# 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, 2020

**HIGHLIGHTS OF 2020 INTERIM RESULTS**

For the six-month period ended June 30, 2020 (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 RMB358.5 million from the new contracts signed, representing a decrease of 1.3% compared to the same period last year.
- Revenue of RMB237.1 million was generated, representing a decrease of 38.0% compared to the same period last year.
- As of June 30, 2020, the Group recorded RMB898.9 million from backlog, representing an increase of 7.0% compared to the end of the previous year.
- The Group generated gross profit of RMB53.9 million, which decreased by 34.6% compared to the same period last year, and recorded gross profit margin of 22.8%, representing an increase of 1.2 percentage points compared to the same period last year.
- The profit attributable to owners of the parent of the Company amounted to RMB39.4 million as compared to the profit of RMB13.7 million (restated) for the same period last year, representing an increase of 187.6% compared to the same period last year.

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the six-month period ended June 30, 2020*

| | *Notes* | **For the six-month period ended June 30, 2020** *RMB'000* **Unaudited** | 2019 *RMB'000* Unaudited (Restated) |
|---|---|---|---|
| **REVENUE** | *4* | **237,070** | 382,406 |
| Cost of revenue | *6* | **(183,127)** | (299,948) |
| Gross profit | | **53,943** | 82,458 |
| Other income and gains | *5* | **93,177** | 25,753 |
| Selling, distribution and administrative expenses | | **(56,912)** | (64,042) |
| Impairment losses on financial and contract assets, net | | **(15,569)** | – |
| Other expenses | | **(121)** | (4,868) |
| Finance costs | | **(23,784)** | (21,974) |
| Share of profits and losses of: | | | |
| Joint ventures | | **–** | 2,621 |
| Associates | | **(84)** | (634) |
| **PROFIT BEFORE TAX** | *6* | **50,650** | 19,314 |
| Income tax expense | *7* | **(7,838)** | (3,961) |
| **PROFIT FOR THE PERIOD** | | **42,812** | 15,353 |
| Attributable to: | | | |
| Owners of the Company | | **39,449** | 13,653 |
| Non-controlling interests | | **3,363** | 1,700 |
| | | **42,812** | 15,353 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | | |
| | | *RMB* **Unaudited** | *RMB* Unaudited |
| Basic | *8* | **0.02** | 0.01 |
| Diluted | *8* | **0.02** | 0.01 |

| | Notes | For the six-month period ended June 30, | |
|---|---|---|---|
| | | **2020** | 2019 |
| | | ***RMB'000*** | *RMB'000* |
| | | **Unaudited** | Unaudited (Restated) |
| **PROFIT FOR THE PERIOD** | | **42,812** | 15,353 |
| **OTHER COMPREHENSIVE INCOME/(LOSS)** | | | |
| Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods: | | | |
| Exchange differences on translation of foreign operations | | **9,495** | (9,705) |
| **OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD** | | **9,495** | (9,705) |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | **52,307** | 5,648 |
| Attributable to: | | | |
| Owners of the Company | | **48,349** | 3,945 |
| Non-controlling interests | | **3,958** | 1,703 |
| | | **52,307** | 5,648 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at June 30, 2020*

| | *Notes* | **June 30, 2020 *RMB'000* Unaudited** | December 31, 2019 *RMB'000* Audited (Restated) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Prepayment for acquisition of property and equipment | | **–** | 124,708 |
| Property and equipment | | **475,538** | 251,158 |
| Investment properties | | **83,710** | 83,710 |
| Goodwill | | **222,622** | 222,622 |
| Other intangible assets | | **35,168** | 38,717 |
| Investments in joint ventures | | **–** | 2,067 |
| Investments in associates | | **1,943** | 2,027 |
| Contingent consideration | | **–** | 6,479 |
| Financial assets at fair value through profit or loss | | **241,371** | 182,977 |
| Loan receivables | | **30,000** | 30,000 |
| Pledged deposits | *12* | **–** | 70,000 |
| Total non-current assets | | **1,090,352** | 1,014,465 |
| **CURRENT ASSETS** | | | |
| Inventories | | **297,863** | 206,684 |
| Contract assets | *11* | **476,075** | 449,616 |
| Contingent consideration | | **6,479** | – |
| Trade and bills receivables | *10* | **610,287** | 909,025 |
| Prepayments, deposits and other receivables | | **512,022** | 473,419 |
| Amounts due from related parties | | **361,186** | 386,096 |
| Pledged deposits | *12* | **306,574** | 249,617 |
| Cash and cash equivalents | *12* | **126,901** | 258,722 |
| Total current assets | | **2,697,387** | 2,933,179 |

