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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, 2022**

HIGHLIGHTS OF 2022 INTERIM RESULTS

For the six-month period ended June 30, 2022 (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 RMB215.8 million from the new contracts signed⁽¹⁾, representing a decrease of 24.1% compared to the same period last year.
- Revenue of RMB243.6 million was generated, representing a decrease of 21.8% compared to the same period last year.
- As of June 30, 2022, the Group recorded RMB621.9 million from backlog, representing a decrease of 14.7% compared to the end of the previous year.
- The Group generated gross profit of RMB115.9 million, basically similar with the same period last year, and recorded gross profit margin of 47.6%, representing an increase of 10.3 percentage points compared to the same period last year.
- The loss attributable to owners of the parent of the Company amounted to RMB6.0 million as compared to the profit of RMB29.6 million for the same period last year. The change was mainly attributable to the relatively significant loss from the changes in the fair value of financial assets during the Period. A loss of RMB51.4 million was incurred compared to a gain of RMB2.9 million for the same period last year. Excluding the change in fair value of financial assets, profit for the Period increased by RMB18.7 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, 2022

		For the six-month period ended June 30,	
	<i>Notes</i>	2022	2021
		RMB'000	RMB'000
		Unaudited	Unaudited
REVENUE	4	243,634	311,425
Cost of revenue	6	<u>(127,698)</u>	<u>(195,114)</u>
Gross profit		115,936	116,311
Other income and gains	5	20,870	17,183
Selling, distribution and administrative expenses		(61,384)	(56,598)
Reversal of impairment of financial and contract assets, net		7,596	4,432
Other expenses		(51,848)	(10,175)
Finance costs		<u>(5,767)</u>	<u>(10,322)</u>
PROFIT BEFORE TAX	6	25,403	60,831
Income tax expense	7	<u>(3,935)</u>	<u>(19,094)</u>
PROFIT FOR THE PERIOD		<u>21,468</u>	<u>41,737</u>
Attributable to:			
Owners of the Company		(5,959)	29,639
Non-controlling interests		<u>27,427</u>	<u>12,098</u>
		<u>21,468</u>	<u>41,737</u>
(LOSS) EARNINGS PER SHARE			
ATTRIBUTABLE TO OWNERS OF			
THE COMPANY			
		RMB	RMB
		Unaudited	Unaudited
Basic	8	<u>0.00</u>	<u>0.02</u>
Diluted	8	<u>0.00</u>	<u>0.02</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six-month period ended June 30, 2022

	For the six-month period ended June 30,	
	2022	2021
	RMB'000	RMB'000
	Unaudited	Unaudited
PROFIT FOR THE PERIOD	21,468	41,737
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>(20,641)</u>	<u>(108,270)</u>
OTHER COMPREHENSIVE LOSS FOR THE PERIOD	<u>(20,641)</u>	<u>(108,270)</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	<u><u>827</u></u>	<u><u>(66,533)</u></u>
Attributable to:		
Owners of the Company	(17,492)	(35,605)
Non-controlling interests	<u>18,319</u>	<u>(30,928)</u>
	<u><u>827</u></u>	<u><u>(66,533)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2022

	<i>Notes</i>	June 30, 2022	December 31, 2021
		RMB'000	RMB'000
		Unaudited	Audited
NON-CURRENT ASSETS			
Property and equipment		539,977	511,799
Investment properties		110,015	92,252
Goodwill		123,759	123,759
Other intangible assets		32,041	24,550
Investments in associates		1,000	1,000
Financial assets at fair value through profit or loss		151,653	193,102
Loan receivables		30,000	30,000
Prepayments, deposits and other receivables		727	720
Prepayment for acquisition of property and equipment		–	21,547
		<hr/>	<hr/>
Total non-current assets		989,172	998,729
CURRENT ASSETS			
Inventories		378,352	405,007
Contract assets	<i>11</i>	205,631	261,064
Trade and bills receivables	<i>10</i>	491,769	632,640
Prepayments, deposits and other receivables		495,943	382,295
Financial assets at fair value through profit or loss		18,010	10
Amounts due from related parties		30,560	27,706
Pledged deposits	<i>12</i>	55,947	30,269
Cash and cash equivalents	<i>12</i>	340,180	317,869
		<hr/>	<hr/>
Total current assets		2,016,392	2,056,860

