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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, 2021**

HIGHLIGHTS OF 2021 INTERIM RESULTS

For the six-month period ended June 30, 2021 (the “**Period**” or the “**First Half of the Year**”), highlights of the results of China ITS (Holdings) Co., Ltd. (the “**Company**”) and its subsidiaries (collectively the “**Group**”) are as follows:

- The Group recorded RMB284.5 million from the new contracts signed⁽¹⁾, representing a decrease of 20.6% compared to the same period last year.
- Revenue of RMB311.4 million was generated, representing an increase of 31.4% compared to the same period last year.
- As of June 30, 2021, the Group recorded RMB740.7 million from backlog, representing a decrease of 7.1% compared to the end of the previous year.
- The Group generated gross profit of RMB116.3 million, up by 115.6% compared to the same period last year, and recorded gross profit margin of 37.3%, representing an increase of 14.5 percentage points compared to the same period last year.
- The profit attributable to owners of the parent of the Company amounted to RMB29.6 million, representing a decrease of RMB9.8 million compared to the same period last year.

⁽¹⁾ The amount of the new contracts signed for the power plant project was recognised for revenue generated from such project for the current period.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six-month period ended June 30, 2021

		For the six-month period ended June 30,	
	Notes	2021 RMB'000 Unaudited	2020 RMB'000 Unaudited
REVENUE	4	311,425	237,070
Cost of revenue	6	<u>(195,114)</u>	<u>(183,127)</u>
Gross profit		116,311	53,943
Other income and gains	5	17,183	93,177
Selling, distribution and administrative expenses		(56,598)	(56,912)
Reversal of impairment losses/(impairment losses) on financial and contract assets, net		4,432	(15,569)
Other expenses		(10,175)	(121)
Finance costs		(10,322)	(23,784)
Share of profits and losses of: Associates		<u>—</u>	<u>(84)</u>
PROFIT BEFORE TAX	6	60,831	50,650
Income tax expense	7	<u>(19,094)</u>	<u>(7,838)</u>
PROFIT FOR THE PERIOD		<u>41,737</u>	<u>42,812</u>
Attributable to:			
Owners of the Company		29,639	39,449
Non-controlling interests		<u>12,098</u>	<u>3,363</u>
		<u>41,737</u>	<u>42,812</u>
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
		RMB Unaudited	RMB Unaudited
Basic	8	<u>0.02</u>	<u>0.02</u>
Diluted	8	<u>0.02</u>	<u>0.02</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended June 30, 2021

	For the six-month period ended June 30,	
	2021	2020
	RMB'000	RMB'000
	Unaudited	Unaudited
PROFIT FOR THE PERIOD	41,737	42,812
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(108,270)</u>	<u>9,495</u>
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	<u>(108,270)</u>	<u>9,495</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	<u>(66,533)</u>	<u>52,307</u>
Attributable to:		
Owners of the Company	<u>(35,605)</u>	48,349
Non-controlling interests	<u>(30,928)</u>	<u>3,958</u>
	<u>(66,533)</u>	<u>52,307</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2021

	<i>Notes</i>	June 30, 2021	December 31, 2020
		RMB'000	RMB'000
		Unaudited	Audited
NON-CURRENT ASSETS			
Prepayment for acquisition of property and equipment		2,257	–
Property and equipment		512,070	624,502
Investment properties		73,260	73,260
Goodwill		123,759	123,759
Other intangible assets		28,002	31,273
Investments in associates		1,000	1,000
Financial assets at fair value through profit or loss		162,591	177,415
Loan receivables		30,000	30,000
Prepayments, deposits and other receivables		–	1,876
		<hr/>	<hr/>
Total non-current assets		932,939	1,063,085
CURRENT ASSETS			
Inventories		413,296	372,356
Contract assets	<i>11</i>	280,293	396,296
Trade and bills receivables	<i>10</i>	718,146	764,297
Prepayments, deposits and other receivables		442,588	437,911
Financial assets at fair value through profit or loss		50,183	–
Amounts due from related parties		27,908	36,616
Pledged deposits	<i>12</i>	34,229	172,024
Cash and cash equivalents	<i>12</i>	184,192	240,622
		<hr/>	<hr/>
Total current assets		2,150,835	2,420,122

