 million in contract value); the Group signed the AC system equipment purchasing contract for the Astana Light Metro project in Kazakhstan (RMB38.89 million in contract value); Gtech-CIC Joint Venture signed the wireless communication system maintenance contract for the Hong Kong section of the Guangzhou — Shenzhen — Hong Kong Express Rail Link (RMB83.0 million in contract value). In 2018 the overseas market performance of the Group is expected to be much better than 2017.

FINANCIAL REVIEW

REVENUE

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

	Six-month period ended June 30,	
	2018	2017
	RMB'000	*RMB'000*
Revenue by business sectors		
SS	**365,832**	483,758
VAOS	**17,010**	39,804
Elimination	**–**	–
Total	**382,842**	523,562

(i) SS

For the six-month period ended June 30, 2018, revenue of RMB365.8 million was recognised from the SS business, representing a decrease of RMB118.0 million from RMB483.8 million for the six-month period ended June 30, 2017. The amount of new contracts signed and orders secured for the six-month period ended June 30, 2018 was RMB338.2 million, and the amount of backlog as at June 30, 2018 was RMB802.3 million, representing a decrease of RMB27.7 million from RMB830.0 million as at December 31, 2017.

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

(ii) VAOS

Revenue recognised from the VAOS business for the six-month period ended June 30, 2018 was RMB17.0 million, representing an decrease of RMB22.8 million from RMB39.8 million for the six-month period ended June 30, 2017 . The amount of new contracts signed and orders secured for the VAOS business for the six-month period ended June 30, 2018 was RMB30.0 million, and the amount of backlog as at June 30, 2018 was approximately RMB83.8 million, representing an increase of RMB13.1 million from RMB70.7 million as at December 31, 2017.

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

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

GROSS PROFIT

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

	Six-month period ended June 30,	
	2018	2017
	RMB'000	*RMB'000*
Gross profit by business sectors		
SS	**58,506**	120,433
Margin %	**16.0%**	24.9%
VAOS	**3,772**	7,987
Margin %	**22.2%**	20.1%
Elimination	**–**	–
Total	**62,278**	128,420
Margin	**16.3%**	24.5%

(i) SS

Gross profit recognised from SS for the six-month period ended June 30, 2018 was RMB58.5 million, representing a decrease of RMB61.9 million from RMB120.4 million for the six-month period ended June 30, 2017. Gross profit margin of SS for the six-month period ended June 30, 2018 was 16.0%, decreasing by 8.9% from 24.9% for the six-month period ended June 30, 2017, but slightly decreasing from the 18.1% for the year ended 31 December 2017.

(ii) VAOS

Gross profit recognised from VAOS for the six-month period ended June 30, 2018 was RMB3.8 million, representing a decrease of RMB4.2 million from RMB8.0 million for the six-month period ended June 30, 2017. Gross profit margin of VAOS for the six-month period ended June 30, 2018 was 22.2%, increasing by 2.1% from 20.1% for the six-month period ended June 30, 2017.

Other Income and Gains

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

Selling, General and Administration Expense

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

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

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

Staff costs remained as a large component of the Group's SG&A while travelling, entertainment and business expansion expenses ("**T&E Expenses**") and office supplies expenses are highly correlated with the headcount numbers. Therefore, the total amount of the aforesaid expenses (headcount related cost) constituted the largest portion of the Group's SG&A. The headcount related cost decreased from RMB48.5 million for the six-month period ended June 30, 2017 to RMB42.4 million for the six-month period ended June 30, 2018, and accounting for 59.9% of the SG&A which decreased by 5.9% from 65.8% for the six-month period ended June 30, 2017, mainly due to the full-time employees of the Group decreased from 477 as at June 30, 2017 to 344 as at June 30, 2018.

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

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

(ii) Impairment losses

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

Finance Revenue and Finance Cost

Finance revenue comprised of mainly interest income and finance cost comprised of mainly interest expenses for interest-bearing bank loan. The net financial expenses represented the total finance cost minus finance revenue. This net financial expense was RMB15.3 million for six-month period ended June 30, 2018, which represented an increase of RMB1.2 million as compared to RMB14.1 million for the six-month period ended June 30, 2017.

Share of Profit of Joint Venture/Associates

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

Income Tax Expenses

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

Loss for the year

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

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

Trade Receivables Turnover Days

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

Net Contract Assets Turnover Days

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

Trade Payables Turnover Days

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

Inventory Turnover Days

The inventories of the Group mainly comprised of raw materials, work-in-progress, finished goods and general merchandise for surveillances Specialized Solutions. The inventory turnover days in the six-month period ended June 30, 2018 was 5 days (in the six-month period ended June 30, 2017: 4 days).

Liquidity and Financial Resources

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

As at June 30, 2018, the Group was in a net negative cash of RMB722.8 million (as at December 31, 2017: net negative cash of RMB581.1 million) which included cash and cash equivalents of RMB82.4 million (as at December 31, 2017: RMB179.7 million), interest-bearing bank borrowings of RMB805.2 million (as at December 31, 2017: RMB760.8 million). As at June 30, 2018 , the Group's gearing ratio was -14.5%, which was similar to -14.6% as at December 31, 2017. Gearing ratio refers to adjusted cash (interest-bearing bank borrowings plus due to related parties minus pledged deposits, short-term deposits, and cash and bank balances) divided by total equity.

Contingent Liabilities

As at June 30, 2018, the Group had no material contingent liability.

Charges on Group Assets

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

IMPORTANT EVENTS AFFECTING THE GROUP AFTER THE REPORTING PERIOD

Subscription of Shares

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

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

Reference is made to the announcement and circular of the Company dated February 17, 2016 and March 24, 2016, respectively, in relation to the very substantial disposal and connected transaction (the "**VSD**") of the Company as disclosed in the announcement and the circular. As disclosed in the announcement of the Company dated April 9, 2018, as at June 30, 2018, approximately RMB509.74 million (the "**Outstanding Amounts**") of the consideration for the VSD and other amounts in connection with the VSD payable by the purchaser and its affiliates (together the "**Purchaser Group**") were outstanding.

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

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

EMPLOYMENT AND EMOLUMENT POLICIES

As at June 30, 2018 , the Group had 344 full-time employees. The emolument policy of the employees of the Group is set up by the Board on the basis of individual performance, the nature and responsibilities of the individual concerned and the performance of our Group and market conditions.

In addition, the Company has adopted the Pre-IPO Share Incentive Scheme and the Share Option Scheme as an incentive for Directors and eligible employees.

INTERIM DIVIDEND

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CORPORATE GOVERNANCE

The Company places high value on its corporate governance practice and the Board firmly believes that a good corporate governance practice can improve accountability and transparency for the benefit of its shareholders.

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules (the "**Model Code**") as the standards for the Directors' dealings in the securities of the Company. Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the required standard set out in the Model Code during the six-month period ended June 30, 2018.

AUDIT COMMITTEE

The audit committee of the Company was established on June 18, 2010 with effect from the listing of the Company. The current terms of reference of the audit committee have been adopted on December 22, 2015 in compliance with the CG Code. The primary duties of the audit committee are, among other things, to review and supervise our financial reporting process and internal control systems.

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

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

PUBLICATION OF THE 2018 INTERIM REPORT

The 2018 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 27, 2018

As at the date of this announcement, the executive Directors are Mr. Liao Jie, and Mr. Jiang Hailin, the non-executive Director is Mr. Tim Tianwei Zhang, and the independent non-executive Directors are Mr. Choi Onward, Mr. Ye Zhou and Mr. Wang Dong.