# 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 MONTHS ENDED JUNE 30, 2011

## HIGHLIGHTS OF 2011 INTERIM RESULTS

- Revenue grew by approximately 6.4% to approximately RMB683.1 million
- Gross profit increased by approximately 8.1% to approximately RMB208.1 million
- Gross profit margin was approximately 30.5%, which is higher than that in 2010
- Profit before tax grew by approximately 54.0% to approximately RMB100.4 million
- Profit attributable to owners of the Company grew by approximately 60.5% to approximately RMB74.7 million
- Earnings per share was RMB0.05 per share
- Backlog as at June 30, 2011 increased by approximately 41.5% from December 31, 2010 to approximately RMB1,852.8 million

# INTERIM RESULTS

The board of directors (individually, a "Director", or collectively, the "Board") of China ITS (Holdings) Co., Ltd. ("CIC" or the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (together as the "Group") for the six months ended June 30, 2011, with comparative figures, as follows:

## Consolidated Income Statement

| | | For the six-month period ended June 30, | |
|---|---|---|---|
| | *Notes* | **2011** | 2010 |
| | | ***RMB'000*** | *RMB'000* |
| | | **Unaudited** | Audited |
| **REVENUE** | 4 | **683,085** | 641,952 |
| Cost of revenue | 5 | **(474,996)** | (449,490) |
| Gross profit | | **208,089** | 192,462 |
| Other income and gains | 5(c) | **9,231** | 1,839 |
| Expenses relating to the listing of the Company's shares | 5 | **—** | (33,309) |
| Selling, general and administrative expenses | | **(115,718)** | (90,911) |
| Other expenses | 5(f) | **(156)** | (304) |
| **OPERATING PROFIT** | | **101,446** | 69,777 |
| Finance income | 5(d) | **3,173** | 1,216 |
| Finance costs | 5(e) | **(6,803)** | (5,434) |
| Share of profits of jointly-controlled entities | | **2,547** | (371) |
| **PROFIT BEFORE TAX** | 5 | **100,363** | 65,188 |
| Income tax expense | 6 | **(25,942)** | (18,649) |
| **PROFIT FOR THE PERIOD** | | **74,421** | 46,539 |
| Attributable to: | | | |
| Owners of the Company | | **74,682** | 46,539 |
| Non-controlling interests | | **(261)** | — |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY** | | | |
| | | ***RMB*** | *RMB* |
| Basic, for the profit for the period | 7 | **0.05** | 0.04 |

# Consolidated Statement of Comprehensive Income

| | For the six-month period ended June 30, | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Audited |
| **PROFIT FOR THE PERIOD** | **74,421** | 46,539 |
| Exchange differences on translation of foreign operations | **(10,026)** | 458 |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX** | **(10,026)** | 458 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **64,395** | 46,997 |
| Attributable to: | | |
| Owners of the Company | **64,656** | 46,997 |
| Non-controlling interests | **(261)** | — |

# Consolidated Statement of Financial Position

| | Notes | June 30, 2011 RMB'000 Unaudited | December 31, 2010 RMB'000 Audited |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property and equipment | | **31,816** | 27,074 |
| Investment properties | | **141,037** | 141,037 |
| Intangible assets | | **1,257** | — |
| Goodwill | | **235,445** | 230,664 |
| Investment in jointly-controlled entities | | **26,137** | 19,750 |
| Deferred tax assets | | **13,970** | 5,350 |
| Prepayments for acquisition of new entities | | **240,119** | — |
| Other assets | | **567** | 566 |
| Total non-current assets | | **690,348** | 424,441 |
| **CURRENT ASSETS** | | | |
| Inventories | | **6,538** | 4,467 |
| Construction contracts | 8 | **800,410** | 777,875 |
| Trade and bills receivables | 9 | **695,588** | 834,436 |
| Prepayments, deposits and other receivables | | **749,831** | 555,280 |
| Due from related companies | | **1,806** | 5,571 |
| Pledged deposits | | **76,086** | 182,502 |
| Short term deposit | | **111,670** | 112,441 |
| Cash and cash equivalents | | **202,243** | 836,883 |
| Tax recoverable | | **2,006** | — |
| Total current assets | | **2,646,178** | 3,309,455 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 10 | **580,809** | 597,838 |
| Deposit received, other payables and accruals | | **77,742** | 122,130 |
| Construction contracts | 8 | **251,313** | 559,531 |
| Interest-bearing bank borrowings | | **180,000** | 289,998 |
| Due to related companies | | **7,965** | 6,537 |
| Income tax payable | | **—** | 10,174 |
| Total current liabilities | | **1,097,829** | 1,586,208 |
| **NET CURRENT ASSETS** | | **1,548,349** | 1,723,247 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **2,238,697** | 2,147,688 |

