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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2019

HIGHLIGHTS OF 2019 INTERIM RESULTS

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

- The Group recorded RMB363.3 million from new contracts signed, representing a decrease of 1.3% compared to the same period last year.

- Revenue of RMB382.4 million was generated, representing a decrease of 0.1% compared to the same period last year.

- As of June 30, 2019, the Group recorded RMB928.7 million from backlog, representing a decrease of 5.1% compared to the end of the previous year.

- The Group generated gross profit of RMB82.5 million, which increased by 32.4% compared to the same period last year and recorded gross profit margin of 21.6%, representing an increase of 5.3 percentage points compared to the same period last year.

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six-month period ended June 30, 2019

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

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2019

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

	Notes	**June 30, 2019** *RMB'000* **Unaudited**	December 31, 2018 *RMB'000* Audited
CURRENT LIABILITIES			
Trade and bills payables	*13*	**360,687**	651,863
Other payables and accruals		**701,169**	556,725
Interest-bearing bank borrowings		**467,031**	363,509
Amounts due to related parties		**1,831**	27,956
Income tax payable		**26,404**	29,512
Total current liabilities		**1,557,122**	1,629,565
NET CURRENT ASSETS		**1,323,768**	1,505,565
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,343,098**	2,476,069
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**276,620**	420,843
Deferred tax liabilities		**23,086**	24,537
Total non-current liabilities		**299,706**	445,380
Net assets		**2,043,392**	2,030,689
EQUITY			
Equity attributable to owners of the Company			
Share capital		**290**	290
Reserves		**2,034,642**	2,030,399
		2,034,932	2,030,689
Non-controlling interests		**8,460**	–
Total equity		**2,043,392**	2,030,689

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2019

1. CORPORATE AND GROUP INFORMATION

China ITS (Holdings) Co., Ltd. (the "**Company**") was incorporated as an exempted company with limited liability in the Cayman Islands on February 20, 2008. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, the Cayman Islands. The Company's principal place of business in Hong Kong is in 8/F., Golden Star Building, 20–24 Lockhart Road, Wanchai. The principal executive office of the Company is located at Building 204, No. A10, Jiuxianqiao North Road, Chaoyang District, Beijing, 100015, the People's Republic of China (the "**PRC**").

The Company and its subsidiaries (the "**Group**") is a provider of transportation infrastructure technology solutions and services, mainly in the PRC and Myanmar. During the six-month period ended June 30, 2019, the Group was involved in the following principal activities:

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

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

2. BASIS OF PRESENTATION AND CHANGES IN ACCOUNTING POLICIES

Basis of presentation

The unaudited interim condensed consolidated financial statements of the Group for the six-month period ended June 30, 2019 have been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting* and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The unaudited interim condensed consolidated financial statements of the Group do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended December 31, 2018. The unaudited interim condensed consolidated financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousands, except when otherwise indicated.

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

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

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

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

IFRS 16 "Leases"

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

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

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

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

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

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

3. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

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

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
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	10,945	365	11,310
Depreciation and amortisation	402	142	544
Capital expenditure*	605	31	636

Geographical information

(a) Revenue from external customers

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

(b) Non-current assets

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

Information about major customers

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

4. REVENUE

An analysis of revenue is as follows:

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

(i) Disaggregated revenue information

For the six-month period ended June 30, 2019

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

For the six-month period ended June 30, 2018

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

5. OTHER INCOME AND GAINS

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

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

6. PROFIT/(LOSS) BEFORE TAX

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

	For the six-month period ended June 30,	
	2019	2018
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Cost of system integration solutions	**221,464**	276,036
Cost of sale of products	**55,278**	31,294
Cost of maintenance services	**23,206**	13,234
	299,948	320,564
Depreciation of property and equipment	**6,144**	3,656
Amortisation of intangible assets	**37**	1,655
	6,181	5,311
Short term lease payments	**2,111**	–
Minimum lease payments under operating leases	**–**	3,868
Auditors' remuneration	**2,619**	1,455
Wages and salaries	**24,368**	20,003
Pension scheme contributions (defined contribution scheme)	**3,305**	3,073
Social insurance costs and staff welfare	**4,182**	6,156
	31,855	29,232
(Reversal of impairment)/impairment of trade receivables *(note 10)*	**(6,403)**	7,997
(Reversal of impairment)/impairment of contract assets *(note 11)*	**(209)**	837
Impairment of assets held for sale	**–**	2,476
Impairment of prepayments, deposits and other receivables	**–**	300
Loss on financial assets at fair value through profit or loss	**4,730**	42,101
Loss on disposal of property and equipment	**–**	6
Rental income on investment properties	**(6,331)**	(2,551)
Foreign exchange losses, net	**121**	495

7. INCOME TAX

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

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

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

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

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

According to PRC tax regulations, from January 1, 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, are subject to withholding tax at the rate of 10% on various types of passive income such as dividends derived from entities in the PRC. Distributions of the pre-2008 earnings are exempted from the above-mentioned withholding tax. As at June 30, 2019, no deferred tax liabilities have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and joint ventures established in Mainland China (2018: nil). In the opinion of the directors, it is not probable that these subsidiaries and joint ventures will distribute such earnings in the foreseeable future.

