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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

HIGHLIGHTS OF 2018 ANNUAL RESULTS

As of 31 December 2018 (the "**Period**" or "**2018**"), results of China ITS (Holdings) Co., Ltd. (the "**Company**" or "**CIC**") and its subsidiaries (collectively the "**Group**") are as follows:

- The Group recorded RMB1,148.1 million from new contracts signed, representing an increase of 17.8% compared to the previous year.
- Revenue of RMB924 million was generated, decreased by 20.7% compared to the previous year.
- As at 31 December 2018, the Group recorded RMB978.1 million from backlog, representing an increase of 8.6% compared to the previous year.
- The Group generated overall gross profit of RMB164.6 million, declined by 36.5% compared to the previous year and gross profit margin of 17.8%, representing a decrease of 4.5 percentage points compared to the previous year.
- The loss attributable to owners of the parent of the Company amounted to RMB116.3 million as compared to the profit of RMB24.5 million for the previous year. IFRS 9 — Financial Instruments has been implemented since 1 January 2018: upon the adoption of IFRS 9, the equity investments held by the Group were measured at fair value through profit or loss and the bad debts provisions for trade receivables and contract assets were measured based on expected credit loss (ECL). Due to the depression in the stock market, there was a significant decline in the fair value of the equity investments, which led to a loss of RMB51.2 million for the year. Bad debts provision for the year increased by RMB32.6 million as a result of the new bad debts provision policy. Excluding the above factors, the profit for the year decreased by RMB57 million compared to the previous year.

ANNUAL RESULTS

The audited consolidated results of the Group for the year ended 31 December 2018, with comparative figures, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	**923,966**	1,164,838
Cost of sales		**(759,331)**	(905,500)
Gross profit		**164,635**	259,338
Other income and gains	5	**56,564**	40,570
Selling, distribution and administrative expenses		**(197,305)**	(200,350)
Impairment losses on financial and contract assets, net		**(47,531)**	–
Other expenses		**(52,209)**	(3,285)
Finance costs		**(42,171)**	(47,806)
Share of profits and losses of:			
Joint ventures		**4,913**	1,651
Associates		**(991)**	(1,031)
(LOSS)/PROFIT BEFORE TAX		**(114,095)**	49,087
Income tax expense	6	**(2,183)**	(24,618)
(LOSS)/PROFIT FOR THE YEAR		**(116,278)**	24,469
Attributable to:			
Owners of the parent		**(116,278)**	24,490
Non-controlling interests		**–**	(21)
		(116,278)	24,469
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		*RMB*	*RMB*
Basic			
— For (loss)/profit for the year	8	**(0.07)**	0.01
Diluted			
— For (loss)/profit for the year	8	**(0.07)**	0.01

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018	2017
	RMB'000	*RMB'000*
(LOSS)/PROFIT FOR THE YEAR	**(116,278)**	24,469
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**–**	5,946
Exchange differences:		
Exchange differences on translation of foreign operations	**(11,170)**	7,267
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**(11,170)**	13,213
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(11,170)**	13,213
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	**(127,448)**	37,682
Attributable to:		
Owners of the parent	**(127,448)**	37,703
Non-controlling interests	**–**	(21)
	(127,448)	37,682

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	**2018** **RMB'000**	2017 RMB'000
NON-CURRENT ASSETS			
Property and equipment		**262,359**	261,413
Investment properties		**78,200**	66,800
Goodwill		**274,027**	274,027
Other intangible assets		**1,983**	15,621
Investments in joint ventures		**48,305**	54,368
Investments in associates		**3,071**	6,592
Financial assets at fair value through profit or loss	*11*	**117,755**	–
Available-for-sale investments	*11*	**–**	103,236
Deferred tax assets		**17,514**	7,769
Loan receivables		**33,000**	31,000
Pledged deposits		**134,290**	–
Total non-current assets		**970,504**	820,826
CURRENT ASSETS			
Inventories		**59,798**	80,257
Contract assets	*9*	**696,704**	–
Construction contracts		**–**	831,190
Trade and bills receivables	*10*	**975,011**	1,094,119
Prepayments, other receivables and other assets		**343,442**	365,683
Financial assets at fair value through profit or loss	*11*	**20,000**	–
Other financial assets	*11*	**–**	39,903
Amounts due from related parties		**650,811**	638,486
Pledged deposits		**234,428**	283,076
Cash and cash equivalents		**146,436**	179,654
		3,126,630	3,512,368
Assets classified as held for sale		**8,500**	–
Total current assets		**3,135,130**	3,512,368

	Note	**2018**	2017
		RMB'000	*RMB'000*
CURRENT LIABILITIES			
Trade and bills payables	*12*	**651,863**	391,036
Other payables and accruals		**556,725**	271,516
Construction contracts		**–**	621,901
Interest-bearing bank borrowings		**363,509**	608,829
Amounts due to related parties		**27,956**	19,514
Income tax payable		**29,512**	46,601
Total current liabilities		**1,629,565**	1,959,397
NET CURRENT ASSETS		**1,505,565**	1,552,971
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,476,069**	2,373,797
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**420,843**	152,000
Deferred tax liabilities		**24,537**	19,307
Total non-current liabilities		**445,380**	171,307
Net assets		**2,030,689**	2,202,490
EQUITY			
Equity attributable to owners of the parent			
Share capital		**290**	290
Other reserves		**2,030,399**	2,202,200
		2,030,689	2,202,490
Total equity		**2,030,689**	2,202,490

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 20 February 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 located at 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 year, the Group was involved in the following principal activities:

(a) Specialised solution 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

(b) Value-added operation and services — engaging in the provision of operation outsourcing and value-added services, via intelligent transport system platforms, to transportation operators and participants.

