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China ITS (Holdings) Co., Ltd.
中国智能交通系統（控股）有限公司
(incorporated in the Cayman Islands with limited liability)
(Stock code: 1900)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2010

HIGHLIGHTS OF 2010 ANNUAL RESULTS

- New contracts signed and orders secured increased by approximately 40.7% to approximately RMB2,371.9 million
- Backlog as at December 31, 2010 increased by approximately 42.7% to approximately RMB1,309.2 million
- Revenue increased by approximately 32.5% to approximately RMB1,862.2 million
- Gross profit increased by approximately 46.6% to approximately RMB587.9 million
- Gross profit margin increased from prior year to approximately 31.6%
- Pro-forma profit before tax increased by approximately 57.5% to approximately RMB389.9 million (note 1)
- Pro-forma profit for the year increased by approximately 54.4% to approximately RMB337.0 million (note 2)
- Profit for the year increased by approximately 37.0% to approximately RMB294.0 million
- Pro-forma earnings per share was RMB0.24 per share *(note 3)*

Notes:

1. Pro-forma profit before tax refers to profit before tax *plus* expenses relating to the listing of the Company's shares *plus* share-based payment expenses *less* fair value changes on investment properties, for the year ended December 31, 2010.

2. Pro-forma profit refers to pro-forma profit before tax *minus* income tax expenses and tax adjustment, for the year ended December 31, 2010.

3. Pro-forma earnings per share refers to pro-forma profit divided by weighted average number of shares in issue, during the year ended December 31, 2010. It would be RMB0.22 if the number of common shares used is the current number of shares outstanding of 1,569,047,334.

ANNUAL RESULTS

The board of directors (individually, a "**Director**", or collectively, the "**Board**") of China ITS (Holdings) Co., Ltd. (the "**Company**") is pleased to announce the audited financial results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended December 31, 2010, with comparative figures, as follows:

CONSOLIDATED INCOME STATEMENT

		For the Year ended December 31,	
		2010	2009
	Notes	***RMB'000***	*RMB'000*
REVENUE	4	**1,862,184**	1,405,447
Cost of revenue	5	**(1,274,242)**	(1,004,386)
Gross profit		**587,942**	401,061
Other income and gain	5	**8,870**	16,420
Expenses relating to the listing of the Company's shares		**(35,488)**	(2,078)
Selling, general and administrative expenses		**(211,051)**	(161,683)
Other expenses	5	**(247)**	(103)
OPERATING PROFIT		**350,026**	253,617
Finance income	5	**5,605**	809
Finance costs	5	**(11,505)**	(7,985)
Share of profits of jointly-controlled entities		**3,556**	291
PROFIT BEFORE TAX	5	**347,682**	246,732
Income tax expense	6	**(53,673)**	(32,060)
PROFIT FOR THE YEAR		**294,009**	214,672
Attributable to:			
Owners of the parent		**294,009**	214,672
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
		RMB	*RMB*
Basic-for the profit for the year	8	**0.21**	0.18

Details of the dividends payable and proposed for the year ended December 31, 2010 are disclosed in note 7 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	For the Year ended December 31, 2010 RMB'000	2009 RMB'000
PROFIT FOR THE YEAR		**294,009**	214,672
Gain on property revaluation upon transfer to investment properties		**—**	10,376
Income tax effect	6	**—**	(2,594)
		—	7,782
Exchange differences on translation of foreign operations		**(13,893)**	1,653
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(13,893)**	9,435
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**280,116**	224,107
Attributable to:			
Owners of the parent		**280,116**	224,107

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at December 31, 2010 RMB'000	As at December 31, 2009 RMB'000
NON-CURRENT ASSETS			
Property and equipment		**27,074**	26,223
Investment properties		**141,037**	80,100
Goodwill		**230,664**	230,664
Investments in jointly-controlled entities		**19,750**	8,544
Deferred tax assets		**5,350**	5,946
Other assets		**566**	540
Total Non-current assets		**424,441**	352,017
CURRENT ASSETS			
Inventories		**4,467**	6,432
Construction contracts	9	**777,875**	679,579
Trade and bills receivables	10	**834,436**	411,394
Prepayments, deposits and other receivables		**555,280**	213,313
Due from related companies		**5,571**	3,900
Pledged deposits		**182,502**	173,607
Short-term deposit		**112,441**	—
Cash and cash equivalents		**836,883**	177,173
Total current assets		**3,309,455**	1,665,398
CURRENT LIABILITIES			
Trade and bills payables	11	**597,838**	488,590
Other payables and accruals		**122,130**	118,214
Construction contracts		**559,531**	248,155
Interest-bearing bank borrowings		**289,998**	170,150
Due to related companies		**6,537**	4,567
Income tax payable		**10,174**	12,792
		1,586,208	1,042,468
NET CURRENT ASSETS		**1,723,247**	622,930
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,147,688**	974,947

	Notes	As at December 31, 2010 RMB'000	As at December 31, 2009 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	8	**36,281**	21,788
NET ASSETS		**2,111,407**	953,159
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**276**	216
Reserves		**2,111,131**	952,943
Total equity		**2,111,407**	953,159

SELECTED NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION AND GROUP REORGANIZATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on February 20, 2008. The principal executive office of the Company is located at Unit 1801A, 18/F, West Tower, World Finance Centre, No. 1 East 3rd Ring Road Middle, Chaoyang District, Beijing 100020, the People's Republic of China (the "PRC"). The ordinary shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on July 15, 2010.

Pursuant to a group reorganization (the "Reorganization") for the purpose of listing of the Company's ordinary shares on the Stock Exchange, on June 18, 2008, the Company acquired the entire issued capital of China Toprise Limited and Fairstar Success Holdings Limited, the then holding companies of the companies comprising the Group, from China ITS Co., Ltd. ("China ITS" the then holding company of the Company) and became the holding company of the Group. Further details of the Reorganization are set out in the Company's prospectus dated June 30, 2010 (the "Prospectus").

2. BASIS OF PRESENTATION

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

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organized into business units based on their products and services and has three reportable operating segments as follows:

(a) the turnkey solutions segment involves the integration of information technology with the physical transportation infrastructure;

(b) the specialized solutions segment provides solutions to discrete problems occurring in a client's existing or planned transportation infrastructure through the design, development and implementation of hardware-based and software-based systems; and

(c) the value-added services segment involves post-construction maintenance services for turnkey and specialized solutions.

Management monitors the results of its 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 before tax from continuing operations. The adjusted profit before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations except that interest income, finance costs, fair value gain/(loss) from the Group's investment properties, share of losses of jointly-controlled entities as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, property, plant and equipment, investment properties, due from related parties, interests in jointly-controlled entities and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude deferred tax liabilities, interest-bearing bank borrowings, due to related parties, income tax payables and other unallocated head office and corporate assets as these liabilities are managed on a group basis.