| | Notes | **June 30, 2020** *RMB'000* **Unaudited** | December 31, 2019 *RMB'000* Audited (Restated) |
|---|---|---|---|
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | *13* | **317,739** | 388,251 |
| Contract liabilities, other payables and accruals | | **586,990** | 671,954 |
| Interest-bearing bank borrowings | | **755,677** | 701,767 |
| Amounts due to related parties | | **–** | 4,769 |
| Income tax payable | | **30,836** | 31,244 |
| Total current liabilities | | **1,691,242** | 1,797,985 |
| **NET CURRENT ASSETS** | | **1,006,145** | 1,135,194 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **2,096,497** | 2,149,659 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank borrowings | | **40,250** | 146,250 |
| Deferred tax liabilities | | **9,460** | 8,929 |
| Total non-current liabilities | | **49,710** | 155,179 |
| Net assets | | **2,046,787** | 1,994,480 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | | **290** | 290 |
| Reserves | | **2,014,009** | 1,965,660 |
| | | **2,014,299** | 1,965,950 |
| **Non-controlling interests** | | **32,488** | 28,530 |
| Total equity | | **2,046,787** | 1,994,480 |

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six-month period ended June 30, 2020*

### 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 and specialised solutions and services related to infrastructure technology in the PRC and overseas. During the six-month period ended June 30, 2020, the main businesses of the Group are as follows:

(a) Products and specialised solutions business (the "**Products and Specialised Solutions**") — in the field of infrastructure construction such as railways and electric power. The Group mainly sells products and provides specialised solutions that meet the needs of customers, which mainly include railway communication products, energy-base products, power communication products, power transmission and transformation equipment, power generation equipment; and

(b) Value-added operation and services business (the "**Value-added Operation and Services**") — We provide value-added services such as maintenance services, network optimization and network planning, and technical consulting for the products related to the communication system for railway customers, as well as the planning and technical consulting services of the infrastructure construction in relation to electric power such as power plant construction and power grid renovation for electric power customers, and power plant investment, construction and operation.

### 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, 2020 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, 2019. 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, 2019, except for the adoption of following new/revised IFRSs that are effective for the Group's financial year beginning on January 1, 2020.

| | |
|---|---|
| Amendments to IAS 1 and IAS 8 | Definition of Material |
| Amendments to IFRS 9, IAS 39 and IFRS 7 | Interest Rate Benchmark Reform |
| Amendments to IFRS 3 | Definition of a Business |

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, 2020 and prior years.

## 3. OPERATING SEGMENT INFORMATION

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

(i) Products and specialised solutions business (the "**Products and Specialised Solutions**") — in the field of infrastructure construction such as railways and electric power. The Group mainly sells products and provides specialised solutions that meet the needs of customers, which mainly include railway communication products, energy-base products, power communication products, power transmission and transformation equipment and power generation equipment; and

(ii) Value-added operation and services business (the "**Value-added Operation and Services**") — We provide value-added services such as maintenance services, network optimization and network planning, and technical consulting for the products related to the communication system for railway customers, as well as the planning and technical consulting services of the infrastructure construction in relation to electric power such as power plant construction and power grid renovation for electric power customers, and power plant investment, construction and operation.