| | June 30, 2011 *RMB'000* Unaudited | December 31, 2010 *RMB'000* Audited |
|---|---|---|
| **NON-CURRENT LIABILITIES** | | |
| Deferred tax liabilities | **55,513** | 36,281 |
| **NET ASSETS** | **2,183,184** | 2,111,407 |
| **EQUITY** | | |
| **Equity attributable to owners of the Company** | | |
| Issued capital | **276** | 276 |
| Reserves | **2,179,431** | 2,111,131 |
| Owners' equity | **2,179,707** | 2,111,407 |
| Non-controlling interest | **3,477** | — |
| **Total equity** | **2,183,184** | 2,111,407 |

# Selected Notes to the Financial Statements

**1. Corporate Information**

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.

The principal activity of the Company is investment holding. The Group is a transportation infrastructure technology solutions and services provider in the PRC.

The Group's principal businesses are summarised as follows:

- Turnkey solutions business — involving the integration of information technology with the physical transportation infrastructure;
- Specialised solutions business — providing 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
- VA services business — involving post-construction maintenance services for turnkey and specialised solutions.

The Group's principal operations and geographic market are in the PRC.

## 2. Basis of Presentation

The interim condensed consolidated financial statements for the six months ended June 30, 2011 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 Hong Kong Stock Exchange.

The interim condensed consolidated financial statements 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 as at 31 December 2010. The interim condensed consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousands, except when otherwise indicated.

## 3. Operating Segment Information

For management purposes, the Group is organised 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 specialised 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 VA services segment involves post-construction maintenance services for turnkey and specialised 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 from the Group's investment properties, fair value gain on the investment in a jointly-controlled entity, share of profits of jointly-controlled entities as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, property and equipment, investment properties, due from related companies and a related party, interest 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 companies, income tax payables and other unallocated head office and corporate liabilities 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.

Revenue of approximately RMB153.4 million (six-month period ended June 30, 2010: Nil) for the six-month period ended June 30, 2011 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* |
|---|---|---|---|---|
| **Six-month period ended June 30, 2011** | | | | |
| Segment revenue | | | | |
| Sales to external customers | **217,521** | **450,675** | **14,889** | **683,085** |
| Intersegment sales | **—** | **2,214** | **—** | **2,214** |
| | **217,521** | **452,889** | **14,889** | **685,299** |
| *Reconciliation:* | | | | |
| Elimination of intersegment sales | | | | **(2,214)** |
| Revenue | | | | **683,085** |
| Segment results | **18,716** | **75,345** | **7,108** | **101,169** |
| *Reconciliation:* | | | | |
| Interest income | | | | **3,173** |
| Fair value gain on the investment in a jointly-controlled entity | | | | **2,512** |
| Share of profits of jointly-controlled entities | | | | **2,547** |
| Corporate and other unallocated expenses | | | | **(2,235)** |
| Finance costs | | | | **(6,803)** |
| Profit before tax | | | | **100,363** |
| **June 30, 2011** | | | | |
| Segment assets | **707,162** | **1,934,961** | **42,138** | **2,684,261** |
| *Reconciliation:* | | | | |
| Elimination of intersegment assets | | | | **(197,784)** |
| Corporate and other unallocated assets | | | | **850,049** |
| Total assets | | | | **3,336,526** |
| Segment liabilities | **290,134** | **799,785** | **17,730** | **1,107,649** |
| *Reconciliation:* | | | | |
| Elimination of intersegment liabilities | | | | **(197,784)** |
| Unallocated liabilities | | | | **243,477** |
| Total liabilities | | | | **1,153,342** |
| Other segment information | | | | |
| Share of profits of: | | | | |
| Jointly-controlled entities | | | | **2,547** |
| Depreciation and amortization | | | | **3,854** |
| Investment in jointly-controlled entities | | | | **26,137** |
| Capital expenditure * | | | | **249,554** |