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

All of the Group's revenue from external customers is generated from the PRC. All of the Group's non-current assets are located in the PRC.

None of the Group's sales to a single external customer amounted to 10% or more of the Group's revenue during the year ended December 31, 2010. Revenue of approximately RMB151.2 million for the year ended December 31, 2009 was derived from a single customer in the Specialized Solution business.

	Turnkey solutions *RMB'000*	**Specialised solutions** *RMB'000*	**Value-added services** *RMB'000*	**Consolidated** *RMB'000*
Year ended December 31, 2010				
Segment revenue				
Sales to external customers	**687,890**	**1,154,235**	**20,059**	**1,862,184**
Intersegment sales	**—**	**20,420**	**—**	**20,420**
	687,890	**1,174,655**	**20,059**	**1,882,604**
Reconciliation:				
Elimination of intersegment sales				**(20,420)**
Revenue				**1,862,184**
Segment results	**120,765**	**271,616**	**9,375**	**401,756**
Reconciliation:				
Interest income				**5,605**
Share of profits of jointly-controlled entities				**3,556**
Fair value gains on investment properties				**3,200**
Corporate and other unallocated expenses				**(54,930)**
Finance costs				**(11,505)**
Profit before tax				**347,682**
December 31, 2010				
Segment assets	**724,294**	**1,969,795**	**22,874**	**2,716,963**
Reconciliation:				
Elimination of intersegment receivables				**(323,001)**
Corporate and other unallocated assets				**1,339,934**
Total assets				**3,733,896**
Segment liabilities	**571,714**	**995,324**	**16,592**	**1,583,630**
Reconciliation:				
Elimination of intersegment payables				**(323,001)**
Unallocated liabilities				**361,860**
Total liabilities				**1,622,489**
Other segment information				
Share of profits of:				
Jointly-controlled entities				**3,556**
Impairment losses reversed in the income statement				**1,882**
Depreciation and amortisation				**7,502**
Investment in jointly-controlled entities				**19,750**
Capital expenditure *				**67,643**

* Capital expenditure consists of addition of property, plant and equipment, investment properties and additional investment in a jointly controlled entity.

	Turnkey solutions *RMB'000*	Specialised solutions *RMB'000*	Value-added services *RMB'000*	Consolidated *RMB'000*
Year ended December 31, 2009				
Segment revenue				
Sales to external customers	534,462	852,657	18,328	1,405,447
Intersegment sales	—	30,340	—	30,340
	534,462	882,997	18,328	1,435,787
Reconciliation:				
Elimination of intersegment sales				(30,340)
Revenue				1,405,447
Segment results	84,350	167,675	10,714	262,739
Reconciliation:				
Interest income				809
Share of profits of jointly-controlled entities				291
Unallocated gains				11,108
Corporate and other unallocated expenses				(20,230)
Finance costs				(7,985)
Profit before tax				246,732
December 31, 2009				
Segment assets	542,109	1,056,816	12,854	1,611,779
Reconciliation:				
Elimination of intersegment receivables				(73,877)
Corporate and other unallocated assets				479,513
Total assets				2,017,415
Segment liabilities	283,133	629,743	663	913,539
Reconciliation:				
Elimination of intersegment payables				(73,877)
Unallocated liabilities				224,594
Total liabilities				1,064,256
Other segment information				
Share of profits and losses of jointly-controlled entities				291
Depreciation and amortisation				7,370
Other non-cash expenses				9,886
Investments in jointly-controlled entities				8,544
Capital expenditure *				13,365

* Capital expenditure consists of addition of property, plant and equipment, investment properties.

Geographical information

(a) Revenue from external customers

	2010 *RMB'000*	2009 *RMB'000*
The PRC	**1,862,184**	1,405,447

The revenue information above is based on the location of the customers.

4. REVENUE

Revenue, which is also the Group's turnover, represents: (i) an appropriate proportion of contract revenue of construction contracts, net of business tax and government surcharges; and (ii) the invoiced value of goods sold, net of value-added tax and government surcharges, and after allowances for goods returns and trade discounts.

An analysis of revenue is as follows:

	2010 *RMB'000*	2009 *RMB'000*
Revenue from:		
Implementation of projects	**1,830,136**	1,386,375
Sale of products	**32,048**	19,072
	1,862,184	1,405,447

5. PROFIT BEFORE TAX

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

	Notes	2010 *RMB'000*	2009 *RMB'000*
Cost of services rendered for implementation of projects		**1,257,397**	993,111
Cost of inventories sold for sale of Products		**16,845**	11,275
		1,274,242	1,004,386
Employee benefits expense (including directors' and senior executives' remuneration	(a)	**66,804**	52,111
Minimum lease payments under operating leases:			
Land and buildings		**16,936**	11,788
Expenses related to the listing of the Company's shares		**35,488**	2,078
Depreciation and amortisation	(b)	**7,502**	7,370
Write-back of impairment of trade receivables, net		**(1,882)**	—
Foreign exchange differences, net		**1,504**	248
Other income	(c)	**(8,870)**	(16,420)
Finance income	(d)	**(5,605)**	(809)
Finance costs	(e)	**11,505**	7,985
Other expenses	(f)	**247**	103

(a) Employee benefit expense

	2010 RMB'000	2009 RMB'000
Employee benefit expense (including directors' and senior executives remuneration		
Wages and salaries	**42,180**	31,055
Social insurance costs and staff welfare	**8,084**	7,322
Pension plan contributions	**6,654**	3,848
Share-based payment expenses	**9,886**	9,886
	66,804	52,111

(b) Depreciation

	2010 RMB'000	2009 RMB'000
Included in selling, general and administrative expenses	**7,502**	7,370

(c) Other income and gain

	Notes	2010 RMB'000	2009 RMB'000
Fair value gain on investment properties		**3,200**	11,108
Government grants	(i)	**2,000**	3,203
Gross rental income	(ii)	**3,662**	2,104
Gain on disposal of items of property, plant and equipment		**8**	5
		8,870	16,420

Notes:

(i) There was no unfulfilled conditions or contingencies attaching to these grants.

(ii) Included in the Group's rental income for the year ended December 31, 2009 was rental income of RMB813,000 from related parties.

(d) Finance income

	2010 RMB'000	2009 RMB'000
Bank interest income	**5,605**	809

(e) Finance costs

	2010 RMB'000	2009 RMB'000
Interest on bank loans, wholly repayable within one year	**11,505**	7,985

(f) Other expenses

	2010	2009
	RMB'000	*RMB'000*
Loss on disposal of items of property, plant and equipment	**17**	27
Charitable donation	**203**	67
Others	**27**	9
	247	103

6. INCOME TAX

The Group was not subject to Hong Kong profit tax for the year ended December 31, 2010 as the Group did not taxable any taxable profits derived in Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

The PRC subsidiaries of the Company were subject to the PRC statutory income tax rate of 33% before January 1, 2008. In accordance with relevant tax rules and regulations effective before January 1, 2008, entities qualified as advanced technology enterprises and operated in designated areas were entitled to apply for a tax exemption and a 50% reduction of income tax rate over a certain period.