		June 30, 2021	December 31, 2020
	<i>Notes</i>	RMB'000	RMB'000
		Unaudited	Audited
CURRENT LIABILITIES			
Trade and bills payables	<i>13</i>	257,795	305,484
Contract liabilities, other payables and accruals		520,089	688,715
Interest-bearing bank borrowings		417,718	556,216
Amounts due to related parties		–	325
Income tax payable		54,926	50,050
		<hr/>	<hr/>
Total current liabilities		1,250,528	1,600,790
		<hr/>	<hr/>
NET CURRENT ASSETS		900,307	819,332
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,833,246	1,882,417
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		54,000	40,250
Deferred tax liabilities		8,395	4,783
		<hr/>	<hr/>
Total non-current liabilities		62,395	45,033
		<hr/>	<hr/>
Net assets		1,770,851	1,837,384
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the Company			
Share capital		290	290
Reserves		1,695,258	1,730,863
		<hr/>	<hr/>
		1,695,548	1,731,153
Non-controlling interests		75,303	106,231
		<hr/>	<hr/>
Total equity		1,770,851	1,837,384
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2021

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 at 8/F., Golden Star Building, 20-24 Lockhart Road, Wanchai. The principal executive office of the Company is located at Building 204, No. A10, Jiuxianqiao North Road, Chaoyang District, Beijing, 100015, the People’s Republic of China (the “**PRC**”).

The Company and its subsidiaries (the “**Group**”) is mainly a provider of products, specialised solutions and services related to infrastructure technology in the railway and electric power sectors. The main businesses of the Group are (i) railway business and (ii) electric power business, details please refer to note 3 to the condensed consolidated financial statements.

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, 2021 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, 2020. 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, 2020, except for the adoption of following new/revised IFRSs that are effective for the Group’s financial year beginning on January 1, 2021.

Amendments to IAS 39, IFRS 4, 7, 9 and 16

Interest Rate Benchmark Reform — Phase 2

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, 2021 and prior years.

3. OPERATING SEGMENT INFORMATION

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

(i) Railway business

Provision of products and specialised solutions to customers according to their needs, which mainly includes railway communication products and energy-base products; and provision of value-added operation and services such as maintenance services, network optimisation and network planning, and technical consulting for the products related to the communication system for railway customers.

(ii) Electric power business

Provision of products and specialised solutions related to electric power equipment for customers in the electric power infrastructure construction area, which mainly includes power transmission and transformation equipment and power generation equipment, etc.; power generation; and provision of planning and technical consulting services of the infrastructure construction in relation to electric power such as power plant construction and power grid renovation, and value-added operation and services related to power plant investment, construction and operation, etc..

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.

For the six-month period ended June 30, 2021 (Unaudited)	Railway business RMB'000	Electric power business RMB'000	Total RMB'000
Segment revenue (note 4)			
Sales to external customers	213,971	97,454	311,425
Segment results	39,158	44,112	83,270
<i>Reconciliation:</i>			
Finance income			3,033
Finance costs			(10,322)
Changes in fair value of financial assets at fair value through profit or loss			2,912
Dividend income from financial assets at fair value through profit or loss			1,243
Corporate and other unallocated expenses			(19,305)
Profit before tax			60,831
Other segment information:			
(Reversal of impairment)/impairment of financial and contract assets	(4,641)	209	(4,432)
Depreciation and amortisation	8,057	9,500	17,557
Capital expenditure*	75	3,967	4,042