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, 2020 (Unaudited)** | **Products and specialised solutions** *RMB'000* | **Value-added operation and services** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|
| **Segment revenue** | | | |
| Sales to external customers | **193,102** | **43,968** | **237,070** |
| **Segment results** | **18,788** | **20,231** | **39,019** |
| *Reconciliation:* | | | |
| Finance income | | | **7,609** |
| Finance costs | | | **(23,784)** |
| Changes in fair value of financial assets at fair value through profit or loss | | | **64,993** |
| Corporate and other unallocated expenses | | | **(37,187)** |
| Profit before tax | | | **50,650** |
| **Other segment information:** | | | |
| Share of losses of associates | **(84)** | **–** | **(84)** |
| Impairment losses | **13,286** | **2,283** | **15,569** |
| Depreciation and amortisation | **8,342** | **2,446** | **10,788** |
| Capital expenditure* | **10,270** | **234,857** | **245,127** |

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

| For the six-month period ended June 30, 2019 (Unaudited) | Products and specialised solutions *RMB'000* | Value-added operation and services *RMB'000* | Total *RMB'000* (Restated) |
|---|---|---|---|
| **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) |
| Changes in fair value of financial assets at fair value through profit or loss | | | (4,730) |
| Corporate and other unallocated expenses | | | (15,634) |
| Profit before tax | | | 19,314 |
| **Other segment information:** | | | |
| Share of profits of joint ventures | 2,621 | – | 2,621 |
| Share of losses of associates | (634) | – | (634) |
| Impairment losses | (6,129) | (483) | (6,612) |
| Depreciation and amortisation | 4,574 | 1,607 | 6,181 |
| Capital expenditure* | 1,006 | 474 | 1,480 |

## 4. REVENUE

An analysis of revenue is as follows:

| | For the six-month period ended June 30, | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Unaudited |
| Revenue from contracts with customers within IFRS 15 | **237,070** | 382,406 |

### (i) Disaggregated revenue information

*For the six-month period ended June 30, 2020*

| **Segments** | **Products and specialised solutions** ***RMB'000*** | **Value-added operation and services** ***RMB'000*** | **Total** ***RMB'000*** |
|---|---|---|---|
| **Type of goods or services** | | | |
| Sale of products and provision of specialised solutions | **193,102** | **–** | **193,102** |
| Maintenance services | **–** | **43,968** | **43,968** |
| Total revenue from contracts with customers | **193,102** | **43,968** | **237,070** |
| **Geographical markets** | | | |
| Mainland China | | | **210,882** |
| Others | | | **26,188** |
| Revenue from contracts with customers | | | **237,070** |
| **Timing of revenue recognition** | | | |
| Goods and services transferred at a point in time | **97,603** | **–** | **97,603** |
| Goods and services transferred over time | **95,499** | **43,968** | **139,467** |
| Revenue from contracts with customers | **193,102** | **43,968** | **237,070** |

For the six-month period ended June 30, 2019

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

## 5. OTHER INCOME AND GAINS

| | **For the six-month period ended June 30,** | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Unaudited |
| Finance income | **7,609** | 18,555 |
| Gross rental income | **2,505** | 6,331 |
| Dividend income from financial assets at fair value through profit or loss | **1,186** | – |
| Changes in fair value of financial assets at fair value through profit or loss | **64,993** | – |
| Gain on disposal of financial assets at fair value through profit or loss | **4,355** | – |
| Government grants* | **2,013** | – |
| Bad debts recovered | **5,953** | – |
| Others | **4,563** | 867 |
| | **93,177** | 25,753 |