During the 5th Session of the 10th National People's Congress, which was concluded on March 16, 2007, the PRC Enterprise Income Tax Law ("New PRC Enterprise Income Tax Law") was approved and became effective on January 1, 2008. The New PRC Enterprise Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. In accordance with the New PRC Enterprise Income Tax Law, enterprises that are designated as High and New Technology Enterprises ("HNTE") are entitled to apply a preferential income tax rate of 15% for certain periods. The implementation guidance for enterprises designated as HNTE was released for implementation in April 2008.

On December 26, 2007, the State Council of the PRC promulgated the implementation rule ("Implementation Rule") regarding the details of the transitional provisions of the existing tax concessions. Details of the tax benefits enjoyed by the Group's PRC subsidiaries are as follows:

(i) 北京亞邦偉業技術有限公司 ("亞邦技術"), 北京百聯智達科技發展有限公司, 北京智訊天成技術有限公司 and 北京亞邦偉業軟件有限公司 were designated and approved as HNTEs in December 2008 for a period of three years from January 1, 2008 and therefore were entitled to a preferential tax rate of 15% for the three years ended December 31, 2010.

(ii) 北京亞邦偉業信息工程有限公司 ("亞邦工程") and 北京和信日晟科技有限公司 ("和信日晟"), which had been designated and approved as advanced technology enterprises, were designated and approved as HNTEs in December 2008 for a period of three years from January 1, 2008. In accordance with the Implementation Rule, 亞邦工程 was entitled to a preferential tax rate of 7.5% for the year ended December 31, 2009 and December 31, 2010. 和信日晟 was entitled to a preferential tax rate of 7.5% and 15% for the year ended December 31, 2009 and December 31, 2010 as HNTEs respectively.

(iii) In accordance with the Implementation Rule and pursuant to the approval from the state tax bureau of the Beijing Economic-technological Development Area, Kaiguoshuisuohan 2008 No.55 (開國稅所函[2008]55號) dated May 26, 2008, 北京瑞華贏科技發展有限公司 ("瑞華贏科技") was entitled to 50% of a transitional tax rate of 10% from January 1, 2009. This preferential tax rate will be progressively increased to 15% over five years. The preferential income tax rate applicable to 瑞華贏科技 is 11% for the year ended December 31, 2010.

Under the Implementation Rule, 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. At December 31, 2010, 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 the PRC (December 31, 2009: nil). In the opinion of the directors of the Company, it is not probable that the Group's PRC subsidiaries will distribute profits earned during the year ended December 31, 2010 in the foreseeable future. The aggregate amount of temporary differences associated with investment in subsidiaries in mainland China for which deferred tax liabilities have not been recognized totalled approximate RMB654,887,000 (2009: RMB304,246,000).

The major components of income tax expense are:

	2010	2009
	RMB'000	*RMB'000*
Current income tax:		
Current income tax charge in the PRC	**38,584**	22,273
Deferred income tax:		
Relating to origination and reversal of temporary differences	**15,089**	9,787
Income tax expense reported in the consolidated income statement	**53,673**	32,060

7. DIVIDENDS

Pursuant to the resolutions of the board of directors and the shareholders dated March 19, 2010, the Company declared a dividend of RMB50 million payable to shareholders registered at the close of business on December 31, 2008. The dividend was subsequently paid out from the share premium account of the Company in July 2010.

The Company did not recommend the payment of final dividend for 2010.

8. EARINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit attributable to ordinary equity holders of the parent for the year ended December 31, 2010, and the weighted average number of ordinary shares of 1,427,287,836 (year ended December 31, 2009: 1,207,816,541) during the year ended December 31, 2010.

	2010	2009
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**294,009**	214,672

	Number of shares	
	2010	2009
Shares		
Weighted average number of shares in issue during the period used in the basic earnings per share calculation	**1,427,287,836**	1,207,816,541

No diluted earnings per share amounts have been presented as the Company did not have any dilutive potential ordinary shares during the year. The share option scheme will not give rise to any additional ordinary shares of the Company upon their exercise because the underlying ordinary shares of the Company were in issue and owned by China ITS which will be transferred to the relevant employees upon the exercise of relevant options.

9. CONSTRUCTION CONTRACTS

	2010	*2009*
	RMB'000	*RMB'000*
Gross amount due from contract customers	**777,875**	679,579
Gross amount due to contract customers	**(559,531)**	(248,155)
	218,344	431,424
Contract costs incurred plus recognised profits less recognised losses to date	**2,626,221**	2,383,674
Less: Progress billings	**(2,407,877)**	(1,952,250)
	218,344	431,424

10. TRADE AND BILL RECEIVABLE

	2010	*2009*
	RMB'000	*RMB'000*
Trade and bill receivable	**819,366**	414,138
Provision for impairment	**(1,434)**	(3,316)
	817,932	410,822
Bill receivable	**16,504**	572
	834,436	411,394

Trade and bill receivable, which are non-interest-bearing, are recognised and carried at original invoiced amount less any impairment loss. An estimate for doubtful debts is made when there is objective evidence that an impairment loss on receivables has been incurred. The Group generally does not require collateral from its customers.

The movements in impairment of trade and bill receivable are as follows:

	2010
	RMB'000
January 1, 2010	**3,316**
Impairment losses reversed	**(1,882)**
At December 31, 2010	**1,434**

An aged analysis of the Group's trade and bill receivable as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	2010	2009
	RMB'000	*RMB'000*
Less than 6 months	**707,932**	280,578
6 months to 1 year	**51,462**	97,745
1 year to 2 years	**62,976**	32,905
2 years to 3 years	**11,900**	166
Over 3 years	**166**	—
	834,436	411,394

Trade and bill receivable generally have credit terms ranging from 30 days to 90 days. An aged analysis of the trade and bill receivable that are neither individually nor collectively considered to be impaired is as follows:

	2010	2009
	RMB'000	*RMB'000*
Neither past due nor impaired	**307,731**	160,291
Past due but not impaired:		
Less than 6 months past due	**395,384**	122,584
6 months to 1 year past due	**54,936**	95,447
1 year to 2 years past due	**64,319**	32,906
2 years to 3 years past due	**11,900**	166
Over 3 years past due	**166**	—
	834,436	411,394

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion the no provision for impairment is necessary in respect of these balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The Group has pledged proceeds to be received from settlement of trade receivable of approximate RMB300.8 million (2009: nil) from "Jing-hu Railway" project for banking facility granted to the Group. At December 31, 2010, the related pledged trade receivable amounted to RMB64.9 million.