For the six-month period ended June 30, 2020 (Unaudited)	Railway business <i>RMB'000</i>	Electric power business <i>RMB'000</i>	Total (restated) <i>RMB'000</i>
Segment revenue (note 4)			
Sales to external customers	219,564	17,506	237,070
Segment results	25,318	13,701	39,019
<i>Reconciliation:</i>			
Finance income			7,609
Finance costs			(23,784)
Changes in fair value of financial assets at fair value through profit or loss			64,993
Dividend income from financial assets at fair value through profit or loss			1,186
Corporate and other unallocated expenses			(38,373)
Profit before tax			50,650
Other segment information:			
Share of losses of associates	(84)	–	(84)
Impairment losses	15,375	194	15,569
Depreciation and amortisation	8,402	2,386	10,788
Capital expenditure*	843	93,233	94,076

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

4. REVENUE

An analysis of revenue is as follows:

	For the six-month period ended June 30,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
Revenue from contracts with customers within IFRS 15	311,425	237,070

(i) **Disaggregated revenue information**

	For the six-month period ended June 30,	
	2021	2020
	RMB'000	RMB'000
Type of goods or services		
Sale of products and provision of specialised solutions	188,150	193,102
Maintenance services	25,821	26,136
Power supply	97,454	17,832
	<hr/>	<hr/>
Total revenue from contracts with customers	311,425	237,070
	<hr/> <hr/>	<hr/> <hr/>
Geographical markets		
Mainland China	194,848	210,882
Others	116,577	26,188
	<hr/>	<hr/>
Revenue from contracts with customers	311,425	237,070
	<hr/> <hr/>	<hr/> <hr/>
Timing of revenue recognition		
Goods and services transferred at a point in time	110,143	97,603
Goods and services transferred over time	201,282	139,467
	<hr/>	<hr/>
Revenue from contracts with customers	311,425	237,070
	<hr/> <hr/>	<hr/> <hr/>

5. OTHER INCOME AND GAINS

	For the six-month period ended June 30,	
	2021	2020
	RMB'000	RMB'000
	Unaudited	Unaudited
Finance income	3,033	7,609
Gross rental income	8,145	2,505
Dividend income from financial assets at fair value through profit or loss	1,243	1,186
Changes in fair value of financial assets at fair value through profit or loss	2,912	64,993
Gain on disposal of financial assets at fair value through profit or loss	1,546	4,355
Government grants*	–	2,013
Bad debts recovered	–	5,953
Others	304	4,563
	<hr/>	<hr/>
	17,183	93,177
	<hr/> <hr/>	<hr/> <hr/>

* 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 BEFORE TAX

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

	For the six-month period ended June 30,	
	2021 RMB'000 Unaudited	2020 RMB'000 Unaudited
Cost of inventories	<u>195,114</u>	<u>183,127</u>
Depreciation	14,279	7,429
Amortisation of intangible assets, included in selling, distribution and administrative expenses	<u>3,278</u>	<u>3,359</u>
	<u>17,557</u>	<u>10,788</u>
Wages and salaries	18,113	23,318
Pension scheme contributions (defined contribution scheme)	3,921	2,714
Social insurance costs and staff welfare	<u>1,589</u>	<u>3,798</u>
	<u>23,623</u>	<u>29,830</u>
Impairment/(Reversal of impairment) of trade receivables	1,708	(2,612)
Reversal of impairment of contract assets	(7,479)	(160)
Impairment of financial assets included in prepayments, deposits and other receivables	1,339	18,341
Short-term lease payments	3,348	1,672
Gain on disposal of financial assets at fair value through profit or loss	(1,546)	(4,355)
Changes in fair value of financial assets at fair value through profit or loss	(2,912)	(64,993)
Rental income on investment properties	(8,145)	(2,505)
Exchange losses, net	<u>9,562</u>	<u>364</u>

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.

Subsidiaries in Mainland China of the Group are subject to PRC Enterprise Income Tax at a rate 25% (June 30, 2020: 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, 2020: 15%) preferential income tax rate.