2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Standing Interpretations Committee interpretations issued and approved by the International Accounting Standards Board (the "**IASB**") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and equity investments, which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	Amendments to IFRS 1 and IAS 28

Except for the amendments to IFRS 4 and *Annual Improvements 2014–2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) Amendments to IFRS 2 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

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

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("**ECLs**").

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	Notes	IAS 39 Measurement RMB'000	Re-classification RMB'000	ECL RMB'000	Fair value changes RMB'000	IFRS9 Measurement RMB'000
Financial assets						
Financial assets at fair value through profit or loss	*(i)*	–	143,139	–	15,824	158,963
Other financial assets	*(i)*	39,903	(39,903)	–	–	–
Available for sale investments	*(i)*	103,236	(103,236)	–	–	–
Trade receivables		1,094,119	–	(27,007)	–	1,067,112
		1,237,258	–	(27,007)	15,824	1,226,075
Other assets						
Contract assets	*(ii)*	818,733	–	(18,340)	–	800,393
Total		2,055,991	–	(45,347)	15,824	2,026,468
Other liabilities						
Deferred tax liabilities		19,307	–	–	2,373	21,680

Other than the accounts listed in the above table, the carrying amount of the other accounts under IAS 39 is the same as the balances reported under IFRS 9 as at 1 January 2018.

Notes:

(i) Financial assets at fair value through profit or loss includes the Group's previous available-for-sale equity investments and other financial assets which the Group had not irrevocably elected to designate as fair value through other comprehensive income.

(ii) The gross carrying amounts of the contract assets under the column "IAS 39 measurement — Amount" represent the amounts after adjustments for the adoption of IFRS 15 but before the measurement of ECLs. Further details of the adjustments for the adoption of IFRS 15 are included in note 2.2(c) to the financial statements.

(iii) Upon adoption of IFRS 9, trade receivables, financial assets included in prepayments, other receivables and other assets, amounts due from related parties, pledged deposits, cash and cash equivalents, and other non-current financial assets (i.e., loan receivables) previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as financial assets at amortised cost.

(iv) The Group has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Group's financial liabilities.

Impairment

The following table reconciles the aggregate opening impairment allowances under IAS 39 to the ECL allowances under IFRS 9. Further details are disclosed in notes 9 and 10 to the financial statements.

	Impairment allowances under IAS 39 at 31 December 2017 *RMB'000*	**Re-measurement** *RMB'000*	**ECL allowances under IFRS 9 at 1 January 2018**
Trade receivables	8,182	27,007	35,189
Contract assets	17,300	18,340	35,640
	25,482	45,347	70,829

Impact on reserves and retained profits

The impact of transition to IFRS 9 on reserves and retained profits is as follows:

	Reserves and retained profits *RMB'000*
Fair value reserve under IFRS 9 (available-for-sale investment revaluation reserve under IAS 39)	
Balance as at 31 December 2017 under IAS 39	5,946
Reclassification of financial assets from available-for-sale investments to financial assets at fair value through profit or loss	(5,946)
Balance as at 1 January 2018 under IFRS 9	–
Retained profits	
Balance as at 31 December 2017 under IAS 39	412,424
Recognition of expected credit losses for contract assets under IFRS 9	(18,340)
Recognition of expected credit losses for trade receivables under IFRS 9	(27,007)
Reclassification of available-for-sale investments to financial assets at fair value through profit or loss	21,770
Deferred tax in relation to the above	(2,373)
Balance as at 1 January 2018 under IFRS 9	386,474

(c) IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15, establishes a new 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 principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 5 to the financial statements.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of IFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of IFRS 15:

	Notes	**Balance at 31 December 2017** *RMB'000*	**Adjustments due to IFRS 15** *RMB'000*	**Balance at 1 January 2018** *RMB'000*
Assets				
Construction contracts	*(ii)*	831,190	(831,190)	–
Contract assets	*(ii)*	–	818,733	818,733
Subtotal		831,190	(12,457)	818,733
Liabilities				
Other payables and accruals	*(iii)*	271,516	621,901	893,417
Construction contracts	*(iii)*	621,901	(621,901)	–
Subtotal		893,417	–	893,417
Equity				
Retained earnings	*(i)*	412,424	(12,457)	399,967

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of IFRS 15. The adoption of IFRS 15 has had no impact on other comprehensive income or on the Group's operating, investing and financing cash flows and the impact on the basic and diluted loss per share attributable to ordinary equity holders of the parent is immaterial. The first column shows the amounts recorded under IFRS 15 and the second column shows what the amounts would have been had IFRS 15 not been adopted:

Consolidated statement of profit or loss for the year ended 31 December 2018:

	Note	Amounts prepared under IFRS 15 RMB'000	Previous IFRS RMB'000	Increase/ (decrease) RMB'000
Revenue	*(i)*	**923,966**	**925,021**	**(1,055)**
Loss for the year		**(116,278)**	**(117,333)**	**1,055**
Attributable to:				
Owners of the parent		**(116,278)**	**(117,333)**	**1,055**

Consolidated statement of financial position as at 31 December 2018:

	Notes	Amounts prepared under IFRS 15 RMB'000	Previous IFRS RMB'000	Increase/ (decrease) RMB'000
Assets				
Construction contracts	*(ii)*	**–**	**697,759**	**(697,759)**
Contract assets	*(i)/(ii)*	**696,704**	**–**	**696,704**
Subtotal		**696,704**	**697,759**	**(1,055)**
Liabilities				
Other payables and accruals	*(iii)*	**556,725**	**229,121**	**327,604**
Construction contracts	*(iii)*	**–**	**327,604**	**(327,604)**
Subtotal		**556,725**	**556,725**	**–**
Retained earnings	*(i)*	**257,316**	**258,371**	**(1,055)**

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the statement of financial position as at 31 December 2018 and the statement of profit or loss for the year ended 31 December 2018 are described below:

(i) *Construction of system integration solutions*

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

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

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

Under IFRS 15, if an entity is using an input 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.