11. TRADE AND BILLS PAYABLES

	2010	2009
	RMB'000	*RMB'000*
Trade payables	**506,545**	351,925
Bills payable	**91,293**	136,665
	597,838	488,590

The Group's bills payable were secured by pledged deposits of the Group of RMB28.3 million (December 31, 2009: RMB48.7 million) as at December 31, 2010.

Trade payables are non-interest-bearing and generally have credit terms ranging from 1 to 90 days. An aged analysis of the Group's trade payables are as follows:

	2010	2009
	RMB'000	*RMB'000*
Current or less than 1 year past due	**463,254**	332,428
1 to 2 years past due	**26,767**	11,951
Over 2 years past due	**16,524**	7,546
	506,545	351,925

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview for 2010

China's intelligent transportation system industry faced both opportunities and challenges in the year of 2010. Thanks to the industry consolidation, increasing market demand and confidence in long-term growth, the development prospects of intelligent transportation system industry remains highly promising.

During 2010, the Company's intelligent transportation system business recorded a rapid growth with high returns. Annual turnover and proforma profit for the year amounted to RMB1,862.2 million and RMB337.0 million, representing an increase of 32.5% and 54.4% respectively as compared with last year.

In 2010, we continued to provide turnkey solutions, specialized solutions and VA services for three main transportation sectors, namely expressway, railway and urban traffic sectors, to maintain diversified development and healthy revenue mix.

Expressway

In the expressway sector, we recorded income of RMB1,051.8 million in 2010, representing an increase of 34.9% as compared with the same period of last year, and a contract backlog of approximately RMB600 million, which mainly reflected the turnkey solutions project of Hengyang-Shaoyang Expressway, which is a major part of the expressway network in Hunan Province, as well as the West Line Project of Xiangtan-Hengyang Expressway, which is a major reconstruction project after the snowstorm disaster in 2008 in the Hunan Province.

Hengyang-Shaoyang Expressway has over 40 tunnels, all of which have been equipped with our Specialized Solutions for tunnels. This demonstrated our core competitive advantages in tunnel solutions in the P.R.C. According to the planning of relevant authorities such as Ministry of Transport, over 80%[1] of the expressway investment will be concentrated on the mountainous region of central and western China from 2005 to 2020. Leveraging on our core intellectual property of tunnel solutions, we are confident of dominating among the project competitions of the above regions and capture larger market shares.

1 "As at the end of 2009, total mileage of planned expressways in China was approximately 65,000 km. The geographical distribution of fixed asset investments in expressways from 2005 to 2020 is 19% in the eastern region, 26% in the central region and 55% in the western region." – Source: Planning of Ministry of Transport.

West Line Project of Xiangtan-Hengyang Expressway is an important diversion of intersection point of the highway and waterway network in "Pan-Pearl River Delta". We provided turnkey solutions including communication systems, surveillance systems, tolling and tunnel systems for the project. Through this project, our technological advantage and expertise were fully demonstrated in the complicated environment of intersection of roads and waterways.

Railway

In 2010, we generated revenue of RMB670 million from the railway sector, representing an increase of 23.8% as compared with the same period of last year. We sucessfully won major contracts like Beijing-Shanghai Railway, Harbin-Dalian Railway and Taiyuan-Zhongwei-Yinchuan Railway among the "Four Vertical and Four Horizontal High Speed Railways" projects. As the highest standard and milestone in China's railway development history, the Beijing-Shanghai High Speed Railway imposed strictest requirements on the safety and technology of ITS solutions. Leveraging on the leading technical advantage of communication solutions of the Company, we became the major supplier for the core communication systems of the railway.

In the coming five years, it is expected that the planned length of high speed railways and total planned mileage including rapid railway (160 km/hour) will reach 25,000 km[2] and approximately 50,000 km[3] by 2015, respectively. The Company will continue to maintain its significant market shares[4] in the railway communication sector capitalising on its leading installed base and indepth customer understanding together with excellent technical advantage.

During the year, we also carried out upgrade and improvement of the communication system of the Datong-Qinhuangdao Heavy-loading Railway. In the future, as the government will continue to carry out technical upgrade and improvement for existing railways to address the bottleneck problem in cargo transportation and to enhance the transportation capacity, we will seize the opportunity and develop freight related solutions as another source of growth in our railway business.

Urban Traffic

In the urban traffic sector, we realised income of RMB110 million in 2010. Following Line 1 of Shenyang Subway in 2009, we continued to expand our coverage into Line 1 of Hangzhou Subway and Line 2 of Shenyang Subway during 2010. To seize the opportunities of new development of the subway sector, we will devote our resources and strive to explore new products, technology and markets. We will expand our market shares in the subway sector and diversify our product lines.

With respect to the urban roadway, we have self-developed high resolution video surveillance system. Our self-developed high resolution video surveillance system allowed the government to carry out effective safety intelligent control and allocation of police force in the international major events such as the Guangzhou Asian Games last year. The Company will continue to promote the self-developed patented products in major international events to be hosted by China.

[2]Source: Planning of Ministry of Railway, UBS Forecast
[3]Source: Planning of Ministry of Railway, UBS Forecast
[4]Source: According to industry consulting firm OC&C, CIC's specialized wired communication solutions has over 70% market share and specialized wireless communication solutions has over 60% market share in 2009.

In 2010, the new contract signed and order and backlog of the Company for the year reached RMB2,370 million and RMB1,310 million in total, representing an increase of 40.7% and 42.7% as compared with 2009, respectively. Gross profit margin maintained the rising momentum and reached 31.6% despite the fierce competition due to the higher revenue generated from the higher margin business models.

Business Prospects for 2011

In 2011, we expect a healthy growth in the intelligent transportation system industry. ITS will be under the spotlight according to the traffic planning in the "Twelfth Five-Year Plan" of the State, and it will become the core development trend amongst the domestic transportation bureau. Pursuant to the "Outline of National Plan for Medium to Long Term Scientific and Technological Development", business opportunities created from the intelligent transportation industry and its related sectors will have a value over RMB100 billion between 2015 and 2020, demonstrating an encouraging prospects of the intelligent transportation system industry.

In the new year, leveraging on our comparative advantages, we will formulate the medium-to-long-term development plan for the Company in the next 5 years in accordance with changes in the competitive landscape. The Company will also consolidate small industry players to capitalize on the substantial opportunities, so to secure and strengthen our leading position in the intelligent transportation system industry.

Looking forward, the Company will continue to focus on improving its overall profitability for optimizing shareholders interest. We will continue to develop as a customer-oriented company and enhance customers' satisfaction and loyalty. The Company will also improve the satisfaction, professional competence and performance of our employee and encourage them to devote themselves in enhancing the shareholders value.