The Group is subject to withholding tax in Myanmar at the rate of 2.5% on the service income charged to the companies in Myanmar by non-Myanmar subsidiaries.

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

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

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

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

The calculation of the diluted earnings/(loss) per share is based on the profit/(loss) for the period attributable to owners of the Company, and the weighted average number of ordinary shares in issue during the six-month periods ended June 30, 2019 and 2018, as used in the basic earnings/(loss) per share calculation, plus the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed conversion of all the dilutive potential ordinary shares into ordinary shares.

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

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

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

9. DIVIDENDS PROPOSED

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

10. TRADE AND BILLS RECEIVABLES

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

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

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

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

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

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

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

11. CONTRACT ASSETS

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

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

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

12. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

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

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

The cash and bank balances and pledged deposits of the Group denominated in RMB amounted to RMB143,833,000 (RMB116,209,000 in Mainland China and RMB27,624,000 in overseas) as at June 30, 2019 (December 31, 2018: RMB470,961,000 in total). In Mainland China, RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

13. TRADE AND BILLS PAYABLES

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

	June 30, 2019	December 31, 2018
	RMB'000	*RMB'000*
	Unaudited	Audited
Current or less than 1 year	**188,442**	569,619
1 to 2 years	**98,462**	70,386
Over 2 years	**73,783**	11,858
	360,687	651,863

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

14. BUSINESS COMBINATION

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

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

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

	RMB'000
Cash and cash equivalents	1,689
Trade and bills receivables	32,924
Prepayment, deposits and other receivables	39,184
Property and equipment	83
Trade and other payables	(58,316)
Total identifiable net assets at fair value	15,564
Non-controlling interests	(6,537)
Goodwill on Acquisition	76,813
Consideration for Acquisition	85,840

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

BUSINESS AND FINANCIAL REVIEW

Business Review

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

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

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

2. *Optimize industrial structure and develop overseas markets*

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

FINANCIAL REVIEW

Revenue

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

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

(i) SS

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

(ii) VAOS

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

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

Gross Profit

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

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

(i) SS

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

(ii) VAOS

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

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

Other Income and Gains

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

Selling, Distribution and Administration Expense (Impairment losses Included)

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

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

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

(ii) Impairment losses

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

Finance Revenue and Finance Cost

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

Share of Profit of Joint Venture/Associates

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

Profit or Loss through Fair Value Changes

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

Income Tax Expenses

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

Profit for the Period

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

Inventory Turnover Days

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

Trade Receivables Turnover Days

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

Contract Assets/Contract Liabilities Turnover Days

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

Trade Payables Turnover Days

For the First Half of the Year, the trade payables turnover days was 192 days (the same period last year: 177 days).

Liquidity and Financial Resources

The Group's principal sources of working capital included cash flow from operating activities, bank and other borrowings, the proceeds from the Global Offering. As of June 30, 2019, the Group's current ratio (current assets divided by current liabilities) was 1.9, same as the previous year (as of December 31, 2018: 1.9). The Group's financial position remains healthy.

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

Contingent Liabilities

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

Charges on Group Assets

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

MATERIAL ACQUISITIONS OF SUBSIDIARIES AND ASSOCIATED COMPANY

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

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

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

EMPLOYMENT AND EMOLUMENT POLICIES

As at June 30, 2019, the Group had 313 full-time employees. The emolument policy of the employees of the Group is set up by the Board on the basis of individual performance, the nature and responsibilities of the individual concerned and the performance of our Group and market conditions.

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

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, 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

CORPORATE GOVERNANCE

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

The Company has adopted the code provisions contained in the code of corporate governance practices (the "**CG Code**") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The Company has complied with the code provisions in the CG Code throughout the six-month period ended June 30, 2019.

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules (the "**Model Code**") as the standards for the Directors' dealings in the securities of the Company. Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the required standard set out in the Model Code during the six-month period ended June 30, 2019.

AUDIT COMMITTEE

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

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

The audit committee has reviewed the accounting principles and practices and has also reviewed internal control and financial reporting matters, including the review of the unaudited interim results of the Group for the six-month period ended June 30, 2019 together with the management of the Company and external auditor, Mazars CPA Limited.

PUBLICATION OF THE 2019 INTERIM REPORT

The 2019 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, 2019

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