* 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, | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Unaudited (Restated) |
| Cost of inventories | **183,127** | 299,948 |
| Depreciation | **7,429** | 6,144 |
| Amortisation of intangible assets, including in selling, distribution and administrative expenses | **3,359** | 551 |
| | **10,788** | 6,695 |
| Wages and salaries | **23,318** | 24,368 |
| Pension scheme contributions (defined contribution scheme) | **2,714** | 3,305 |
| Social insurance costs and staff welfare | **3,798** | 4,182 |
| | **29,830** | 31,855 |
| Impairment of trade receivables | **(2,612)** | (6,403) |
| Impairment of contract assets | **(160)** | (209) |
| Impairment of financial assets included in prepayments, deposits and other receivables | **18,341** | – |
| Short-term lease payments | **1,672** | 2,111 |
| Auditors' remuneration | **2,990** | 2,619 |
| Changes in fair value of financial assets at fair value through profit or loss | **(64,993)** | 4,730 |
| Rental income on investment properties | **(2,505)** | (6,331) |
| Exchange losses, net | **364** | 121 |

## 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, 2019: 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, 2019: 15%) preferential income tax rate.

No provision for Hong Kong profits tax has been made for the six-month period ended June 30, 2020 (June 30, 2019: nil), as the Group had no assessable profits arising in Hong Kong for the period.

The Group is subject to withholding tax in Myanmar at the rate of 2.5% (June 30, 2019: 2.5%) on the service income charged to the companies in Myanmar by non-Myanmar subsidiaries.

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, 2020, 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 (2019: 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,** | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Unaudited |
| Current income tax: | | |
| PRC Enterprise Income Tax | **6,838** | 5,296 |
| Others | **468** | 115 |
| Deferred income tax: | | |
| Origination and reversal of temporary differences | **532** | (1,450) |
| Income tax expense | **7,838** | 3,961 |

## 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, 2020 and 2019.

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, 2020 and 2019, 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, 2020 and 2019 as the share options have an anti-dilutive effect.

| | For the six-month period ended June 30, | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Unaudited |
| | | (Restated) |
| **Earnings** | | |
| Profit attributable to owners of the Company | **39,449** | 13,653 |

| | For the six-month period ended June 30, | |
|---|---|---|
| | **2020** | 2019 |
| | **Unaudited** | Unaudited |
| **Shares** | | |
| Weighted average number of shares in issue | **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, 2020 (June 30, 2019: nil).

## 10. TRADE AND BILLS RECEIVABLES

| | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Audited |
| Trade receivables | **608,187** | 744,692 |
| Impairment | **(68,436)** | (77,806) |
| | **539,751** | 666,886 |
| Bills receivable | **70,536** | 242,139 |
| | **610,287** | 909,025 |

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, 2020** *RMB'000* **Unaudited** | December 31, 2019 *RMB'000* Audited |
|---|---|---|
| Less than 6 months | **100,096** | 199,283 |
| 6 months to 1 year | **176,876** | 264,444 |
| 1 year to 2 years | **142,156** | 98,013 |
| 2 years to 3 years | **61,583** | 62,677 |
| Over 3 years | **59,040** | 42,469 |
| | **539,751** | 666,886 |

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

| | **June 30, 2020** *RMB'000* **Unaudited** | December 31, 2019 *RMB'000* Audited |
|---|---|---|
| At beginning of period/year | **77,806** | 75,437 |
| (Reversal of impairment loss)/impairment loss | **(2,612)** | 1,815 |
| Amount written off as uncollectible | **(6,758)** | – |
| Acquisition of a subsidiary | **–** | 554 |
| At end of period/year | **68,436** | 77,806 |

## 11. CONTRACT ASSETS

| | **June 30, 2020** *RMB'000* **Unaudited** | December 31, 2019 *RMB'000* Audited |
|---|---|---|
| Contract assets arising from: | | |
| Products and specialised solutions | **478,497** | 450,844 |
| Maintenance services | **27,096** | 28,450 |
| | **505,593** | 479,294 |
| Impairment | **(29,518)** | (29,678) |
| | **476,075** | 449,616 |

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

| | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Audited |
| At beginning of period/year | **29,678** | 31,841 |
| Reversal | **(160)** | (2,163) |
| At end of period/year | **29,518** | 29,678 |