		June 30,	December 31,
		2022	2021
	<i>Notes</i>	RMB'000	RMB'000
		Unaudited	Audited
CURRENT LIABILITIES			
Trade and bills payables	13	224,344	308,321
Contract liabilities, other payables and accruals		478,656	501,015
Interest-bearing bank borrowings		333,735	279,713
Amounts due to related parties		719	327
Income tax payable		74,597	67,404
		<u>1,112,051</u>	<u>1,156,780</u>
Total current liabilities		<u>1,112,051</u>	<u>1,156,780</u>
NET CURRENT ASSETS			
		<u>904,341</u>	<u>900,080</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>1,893,513</u>	<u>1,898,809</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		23,750	35,000
Deferred tax liabilities		9,808	9,363
		<u>33,558</u>	<u>44,363</u>
Total non-current liabilities		<u>33,558</u>	<u>44,363</u>
Net assets		<u>1,859,955</u>	<u>1,854,446</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital		294	290
Reserves		1,753,803	1,772,424
		<u>1,754,097</u>	<u>1,772,714</u>
Non-controlling interests		<u>105,858</u>	<u>81,732</u>
Total equity		<u>1,859,955</u>	<u>1,854,446</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2022

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, 2022 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, 2021. 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, 2021, except for the adoption of following new/revised IFRSs that are effective for the Group’s financial year beginning on January 1, 2022.

Amendments to IFRS16	Covid-19-Related Rent Concessions beyond June 30, 2021
Amendments to IAS 16	Proceeds before Intended Use
Amendments to IAS 37	Cost of Fulfilling a Contract
Amendments to IFRS 3	Reference to the Conceptual Framework
Annual Improvements to IFRSs	2018-2020 Cycle

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, 2022 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, 2022 (Unaudited)	Railway business RMB'000	Electric power business RMB'000	Total RMB'000
Segment revenue <i>(note 4)</i>			
Sales to external customers	<u>129,850</u>	<u>113,784</u>	<u>243,634</u>
Segment results	30,037	70,618	100,655
<i>Reconciliation:</i>			
Finance income			2,094
Finance costs			(5,767)
Changes in fair value of financial assets at fair value through profit or loss			(51,449)
Gain on transfer from inventories to investment properties			4,917
Dividend income from financial assets at fair value through profit or loss			1,518
Corporate and other unallocated expenses			<u>(26,565)</u>
Profit before tax			<u><u>25,403</u></u>
Other segment information:			
(Reversal of impairment) Impairment of financial and contract assets	(8,435)	839	(7,596)
Depreciation and amortisation	9,569	12,267	21,836
Capital expenditure*	<u>1,725</u>	<u>53,359</u>	<u>55,084</u>

For the six-month period ended June 30, 2021 (Unaudited)	Railway business <i>RMB'000</i>	Electric power business <i>RMB'000</i>	Total <i>RMB'000</i>
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			<u>60,831</u>
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

* 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,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
Revenue from contracts with customers within IFRS 15	<u>243,634</u>	<u>311,425</u>

(i) **Disaggregated revenue information**

Segments	For the six-month period ended June 30,	
	2022	2021
	RMB'000	RMB'000
Type of goods or services		
Sale of products and provision of specialised solutions	117,414	188,150
Maintenance services	12,436	25,821
Power supply	113,784	97,454
	<hr/>	<hr/>
Total revenue from contracts with customers	243,634	311,425
	<hr/> <hr/>	<hr/> <hr/>
Geographical markets		
Mainland China	129,850	194,848
Others	113,784	116,577
	<hr/>	<hr/>
Total revenue from contracts with customers	243,634	311,425
	<hr/> <hr/>	<hr/> <hr/>
Timing of revenue recognition		
Goods and services transferred at a point in time	29,462	110,143
Goods and services transferred over time	214,172	201,282
	<hr/>	<hr/>
Total revenue from contracts with customers	243,634	311,425
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5. OTHER INCOME AND GAINS