Accordingly, the Group adjusted the revenue recognised for those goods delivered to the customer but has not integrated, which resulted in an decrease in retained earnings of RMB12,457,000 as at 1 January 2018. As at 31 December 2018, the adoption of IFRS 15 resulted in an decrease in contract assets by RMB1,055,000, and revenue decreased by RMB1,055,000 for the year ended 31 December 2018.

(ii) Contract assets

Before the adoption of IFRS 15, contract costs were recognised as an asset provided it was probable that they would be recovered. Such costs represented an amount due from the customers and were recorded as construction contracts in the statement of financial position before the construction services were billed to customers. Upon the adoption of IFRS 15, a contract asset is recognised when the Group performs by transferring goods or services to customers and the Group's right to consideration is conditional. Accordingly, the Group reclassified RMB831,190,000 from construction contracts to contract assets as at 1 January 2018.

As at 31 December 2018, the adoption of IFRS 15 resulted in a decrease in construction contracts of RMB697,759,000 and an increase in contract assets of RMB697,759,000.

(iii) Consideration received from customers in advance

Before the adoption of IFRS 15, the Group recognised consideration received from customers in advance as construction contracts due to customers and advances from customers included in other payables and accruals. Under IFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

Therefore, upon adoption of IFRS 15, the Group reclassified RMB97,984,000 from advances from customers included in other payables and accruals, and RMB621,901,000 from construction contracts due to customers to contract liabilities included in other payables and accruals, respectively, as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under IFRS 15, RMB34,123,000 and RMB327,604,000 were reclassified from advances from customers included in other payables and accruals and construction contracts due to customers to contract liabilities included in other payables and accruals, respectively, in relation to the consideration received from customers in advance for the sale of products and the provision of construction services.

(d) Amendments to IAS 40, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(e) IFRIC 22, provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

4. OPERATING SEGMENT INFORMATION

For management purposes, 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 resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that finance income, finance costs, exchange losses, changes in fair value of investment properties and equity investments, gain on disposal of equity investments, dividend income from equity investments 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.

Year ended 31 December 2018	Specialised solutions	Value-added operation and services	Total
	RMB'000	*RMB'000*	*RMB'000*
Segment revenue *(note 5)*			
Sales to external customers	**849,102**	**74,864**	**923,966**
Intersegment sales	**–**	**6,833**	**6,833**
	849,102	**81,697**	**930,799**
Reconciliation:			
Elimination of intersegment sales			**(6,833)**
Revenue			**923,966**
Segment results	**(27,422)**	**(3,783)**	**(31,205)**
Reconciliation:			
Finance income			**35,667**
Finance costs			**(42,171)**
Exchange losses			**(653)**
Changes in fair value of investment properties			**6,400**
Gain on investment property transferred from inventory			**1,244**
Changes in fair value of financial assets at fair value through profit or loss			**(51,207)**
Dividend income from equity investments at fair value through profit or loss			**1,695**
Corporate and other unallocated expenses			**(33,865)**
Loss before tax			**(114,095)**
31 December 2018			
Other segment information:			
Share of profits/(losses) of:			
Joint ventures	**4,913**	**–**	**4,913**
Associates	**(991)**	**–**	**(991)**
Impairment losses recognised in the statement of profit or loss	**73,871**	**4,351**	**78,223**
Depreciation and amortisation	**2,294**	**870**	**3,164**
Capital expenditure*	**2,547**	**103**	**2,650**

* *Capital expenditure consists of additions to property and equipment, and intangible assets.*

Year ended 31 December 2017	Specialised solutions *RMB'000*	Value-added operation and services *RMB'000*	Total *RMB'000*
Segment revenue			
Sales to external customers	1,080,994	83,844	1,164,838
Intersegment sales	1,673	16,430	18,103
	1,082,667	100,274	1,182,941
Reconciliation:			
Elimination of intersegment sales			(18,103)
Revenue			1,164,838
Segment results	67,762	45,501	113,263
Reconciliation:			
Finance income			22,198
Finance costs			(47,806)
Exchange losses			(2,736)
Changes in fair value of investment properties			5,000
Changes in fair value of other financial assets			(407)
Gain on disposal of available-for-sale investments			883
Corporate and other unallocated expenses			(41,308)
Profit before tax			49,087
31 December 2017			
Other segment information:			
Share of profits/(losses) of:			
Joint ventures	1,441	210	1,651
Associates	(1,007)	(24)	(1,031)
Impairment losses recognised in the statement of profit or loss	(18,249)	(568)	(18,817)
Depreciation and amortisation	(7,423)	(1,333)	(8,756)
Capital expenditure*	14,297	1,388	15,685

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

Geographical information

(a) Revenue from external customers

	2018	2017
	RMB'000	*RMB'000*
Mainland China	**895,791**	1,114,797
Other	**28,175**	50,041
	923,966	1,164,838

(b) Non-current assets

	2018	2017
	RMB'000	*RMB'000*
Mainland China	**950,504**	795,519
Other	**20,000**	25,307
	970,504	820,826