## 12. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Audited |
| Cash and bank balances | **126,901** | 258,722 |
| Pledged deposits | | |
| — Current deposits | **306,574** | 249,617 |
| — Non-current deposits | **–** | 70,000 |
| | **433,475** | 578,339 |
| Less: Pledged and fixed deposits for | | |
| — Maturity over 3 months | **(45,313)** | (47,066) |
| — Letter of guarantee for projects | **(25,798)** | (29,952) |
| — Bills payables | **(104,694)** | (9,994) |
| — Interest-bearing bank borrowings | **(130,006)** | (231,806) |
| — Tenders | **(763)** | (799) |
| Cash and cash equivalents | **126,901** | 258,722 |

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 RMB380,294,000 (RMB380,276,000 in Mainland China and RMB18,000 in overseas) as at June 30, 2020 (December 31, 2019 RMB389,914,000 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, 2020** *RMB'000* **Unaudited** | December 31, 2019 *RMB'000* Audited |
|---|---|---|
| Current or less than 1 year | **271,878** | 286,496 |
| 1 to 2 years | **24,644** | 76,539 |
| Over 2 years | **21,217** | 25,216 |
| | **317,739** | 388,251 |

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

## 14. BUSINESS COMBINATION

On May 13, 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 December 31, 2019 and 2020 (the "**Profit Guarantee Period**"), the aggregate audited consolidated profits after tax of CEEC subgroup for the Profit Guarantee Period shall be no less than RMB62.0 million. If the guaranteed profits during the Profit Guarantee Period are not achieved, the Group is entitled to a compensation amount ("**Profit Guarantee**"), details of which are set out in the Company's announcement dated May 13, 2019. The Acquisition was completed in late May 2019.

The initial accounting for the Acquisition was provisional for the year ended December 31, 2019 mainly because the valuations of the intangible assets acquired and the consideration transferred had not been completed. The valuations were finalised during the six-month period ended June 30, 2020 and the following adjustments were made to the amounts of the assets acquired and liabilities assumed, as well as the amount of non-controlling interest recognised at the date of the Acquisition:

| | **As reported** *RMB'000* | **Adjustments** *RMB'000* | **Adjusted** *RMB'000* |
|---|---|---|---|
| Cash and cash equivalents | 1,689 | – | 1,689 |
| Trade and bills receivables | 29,535 | – | 29,535 |
| Prepayment, deposits and other receivables | 39,243 | – | 39,243 |
| Property and equipment | 22 | – | 22 |
| Intangible assets | – | 32,779 | 32,779 |
| Trade and other payables | (58,074) | – | (58,074) |
| Total identifiable net assets at fair value | 12,415 | 32,779 | 45,194 |
| Non-controlling interests | (5,215) | (11,681) | (16,896) |
| Goodwill on Acquisition | 78,640 | (32,229) | 46,411 |
| Consideration for the Acquisition | 85,840 | (11,131) | 74,709 |
| Cash consideration | 85,840 | – | 85,840 |
| Contingent consideration | – | (11,131) | (11,131) |
| Consideration for the Acquisition | 85,840 | (11,131) | 74,709 |

In addition, the following table summarises the impact of the valuations on the condensed consolidated statement of financial position as at December 31, 2019:

| | As reported *RMB'000* | Adjustments *RMB'000* | Adjusted *RMB'000* |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Goodwill | 254,851 | (32,229) | 222,622 |
| Other intangible assets | 5,938 | 32,779 | 38,717 |
| Contingent consideration | – | 6,479 | 6,479 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Reserves | 1,973,693 | (8,033) | 1,965,660 |
| **Non-controlling interests** | 13,468 | 15,062 | 28,530 |

## 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 RMB358.5 million from new contracts signed, representing a decrease of 1.3% compared to the same period last year. The Group generated revenue of RMB237.1 million, representing a decrease of 38.0% compared to the same period last year, and as of June 30, 2020, the Group recorded RMB898.9 million from backlog, representing an increase of 7.0% compared to the end of the previous year. The Group generated gross profit of RMB53.9 million, which decreased by 34.6% compared to the same period last year, and recorded gross profit margin of 22.8%, increased from 21.6% for the same period last year. The profit attributable to owners of the parent of the Company amounted to RMB39.4 million for the First Half of the Year compared to the profit of RMB13.7 million (restated) for the same period last year.