	For the six-month period ended June 30,	
	2022	2021
	RMB'000	RMB'000
	Unaudited	Unaudited
Finance income	2,094	3,033
Gross rental income	11,352	8,145
Dividend income from financial assets at fair value through profit or loss	1,518	1,243
Changes in fair value of financial assets at fair value through profit or loss	–	2,912
Gain on transfer from inventories to investment properties	4,917	–
Gain on disposal of financial assets at fair value through profit or loss	–	1,546
Others	989	304
	<hr/>	<hr/>
	20,870	17,183
	<hr/> <hr/>	<hr/> <hr/>

6. PROFIT BEFORE TAX

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

	For the six-month period ended June 30,	
	2022	2021
	RMB'000	RMB'000
	Unaudited	Unaudited
Cost of inventories	<u>127,698</u>	<u>195,114</u>
Depreciation	18,106	14,279
Amortisation of intangible assets, included in selling, distribution and administrative expenses	<u>3,730</u>	<u>3,278</u>
	<u>21,836</u>	<u>17,557</u>
Wages and salaries	19,873	18,113
Pension scheme contributions (defined contribution scheme)	3,933	3,921
Social insurance costs and staff welfare	<u>1,475</u>	<u>1,589</u>
	<u>25,281</u>	<u>23,623</u>
(Reversal of impairment) Impairment of trade receivables	(9,753)	1,708
Reversal of impairment of contract assets	(1,283)	(7,479)
Impairment of financial assets included in prepayments, deposits and other receivables	3,440	1,339
Short-term lease payments	2,597	3,348
Gain on disposal of financial assets at fair value through profit or loss	–	(1,546)
Gain on disposal of property and equipment	47	–
Changes in fair value of financial assets at fair value through profit or loss	51,449	(2,912)
Rental income on investment properties	(11,352)	(8,145)
Exchange losses, net	<u>379</u>	<u>9,562</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.

A subsidiary of the Group in Tibet, China is subject to PRC Enterprise Income Tax as a rate of 9% (June 30, 2021: 9%) and subsidiaries in other areas of the Mainland China are subject to PRC Enterprise Income Tax at a rate 25% (June 30, 2021: 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, 2021: 15%) preferential income tax rate.

No provision for Hong Kong profits tax has been made for the six-month period ended June 30, 2022 (June 30, 2021: nil), as the Group had no assessable profits arising in Hong Kong for the period.

Subsidiaries incorporated in Myanmar are subject to Corporate Income Tax at a rate 25% (June 30, 2021: 25%) on their taxable income. In addition, non-Myanmar incorporated subsidiaries are also subject to withholding tax in Myanmar at the rate of 2.5% (June 30, 2021: 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, 2022, 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 (2021: nil) because 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,	
	2022	2021
	RMB'000	RMB'000
	Unaudited	Unaudited
Current income tax:		
PRC Enterprise Income Tax	1,625	5,325
Myanmar Corporate Income Tax	–	9,169
Myanmar withholding tax	2,242	988
Overprovision of PRC Enterprise Income Tax	(377)	–
Deferred income tax:		
Origination and reversal of temporary differences	445	3,612
Income tax expense	3,935	19,094

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

Basic (loss) earnings per share

Basic (loss) earnings per share is calculated by dividing the (loss) profit for the period attributable to owners of the Company by the weighted average number of 1,654,145,493 (June 30, 2021: 1,654,024,868) ordinary shares outstanding during the six-month period ended June 30, 2022.

Diluted (loss) earnings per share

The calculation of the diluted (loss) earnings per share is based on the (loss) 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, 2022 and 2021, as used in the basic (loss) 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 (loss) earnings per share is the same as basic (loss) earnings per share for the six-month periods ended June 30, 2022 and 2021 as the share awards and the share options have an anti-dilutive effect.