Information about a major customer

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

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018	2017
	RMB'000	*RMB'000*
Revenue from contracts with customers	**923,966**	–
Construction services	**–**	1,000,660
Sale of products	**–**	87,625
Maintenance services	**–**	76,553
	923,966	1,164,838

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

Segments	Specialised solutions *RMB'000*	Value-added operation and services *RMB'000*	Total *RMB'000*
Type of goods or services			
Construction services	**619,730**	**–**	**619,730**
Sale of products	**229,372**	**–**	**229,372**
Maintenance services	**–**	**74,864**	**74,864**
Total revenue from contracts with customers	**849,102**	**74,864**	**923,966**
Geographical markets			
Mainland China	**831,319**	**64,472**	**895,791**
Other	**17,783**	**10,392**	**28,175**
Total revenue from contracts with customers	**849,102**	**74,864**	**923,966**
Timing of revenue recognition			
Goods transferred at a point in time	**229,372**	**–**	**229,372**
Services transferred over time	**619,730**	**74,864**	**694,594**
Total revenue from contracts with customers	**849,102**	**74,864**	**923,966**

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2018 *RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Construction services	**192,921**
Sale of products	**706**
Maintenance services	**1,541**
	195,168
Revenue recognised from performance obligations satisfied in previous periods:	
Gross margin not previously recognised due to the construction contracts not signed	**27,614**

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of products

The performance obligation is satisfied upon delivery of the industrial products and payment is generally due within 30 to 180 days from delivery, except for new customers, where payment in advance is normally required.

Maintenance services

The performance obligation is satisfied over time as services are rendered and payment is generally due upon completion of maintenance and customer acceptance, except for new customers, where payment in advance is normally required.

Construction services

The performance obligation is satisfied over time as services are rendered and payment is generally due within 30 to 180 days from the date of billing.

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 are as follows:

	2018
	RMB'000
Within one year	**537,968**
More than one year	**440,155**
	978,123

The remaining performance obligations expected to be recognised in more than one year relate to construction services that are to be satisfied within two years. All the other remaining performance obligations are expected to be recognised within one year. The amounts disclosed above do not include variable consideration which is constrained.

	2018	2017
	RMB'000	*RMB'000*
Other income		
Finance income	**35,667**	22,198
Gross rental income	**7,212**	7,256
Dividend income from equity investments at fair value through profit or loss	**1,695**	–
Government grants*	**1,617**	3,565
Income from sales of properties	**2,704**	1,649
Others	**25**	19
	48,920	34,687
Gains		
Gain on disposal of available-for-sale investments	**–**	883
Gain on investment property transferred from inventory	**1,244**	–
Changes in fair value of investment properties	**6,400**	5,000
	56,564	40,570

* 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.

6. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

Details of the tax benefits enjoyed by the Group's PRC subsidiaries in 2018 are as follows:

(i) Beijing Zhixun Tiancheng Technology Co., Ltd. was designated and approved as a High and New Technology Enterprise ("**HNTE**") in December 2017 for a period of three years from 2017 and was entitled to a preferential tax rate of 15% for 2018.

(ii) Beijing Zhongzhi Runbang Technology Co., Ltd. was designated and approved as an HNTE in October 2018 for a period of three years from 2018 and was entitled to a preferential tax rate of 15% for 2018.

(iii) Zhongtian Runbang Information Technology Co., Ltd. and Tibet Intelligent Aviation Technology Co., Ltd. are companies set up in Tibet, and were entitled to a preferential tax rate of 15% for 2018.

According to PRC tax regulations, from 1 January 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 31 December 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, joint ventures and associates established in Mainland China (2017: Nil). In the opinion of the directors, it is not probable that these subsidiaries, joint ventures and associates will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB886,219,000 (2017: RMB945,595,000). No aggregate amount of temporary differences associated with investments in joint ventures and associates in Mainland China for which deferred tax liabilities have not been recognized in 2018 (2017: Nil).

The major components of income tax expense are as follows:

	2018	2017
	RMB'000	*RMB'000*
Current income tax charge in Mainland China		
Provision for the year	**6,033**	4,977
Underprovision in prior year	**3,038**	166
Withholding tax on disposal of subsidiaries	**–**	2,553
	9,071	7,696
Deferred income tax	**(6,888)**	16,922
Total tax charge for the year	**2,183**	24,618

7. DIVIDENDS

No dividend was proposed by the Company for the years ended 31 December 2018 and 31 December 2017.

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

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

The calculation of the diluted earnings per share amount is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year, 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 years ended 31 December 2018 and 31 December 2017 in respect of a dilution as the impact of the share option scheme outstanding has an anti-dilutive effect on the basic earnings per share amounts presented.

The calculations of basic and diluted earnings per share are based on:

	2018	2017
	RMB'000	*RMB'000*
Earnings		
(Loss)/Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:	**(116,278)**	24,490

	Number of shares	
	2018	2017
Shares		
Weighted average number of shares in issue during the year used in the basic earnings per share calculation	**1,654,024,868**	1,654,024,868

9. CONTRACT ASSETS

	31 December 2018	1 January 2018	31 December 2017
	RMB'000	*RMB'000*	*RMB'000*
Contract assets arising from:			
Construction services	**690,059**	799,191	–
Maintenance services	**38,486**	36,842	–
	728,545	836,033	
Impairment	**(31,841)**	(35,640)	–
	696,704	800,393	–

Contract assets are initially recognised for revenue earned from the sale of production and the provision of system integration solutions and rending of services as the receipt of consideration is conditional on successful completion of installation of the products and construction, respectively. Upon completion of issuing billing to the customer according to the milestones of the projects, the amounts recognised as contract assets are reclassified to trade receivables. The decrease in contract assets in 2018 was due to the decrease of ongoing construction projects at the end of year.