## BUSINESS AND FINANCIAL REVIEW

The Company and its subsidiaries (the "**Group**") is mainly a provider of products, specialised solutions and services related to infrastructure technology in the PRC and overseas. The main businesses of this Group are as follows:

(a) Products and specialised solutions business (the "**Products and Specialised Solutions**") — in the field of infrastructure construction such as railways and electric power, we sell Products and specialised solutions to customers according to their needs. It mainly includes: railway communication products, energy-base products, power communication products, power transmission and transformation equipment, and power generation equipment; and

(b) Value-added operation and services business (the "**Value-added Operation and Services**") — We provide value-added services such as maintenance services, network optimization and network planning, and technical consulting for the products related to the communication system for railway customers, as well as the planning and technical consulting services of the infrastructure construction in relation to electric power such as power plant construction and power grid renovation for electric power customers, and power plant investment, construction and operation.

## Business Review

For the First Half of the Year, the COVID-19 pandemic broke out on a large scale in China and the world. Affected by this, the global economy went down, and the Group took active and effective response measures immediately. For the railway sector business, the Group leveraged its own technical and services advantages and made full use of Internet technology to provide customers with remote technical support services to ensure safe railway operation and improve customers satisfaction. At the same time, in response to the pandemic, the Railway sector timely launched a solution of electronic passenger tickets, which became a business highlight in the First Half of the Year. The overseas energy sector overcame the impact of the pandemic and ensured that the power plant construction project was completed and started grid-connected power generation in the First Half of the Year according to the original plan. For the company management, the Group actively organized online learning for management and employees in February 2020, during which the domestic pandemic was the worst, to improve the overall quality of the Group's personnel. The Group also actively organized the resumption of work and production as well as pandemic prevention and control, and adopted the work mode of combining remote office and on-site office, so as to ensure that the work was not affected to the maximum extent, and all expenses were also controlled to the lowest level.

1. *The railway sector business was affected in the short term, but contract reserves were abundant*

   Products and specialised solutions are the principal business of the Group, and the Group is one of the largest providers in this segment. Affected by the COVID-19 pandemic, the delivery of some projects in the First Half of the Year was delayed, and recognized revenues of the Group decreased significantly. Although affected by the COVID-19 pandemic in the First Half of the Year, the national railway fixed asset investment in the first quarter decreased by 21% year-on-year, and the overall performance of the railway communication segment declined; however, through our own competitive advantages, the Group still maintained a high market share in products and specialised solutions in the railway communication segment. The number of new contracts signed in the First Half of the Year was slightly lower than the same period last year. At the same time, the Group's backlog increased slightly compared with the end of previous year. On the whole, the COVID-19 pandemic has a short-term impact on the Group's products and specialised solutions business, with little impact in the future.

   The intelligent value-added operation and services business of railway communication system is the key development business of the Group. Due to the high technical threshold, certain industry experience and expertise are required. This business has expanded to most nationwide railways bureaus and covered the railway backbone network by virtue of the Group's platform advantages and self-developed intelligent maintenance system. In the Second Half of the Year, the Group will endeavor to expand diversified professional technical services to ensure that the impact of the COVID-19 pandemic will be kept to a small extent.

2. *The self-built power plant was put into operation for power generation, and the electric power business was steadily promoted*

The Group signed the ALONE 151,000-kilowatt power plant project in Yangon, Myanmar in 2019, with a total investment of approximately RMB400 million. The power plant was put into trial operation and started grid-connected power generation in May 2020. The smooth progress of the project was a successful step taken by the Group in the field of electric power infrastructure, and it had also laid a solid foundation for the Group to further and solidly explore the infrastructure market in Southeast Asia.