	For the six-month period ended June 30,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
(Loss) Earnings		
Loss (Earning) attributable to owners of the Company	<u>(5,959)</u>	<u>29,639</u>
	For the six-month period ended June 30,	
	2022	2021
	Unaudited	Unaudited
Shares		
Weighted average number of shares in issue	<u>1,654,145,493</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, 2022 (June 30, 2021: nil).

10. TRADE AND BILLS RECEIVABLES

	June 30, 2022	December 31, 2021
	RMB'000	RMB'000
	Unaudited	Audited
Trade receivables	498,630	625,103
Impairment	(65,743)	(75,496)
	432,887	549,607
Bills receivable	58,882	83,033
	491,769	632,640

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, 2022	December 31, 2021
	RMB'000	RMB'000
	Unaudited	Audited
Less than 6 months	20,759	30,849
6 months to 1 year	194,957	209,321
1 year to 2 years	114,979	147,832
2 years to 3 years	39,014	91,256
Over 3 years	63,178	70,349
	432,887	549,607

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

	June 30, 2022	December 31, 2021
	RMB'000	RMB'000
	Unaudited	Audited
At beginning of period/year	75,496	87,384
Reversal of impairment	(9,753)	(11,820)
Amount written off	–	(68)
At end of period/year	65,743	75,496

11. CONTRACT ASSETS

	June 30, 2022	December 31, 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Audited
Contract assets	236,004	292,429
Impairment	(30,373)	(31,365)
	<u>205,631</u>	<u>261,064</u>

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

	June 30, 2022	December 31, 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Audited
At beginning of period/year	31,365	27,850
(Reversal of impairment) Impairment	(1,283)	3,515
Reversal of amount written off	291	–
	<u>30,373</u>	<u>31,365</u>

12. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	June 30, 2022	December 31, 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Audited
Cash and bank balances	340,180	317,869
Pledged deposits		
— Current deposits	55,947	30,269
	396,127	348,138
Less: Pledged and fixed deposits for		
— Maturity over 3 months	(32,800)	(5,500)
— Letter of guarantee for projects	(6,943)	(20,917)
— Bills payables	(10,000)	–
— Tenders	(269)	(454)
— Restricted cash	(2,873)	(341)
— Frozen under jurisdictional actions	(3,062)	(3,057)
	<u>340,180</u>	<u>317,869</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 RMB120,446,000 (RMB119,794,000 in Mainland China and RMB652,000 in overseas) as at June 30, 2022 (December 31, 2021: RMB335,712,000 in Mainland China). 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, 2022	December 31, 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Audited
Current or less than 1 year	98,529	171,674
1 to 2 years	87,759	94,305
Over 2 years	38,056	42,342
	<u>224,344</u>	<u>308,321</u>

The Group's bills payable were secured by pledged deposits of the Group of RMB10,000,000 as at June 30, 2022 (December 31, 2021: nil).

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 RMB215.8 million from new contracts signed, representing a decrease of 24.1% compared to the same period last year. The Group generated revenue of RMB243.6 million, representing a decrease of 21.8% compared to the same period last year, and as of June 30, 2022, the Group recorded RMB621.9 million from backlog, representing a decrease of 14.7% compared to the end of the previous year. The Group generated gross profit of RMB115.9 million, which was generally in line with that of the same period last year, and recorded gross profit margin of 47.6%, which was an increase from 37.3% for the same period last year. The loss attributable to owners of the parent of the Company amounted to RMB6.0 million for the First Half of the Year as compared to the profit of RMB29.6 million for 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 optimisation 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 etc.

Business Review

1. *Decreasing trend of the railway business sector*

For the railway business sector, the Group's railway business has been affected by the fact that railway fixed asset investment has been declining year by year in the past three years, and bidding progress of projects were affected by the resurgent COVID-19 pandemic in various regions across the PRC in the First Half of the Year. The number of new contracts for the First Half of the Year has decreased significantly as compared with the same period last year. In addition, some railway projects have been delayed in delivery, resulting in a greater decrease in revenue for the First Half of the Year as compared to the same period last year.