During the year ended 31 December 2018, RMB3,799,000 was reversed as an allowance for expected credit losses on contract assets. The Group's trading terms and credit policy with customers are disclosed in note 10 to the financial statements.

The expected timing of recovery or settlement for contract assets as at 31 December 2018 is as follows:

	RMB'000
Within 1 year	564,806
More than 1 year	131,898
Total contract assets	696,704

The movements in the loss allowance for impairment of contact assets are as follows:

	2018
	RMB'000
At beginning of year	**17,300**
Effect of adoption of IFRS 9	**18,340**
At beginning of year (restated)	**35,640**
Reversal of impairment during the year	**(3,799)**
At end of year	**31,841**

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on days past the invoice date of trade receivables for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's contract assets using a provision matrix:

		Expected credit loss		
As at 31 December 2018	**Credit-impaired**	**Aproud Technology**	**Entities other than Aproud Technology**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Gross carrying amount	**16,253**	**17,272**	**695,020**	**728,545**
Expected credit losses	**16,253**	**2,869**	**12,719**	**31,841**
Expected credit loss rate	**100%**	**16.61%**	**1.83%**	**4.37%**

10. TRADE AND BILLS RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**920,309**	974,298
Impairment	**(75,437)**	(8,182)
	844,872	966,116
Bills receivable	**130,139**	128,003
	975,011	1,094,119

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

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

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

	2018	2017
	RMB'000	*RMB'000*
Less than 6 months	**461,207**	348,608
6 months to 1 year	**113,224**	89,056
1 year to 2 years	**138,766**	286,727
2 years to 3 years	**75,312**	116,092
Over 3 years	**56,363**	125,633
	844,872	966,116

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

	2018	2017
	RMB'000	*RMB'000*
At beginning of year	**8,182**	5,379
Effect of adoption of IFRS 9	**27,007**	–
At beginning of year (restated)	**35,189**	5,379
Impairment losses	**46,158**	5,803
Amount write-off as uncollectible	**(5,910)**	(3,000)
At end of year	**75,437**	8,182

Impairment under IFRS 9 for the year ended 31 December 2018

The breakdown of the loss allowance as at 31 December 2018 is as follows:

	Expected credit losses			
At 31 December 2018	**Credit-impaired**	**Aproud Technology**	**Entities other than Aproud Technology**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Gross carrying amount	**7,867**	**8,794**	**903,648**	**920,309**
Credit loss	**7,867**	**6,183**	**61,387**	**75,437**
Average credit loss rate	**100%**	**70.31%**	**6.79%**	**8.20%**

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past the invoice date for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than five years are not subject to enforcement activity.

The management categorises its trade receivables based on the ageing. The lifetime expected credit losses for receivables by assessing future cash flows for each group of trade receivables including a probability weighted amount determined by evaluating a range of possible outcomes based on historical credit loss experience by customer segment, geographical region, tenure and type of customer and applying to the receivables held at year end. The determining factor impacting collectability is customer attributes. The impact of economic factors, both current and future, is considered in assessing the likelihood of recovery from customers. As the customer group of Aproud Technology is different with other entities in the Group, there are two different provision matrix. Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix.

Aproud Technology

Aproud Technology was engaged in providing intelligent transportation services in expressway sector in prior years, and has little business in recent years. The main customers are the administration department of expressway. The information about the credit risk of Aproud Technology is as below:

At 31 December 2018	**Expected credit loss rate**	**Gross carrying amount** *RMB'000*	**Expected credit losses** *RMB'000*
Less than 1 year	**16.61%**	**447**	**74**
1 year to 2 years	**34.85%**	**1,590**	**554**
2 year to 3 years	**38.45%**	**1,256**	**483**
3 year to 4 years	**71.89%**	**563**	**405**
4 year to 5 years	**86.74%**	**1,362**	**1,181**
5 year to 6 years	**89.23%**	**833**	**743**
Over 6 years	**100.00%**	**2,743**	**2,743**
Total		**8,794**	**6,183**

Entities other than Aproud Technology

The entities in the Group other than Aproud Technology are mainly engaged in providing specialised solutions and value-added operation and services in railway sectors. Most of the customers are state-owned enterprises and railways bureau. The information of about the credit risk of entities other than Aproud Technology is as below:

At 31 December 2018	**Expected credit loss rate**	**Gross carrying amount** *RMB'000*	**Expected credit losses** *RMB'000*
Less than 1 year	**1.83%**	**584,759**	**10,701**
1 year to 2 years	**4.35%**	**143,995**	**6,265**
2 year to 3 years	**9.85%**	**82,683**	**8,144**
3 year to 4 years	**16.04%**	**19,967**	**3,203**
4 year to 5 years	**25.92%**	**33,201**	**8,606**
5 year to 6 years	**35.61%**	**22,636**	**8,061**
Over 6 years	**100.00%**	**16,407**	**16,407**
Total		**903,648**	**61,387**

Other than the loss allowance using the provision matrix, included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB7,867,000 with a carrying amount before provision of RMB7,867,000.

Impairment under IAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under IAS 39, as at 31 December 2017, was a provision for individually impaired trade receivables of RMB3,743,000 with a carrying amount before provision of RMB3,743,000.

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 was as follows:

	2017 *RMB'000*
Less than 6 months	348,608
6 months to 1 year	89,056
1 year to 2 years	286,727
2 years to 3 years	116,092
	840,483

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

As at 31 December 2018, no trade receivables (2017: RMB94,235,000) are secured for the current bank loans (2017: RMB74,541,000).