## FINANCIAL REVIEW

### Revenue

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

| | **Six-month period ended June 30,** | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| **Revenue by business model** | | |
| Products and specialised solutions | **193,102** | 338,288 |
| Value-added operation and services | **43,968** | 44,118 |
| Elimination | **–** | – |
| Total | **237,070** | 382,406 |

(i) *Products and specialised solutions*

For the First Half of the Year, revenue of RMB193.1 million was recognised from the products and specialised solutions business, representing a decrease of RMB145.2 million compared to the same period last year, and decreased by 42.9%. The business recorded RMB322.9 million from new contracts signed, representing a decrease of RMB3.3 million compared to the same period last year and the amount of backlog as of the end of the Period was RMB843.9 million, representing an increase of RMB70.2 million compared to the end of the previous year.

The decrease in revenue was due to the delay in the delivery of some projects, resulting from the significant impact of the COVID-19 pandemic on the resumption of work and production for enterprises in the First Half of the 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 RMB44.0 million, representing a decrease of RMB0.1 million compared to the same period last year, and decreased by 0.3%. The business recorded RMB35.6 million from new contracts signed, representing a decrease of RMB1.5 million compared to the same period last year and the amount of backlog as of the end of the Period was RMB55.0 million, representing a decrease of RMB11.4 million compared to the end of the previous year.

Although the revenue in the First Half of the Year was the same as that of the same period last year, the value-added operation and service business of the railway sector was affected by the COVID-19 pandemic, and the implementation of some projects was delayed, and revenue decreased by RMB13.2 million compared with the same period last year. Meanwhile, the Group's self-built power plant was put into operation in the First Half of the Year, the revenue of value-added operation and service of electric power business increased by RMB13.1 million compared with the same period last year.

**Gross Profit and the Gross Profit Margin**

The Group generated gross profit of RMB53.9 million in the First Half of the Year, representing a decrease of RMB28.5 million compared to the same period last year. Gross profit margin increased from 21.6% for the same period last year to 22.8% for the First Half of the Year.

| | **Six-month period ended June 30,** | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| **Gross profit and the Gross Profit Margin by business model** | | |
| Products and specialised solutions | **33,714** | 61,546 |
| Margin % | **17.5%** | 18.2% |
| Value-added operation and services | **20,229** | 20,912 |
| Margin % | **46.0%** | 47.4% |
| Elimination | **–** | – |
| Total | **53,943** | 82,458 |
| Margin | **22.8%** | 21.6% |

*(i) Products and specialised solutions*

For the First Half of the Year, gross profit of RMB33.7 million was recognized from the products and specialised solutions business, representing a decrease of RMB27.8 million compared to the same period last year. The gross profit margin was 17.5%, representing a decrease of 0.7 percentage points compared to the same period last year. The decrease in gross profit was due to the decrease in revenue from the business in the First Half of the 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 RMB20.2 million, representing a decrease of RMB0.7 million compared to the same period last year. The gross profit margin of value-added operation and services was 46.0%, representing a decrease of 1.4 percentage points compared to the same period last year. The gross profit and gross profit margin of this business in the First Half of the Year remained at the same level compared to the same period last year.

**Other Income and Gains**

For the First Half of the Year, other income and gains were approximately RMB16.2 million, mainly including: 1. The impairment loss of approximately RMB6.0 million in the previous year recovered by the Group; 2. the compensation income from equity investment counterparties held by the Group for not fulfilling their committed performance was approximately RMB4.3 million; 3. the rental income of the investment properties was approximately RMB2.5 million; 4. the government grants income was approximately RMB2.0 million; 5. and 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 RMB72.1 million, representing an increase of RMB8.0 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 RMB56.5 million as compared to RMB70.7 million for the same period last year, decreased by RMB14.2 million compared to the same period last year. The decrease was mainly due to the impact of the COVID-19 pandemic in the First Half of the Year, the reduction in employee travel frequency led to a reduction in travel expenses; the government reduced corporate social insurance, which led to a reduction in social insurance costs; and the reduction in the number of full-time employees led to a decrease in wages and salaries.