2. *Steady business growth in the overseas power business sector*

For the power business sector, the AHLONE 151,000-kilowatt power plant project, which was invested, constructed and operated by the Group in Yangon, Myanmar, recorded an increase in the revenue as compared with the same period last year. In addition, the Group established a joint venture with a local enterprise in Myanmar in 2021 for the purpose of joint development of the 123,000-kilowatt power plant restoration project in Hlawga, which has achieved single cycle power generation in the First Half of the Year.

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,	
	2022 RMB'000	2021 RMB'000
Revenue by industry sectors		
Railway	129,850	213,971
Electric power	113,784	97,454
Total	<u>243,634</u>	<u>311,425</u>

(i) *Railway*

For the First Half of the Year, revenue of RMB129.9 million was recognised from the railway sector, representing a decrease of RMB84.1 million compared to the same period last year, and decreased by 39.3%. The sector recorded RMB101.8 million from new contracts signed, representing a decrease of RMB85.2 million compared to the same period last year; and the amount of backlog as of the end of the Period was RMB602.8 million, representing a decrease of RMB107.2 million compared to the end of the previous year. The decrease in revenue was mainly due to the greater impact of the COVID-19 pandemic on the railway communication market in the First Half of the Year, as the number of new contracts was much lower than that of the same period last year, and the delivery of some railway projects was delayed, resulting in a significant decrease in revenue for the First Half of the Year as compared to the same period last year.

(ii) *Electric power*

For the First Half of the Year, revenue of RMB113.8 million was recognised from the electric power sector, representing an increase of RMB16.3 million compared to the same period last year, and increased by 16.7%. The sector recorded RMB114.0 million from new contacts signed, representing an increase of RMB16.5 million compared to the same period last year.

The increase in revenue was mainly due to growth in revenue from the AHLONE power plant as compared to the same period last year. Meanwhile, the Hlawga power plant, a power plant joint venture in Myanmar, started with the single cycle power generation for the First Half of the Year.

By Business Model

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

	For the six-month period ended June 30,	
	2022	2021
	RMB'000	RMB'000
Revenue by business model		
Products and specialised solutions	117,414	188,150
Value-added operation and services	126,220	123,275
Total	243,634	311,425

(i) Products and specialised solutions

For the First Half of the Year, revenue of RMB117.4 million was recognised from the products and specialised solutions business, representing a decrease of RMB70.8 million compared to the same period last year, and decreased by 37.6%. The business recorded RMB95.0 million from new contracts signed, representing a decrease of RMB81.0 million compared to the same period last year and the amount of backlog as of the end of the Period was RMB578.0 million, representing a decrease of RMB61.8 million compared to the end of the previous year. The decrease in revenue was mainly due to the greater impact of the COVID-19 pandemic on the railway communication market in the First Half of the Year, as the number of new contracts was much lower than that of the same period last year, and the delivery of some railway projects was delayed, resulting in a significant decrease in revenue for the First Half of the Year as compared to the same period last 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 RMB126.2 million, representing an increase of RMB2.9 million compared to the same period last year, and increased by 2.4%. The business recorded RMB120.8 million from new contracts signed, representing an increase of RMB12.3 million compared to the same period last year and the amount of backlog as of the end of the Period was RMB43.9 million, representing a decrease of RMB45.4 million compared to the end of the previous year.

Gross Profit and the Gross Profit Margin

The Group generated gross profit of RMB115.9 million in the First Half of the Year, basically similar with the same period last year. Gross profit margin increased from 37.3% for the same period last year to 47.6% for the First Half of the Year.

By Industry Sectors

	For the six-month period ended June 30,	
	2022 RMB'000	2021 RMB'000
Gross profit by industry sectors		
Railway	27,230	41,393
Gross profit margin %	21.0%	19.3%
Electric power	88,706	74,918
Gross profit margin %	78.0%	76.9%
Total	<u>115,936</u>	<u>116,311</u>
Gross profit margin	<u>47.6%</u>	<u>37.3%</u>

(i) Railway

For the First Half of the Year, gross profit of RMB27.2 million was recognised from the railway sector, representing a decrease of RMB14.2 million compared to the same period last year. The gross profit margin was 21.0%, representing an increase of 1.7 percentage points compared to the same period last year. The decrease in gross profit was mainly due to the significant decrease in revenue from the sector for the First Half of the Year.