No provision for Hong Kong profits tax has been made for the six-month period ended June 30, 2021 (June 30, 2020: nil), as the Group had no assessable profits arising in Hong Kong for the period.

Subsidiary incorporated in Myanmar is subject to Corporate income tax at a rate 25% on its taxable income. In addition, non-Myanmar incorporated subsidiaries are also subject to withholding tax in Myanmar at the rate of 2.5% on the service income earned in Myanmar.

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, 2021, no deferred tax liabilities have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China (2020: nil). In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

The major components of income tax expense are as follows:

	For the six-month period ended June 30,	
	2021 RMB'000 Unaudited	2020 RMB'000 Unaudited
Current income tax:		
PRC Enterprise Income Tax	5,325	6,838
Myanmar Enterprise Income Tax	9,169	–
Myanmar withholding tax	988	468
Deferred income tax:		
Origination and reversal of temporary differences	3,612	532
Income tax expense	<u>19,094</u>	<u>7,838</u>

8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

Basic earnings per share is calculated by dividing the profit for the period attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the six-month periods ended June 30, 2021 and 2020.

The calculation of the diluted earnings per share is based on the profit for the period attributable to owners of the Company, and the weighted average number of ordinary shares in issue during the six-month periods ended June 30, 2021 and 2020, as used in the basic earnings per share calculation, plus the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed conversion of all the dilutive potential ordinary shares into ordinary shares.

Diluted earnings per share is the same as basic earnings per share for the six-month periods ended June 30, 2021 and 2020 as the share options have an anti-dilutive effect.

	For the six-month period ended June 30,	
	2021	2020
	RMB'000	RMB'000
	Unaudited	Unaudited
Earnings		
Profit attributable to owners of the Company	<u>29,639</u>	<u>39,449</u>
	For the six-month period ended June 30,	
	2021	2020
	Unaudited	Unaudited
Shares		
Weighted average number of shares in issue	<u>1,654,024,868</u>	<u>1,654,024,868</u>

9. DIVIDENDS PROPOSED

No dividend was declared or proposed by the Company for the six-month period ended June 30, 2021 (June 30, 2020: nil).

10. TRADE AND BILLS RECEIVABLES

	June 30, 2021	December 31, 2020
	RMB'000	RMB'000
	Unaudited	Audited
Trade receivables	746,096	770,538
Impairment	(87,688)	(87,384)
	<u>658,408</u>	683,154
Bills receivable	59,738	81,143
	<u>718,146</u>	<u>764,297</u>

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, 2021 RMB'000 Unaudited	December 31, 2020 RMB'000 Audited
Less than 6 months	199,527	27,530
6 months to 1 year	223,457	356,214
1 year to 2 years	101,111	170,191
2 years to 3 years	90,995	67,564
Over 3 years	43,318	61,655
	<u>658,408</u>	<u>683,154</u>

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

	June 30, 2021 RMB'000 Unaudited	December 31, 2020 RMB'000 Audited
At beginning of period/year	87,384	77,806
Increase in allowance	1,708	9,800
Amount written off	(1,404)	–
Disposal of a subsidiary	–	(222)
	<u>87,688</u>	<u>87,384</u>

11. CONTRACT ASSETS

	June 30, 2021 RMB'000 Unaudited	December 31, 2020 RMB'000 Audited
Contract assets	304,487	424,146
Impairment	(24,194)	(27,850)
	<u>280,293</u>	<u>396,296</u>

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

	June 30, 2021 RMB'000 Unaudited	December 31, 2020 RMB'000 Audited
At beginning of period/year	27,850	29,678
Decrease in allowance	(7,479)	(1,030)
Reversal of amount written-off	3,823	–
Disposal of subsidiary	–	(798)
	<u>24,194</u>	<u>27,850</u>

12. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	June 30, 2021 RMB'000 Unaudited	December 31, 2020 RMB'000 Audited
Cash and bank balances	184,192	240,622
Pledged deposits		
— Current deposits	34,229	172,024
	<u>218,421</u>	<u>412,646</u>
Less: Pledged and fixed deposits for		
— Maturity over 3 months	(17,098)	(4,553)
— Letter of guarantee for projects	(13,627)	(39,148)
— Bills payables	(3,092)	(23,000)
— Interest-bearing bank borrowings	–	(104,704)
— Tenders	(412)	(619)
	<u>184,192</u>	<u>240,622</u>

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 RMB164,463,000 (RMB162,918,000 in Mainland China and RMB1,545,000 in overseas) as at June 30, 2021 (December 31, 2020: RMB361,928,000 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, 2021 RMB'000 Unaudited	December 31, 2020 RMB'000 Audited
Current or less than 1 year	175,537	222,059
1 to 2 years	49,521	20,077
Over 2 years	32,737	63,348
	<u>257,795</u>	<u>305,484</u>

The Group's bills payable were secured by pledged deposits of the Group of RMB3,092,000 as at June 30, 2021 (December 31, 2020: RMB23,000,000).

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 the First Half of the Year, the Group recorded RMB284.5 million from new contracts signed, representing a decrease of 20.6% compared to the same period last year. The Group generated revenue of RMB311.4 million, representing an increase of 31.4% compared to the same period last year, and as of June 30, 2021, the Group recorded RMB740.7 million from backlog, representing a decrease of 7.1% compared to the end of the previous year. The Group generated gross profit of RMB116.3 million, which increased by 115.6% compared to the same period last year, and recorded gross profit margin of 37.3%, representing an increase from 22.8% for the same period last year. The profit attributable to owners of the parent of the Company amounted to RMB29.6 million for the First Half of the Year, representing a decrease of RMB9.8 million compared to the same period last year.

BUSINESS AND FINANCIAL REVIEW

The Group is mainly a provider of products, specialised solutions and services related to infrastructure technology in the railway and electric power sectors. The main businesses of the Group are as follows:

- (a) Railway business — We sell products and specialised solutions to customers according to their needs. It mainly includes railway communication products and energy-base products. We also provide railway customers with value-added operation and services such as maintenance services, network optimization and network planning, and technical consulting for products related to the communication system.
- (b) Electric power business — We provide products and specialised solutions related to electric power equipment for customers in the electric power infrastructure construction area. It mainly includes power transmission and transformation equipment, and power generation equipment, etc.. According to customers' needs, we also provide planning and technical consulting services of the infrastructure construction in relation to electric power such as power plant construction and power grid renovation, and value-added operation and services related to power plant investment, construction and operation.

Business Review

1. *The market share of the railway business sector remains stable*

For the railway business sector, in the First Half of the Year, the COVID-19 pandemic (the “**Pandemic**”) continued to spread globally on a large scale. Affected by the Pandemic outside the country, China experienced sporadic local outbreaks, resulting in delays in the delivery of some of the Group’s projects in the First Half of the Year, and the Group’s recognized revenue decreased slightly compared to the same period last year. In the First Half of the Year, the national railway fixed asset investment totaled RMB298.949 billion, representing a year-on-year decrease of 8.26%. For the first time in the past six years, the national railway fixed asset investment did not reach RMB300 billion, which led to a decline in the overall investment in the railway communications market. Therefore, the amount of new contracts signed by the Group in the First Half of the Year decreased significantly compared to the same period last year. However, despite the impact of the Pandemic and the overall railway investment environment, the market share of the railway business sector of the Group remains stable.