* Capital expenditure consists of purchases of property and equipment and intangible assets, acquisition of a jointly-controlled entity, acquisition of subsidiaries and prepayment for acquisition of subsidiaries.

| | Turnkey solutions *RMB'000* | Specialised solutions *RMB'000* | Value-added services *RMB'000* | Consolidated *RMB'000* |
|---|---|---|---|---|
| **Six-month period ended June 30, 2010** | | | | |
| Segment revenue | | | | |
| Sales to external customers | 165,154 | 472,718 | 4,080 | 641,952 |
| Intersegment sales | — | — | — | — |
| | 165,154 | 472,718 | 4,080 | 641,952 |
| *Reconciliation:* | | | | |
| Elimination of intersegment sales | | | | — |
| Revenue | | | | 641,952 |
| Segment results | 15,073 | 98,888 | 263 | 114,224 |
| *Reconciliation:* | | | | |
| Interest income | | | | 1,216 |
| Share of profits of jointly-controlled entities | | | | (371) |
| Corporate and other unallocated expenses | | | | (44,447) |
| Finance costs | | | | (5,434) |
| Profit before tax | | | | 65,188 |
| **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 | | | | 371 |
| Write-back of impairment of trade receivables | | | | (178) |
| Depreciation | | | | 3,840 |
| Investment in jointly-controlled entities | | | | 19,750 |
| Capital expenditure | | | | 1,760 |

## 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:

| | For the six-month period ended June 30, | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Audited |
| Revenue from: | | |
| Implementation of projects | **680,603** | 630,902 |
| Sale of products | **2,482** | 11,050 |
| | **683,085** | 641,952 |

## 5. Profit Before Tax

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

| | | For the six-month period ended June 30, | |
|---|---|---|---|
| | *Notes* | **2011** | 2010 |
| | | ***RMB'000*** | *RMB'000* |
| | | **Unaudited** | Audited |
| Cost of services rendered for implementation of projects | | **473,758** | 443,969 |
| Cost of inventories sold for sale of products | | **1,238** | 5,521 |
| | | **474,996** | 449,490 |
| Employee benefits expense (including directors' and senior executives' remuneration) | (a) | **42,622** | 31,203 |
| Research and development costs | | **8,629** | 3,303 |
| Minimum lease payments under operating leases: | | | |
| Land and buildings | | **8,128** | 7,046 |
| Expenses related to the listing of the Company's shares | | **—** | 33,309 |
| Depreciation and amortization | (b) | **3,854** | 3,840 |
| Write-back of impairment of trade receivables | | **—** | (178) |
| Foreign exchange differences, net | | **119** | 410 |
| Other income | (c) | **(9,231)** | (1,839) |
| Finance income | (d) | **(3,173)** | (1,216) |
| Finance costs | (e) | **6,803** | 5,434 |
| Other expenses | (f) | **156** | 304 |

**(a) Employee benefit expense**

| | For the six-month period ended June 30, | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Audited |
| Employee benefit expense (excluding directors' and senior executives' remuneration) | | |
| Wages and salaries | **27,422** | 17,227 |
| Social insurance costs and staff welfare | **6,839** | 5,512 |
| Pension plan contributions | **3,569** | 2,135 |
| Share-based payment expenses | **3,644** | 4,943 |
| Directors' and senior executives' remuneration | **1,148** | 1,386 |
| | **42,622** | 31,203 |

**(b) Depreciation and amortization**

| | For the six-month period ended June 30, | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Audited |
| Included in selling, general and administrative expenses | | |
| Depreciation | **3,839** | 3,840 |
| Amortization of intangible assets | **15** | — |
| | **3,854** | 3,840 |

**(c) Other income and gains**

| | For the six-month period ended June 30, | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Audited |
| Government grants* | **54** | — |
| Gross rental income | **6,665** | 1,775 |
| Fair value gain on the interest in a jointly-controlled entity# | **2,512** | — |
| Other | **—** | 64 |
| | **9,231** | 1,839 |

* There were no unfulfilled conditions or contingencies attaching to these grants.

\# During the period, the Group acquired additional 29% equity interest in 新疆瑞華贏機電系統技術有限公司 ("Xinjiang RHY"), a jointly control entity of the Group prior to this acquisition. Upon completion of the acquisition of additional equity interest by the Group, Xinjiang RHY becomes a subsidiary of the Group. The initial 51% equity interest held by the Group has been revalued prior to its becoming a subsidiary of the Group and the difference between the then carrying value and the revaluation gain of the 51% equity interest in Xinjiang RHY was recognized in the income statement during the current period.