(ii) Electric power

For the First Half of the Year, gross profit of RMB88.7 million was recognised from the electric power sector, representing an increase of RMB13.8 million compared to the same period last year. The gross profit margin was 78.0%, representing an increase of 1.1 percentage points compared to the same period last year. The increase in gross profit was mainly due to the significant increase in revenue from the sector for the First Half of the Year.

By Business Model

**For the six-month period
ended June 30,**
2022 2021
RMB'000 **RMB'000**

**Gross profit and the Gross Profit Margin
by business model**

Products and specialised solutions	23,348	32,709
Gross profit margin %	19.9%	17.4%
Value-added operation and services	92,588	83,602
Gross profit margin %	73.4%	67.8%
Total	115,936	116,311
Gross profit margin	47.6%	37.3%

(i) Products and specialised solutions

For the First Half of the Year, gross profit of RMB23.3 million was recognised from the products and specialised solutions business, representing a decrease of RMB9.4 million compared to the same period last year. The gross profit margin was 19.9%, representing an increase of 2.5 percentage points compared to the same period last year. The decrease in gross profit was mainly due to the significant decline in revenue from the business model for the First Half of the Year.

(ii) Value-added operation and services

Gross profit recognised from the value-added operation and services business for the First Half of the Year was RMB92.6 million, representing an increase of RMB9.0 million compared to the same period last year. The gross profit margin was 73.4%, representing an increase of 5.6 percentage points compared to the same period last year. For the First Half of the Year, the revenue of the value-added operation and services of the electric power sector increased slightly compared to the same period last year, and the gross profit margin was relatively high in this sector, in turn further resulting in an increase in the gross profit and gross profit margin of the value-added operation and services business.

Other Income and Gains

For the First Half of the Year, other income and gains mainly include: (i) the rental income was approximately RMB11.4 million; (ii) the financial assets dividend income was approximately RMB1.5 million.

Selling and Administration Expenses and Impairment Losses

For the First Half of the Year, selling and administration expenses and impairment losses were approximately RMB53.8 million, representing an increase of RMB1.6 million as compared to the same period last year.

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

For the First Half of the Year, selling and administration expenses which was related to daily operational activities was RMB61.4 million as compared to RMB56.6 million for the same period last year, representing an increase of RMB4.8 million compared to the same period last year.

(ii) Impairment losses

The reversal from impairment losses for the First Half of the Year were RMB7.6 million, including reversal of RMB9.7 million from impairment of trade receivables, reversal of RMB1.3 million from impairment of contract assets, and impairment of financial assets amounting to RMB3.4 million included to prepayments, deposits and other receivables, as compared to the reversal of RMB4.4 million for the same period last year, including impairment of trade receivables amounting to RMB1.7 million, reversal of RMB7.4 million from impairment on contract assets, and impairment of financial assets amounting to RMB1.3 million included to prepayments, deposits and other receivables.

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 RMB3.7 million, which represented a decrease of RMB3.6 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.