*(ii) Impairment losses*

The impairment losses for the First Half of the Year were RMB15.6 million as compared to reversal from impairment losses of RMB6.6 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 RMB16.2 million, which represented an increase of RMB12.8 million compared to the same period last year. This was mainly due to the decrease of RMB11.0 million in interest income for the First Half of the Year compared to the same period last year.

**Share of Loss of Joint Venture/Associates**

For the First Half of the Year, share of loss of investment entities was approximately RMB0.1 million, as compared to the profit of RMB2.0 million for the same period last year.

**Proceeds from Disposal of Financial Assets**

For the First Half of the Year, the Group disposed part of equity in an equity investment and obtained a profit of RMB4.4 million.

**Profit or Loss through Fair Value Changes**

For the First Half of the Year, influenced by the market fluctuations, the Group's equity investments in Forever Opensource (stock code: 834415), CNBM Technology (stock code: 834082), and Shenzhen Hopeland led to the profit of RMB65.0 million through fair value changes, as compared to the loss of RMB4.7 million for the same period last year, representing an increase of RMB69.7 million in profit compared to the same period last year.

**Income Tax Expenses**

The total income tax expenses for the First Half of the Year were RMB7.8 million, which were 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 RMB39.4 million as compared to the profit of RMB13.7 million (restated) for the same period last year, representing an increase of 187.6% compared to the same period last year.

**Inventory Turnover Days**

The inventories of the Group mainly comprised of the products and spare parts related to railway communication. For the First Half of the Year, the inventory turnover days were 86 days (the same period last year: 31 days). The change was due to the delay in project delivery due to the impact of the COVID-19 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 294 days (the same period last year: 389 days).

### Contract Assets/Contract Liabilities Turnover Days

For the First Half of the Year, the contract assets/contract liabilities turnover days were 86 days (the same period last year: 43 days).

### Trade Payables Turnover Days

For the First Half of the Year, the trade payables turnover days were 174 days (the same period last year: 192 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, 2020, the Group's current ratio (current assets divided by current liabilities) was 1.6 (as of December 31, 2019: 1.6). The Group's financial position remains healthy.

As of June 30, 2020, the Group was in a net negative cash position(1) of RMB362.5 million (as at the end of the previous year: negative RMB269.7 million), decreased by RMB92.8million compared to the end of the previous year. As at June 30, 2020, the Group's gearing ratio was 0.1%, increased by 5.7 percentage points from -5.6% as at the end of the previous year.

### Contingent Liabilities

As at June 30, 2020, the Group had no material contingent liability.

### Charges on Group Assets

As at June 30, 2020, except for the pledged deposits of approximately RMB306.6 million (as at December 31, 2019: RMB319.6 million), the Group pledged a building with a net carrying amount of approximately RMB206.3 million, real estate with an appraised value of approximately RMB73.5 million, trade receivables with a carrying amount of RMB19.7 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 RMB208.5 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 June 30, 2020, the Group had no other assets charged to financial institution.

## IMPORTANT EVENTS SUBSEQUENT TO THE PERIOD

There was no important event affecting the Company nor any of its subsidiaries from June 30, 2020 to the date of this announcement.

## MATERIAL ACQUISITIONS OF SUBSIDIARIES AND ASSOCIATES

During the Period, the Group did not have any significant acquisition.

## EMPLOYMENT AND EMOLUMENT POLICIES

As at June 30, 2020, the Group had 307 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, 2020, 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 also 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, 2020.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 of 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, 2020.

## 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 by the Company 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, 2020.

## PUBLICATION OF THE 2020 INTERIM REPORT

The 2020 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, 2020

*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.*