**(d) Finance income**

| | For the six-month period ended June 30, | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Audited |
| Bank interest income | **3,173** | 1,216 |

**(e) Finance costs**

| | For the six-month period ended June 30, | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Audited |
| Interest on bank loans, wholly repayable within one year | **6,803** | 5,434 |

### (f) Other expenses

| | For the six-month period ended June 30, | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Audited |
| Loss on disposal of items of property and equipment | **2** | 4 |
| Others | **154** | 300 |
| | **156** | 304 |

## 6. Income Tax

The Group was not subject to Hong Kong profit tax for the six-month period ended June 30, 2011 as the Group did not have 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.

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%. Details of the tax benefits enjoyed by the Group's PRC subsidiaries are as follows:

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 25% over five years starting from January 1, 2007. The preferential income tax rate applicable to 瑞華贏科技 is 12% for the six-month period ended June 30, 2011.

The major components of income tax expense are:

| | For the six-month period ended June 30, | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Audited |
| Current income tax: | | |
| Current income tax charge in the PRC | **15,637** | 10,140 |
| Deferred income tax: | | |
| Relating to origination and reversal of temporary differences | **10,305** | 8,509 |
| Income tax expense reported in the consolidated income statement | **25,942** | 18,649 |

## 7. Earnings Per Share Attributable to Ordinary 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 Company for the six-month period ended June 30, 2011, and the weighted average number of ordinary shares of 1,569,047,334 (the six-month period ended June 30, 2010: 1,306,460,952) during the six-month period ended June 30, 2011.

| | For the six-month period ended June 30, | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Audited |
| Earnings | | |
| Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation | **74,682** | 46,539 |

| | Number of shares For the six-month period ended June 30, | |
|---|---|---|
| | **2011** | 2010 |
| | **Unaudited** | Audited |
| Shares | | |
| Weighted average number of shares in issue during the period used in the basic earnings per share calculation | **1,569,047,334** | 1,306,460,952 |

No diluted earnings per share amounts have been presented as the Company did not have any potentially dilutive ordinary shares during the six-month period ended June 30, 2011. 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 Co., Ltd. (an equity holder of the Company) which will be transferred to the relevant employees upon the exercise of relevant options.

## 8. Construction Contracts

| | **June 30, 2011** | December 31, 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Audited |
| Gross amount due from contract customers | **800,410** | 777,875 |
| Gross amount due to contract customers | **(251,313)** | (559,531) |
| | **549,097** | 218,344 |
| Contract costs incurred plus recognised profits less recognised losses to date | **3,717,755** | 2,626,221 |
| Less: Progress billings | **(3,168,658)** | (2,407,877) |
| | **549,097** | 218,344 |

## 9. Trade and Bills Receivables

| | **June 30, 2011** *RMB'000* **Unaudited** | December 31, 2010 *RMB'000* Audited |
|---|---|---|
| Trade and bills receivables | **694,132** | 819,366 |
| Provision for impairment | **(1,434)** | (1,434) |
| | **692,698** | 817,932 |
| Bills receivable | **2,890** | 16,504 |
| | **695,588** | 834,436 |

Trade and bills receivables, 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.

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

| | **June 30, 2011** *RMB'000* **Unaudited** | December 31, 2010 *RMB'000* Audited |
|---|---|---|
| Less than 6 months | **208,717** | 707,932 |
| 6 months to 1 year | **386,451** | 51,462 |
| 1 year to 2 years | **88,487** | 62,976 |
| 2 years to 3 years | **10,338** | 11,900 |
| Over 3 years | **1,595** | 166 |
| | **695,588** | 834,436 |

Trade and bills receivables generally have credit terms ranging from 30 days to 180 days. An aged analysis of the trade and bills receivables that are neither individually nor collectively considered to be impaired is as follows:

| | **June 30, 2011** *RMB'000* **Unaudited** | December 31, 2010 *RMB'000* Audited |
|---|---|---|
| Neither past due nor impaired | **154,138** | 307,731 |
| Past due but not impaired: | | |
| Less than 6 months past due | **346,523** | 395,384 |
| 6 months to 1 year past due | **120,332** | 54,936 |
| 1 year to 2 years past due | **62,662** | 64,319 |
| 2 years to 3 years past due | **10,338** | 11,900 |
| Over 3 years past due | **1,595** | 166 |
| | **695,588** | 834,436 |

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 pledged its trade receivable to be received from certain of its projects amounting to RMB109.4 million (December 31, 2010: RMB300.8 million) for a banking facility granted to the Group and at June 30, 2011, the related pledged trade receivables amounted to RMB70.4 million (December 31, 2010: RMB211.9 million).