Profit or Loss through Fair Value Changes

- (i) 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), Shenzhen Hopeland, and Helios Energy Limited (stock code: HE8.AX) generated a loss of RMB51.4 million through fair value changes, as compared to the profit of RMB2.9 million for the same period last year. Forever Opensource is primarily engaged in providing open source software technology services for enterprise customers and community, cloud platform, recruitment and crowdsourcing services, etc. for software developers. CNBA Technology is primarily engaged in value-added distribution of Huawei and other ICT products, sales of imported network products and sales of medical products. Shenzhen Hopeland is primarily engaged in RFID hardware and solution integrator business in the Internet of Things industry. Helios Energy Limited is primarily engaged in oil and gas exploration with operation in Texas, USA. As of June 30, 2022, the Group held (i) 21.64% of equity interest in Forever Opensource with investment costs of RMB151.7 million, (ii) 0.70% of equity interest in CNBA Technology with investment costs of RMB4.8 million, and (iii) 10.0% of equity interest in Shenzhen Hopeland with investment costs of RMB20 million, and (iv) 1.34% of equity interest in Helios Energy Limited with investment costs of RMB2.3 million. The losses (including unrealised loss) from the Group's investment in the shares of Forever Opensource, CNBA Technology, Shenzhen Hopeland and Helios Energy Limited for the First Half of the Year were RMB48.3 million, RMB1.0 million, RMB1.3 million and RMB0.8 million, respectively. The Company makes strategic investments in technology companies in related industries from time to time and would seek further cooperation opportunities as and when appropriate.
- (ii) During the First Half of the Year, the Group's investment properties generated gains from changes in fair value of RMB4.9 million.

Income Tax Expenses

The total income tax expenses for the First Half of the Year were RMB3.9 million, which were RMB19.1 million for the same period last year. The decrease in income tax expenses was mainly due to the decrease in income tax expenses from Myanmar for the First Half of the Year, as compared to the same period last year.

Loss for the Period

For the First Half of the Year, the loss attributable to owners of the parent of the Company amounted to RMB6.0 million as compared to the profit of RMB29.6 million for the same period last year. The change was mainly attributable to the relatively significant loss from the changes in the fair value of financial assets during the Period, a loss of RMB51.4 million was incurred compared to a gain of RMB2.9 million for the same period last year. Excluding the change in fair value of financial assets, profit for the Period increased by RMB18.7 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 227 days (the same period last year: 123 days). During the First Half of the Year, the inventory of the Group decreased slightly as compared to the same period last year, but the inventory turnover days increased due to the significant decrease in revenue for the First Half of the Year as compared to the same period last year.

Trade Receivables Turnover Days

For the First Half of the Year, the trade receivables turnover days were 328 days (the same period last year: 241 days). During the First Half of the Year, the trade receivables of the Group decreased significantly as compared to the same period last year, but the trade receivables turnover days increased due to the significant decrease in revenue for the First Half of the Year as compared to the same period last year.

Trade Payables Turnover Days

For the First Half of the Year, the trade payables turnover days were 217 days (the same period last year: 140 days). During the First Half of the Year, the trade payables of the Group decreased slightly as compared to the same period last year, but the trade payables turnover days increased due to the significant decrease in revenue for the First Half of the Year as compared to the same period last year.

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, 2022, the Group's current ratio (current assets divided by current liabilities) was 1.8 (as of December 31, 2021: 1.8). The Group's financial position remains healthy.

As of June 30, 2022, the Group was in a net cash position⁽¹⁾ of RMB38.6 million (as at the end of the previous year: RMB33.4 million), increased by RMB5.2 million compared to the end of the previous year. As at June 30, 2022, the Group's gearing ratio⁽²⁾ was -3.7%, decreased by 0.4 percentage points from -3.3% as at the end of the previous year.

Contingent Liabilities

As at June 30, 2022, the Group had no material contingent liability.

Charges on Group Assets

As at June 30, 2022, except for the pledged deposits of approximately RMB55.9 million (as at December 31, 2021: RMB30.3 million), the Group pledged a building with a net carrying amount of approximately RMB196.3 million, real estate with an appraised value of approximately RMB72.5 million, trade receivables with a carrying amount of RMB151.0 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 RMB200.4 million, real estate with an appraised value of approximately RMB72.5 million, trade receivables with a carrying amount of RMB151.0 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, 2022, 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, 2022 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, 2022.

⁽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, 2022, the Group had 243 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. The Company has also adopted the 2021 Share Award Scheme as incentive for Directors, senior management and 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, 2022, 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, 2022.

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, 2022.

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, 2022.

PUBLICATION OF THE 2022 INTERIM REPORT

The 2022 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 29, 2022

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.