FINANCIAL REVIEW

Revenue

The Group's revenue for the year ended December 31, 2010 increased by 32.5% to RMB1,862.2 million as compared to RMB1,405.4 million for the year ended December 31, 2009. The overall increase in revenue for the year ended December 31, 2010 was fueled by a 28.7% increase in the Turnkey Solutions' business, a 33.0% increase in the Specialized Solutions' business, and a 9.4% increase in the VA Services' business. The following table sets out the revenue breakdown by segment:

	For year ended December 31,	
	2010	2009
	RMB'000	*RMB'000*
Revenue by segments		
Turnkey Solutions	**687,890**	534,462
Specialized Solutions	**1,174,655**	882,997
VA Services	**20,059**	18,328
Elimination	**(20,420)**	(30,340)
Total	**1,862,184**	1,405,447

(i) Turnkey Solutions

Revenue from the Turnkey Solutions' business for the year ended December 31, 2010 was RMB687.9 million, an increase of RMB153.4 million, or 28.7%, as compared to RMB534.5 million for the year ended December 31, 2009. The increase was attributable to the growth in both the expressway and the urban roadway sectors. The revenue growth rate for expressway projects was 29.7% for the year ended December 31, 2010, which remained a fast growth trend with implementation of large-scale projects such as Heng-Shao (Hengyang to Shaoyang), Tan-Heng (Xiangtan to Hengyang) west line, etc. On the urban roadway sector, the Group has won and implemented several large-scale urban roadway Turnkey Solutions' projects such as Nongan and Hulunbuir in 2010. The Turnkey Solutions' business accounted for 36.5% of the Group's revenue for the year ended December 31, 2010, represented a slight decrease for that in 2009 due to our continuous strategy in expanding the higher margin specialized solutions business in 2010.

(ii) Specialized Solutions

Revenue from the Specialized Solutions' business for the year ended December 31, 2010 was RMB1,174.7 million, an increase of RMB291.7 million, or 33.0%, as compared to RMB883.0 million for the year ended December 31, 2009. The increase was attributable to increases in most of the Specialized Solutions' business sectors except for the less strategic-focused energy sector.

Revenue from the railway sector grew by 23.8% for the year ended December 31, 2010 to RMB665.9 million, which accounted for 56.7% of the total revenue in the Specialized

Solutions' business sector for the year ended December 31, 2010. Several large projects such as the Hu-Hang (Shanghai to Hangzhou) high speed railway, Ha-Da (Harbin to Dalian) high speed railway, Jing-Hu (Beijing to Shanghai) high speed railway and numerous projects including the expansion of existing railway networks such as Daqin and Tai-Zhong-Yin have achieved significant progress. All of the above projects will continue to have revenue for next year. Meanwhile, the Group has also won several large projects such as the Xiang-Pu (Xiangtang to Putian) railway, which are attributable to the backlog as at year end of 2010.

Revenue generated from the expressway specialized solutions sector increased by RMB117.5 million, or 47.6%, to RMB364.6 million for the year ended December 31, 2010 as compared to the year ended December 31, 2009, due to continuous growth in expressway ITS investment by the government, particularly in the western region of China, as well as the continuous upgrade and expansion in the established provinces. Among the projects implemented in 2010, more than 60% were from such upgrade and expansion and most of the project owners have cooperated with the Group for several years.

With increasing resources focused on expanding the surveillance specialized solutions' market coverage in 2010, revenue from expressway surveillance specialized solutions increased by 8.7% as compared to the year ended December 31, 2009. The growth was primarily due to increased resources available in this sector as a result of internal group restructuring and increased investment from customers due to upgrade and expansion. Historically, the surveillance products were sold by a subsidiary of the Group, namely Bailian Zhida. However, the Group restructured its business units and in early 2010, the expressway surveillance solutions sector became a part of Beijing Aproud Technology Co., Ltd. (北京亞邦偉業技術有限公司), another subsidiary of the Group. The restructuring of the business units allowed the Group to leverage upon its larger and well established sales team in Beijing Aproud Technology Co., Ltd. and expand the Group's market footprint.

Revenue from the urban roadway surveillances solutions sector increased dramatically by RMB8.1 million, or 121.1% for the year ended December 31, 2010, as compared to the year ended December 31, 2009. In an effort to continue achieving significant profit for the coming years, the Group has restructured Bailian Zhida to focus primarily on urban roadway business development and has targeted large cities with demand for high-resolution surveillance products for big events such as Guangzhou Asia Games, Shanghai Expo, Shenzhen Universiade and Xi'an International Horticultural Exposition as well as the traditional large cities such as Beijing, Tianjin, Nanjing, Chengdu, where the Group has already accumulated good market penetration and will continue to generate significant revenue in the coming years.

Revenue from the rapid transit sector increased significantly by RMB41.9 million, or 136.5% to RMB72.6 million for the year ended December 31, 2010 as compared to RMB30.7 million for the year ended December 31, 2009. Despite of its relatively recent entry, the Group has demonstrated strong initial performance and has implemented new subway lines, in Xi'an, Hangzhou and Suzhou. Meanwhile, the Group has also won and implemented the expansion subway lines in Beijing, Shanghai and Shenyang.

Revenue generated from the energy business sector decreased by RMB4.0 million, or 6.7% during the year ended December 31, 2010. As the energy business is a matured sector and is not a key focus of the Company, the management has decided to direct more attention to the transportation sectors, such as expressway, railway and urban traffic, which are expected to deliver higher growth for the Company. However, it is anticipated that the energy business sector will continue to generate a stable stream of revenue and profit for the Group.

As a result of higher growth, the Specialized Solutions' business as a whole accounted for 62.4% of the Group's revenue for the year ended December 31, 2010, which is higher than 60.7% recorded for the year ended December 31, 2009. This also directly contributed to the overall higher gross margin in 2010 than 2009.

(iii) VA Services

Revenue from the VA Services' business in the year ended December 31, 2010 was RMB20.1 million, a slight increase of RMB1.8 million as compared to RMB18.3 million for the year ended December 31, 2009. The Company, which has a long-standing relationship with some of its core customers in Shanxi, Xinjiang and Liaoning, has been promoting the benefits of VA Services within such regions. All of the VA Services' projects were expressway-related for the year ended December 31, 2010, accounted for 1.1% of the Group's total revenue for the year ended December 31, 2010, and is lower than 1.3% for the year ended December 31, 2009, due to the huge growth in the Specialized Solutions' business.