## 10. Trade and Bills Payables

| | **June 30, 2011** | December 31, 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Audited |
| Trade payables | **538,380** | 506,545 |
| Bills payable | **42,429** | 91,293 |
| | **580,809** | 597,838 |

The Group's bills payable were secured by pledged deposits of the Group of RMB12.7 million (December 31, 2010: RMB28.3 million) as at June 30, 2011.

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 as at the end of the reporting period, based on the invoice date are as follows:

| | **June 30, 2011** | December 31, 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Audited |
| Current or less than 1 year | **520,055** | 463,254 |
| 1 to 2 years | **13,424** | 26,767 |
| Over 2 years | **4,901** | 16,524 |
| | **538,380** | 506,545 |

# MANAGEMENT DISCUSSION AND ANALYSIS

## Overview and Prospect

### *(i) Overview of the Overall Operation of the Company during the Reporting Period*

In the first half of 2011, the Company earnestly implemented its strategic development plan, pushed forward its commitment to streamlining structure, scaling up, preventing risks and sharpening competitiveness. The Company made significant progress in the transformation of its business and worked to optimize management processes. These efforts strengthened its core competitiveness led to healthy growth across all business sectors, and steadily increased its profitability and efficiency. Despite the tough industry condition, especially the significant slow down in the high speed passenger train projects, during the six months ended June 30, 2011, the Company recorded revenue of RMB683.1 million, representing an increase of 6.4% as compared to RMB642.0 million in the six months ended June 30, 2010. The overall gross profit was RMB208.1 million, representing an increase of 8.1% compared with the same period of 2010. With a mature business model, leading market position, dominant market share and strict cost control procedures, the Company managed to maintain a high level of gross profit margin of 30.5%. The Company recorded a profit attributable to owners of the Company of RMB74.7 million, representing an increase of 60.5% from RMB46.5 million for the corresponding period in 2010. Backlog amounted to approximately RMB1,852.8 million.

### *(ii) Core Businesses of the Company and Operation Thereof*

The Company provides turnkey solutions, specialized solutions and VA services for the expressway, railway and urban traffic (including subway and urban traffic roadway) sectors. It maintains a diversified and healthy revenue mix of these four sectors with the strongest interim revenue growth in urban traffic. For the six months ended June 30, 2011, the Company's revenue from the expressway sector reached RMB281.5 million, representing an increase of 3.2% from 272.9 million for the corresponding period in 2010, making up 41.2% of the Company's total revenue. Revenue from the railway sector decreased by 15.5% to RMB277.2 million during the reporting period. Revenue from the two urban traffic sectors rose significantly by 344.0% to RMB110.9 million, compared with the same period of the previous year, representing 16.2% of the Company's total revenue.

In terms of revenue contribution, compared with the corresponding period in 2010, revenue contributions from the expressway sector slightly decreased by 1.6%, while those from the railway sector decreased by 10.5%. In contrast, revenues from the two urban traffic sectors increased by 12.3%, reflecting the Company's increased focus on these two sectors by cross leveraging its competitive edge in both expressway and railway specialized solutions.

1. *Expressway*

   The overall increase of expressway revenue was particularly attributable to the strong growth of turnkey projects. During the reporting period, turnkey solutions recorded revenue of RMB213.0 million, representing an increase of 35.1% compared with the same period of 2010. The Company's impressive project lists on landmark projects in the first half of 2011 were testimony to its strong project management skills and industry expertise. For example, the Shui-Du Expressway, a milestone "National 7918 Highway" project (Shuikou to Duyun, part of Gui-Guang Expressway, from Guizhou province to Guangdong province). Guizhou province is well known for its harsh mountainous terrain. Through this project, our technological advantages and expertise in providing tunnels related solutions were fully demonstrated in the complex environment of mountains, waterways and roads. This project and other important projects, such as the Ji-Cha Expressway, the Da-Guang Expressway, the Xinjiang Du-Qiao-Na Expressway, the Ji-Cao Expressway made significant contribution to overall expressway revenue.