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/AVAILABLE-FOR-SALE INVESTMENTS/OTHER FINANCIAL ASSETS

	2018 ***RMB'000***	2017 *RMB'000*
Equity investments at fair value through profit or loss		
Unlisted equity investments, at fair value	**137,755**	–
Non-current	**117,755**	–
Current	**20,000**	–
Other financial assets	**–**	39,903
Available-for-sale investments		
Unlisted equity investments, at fair value	**–**	57,929
Unlisted investments, at cost	**–**	45,307
	–	103,236

During the year ended 31 December 2018, the loss of fair value changes of the Group's equity investments at fair value through profit or loss recognised in other expenses amounted to RMB51,207,000.

During the year ended 31 December 2017, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income was amounted to RMB5,946,000. As at 31 December 2017, certain unlisted equity investment with a carrying amount of RMB45,307,000 was stated at cost less impairment because the directors are of the opinion that the fair value cannot be measured reliably.

12. TRADE AND BILLS PAYABLES

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

	2018	2017
	RMB'000	*RMB'000*
Current or less than 1 year past due	**569,619**	348,011
1 to 2 years past due	**70,386**	36,854
Over 2 years past due	**11,858**	6,171
	651,863	391,036

The Group's bills payable were secured by pledged deposits of the Group of RMB15,894,000 as at 31 December 2018 (2017: RMB60,000).

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

In 2018, the Group recorded RMB1,148.1 million from new contracts signed, representing an increase of 17.8% compared to the previous year. The Group generated revenue of RMB924 million, representing a decrease of 20.7% compared to the previous year, and as of 31 December 2018 RMB978.1 million from backlog, representing an increase of 8.6% compared to the end of the previous year. The overall gross profit was RMB164.6 million, representing a decrease of 36.5% compared to the previous year, and gross profit margin of 17.8%, declined from 22.3% for the previous year. The loss attributable to owners of the parent of the Company amounted to RMB116.3 million for the year.

BUSINESS AND FINANCIAL REVIEW

Business Review

The Group is one of the largest solution provider in the railway communication segment, maintaining a relatively high market share. The Group actively responded to the market fluctuations and made some achievements, while the revenue for the year was lower than that of last year due to the fact that most of the projects has not been delivered by the year end:

1. Although in 2018 the railway communication market stayed in bottom periodically, the Group had secured new contracts of RMB1,148.1 million through great effort, an increase of 17.8% over the previous year. Meanwhile, as of 31 December 2018, the backlog reached to RMB978.1 million, laying a solid foundation for 2019.

2. The Group won several national railway benchmark projects, leading the new technologies and solutions for future railway communication network solutions:

   2.1 The Group has signed a contract to develop the external service-oriented data communication network for the Menghua Project. The Menghua Project is the world's longest heavy haul coal transportation railway and the new national strategic transportation channel — North-to-South Coal Transportation. This network is the main network of the railway information system and a benchmark project of information network development for 18 Chinese railway administrations in the future. This contract laid a good foundation for the Group to secure more projects in this segment in the future.

   2.2 The Beijing-Zhangjiakou High-Speed Railway Project is an important infrastructure to guarantee the transportation for 2022 Beijing Winter Olympics. It is the first intelligent high speed railway in Mainland China, which will employ the China developed Beidou satellite navigation system for the first time, with a speed of 350 kilometres per hour. It is also the world's first high-speed railway designed to travel at a speed of up to 350 kilometres per hour in a frigid, windy and sandy environment. After winning this project, the Group had become the first provider of intelligent high-speed railway communication solutions using the Beidou Satellite Navigation System.

3. Apart from the railway communication, the Group had made breakthroughs in other railway-related sectors and had created new growth points for the Group:

    3.1 The new orders had grown significantly for the Group's railway video surveillance business, leaving behind the milestone of RMB100 million;

    3.2 The new orders also increased remarkably for the Group's railway air conditioning business, with the sales exceeding RMB50 million.

4. The contracts increased significantly for the Group's overseas railway business.

In 2018, the Group signed a contract for the procurement of air-conditioning equipment for the urban railway system in Astana, Kazakhstan and a contract for the maintenance of wireless communication systems for the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong High-speed Railway. The contract amount exceeded RMB100 million in total, which implies that the Group has preliminarily realized its strategy of "Go Global" and laid a solid foundation for vigorous overseas market expansion in the future.

Prospects on Business

1. *The railway business has a better prospect at the macro level.*

    1.1 In 2019, the railway infrastructure investment is expected to reach the highest level in history with a scale of RMB850 billion. China will further open up its rail industry while bringing it overseas. The "Belt and Road Initiative" will continue to present opportunities for the Group's overseas railway business.

    1.2 As a result of the requirements of the State Railway Administration on the next generation of high-speed intelligent railways, the new generation of LTE-R communication technology will be piloted and promoted in the railway system. The relevant equipment and technologies of the existing GSM communication system will gradually be phased out and replaced by new technologies and solutions. The railway communication market will usher in new growth opportunities.

2. *The Group will maintain its advantages of the existing railway business and actively develop its new businesses*

    The Group will consistently strive to maintain the competitive advantages of its existing railway businesses, including higher market share and better customer satisfaction. At the same time, the Group will continue to maintain the great performance of new solutions such as video surveillance and air conditioning, and keep increasing its investments in the overseas railway markets.

    The Group will continue to seek for new business opportunities in the railway segment, including station WIFI, smart station solutions and railway public cloud solutions.

3. *The Group will improve its internal operating system, promote its operating efficiency and steadily push forward its capital-funded expansion strategy*

   The Group will improve the governance mechanism of the Company and its subsidiaries, optimize their internal management processes rationally, and strengthen their synergy and risk control capability. At the same time, the Group will increase its post-investment management on investees to control the investment risks.