2. *The overseas self-built power plant in the power sector achieved significant revenue growth*

For the power business sector, the AHLONE 151,000-kilowatt power plant project invested, constructed and operated by the Group in Yangon, Myanmar, passed the inspection and acceptance by the Ministry of Electricity of Myanmar on January 18, 2021 and was officially put into operation. Despite the severity of the Pandemic in Myanmar in the First Half of the Year, the Group ensured that the operations and power generation of the power plant was not affected while ensuring the safety of overseas workers. In the First Half of the Year, the power plant achieved an operating revenue of approximately RMB97.5 million and a gross profit of approximately RMB74.9 million. At present, as the proportion of its revenue in the Group’s revenue gradually increases, the power plant has gradually become a benchmark project for the Group to expand into the power industry.

FINANCIAL REVIEW

Revenue

By Industry Sectors

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

	For the six-month period ended June 30,	
	2021 RMB’000	2020 RMB’000 (Restated)
Revenue by industry sectors		
Railway	213,971	219,564
Electric power	97,454	17,506
Total	<u>311,425</u>	<u>237,070</u>

(i) *Railway*

For the First Half of the Year, revenue of RMB214.0 million was recognised from the railway sector, representing a decrease of RMB5.6 million compared to the same period last year, and decreased by 2.6%. The sector recorded RMB187.0 million from new contracts signed, representing a decrease of RMB101.3 million compared to the same period last year; and the amount of backlog as of the end of the Period was RMB721.6 million, representing a decrease of RMB56.3 million compared to the end of the previous year.

(ii) *Electric power*

For the First Half of the Year, revenue of RMB97.5 million was recognised from the electric power sector, representing an increase of RMB79.9 million compared to the same period last year, and increased by 456.7%. The sector recorded RMB97.5 million from new contacts signed, representing an increase of RMB27.4 million compared to the same period last year; and the amount of backlog as of the end of the Period was RMB19.1 million, keeping unchanged from the end of the previous year.

The increase in revenue was mainly due to the fact that the power plant project in Myanmar passed the inspection and acceptance by the Ministry of Electricity of Myanmar on January 18, 2021 and was officially put into operation. Therefore, compared with the same period last year, the operations of the self-built power plant of the Group achieved significant revenue growth in the First Half of the Year. As a result, the power sector achieved significant revenue growth.

By Business Model

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

	For the six-month period ended June 30,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue by business model		
Products and specialised solutions	188,150	193,102
Value-added operation and services	123,275	43,968
Elimination	—	—
Total	<u>311,425</u>	<u>237,070</u>

(i) *Products and specialised solutions*

For the First Half of the Year, revenue of RMB188.2 million was recognised from the products and specialised solutions business, representing a decrease of RMB4.9 million compared to the same period last year, and decreased by 2.5%. The business recorded RMB176.0 million from new contracts signed, representing a decrease of RMB146.8 million compared to the same period last year and the amount of backlog as of the end of the Period was RMB709.8 million, representing a decrease of RMB51.3 million compared to the end of the previous year.

(ii) *Value-added operation and services*

Revenue recognised from the value-added operation and services business for the First Half of the Year was RMB123.3 million, representing an increase of RMB79.3 million compared to the same period last year, and increased by 180.2%. The business recorded RMB108.5 million from new contracts signed, representing an increase of RMB72.9 million compared to the same period last year and the amount of backlog as of the end of the Period was RMB30.9 million, representing a decrease of RMB5.0 million compared to the end of the previous year.

The revenue from this business increased significantly, primarily because the power plant project in Myanmar completed the inspection and acceptance by Ministry of Electricity of Myanmar on January 18, 2021 and was officially put into operation. Therefore, in the First Half of the Year, the power plant project generated a relatively significant revenue compared to the same period last year.

Gross Profit and the Gross Profit Margin

The Group generated gross profit of RMB116.3 million in the First Half of the Year, representing an increase of RMB62.4 million compared to the same period last year. Gross profit margin increased from 22.8% for the same period last year to 37.3% for the First Half of the Year.