However, the strong growth for turnkey projects was partly offset by the reduction of specialized solutions projects. Revenue generated from specialized solutions decreased by 48.6% to RMB57.2 million during the reporting period. This is mainly due to seasonal factor. In the first half of 2011, provincial expressway administration bureaus were busy formulating budget and business plans in order to lay a good foundation for development of the "12th Five-Year Plan" period. As a result, the implementation of specialized solutions projects slowed down. Moreover, most expressway operators generally work on their budgets in the first half of each fiscal year and start implementation in the second half. Thus, on the basis of the volume of signed and secured orders, the Company is still expected to be benefiting from upgrade and expansion demand coming from these expressway operators in terms of improving its safety measures and increasing operating efficiency. Also, those compensating revenue is expected to start kicking in throughout the second half of the year.

By relying on its industry-leading advantages for value-added services, the Company has set transportation management services for ongoing operations as an overall strategy for gradual business transformation. During the reporting period, by leveraging on its first movers advantages, VA services recorded revenue of RMB11.3 million, a strong growth of 177.4% compared with the same period of the previous year.

2. *Railway*

A series of negative events hit the railway industry in the first half of 2011. New orders for high speed passengers trains projects were reduced as the MOR focused its energy on quelling concerns over safety as well as revisiting the overall capital investment plan. New orders received by the railway sector decreased by 81.1% to RMB156.9 million during the reporting period. Backlog dropped to RMB425 million as of the end of the reporting period. Both mainly come from the local railway bureaus.

However, it is estimated that by the end of 2015, China will have over 120,000km[1] of railways in operation, of which over 90,000km[1] will be traditional lines. The Company foresees that there will be a lot of upgrade and expansion demand coming from local railway bereaus in terms of electrification, speed acceleration, cargo line dedication and application information technology improvement. During the reporting period, the Company has successfully won the biddings and completed many projects from existing lines, such as the Long-Xia Line, the Bei-Tong-Pu No.4 Line, the Da-Bao, the Tai-Jiao Line, reflecting its' focus on upgrading of existing lines.

The Company expects that going forward, railway spending on ITS[1] over a 5-year period (2011–2015) will remain stable and healthy, given the bulk of such capex will be devoted to the completion of existing projects. Spending on upgrading of existing lines only amounted to less than 10% of railway investment each year during the period between 2005–2010, an area which the Company believes was underinvested in the last few years. As long as safety in the railway industry becomes increasingly important, the Company expects the investment into existing lines will move up over the next few years.

[1] Source: MOR Statistics

3. *Urban Traffic* — Rapid transit and urban traffic roadway to be catching up

Revenue from the specialized solutions significantly increased by 508.9% to RMB106.4 million during the reporting period. Looking forward, as driven by the increasing number of large cities, expanding city scale, increasing urban population density, international special events and government support, the Company believes that China will shift away from investing in purely increasing the mileage and capacity of their roads, to moving towards a model of higher utilization on their infrastructure assets. With increasing utilization on these roads, ITS is expected to begin to play an increasingly important role in the management of traffic flows and safety in cities. Therefore, the Company believes that these two urban traffic sector will grow rapidly.

According to the OC&C industry report on a research project conducted in June 2011 (the "OC&C Industry Report"), urban traffic roadway ITS is expected to grow above 20% from 2006 to 2013, with an estimated market size of RMB16.1 billion in 2013. Urban Traffic Rapid Transit ITS is expected to achieve a market size of RMB27.3 billion in 2013, with an estimated CAGR of 20% from 2006 to 2013. Owing to a favorable market environment in urban traffic Rapit Transit and Roadway sectors, the Company believes that these two urban traffic sectors are going to be increasingly important and will become a strong revenue generator on top of both expressway and railway business.

***Prospects***

**New breakthrough in the Public Transport Sector**

In response to China's "12th Five-Year Plan" to vigorously develop and utilize the nation's transportation infrastructure, the Company implemented its plan to enter the public transport sector. Based on the OC&C Industry Report, the total ITS market size for public transport ITS in top 20 cities in China reached RMB800 million in 2006 and RMB2.3 billion in 2010, with a CAGR of 28%. Driven by the development of the second and third tier cities, increased popularity of ITS systems and technology advancement of wireless communication, the ITS market in public transport sector is estimated to be RMB5.1 billion in 2013, with a CAGR of 31% between 2010 and 2013. In the second half of 2011, the Company is poised to expand to the sixth transport sub-sectors in order to diversify the risk of the Company, to maintain the growth of the Company and to maintain the stability of its earnings.