(iv) Major revenue-generating projects

During this year, the Group had implemented more than 1,200 projects by various scales, covering most of the regions in mainland China. The following table sets out the major projects generating revenue in each industry sector:

Industry sector	**Project name**
Expressway	Heng-Shao (Hengyang to Shaoyang)
	Tan-Heng-Xi (Xiangtan to Hengyang west line)
	Hebei Main Line Upgrade
Railway	Hu-Hang (Shanghai to Hangzhou)
	Ha-Da (Harbin to Dalian)
	Jing-Hu (Beijing to Shanghai)
Urban Traffic	Beijing Subway Line 15
	Hangzhou Subway Line 1
	Guangzhou Asia Games Program
Energy	Henan Electricity Network Upgrade
	The Three Gorges Program
	Qinghai Oil Field Program

Cost of Sales

Cost of sales was incurred on a project basis for individual legal entities and was subsequently aggregated at segment and corporate level. The cost of sales was based on the equipment and other direct project costs incurred for completion of each of the relevant contracts. The cost of sales constituted 68.4% of the Group's revenue for the year ended December 31, 2010, which represented a decrease of 3.1% when compared to the corresponding period in 2009. This was due to an increase in gross profit margin for the Specialized Solutions' business, which offset the decrease in contribution from the businesses of the Turnkey Solutions and the VA Services. The following table sets out the cost of sales breakdown by segment:

	For year ended December 31,	
	2010	2009
	RMB'000	*RMB'000*
Cost of sales by segments		
Turnkey Solutions	**553,962**	425,446
Specialized Solutions	**731,800**	602,441
VA Services	**8,900**	6,839
Elimination	**(20,420)**	(30,340)
Total	**1,274,242**	1,004,386
% of Revenue	**68.4%**	71.5%

(i) Turnkey Solutions

The cost of sales incurred for the Turnkey Solutions' business constituted 42.8% of the Group's cost of sales for the year ended December 31, 2010, which remained at a similar level when compared to the corresponding period in 2009, reflecting the stable margin of the Turnkey Solutions' business to the Group's business.

(ii) Specialized Solutions

The cost of sales incurred for the Specialized Solutions' business constituted 56.5% of the Group's cost of sales for the year ended December 31, 2010, a decrease from last year, due to the increased gross profit margin in the Specialized Solutions' business. Within the Specialized Solutions' business, the cost of sales for the railway sector grew by 7.6%, which accounted for 58.4% of the total cost of sales for the year ended December 31, 2010 for the Specialized Solutions' business.

(iii) VA Services

The cost of sales incurred for the VA Services' business constituted 0.7% of the Group's cost of sales for the year ended December 31, 2010, which is lower when compared to the corresponding period in 2009, reflecting the relatively minor contribution of the VA Services' business to the Group's sales for the year ended December 31, 2010.

Gross Profit

Overall gross profit of the Group increased RMB186.9 million, or 46.6%, from RMB401.1 million for the year ended December 31, 2009 to RMB587.9 million for the year ended December 31, 2010. Gross profit margin has increased from 28.5% for the year ended December 31, 2009 to 31.6% for the year ended December 31, 2010, due to higher profit margin in the Specialized Solutions' projects generated from the railway sector and partially offsetting the lower profit margin in the Turnkey Solutions' business. The following table sets out the gross profit breakdown and gross profit margin by segment:

	For year ended December 31,	
	2010	2009
	RMB'000	*RMB'000*
Gross profit and gross profit margin by segments		
Turnkey Solutions	**133,928**	109,016
Margin %	**19.5%**	20.4%
Specialized Solutions	**442,855**	280,556
Margin %	**37.7%**	31.8%
VA Services	**11,159**	11,489
Margin %	**55.6%**	62.7%
Total	**587,942**	401,061
Overall Margin %	**31.6%**	28.5%

An analysis of the gross profit margin by segment is as follows:

(i) Turnkey Solutions

Gross profit margin for the Turnkey Solutions' business decreased by 0.9% to 19.5% for the year ended December 31, 2010 compared to last year. The decline in margin is in line with normal margin variations on an intra-year basis, reflecting the project nature of the Turnkey Solutions' business where margins on individual projects may range from 15% to 20%. This means that overall margins in this business segment will vary year to year, within this range and depending on the project mix.

(ii) Specialized Solutions

Gross profit margin for the Specialized Solutions' business increased by 5.9% to 37.7% in the year ended December 31, 2010 compared to last year. The margin for the railway sector increased to 35.8% for the year ended December 31, 2010 as compared to 26.1% for the year ended December 31, 2009, due to the implementation of some large high-speed railway projects such as Jing-Hu, Ha-Da, Da-Qin, etc.

The margin for the urban roadway sector increased from 45.0% for the year ended December 31, 2009 to 49.5% for the year ended December 31, 2010, primarily due to a change in product mix as the Company shifted from traditional surveillance products to high-resolution surveillance products.

The margin for the rapid transit segment increased from 25.9% in 2009 to 35.8% in 2010 due to a marketing strategy executed earlier by the Group to enter into emerging cities. In the meantime, the Group expects that its margin will gradually stabilize towards industry level of 30% as the Group further establishes its market presence and gains an influential market share.

(iii) VA Services

Gross profit margin for the VA Services' business decreased slightly from 62.7% for the year ended December 31, 2009 to 55.6% for the year ended December 31, 2010. The gross profit margin of VA Services follows the industry trend, which varies from 50% to 70%.

Other Income and Gains

Other income and gains arises from operating leases as well as the fair value changes on investment properties were accounted for on a straight-line basis over the lease terms and the property valuations. The decrease in rental and other income were due to changes in the property usage as the Group moved to a new office in April 2009 and leased out the entire owned office premise, which contributed a fair value gain in the investment property for the year ended December 31, 2009 and was in line with the real estate market in mainland China.

Selling, General and Administration Expenses

For the year ended December 31, 2010, selling, general and administration expenses ("SG&A") as a percentage of sales decreased by 0.2% to 11.3% as compared to the year ended December 31, 2009 due to a result of economies of scale and successful cost control initiatives.

The staff costs remained a large component of the Group's SG&A for the year ended December 31, 2010. The staff costs increased by 39.1%, mainly due to general headcount increases for the Company's wholly owned subsidiaries in Jiangsu as part of the ongoing business expansions. Staff costs accounted for 32.5% of the total SG&A for the year ended December 31, 2010, which is comparable to the 32.2% incurred for the year ended December 31, 2009, and in line with the Group's business growth and needs.

Travelling, entertainment and business expansion expenses arising from business development and implementation of projects, was at the average range of 3–7% of the total revenue for each entity in the year ended December 31, 2010. Travelling, entertainment and business expansion expenses increased from RMB45.0 million for the year ended December 31, 2009 to RMB62.9 million for the year ended December 31, 2010. As a percentage of total SG&A, these expenses increased from 27.9% to 29.8% due to the significant business growth and continuous effort in market localization.