By Industry Sectors

	For the six-month period ended June 30,	
	2021	2020
	RMB'000	RMB'000 (Restated)
Gross profit by industry sectors		
Railway	41,393	41,461
Gross profit margin	19.3%	18.9%
Electric power	74,918	12,482
Gross profit margin %	76.9%	71.9%
Total	116,311	53,943
Gross profit margin	37.3%	22.8%

(i) *Railway*

For the First Half of the Year, gross profit of RMB41.4 million was recognised from the railway sector, basically similar with the same period last year. The gross profit margin was 19.3%, representing an increase of 0.4 percentage points compared to the same period last year.

(ii) *Electric power*

For the First Half of the Year, gross profit of RMB74.9 million was recognised from the electric power sector, representing an increase of RMB62.4 million compared to the same period last year. The increase in gross profit was due to the significant increase in the revenue of the sector for the First Half of the Year. The gross profit margin was 76.9%, representing an increase of 5.0 percentage points compared to the same period last year.

By Business Model

	For the six-month period ended June 30,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Gross profit and the Gross Profit Margin by business model		
Products and specialised solutions	32,709	33,714
Gross profit margin	17.4%	17.5%
Value-added operation and services	83,602	20,229
Gross profit margin %	67.8%	46.0%
Total	116,311	53,943
Gross profit margin	37.3%	22.8%

(i) *Products and specialised solutions*

For the First Half of the Year, gross profit of RMB32.7 million was recognized from the products and specialised solutions business. The gross profit margin was 17.4%. The gross profit and the gross profit margin were basically similar with the same period last year.

(ii) Value-added operation and services

Gross profit recognized from the value-added operation and services business for the First Half of the Year was RMB83.6 million, representing an increase of RMB63.4 million compared to the same period last year. The gross profit margin was 67.8%, representing an increase of 21.8 percentage points compared to the same period last year. The revenue of the value-added operation and services of the electric power sector increased significantly compared to the same period last year, and the gross profit margin was relatively high in this sector, in turn further resulting in a relatively significant increase in the gross profit and gross profit margin of the value-added operation and services business compared to the same period last year.

Other Income and Gains

For the First Half of the Year, other income and gains mainly include: (i) the rental income of the investment properties was approximately RMB8.1 million; (ii) the financial assets dividend income was approximately RMB1.2 million.

Selling and Administration Expense and Impairment Losses

For the First Half of the Year, selling and administration expense and impairment losses were approximately RMB52.2 million, representing a decrease of RMB19.9 million as compared to the same period last year.

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

For the First Half of the Year, selling and administration expense which was related to daily operational activities was RMB56.6 million as compared to RMB56.5 million for the same period last year. This expense was basically similar with the same period last year.

(ii) Impairment losses

The reversal from impairment losses for the First Half of the Year were RMB4.4 million as compared to impairment losses of RMB15.6 million for the same period last year.

Finance Revenue and Finance Cost

Finance revenue mainly comprised of interest income and finance cost mainly comprised of interest expenses for interest-bearing bank loan. The net financial expenses represented the finance cost minus finance revenue. For the First Half of the Year, the net financial expense was RMB7.3 million, which represented a decrease of RMB8.9 million compared to the same period last year. This was mainly due to a decrease of interest-bearing bank loan in the First Half of the Year, resulting in a decrease in interest expenses compared to the same period last year.

Proceeds from Disposal of Financial Asset

For the First Half of the Year, the Group disposed part of its equity in an equity investment and obtained a profit of RMB1.5 million.

Profit or Loss through Fair Value Changes

For the First Half of the Year, influenced by market fluctuations, the Group's equity investments in Forever Opensource (stock code: 834415), CNBM Technology (stock code: 834082), and Shenzhen Hopeland generated a profit of RMB2.9 million through fair value changes, as compared to the profit of RMB65.0 million for the same period last year, representing a decrease in profit of RMB62.1 million compared to the same period last year.

Income Tax Expenses

The total income tax expenses for the First Half of the Year were RMB19.1 million, which were RMB7.8 million for the same period last year. The increase in income tax expenses was mainly due to the significant increase in the profit of the Myanmar power plant for the Period.