**M&A**

Since January 1, 2011, the Company has announced a series of M&A activities, such as Xinjiang RHY[1], Sinorail[2], Xinjiang Delida[3] and eSOON[4] reflecting its increased focus on transportation management services for ongoing operations as an overall strategy for gradual business transformation and to diversify from the traditional sectors to other transportation sectors, e.g. public transport. In the second half of this year, the Company will continue to be active in identifying suitable M&A targets and strong companies with realistic and reasonable valuations.

1 Xinjiang RHY: Xinjiang RHY Technology Co., Ltd.
2 Sinorail: Shanghai Sinorail Diamond International Trading Co., Ltd.
3 Xinjiang Delida: Xinjiang Delida Information Technology Co., Ltd.
4 eSOON: eSOON Holdings Corp.

**Prospects**

Although in the first half of 2011 the railway industry experienced unprecedented difficulties, the Company has weathered the storm and it expects that the worst times are over. In the future, the Company will actively carry out strategic transformation and strive for diversified and healthy development in the transportation industry, and the Company aims to become the most diversified full bloom ITS solutions and services provider to the transportation industry in China.

# BUSINESS AND FINANCIAL REVIEW

**Revenue**

The Group's revenue in the six months ended June 30, 2011 increased by 6.4% to RMB683.1 million as compared to RMB642.0 million in the six months ended June 30, 2010. The overall increase in revenue in the six months ended June 30, 2011 is fueled by a 31.7% increase in Turnkey Solutions segment and a 264.9% increase in VA Service segment, and is partially offset by a slight 4.2% decrease in Specialized Solutions segment. The overall fluctuation in revenue is due to the different product mix and various project implementation stage throughout the period. The following table sets out the revenue breakdown by segment:

| **Revenue by segments** | **For the six-month period ended June 30,** | |
|---|---|---|
| ***RMB'000*** | **2011** | 2010 |
| | **Unaudited** | Audited |
| Turnkey Solutions | **217,521** | 165,154 |
| Specialized Solutions | **452,889** | 472,718 |
| VA Services | **14,889** | 4,080 |
| Elimination | **(2,214)** | — |
| Total | **683,085** | 641,952 |

***(i) Turnkey Solutions***

Revenue from the Turnkey Solutions business in the six months ended June 30, 2011 was RMB217.5 million, an increase of RMB52.4 million, i.e. an increase of 31.7%, as compared to RMB165.2 million in the six months ended June 30, 2010. The increase was mainly attributable to the strong growth in expressway projects.

The revenue growth rate for expressway Turnkey Solution business was 35.1% in the six months ended June 30, 2011, as compared to the six months ended June 30, 2010, and most of the projects, which include the Shui-du Expressway (Shuikou to Duyun, part of Guizhou to Guangdong Expressway in Guizhou province), made great progress and significant contribution to overall revenue. On the urban roadway Turnkey Solutions sector, most of the existing project had been successfully implemented and some new projects in addition to Beijing, Shanghai, Guangzhou, Shenzhen such as those in Siping city of Jilin province are going to be launched this year.

Turnkey Solutions segment accounted for 31.8% of the Group's revenue in the six months ended June 30, 2011 which is higher than the level of 25.7% in the six months ended June 30, 2010.

*(ii) **Specialized Solutions***

Revenue from the Specialized Solutions business in the six months ended June 30, 2011 was RMB452.9 million, a slight decrease of RMB19.8 million, i.e. a decrease of 4.2%, as compared with RMB472.7 million in the six months ended June 30, 2010. The decrease was due to the decrease in Expressway and Railway business sectors and was offset by the strong growth in Urban Traffic Rapid Transit and Urban Traffic Roadway business sectors.

Revenue generated from Expressway Specialized Solutions decreased by RMB54.0 million in the six months ended June 30, 2011. This was due to the fact that projects implementation being slowed down and the expressway bureaus in each province did not focus on the detailed execution plan of the "12th Five-Year Plan", which is in compliance with the Government guideline. Moreover, each of the expressway projects usually has different phases in working progress within one fiscal year. Depending on to the volumes of signed and secured orders, the Group is likely to generate compensating revenue after these existing projects have been implemented.