The rental expenses increased from RMB11.8 million for the year ended December 31, 2009 to RMB16.9 million in the year ended December 31, 2010 due to higher rental cost of the Company's new centralized office in Beijing and enlarged space due to business expension. Subsequent to the Company's relocation to its new premises in April 2009, the impact of the higher rent was reflected in rental expenses in the full year of 2010. Rental expenses accounted for 8.0% of the total SG&A for the year ended December 31, 2010, an increase of 0.7% as compared to the corresponding period in 2009.

Share-based payment expenses refer to the expenses relating to the Company's pre-IPO share incentive scheme. In the year ended December 31, 2010, share-based payment expenses recorded no change from RMB9.9 million for the year ended December 31, 2009, which accounted for 4.7% of the total SG&A in the year ended December 31, 2010, a decrease of 1.4% as compared to the corresponding period in 2009.

Expenses Relating to the Listing of the Company's Shares

The expenses related to the listing of the Company's share of RMB35.5 million accounted for 1.9% of revenue for the year ended December 31, 2010. The major components of the listing expenses include professional fees of services rendered by legal counsel, printers and auditors who were involved in the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited. Given that the listing expenses are one-off in nature, the analysis of profit before tax and profit for the period has being performed on a normalized basis after carving out the effects of listing expenses incurred during the year.

Finance Income and Finance Costs

Finance income comprised of mainly interest income from deposits and finance costs comprised of mainly interest expenses for interest-bearing bank loan. The net financial expenses represented the total finance costs minus finance income. Net financial expense was RMB5.9 million in the year ended December 31, 2010, which represented a decrease of 17.8% as compared to the year ended December 31, 2009. The decrease was mainly due to a general increase in average bank balances as a result of the pre-IPO financing conducted in the first half of 2010 and the proceeds from the listing of the shares of the Company in the second half of 2010.

Share of Profits of Jointly-Controlled Entity

Share of Profits of Jointly-Controlled Entities ("JCE") in the year ended December 31, 2010 was approximately RMB3.6 million, which represented an increase of RMB3.3 million from that of the year ended December 31, 2009. The jointly-controlled entity, namely Chengdu Zhida Weilute Technology Co., Ltd. (成都智達威路特科技有限公司) had contributed most of the share profits to the Group subsequent to its formal incorporation in 2010, which mainly focusing in the urban surveillance business in western areas of mainland China.

At the end of December 2010, the Group acquired 29% shares of Xinjiang RHY Technology Co., Ltd. ("Xinjiang RHY"), a former JCE with a consideration of RMB3.7 million. Pursuant to the share transfer agreement, the acquisition will become effective from January 1, 2011. Therefore, the Group will consolidate the results of Xinjiang RHY from January 1, 2011.

Income Tax Expenses

The total income tax expense in the year ended December 31, 2010 was higher than that of 2009. The effective tax rate in the year ended December 31, 2010 was 15.4%, which represented an increase of 2.4% when compared to the corresponding period in 2009. The increase was due to a lower level of profit before tax resulting from deduction of RMB35.5 million listing expenses incurred in the year ended December 31, 2010, which was a non-taxable item for PRC enterprise income tax purpose.

After excluding the impact from this one-off listing expense as well as other non-taxable items, the effective tax rate was 14.0% for the year ended December 31, 2010, representing an increase of 1.1% as compared to the corresponding period in 2009.

With the implementation of the PRC tax law on January 1, 2008, all companies are required to pay tax at the rate of 25%. However, as a foreign-invested entity, Beijing RHY Technology Development Co., Ltd. (a wholly-owned subsidiary of the Group) enjoys a preferential tax treatment which will progress from 10% to 15% over five years starting from 2009, with an applicable tax rate of 11% in the year ended December 31, 2010. The Company's other subsidiaries are mostly qualified as High and New Technology Enterprises ("HNTE") and enjoy preferential tax rates ranging from 7.5% to 15% for 2010 except for two newly setup subsidiaries (Jiangsu Zhixun and Jiangsu Yijie), which will also be qualified as HNTE in 2011. Due to the restricted preferential tax policy from Chinese government, these subsidiaries applied for the highest income tax rate of 25% before the formal approval from relevant authorities.

Profit for the year

Profit for the year of the Group in the year ended December 31, 2010 was RMB294.0 million after netting off the one-off listing expenses of RMB35.5 million, the share-based payment expenses of RMB9.9 million and the fair value gain on investment properties of RMB3.2 million. The pro-forma profit for the year would be RMB337.0 million or 54.4% increase compared to the year ended December 31, 2009. The following table sets out the relevant reconciliations:

Reconciliation of proforma profit before tax and profit attibutable to shareholders:

	For year ended December 31,	
	2010	2009
	RMB'000	*RMB'000*
Profit before tax	**347,682**	246,732
Add/(less):		
Expenses relating to the listing of the Company's shares	**35,488**	2,078
Share-based payment expenses	**9,886**	9,886
Fair value changes on investment properties	**(3,200)**	(11,108)
Pro-forma profit before tax	**389,856**	247,588
Add/(less):		
Income tax expenses	**(53,673)**	(32,060)
Income tax adjustment (Fair value changes on investment properties)	**800**	2,777
Pro-forma profit for the period	**336,983**	218,305

Trade Receivables Turnover Days

The trade receivables turnover days for the year ended December 31, 2010 was 122 days (in the year ended December 31, 2009: 86 days). The increase in trade receivables turnover days was mainly due to the growth of the railway sector, which the customers have in general longer payment terms due to longer project cycle than other sectors. Very limited amount of the Group's trade receivables were impaired and turnover days were within the normal credit period granted to customers.

Net Amount Due from Contract Customer Turnover Days

The net amount due from contract customer turnover days in the year ended December 31, 2010 was 64 days (in the year ended December 31, 2009: 120 days). The decrease in net amount due from contract customer turnover days was mainly due to the enhancement of the project billing cycle in 2010.

Trade Payables Turnover Days

The trade payables turnover days for the year ended December 31, 2010 was 156 days (in the year ended December 31, 2009: 164 days). The decrease in trade payables turnover days was mainly due to some slight change in payment terms with suppliers under normal business negotiation.

Inventory Turnover Days

The inventories of the Group mainly comprised of raw materials, work-in-progress, finished goods and general merchandise for surveillances Specialized Solutions. The inventory turnover days for the year ended December 31, 2010 was 2 days (in the year ended December 31, 2009: 3 days). The decrease in inventory turnover days was due to higher sales achievement in the expressway sector for the Specialized Solutions' business in 2010 and the minimal inventory policy adopted by the Company.

Liquidity and Financial Resources

The Group's principal sources of working capital included cash flow from operating activities, bank and other borrowings and the proceeds from the listing of the shares of the Company. As at December 31, 2010, the Group's current ratio (current assets divided by current liabilities) was 1.9 (as at December 31, 2009: 1.6). The Group's financial position remains healthy.