   The Group will steadily push forward its capital-funded expansion strategy, paying attention not only into the industrial chain of its existing businesses in depth, but also into the infrastructures and sectors from basic industry with continuous high investment both in China and overseas (especially in countries along the "the Belt and Road Initiative" route). By means of capitalization, the Group will improve and optimize its industrial landscape.

FINANCIAL REVIEW

Revenue

For the year, the Group generated revenue and gross profit as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Revenue by business model		
SS	**849,102**	1,082,667
VAOS	**81,697**	100,274
Elimination	**(6,833)**	(18,103)
Total	**923,966**	1,164,838

(i) SS

For the year, revenue of RMB849.1 million was recognised from the SS business, representing a decrease of RMB233.6 million compared to the previous year. The business recorded RMB1,017.7 million from new contracts signed, representing an increase of RMB143.6 million compared to the previous year and as of the end of the year RMB894.9 million from backlog, representing an increase of RMB64.9 million compared to the end of the previous year.

The decrease in the revenue was because:

1. As the first wave of the railway network reconstruction project has basically ended, revenue of the Group's railway business in 2018 decreased by RMB189.4 million compared to the same period last year due to many projects yet to be delivered despite a large growth in new contracts signed in respect of the business compared to 2017.

2. The civil aviation business was no longer included in the consolidated financial statements of the Group for the year, which generated revenue of RMB44.2 million for the previous year.

(ii) VAOS

Revenue recognised from the VAOS business for the year was RMB81.7 million, representing a decrease of RMB18.6 million compared to the previous year. The business recorded RMB130.4 million from new contracts signed, representing an increase of RMB29.8 million compared to the previous year and as of the end of the year RMB83.2 million from backlog, representing an increase of RMB12.5 million compared to the end of the previous year.

The decrease in the revenue is mainly because the civil aviation business was no longer included in the consolidated financial statements of the Group for the year, which generated revenue of RMB13.9 million for the previous year. Excluding the factor, revenue recognised from the VAOS business decreased by RMB4.7 million compared to the previous year.

Gross Profit

The Group generated gross profit of RMB164.6 million in 2018, representing a decrease of RMB94.7 million compared to the previous year. Gross profit margin decreased from 22.3% for the previous year to 17.8% for the year.

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Gross profit by business model		
SS	**136,464**	195,493
Margin %	**16.1%**	18.1%
VAOS	**28,171**	63,845
Margin %	**34.5%**	63.7%
Elimination	**–**	–
Total	**164,635**	259,338
Margin	**17.8%**	22.3%

(ii) SS

For the year, gross profit of RMB136.5 million was recognised from the SS business, representing a decrease of RMB59 million compared to the previous year. In addition to exclusion of the civil aviation business (for which SS business generated gross profit of RMB11.7 million in 2017) from the consolidated financial statements, the decrease in gross profit was because many projects of the railway communication SS business were yet to be delivered and revenue from the business decreased.

The gross profit margin was 16.1%, declined by 2% compared to the previous year. The decrease in the gross profit margin was: because of the demand of the market, some important projects strategically acquired at lower prices this year affected the gross profit margin of the Group.

(ii) VAOS

Gross profit recognised from the VAOS business for the year was RMB28.2 million, representing a decrease of RMB35.6 million compared to the previous year. Other than exclusion of the civil aviation business (for which VAOS business generated gross profit of RMB9.3 million in 2017) from the consolidated financial statements, the decrease of the overall margin rate of the ongoing projects was also an important reason.

For the year, the gross profit margin of VAOS was 34.5%, declined by 29.2% compared to the previous year. This reduction was because:

1. The Group increased its investment in the VAOS business to improve customer satisfaction and increase the market share of the business, resulting in higher service costs. Although the Group obtained service contracts which increased by RMB29.8 million from the previous year, revenue recognised for the year decreased due to contracts were mostly signed at the second half of the year, which led to a lower gross profit margin. The gross profit margin of the VAOS business is expected to improve next year.

2. The civil aviation business was no longer included in the consolidated financial statements of the Group for the year, which generated gross profit of RMB9.3 million and gross profit margin of 67.1% for the previous year.

Other Income and Gains

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

Selling, Distribution and Administration Expense

For the year, selling, distribution and administration expense was approximately RMB244.8 million, representing an increase of RMB44.4 million as compared to the previous year.

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

For the year, selling, distribution and administration expense which was related to daily operational activities ("**SD&A**") was RMB164.5 million, as a percentage of sales was 17.8%. For the previous year, selling, distribution and administration expense which was related to daily operational activities was approximately RMB171.1 million, as a percentage of sales was 14.7%.

For the year, the expenses decreased by RMB6.6 million as compared to the previous year. After excluding the factor that the expenses for the previous year included RMB18.4 million from the civil aviation business, the expenses grew by RMB11.8 million, a 7.7% increase compared to the previous year. The expenses were higher than those for the previous year mainly because of increased investments in the market.

(ii) *Impairment losses*

For the year, impairment losses were RMB80.3 million, representing an increase of RMB51 million compared to the previous year. The increase of impairment was mainly because: 1.due to the adoption of IFRS 9 *Financial Instruments* since the year, more bad debts provision amounting to RMB32.6 million was recorded based on expected credit loss than that under the incurred loss approach; 2. due to policy reasons of China Railway Corporation, there is great uncertainty in expected income for some R&D investment projects recorded into other intangible assets in previous years. As such, a provision for impairment of RMB10.3 million was made for the year.