Profit for the Period

For the First Half of the Year, the profit attributable to owners of the parent of the Company amounted to RMB29.6 million, representing a decrease of RMB9.8 million compared to the same period last year.

Inventory Turnover Days

The inventories of the Group mainly comprised of products and spare parts related to the railway communication. For the First Half of the Year, the inventory turnover days were 123 days (the same period last year: 86 days). The change was due to the delay in project delivery due to the impact of the Pandemic in the First Half of the Year.

Trade Receivables Turnover Days

For the First Half of the Year, the trade receivables turnover days were 241 days (the same period last year: 294 days).

Contract Assets/Contract Liabilities Turnover Days

For the First Half of the Year, the contract assets/contract liabilities turnover days were 13 days (the same period last year: 86 days).

Trade Payables Turnover Days

For the First Half of the Year, the trade payables turnover days were 140 days (the same period last year: 174 days).

Liquidity and Financial Resources

The Group's principal sources of working capital included cash flow from operating activities, bank and other borrowings. As of June 30, 2021, the Group's current ratio (current assets divided by current liabilities) was 1.7 (as of December 31, 2020: 1.5). The Group's financial position remains healthy.

As of June 30, 2021, the Group was in a net negative cash position⁽¹⁾ of RMB253.3 million (as at the end of the previous year: negative RMB183.8 million), decreased by RMB69.5 million compared to the end of the previous year. As at June 30, 2021, the Group's gearing ratio⁽²⁾ was 12.7%, increased by 4.7 percentage points from 8.0% as at the end of the previous year.

Contingent Liabilities

As at June 30, 2021, the Group had no material contingent liability.

Charges on Group Assets

As at June 30, 2021, except for the pledged deposits of approximately RMB34.2 million (as at December 31, 2020: RMB172.0 million), the Group pledged a building with a net carrying amount of approximately RMB201.9 million, real estate with an appraised value of approximately RMB73.3 million, trade receivables with a carrying amount of RMB240.0 million, a subsidiary's property, and equity in a subsidiary to banks to secure banking facilities granted to the Group (as at the end of the previous year, the Group pledged a building with a net carrying amount of approximately RMB204.1 million, real estate with an appraised value of approximately RMB73.3 million, trade receivables with a carrying amount of RMB240.0 million, a subsidiary's property, and equity in a subsidiary to banks to secure banking facilities granted to the Group). Save as disclosed above, as at June 30, 2021, the Group had no other assets charged to financial institutions.

IMPORTANT EVENTS SUBSEQUENT TO THE PERIOD

There was no important event affecting the Group from June 30, 2021 to the date of this announcement.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

The Group did not make any material acquisitions and disposals of subsidiaries and associated companies during the six-month period ended June 30, 2021.

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

⁽²⁾ Gearing ratio refers to adjusted cash (interest-bearing bank borrowings plus due to related parties minus pledged deposits and cash and bank balances) divided by total equity.

EMPLOYMENT AND EMOLUMENT POLICIES

As at June 30, 2021, the Group had 253 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 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, 2021, 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 six-month period ended June 30, 2021.

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 confirmed that they have complied with the required standards set out in the Model Code during the six-month period ended June 30, 2021.

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

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

The audit committee has reviewed the accounting principles and practices adopted by the Group and discussed with the management of the Company on financial reporting matters including a review of the unaudited interim financial information of the Group for the six months ended June 30, 2021.

PUBLICATION OF THE 2021 INTERIM REPORT

The 2021 Interim Report of the Company containing all the information as required under Appendix 16 to 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 30, 2021

As at the date of this announcement, the executive directors of the Company are Mr. Liao Jie and Mr. Jiang Hailin, and the independent non-executive directors of the Company are Mr. Ye Zhou, Mr. Wang Dong and Mr. Zhou Jianmin.