As at December 31, 2010, the Group was in a net cash position of RMB659.3 million (as at December 31, 2009: net cash of RMB7.0 million) which included cash and cash equivalent of RMB949.3 million (as at December 31, 2009: RMB177.2 million) and short-term bank loans of RMB290.0 million (as at December 31, 2009: RMB170.2 million). As at December 31, 2010, the Group's gearing ratio was -39.6%, which has decreased from -18.5% as at December 31, 2009, representing the Group had a deeper net cash position due to the proceeds from the listing of the shares of the Company. Gearing ratio refers to adjusted cash (interest-bearing bank borrowings minus pledged deposits, short-term deposit and cash and bank balances plus due to related parties) divide total equity.

Contingent Liabilities

As at December 31, 2010, the Group has no material contingent liability.

Charges on Group Assets

As at December 31, 2010, except for the secured deposits of approximately RMB182.5 million, the Group pledged its buildings with net book values of approximately RMB83.3 million (as at December 31, 2009: RMB80.1 million) to banks to secure banking facilities granted to the Group. Save as disclosed above, as at December 31, 2010, the Group has no other asset charged to any financial institution.

Material Acquisitions or Disposals of Subsidiaries and Associated Company

Except for the acquisition of Xinjiang RHY in amount of RMB3.7 million which will be completed by January 2011, the Group has not conducted any material acquisition or disposal of any subsidiaries, jointly-controlled entities and associated companies in the year ended December 31, 2010.

Events After The Reporting Period

On March 25, 2011, the Company entered into an equity transfer agreement (the "Agreement") with Mitsubishi Corporation ("Mitsubishi"), whereby the Company agrees to conditionally acquire 40% equity interest in Shanghai Sinorail Diamond International Trading Co., Ltd. ("Shanghai Sinorail"), a sino-foreign equity joint venture incorporated in the PRC, from Mitsubishi for a consideration of approximately USD5.5 million (the "Acquisition"). The consideration was based on the reference to the net asset value of Shanghai Sinorail. The completion of the Acquisition is subject to conditions.

The business of Shanghai Sinorail is to develop the construction of communication solutions and information systems products addressing the customers' demand in the jurisdictions managed by the Beijing Railway Bureau; maintenance of communication solutions and information systems so as to increase the efficiency, to improve quality of service and to reduce costs in the jurisdictions managed by the Beijing Railway Bureau; develop the market for the specialised power supply and specialised surveillance solutions for the railway bureaus in the PRC; develop and sell the network power and related systems for the railway bureaus in the PRC; and develop new products and projects with the Beijing Railway Bureau and to provide customized solutions and service to customers in the railway sector.

Use of Proceeds

The shares of the Company were listed on the main board of the Hong Kong Stock Exchange on July 15, 2010 with net proceeds from the listing of the shares of the Company of approximately HK$710.6 million (after deducting underwriting commissions and related expenses).

The use of the net proceeds from the listing of the shares of the Company as at December 31, 2010 was as follows:

	Percentage of net proceeds	**Amount of net proceeds** *(in HK$ million)*	**Amount utilised** *(in HK$ million)*	**Amount remaining** *(in HK$ million)*
Acquisitions or Investments	45%	319.7	4.3	315.4
Project-related working capital needs	35%	248.7	68.5	180.2
Research and development	10%	71.1	9.6	61.5
General corporate purposes	10%	71.1	19.2	51.9
	100%	710.6	101.6	609.0

EMPLOYMENT AND EMOLUMENT POLICIES

As at December 31, 2010, the Group had 655 full-time employees (December 31, 2009: 562 employees). The remuneration of existing employees include basic salaries, discretionary bonuses and social security contributions. 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. The Company also distributes performance-based year-end bonuses to certain eligible employees.

CORPORATE GOVERNANCE

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

The Company has adopted the Corporate Governance Code as its own code to govern its corporate governance practices. The Board also reviews and monitors the practices of the Company from time to time with an aim to maintaining and improving a high standard of corporate governance practices.

From the date of listing ("Listing") on July 15, 2010 up to December 31, 2010, the Company continued to apply most of the code provisions (the "Code Provisions") of the Corporate Governance Code. A summary of the deviations from the Code Provisions is set out as below:

Code Provision A2.1

The Code Provision A2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

At present, the positions of the chairman of the Board and the chief executive officer of the Company are held by Mr. Jiang Hailin. Although this deviates from the practice under the Code Provision A2.1, where the two positions should be held by two different individuals, Mr. Jiang has considerable and extensive knowledge and experience in the intelligent traffic system industry and in enterprise operation and management in general. The Board believes that it is in the best interest of the Company to continue to have an executive chairman so the Board can benefit from his knowledge of the business and his capability in leading the Board in discussing the strategy and long-term development of the industry.

From a corporate governance point of view, the decisions of the Board are made collectively by way of voting and therefore the chairman of the Board should not be able to monopolize the voting result. The Board considers that the balance of power between the Board and the senior management can still be maintained under the current structure. The Board shall review the structure from time to time to ensure appropriate move is being taken should suitable circumstances arise.

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers as contained in the Model Code as the standards for the Directors' dealings in the securities of the Company on June 18, 2010. 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 from the date of Listing on July 15, 2010 to December 31, 2010.

AUDIT COMMITTEE

The audit committee of the Company was established on June 18, 2010 with effect from the Listing with written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee are, among other things, to review and supervise our financial reporting process and internal control systems.

The audit committee comprises three independent non-executive Directors, being Mr. Choi Onward, Mr. Zhou Chunsheng and Mr. Sun Lu. The audit committee is chaired by Mr. Choi Onward. The Audit Committee has reviewed the accounting principles and practices and has also reviewed auditing, internal control and financial reporting matters, including the review of the consolidated financial statements of the Group for the year ended December 31, 2010 together with the management of the Company and external auditor.

In addition, the Company's external auditor, Ernst & Young, has performed an independent audit of the Group's consolidated financial statements for the year ended December 31, 2010 in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period from the date of the Listing on July 15, 2010 to December 31, 2010, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares,

FINAL DIVIDEND

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

PUBLICATION OF ANNUAL REPORT

In accordance with the requirements under the Listing Rules applicable to the reporting period, the 2010 annual report containing all information about the Company set out in this announcement including the financial results for the year ended December 31, 2010 will be posted 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 of Directors
China ITS (Holdings) Co., Ltd.
Mr. Jiang Hailin
Chairman

Hong Kong, March 27, 2011

As at the date of this announcement, the executive Directors are Mr. Jiang Hailin, Mr. Wang Jing, Mr. Lu Xiao and Mr. Pan Jianguo, and the independent non-executive Directors are Mr. Zhou Chunsheng, Mr. Choi Onward and Mr. Sun Lu.