Finance Revenue and Finance Cost

Finance revenue comprised of mainly interest income and finance cost comprised of mainly interest expenses for interest-bearing bank loan. The net financial expenses represented the total finance cost minus finance revenue. For the year, this net financial expense was RMB6.5 million for year, which represented a decrease of RMB19.1 million as compared to the previous year. The decrease was because the Group sold some of its subsidiaries in 2016 whose considerations were paid by instalments and their buyers needed to pay interest of approximately RMB25 million to the Group. Therefore, the interest income in 2018 increased, leading to a decrease in the net financial expense for the year.

Share of Profit of Joint Venture/Associates

For the year, share of profit of investment entities for the year was approximately RMB3.9 million, as compared to the profit of RMB0.6 million for the previous year.

Profit or Loss by Fair Value Changes

For the year, the Group's equity investments in Forever OSS (stock code: 834415), CNBM Technology (stock code: 834082), Shenzhen Hopeland and eSOON China led to a loss of RMB51.2 million through fair value changes, which was due to the depression in the stock market and the changes of measurement upon the adoption of IFRS 9 Financial Instruments.

Income Tax Expenses

The total income tax expenses for the year were RMB2.2 million, which were RMB24.6 million for the previous year.

Loss for the Year

For the year, the loss attributable to owners of the parent of the Company amounted to RMB116.3 million as compared to the profit of RMB24.5 million for the previous year.

There was great loss for the year. Besides a decrease in revenue, the adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* since 1 January 2018 was also a major reason which caused a loss amounted to RMB84.9 million for the year. The impacts of the two Standards are as follows:

(1) Because of the adoption of IFRS 9 *Financial Instruments*, there were some changes in he measurement of equity investments held by the Group. As a result of the depression in the stock market, there was a decline in the fair value of the equity investments that were held by the Group and measured at fair value through profit or loss for the year, which led to a loss of RMB51.2 million;

(2) Due to the adoption of IFRS 9 *Financial Instruments*, the adoption of a forward-looking expected credit loss (ECL) approach for the year resulted in more bad debt provision amounting to RMB32.6 million than that under the incurred loss approach; and

(3) The adoption of IFRS 15 *Revenue from Contracts with Customers* led to revenue recognised at zero gross profit for projects which goods had been delivered to customers but not been integrated, resulting in a decrease of RMB1.1 million for revenue recognised in the year.

Trade Receivables Turnover Days

For the year, the trade receivables turnover days was 409 days (last year: 371 days).

Net Contract Assets Turnover Days

For the year, the Net Contract Assets turnover days was 114 days (last year: 15 days)

Trade Payables Turnover Days

For the year, the receivables turnover days was 251 days (last year: 228 days).

Liquidity and Financial Resources

The Group's principal sources of working capital included cash flow from operating activities, bank and other borrowings, the proceeds from the Global Offering. As of 31 December 2018, the Group's current ratio (current assets divided by current liabilities) was 1.9, representing an increase compared to the previous year (as at 31 December 2017: 1.8) The Group's financial position remains healthy.

As of 31 December 2018, the Group was in a net negative cash of RMB269.2 million (as at the previous year end: negative RMB298 million[(1)]), representing an increase of RMB28.8 million from the previous year, and the net cash flow slightly improved. As at the Year End, the Group's gearing ratio was -17.4%, declined by 2.8% from -14.6% as at the end of the previous year.

Contingent Liabilities

As at 31 December 2018, the Group had no material contingent liability.

Charges on Group Assets

As at 31 December 2018, except for the pledged deposits of approximately RMB368.7 million (as at 31 December 2017: RMB283.1 million), the Group pledged a building with a net carrying amount of approximately RMB212.9 million (as at the end of the previous year, 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 the Year End, the Group had no other assets charged to financial institution.

Notes:

(1) As at 31 December 2017, except for the pledged deposits, the Group was in a net negative cash of RMB581.1 million which included cash and cash equivalents of RMB179.7 million and interest-bearing bank borrowings of RMB760.8 million.

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 17 February 2016 and 24 March 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.

Reference is made to the announcement of the Company dated 2 July 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 the entering into the Supplemental Agreements constitutes a material variation of the terms of the VSD, the Supplemental Agreements were subject to reporting and announcement requirements under the Listing Rules and the approval of the Independent Shareholders by way of poll at an extraordinary general meeting in accordance with the Listing Rules. The Independent Shareholders approved the Supplemental Agreements at the said extraordinary general meeting held on 21 September 2018.

As at 31 December 2018, approximately RMB533.54 million of the consideration for the VSD and other amounts in connection with the VSD payable by the Purchaser Group were outstanding.

EMPLOYMENT AND EMOLUMENT POLICIES

As at 31 December 2018, the Group had 348 full-time employees. The emolument policy of the employees of the Group is set up by the Board on the basis of individual role, responsibilities and performance, 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.

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed 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**") as 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 all the code provisions in the CG Code for the year ended 31 December 2018.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has 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 standards set out in the Model Code during the year ended 31 December 2018.

AUDIT COMMITTEE

The audit committee of the Company was established on 18 June 2010 with effect from the listing of the Company. The current terms of reference of the audit committee have been adopted on 22 December 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 auditing, internal control and financial reporting matters, including the review of the final results of the Group for the year ended 31 December 2018 together with the management of the Company and external auditor, Ernst & Young. In addition, the Company's external auditor, Ernst & Young, has performed an independent audit of the Group's consolidated financial statements for the year ended 31 December 2018 in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF THE 2018 ANNUAL REPORT

The 2018 Annual 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.
Chairman
Liao Jie

Beijing, 28 March 2019

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.