Revenue from Urban Traffic Specialized Solutions significantly increased by RMB89.0 million, in the six months ended June 30, 2011, as compared to the six months ended June 30, 2010 and was primarily due to the positive outcome of the Group's focused effort in this industry sector. The Group is very confident that the Urban Traffic Rapid Transit and Urban Roadway sectors will become another important revenue generator besides the Expressway and Railway sectors, given the rapid urbanization in mainland China. Revenue from Urban Traffic Specialized Solutions accounted for 23.3% of the Specialized Solutions segment's revenue in the six months ended June 30, 2011, which has significant increment as compared to the level of 3.7% in the six months ended June 30, 2010.

Revenue from railway Specialized Solutions decreased by RMB54.4 million, and this is mainly due to the central government's policy of slowing down the massive investment pace in high-speed railway. When the Jing-Hu high speed railway came into operation, the national railway high speed network had substantially completed and the scale of new railway projects has gradually reduced. Apart from putting effort in the new railway projects, the Group had made great achievements in existing railways' upgrade and maintenance projects from local railway bureaus. Please refer to the analysis of VA services section for the details of revenue recognition.

Revenue generated from the energy business remained stable in the six months ended June 30, 2011. As the energy business is in a mature stage and is no longer a key focus of the Company, management have directed more attention to the transportation sectors, such as Urban Traffic Rapid Transit, Urban Traffic Roadway and Expressway, which are expected to provide higher growth for the Company.

The Specialized Solutions segment as a whole accounted for 66.0% of the Group's revenue in the six months ended June 30, 2011, which is lower compared with 73.6% as recorded in the six months ended June 30, 2010, and was mainly due to the decrease in railway business as a result of slowdown of high speed railway construction.

***(iii) VA Services***

Revenue from the VA Services business in the six months ended June 30, 2011 was RMB14.9 million, a significant increment of RMB10.8 million as compared to RMB4.1 million in the six months ended June 30, 2010. Save as aforesaid, the Group had generated revenue of the VA services not only from the traditional expressway sector but also the railway sector from existing projects, which marked the initial success in the Group's transformation strategy in the railway sector from construction driven to recurring operation focus.

The revenue from VA services in the six months ended June 30, 2011 accounted for 2.2% of the Group's total revenue in the six months ended June 30, 2011, significantly higher than 0.7% as recorded in the six months ended June 30, 2010. This was due to the Group's effort pursuing recurring business model among the strong existing customer network accumulated over the years from the construction period.

**Cost of Sales**

Cost of sales was incurred on a project-by-project basis for each individual legal entity and was subsequently aggregated at segment and corporate level. The cost of sales was based on the equipment and other direct project cost incurred for completion for each of the relevant contract. The cost of sales constituted 69.5% of the Group's revenue in the six months ended June 30, 2011, which represented a decrease of 0.5% as compared to the corresponding period in 2010. This was due to a stable and high level of gross profit margin based on the Group's mature project management, successful pricing strategy and strict purchase cost control. The following table sets out the cost of sales with a breakdown by segment:

| **Cost of sales by segments** | **For the six-month period ended June 30,** | |
|---|---|---|
| ***RMB'000*** | **2011** | 2010 |
| | **Unaudited** | Audited |
| Turnkey Solutions | **185,760** | 137,284 |
| Specialized Solutions | **284,571** | 309,795 |
| VA Services | **6,879** | 2,411 |
| Elimination | **(2,214)** | — |
| **Total** | **474,996** | 449,490 |
| % of Revenue | **69.5%** | 70.0% |

*(i) Turnkey Solutions*

The cost of sales incurred for Turnkey Solutions constituted 39.1% of the Group's cost of sales in the six months ended June 30, 2011, which is higher than the corresponding period in 2010, reflecting the rising contribution of Turnkey Solutions to the Group's sales in the six months ended June 30, 2011.

*(ii) Specialized Solutions*

The cost of sales incurred for Specialized Solutions constituted 59.4% of the Group's cost of sales in the six months ended June 30, 2011, which recorded a decrease comparing with the corresponding period in 2010. The decrease was due to reduced contribution of this segment to the Group's sales in the six months ended June 30, 2011.

*(iii) VA Services*

The cost of sales incurred for VA Services constituted 1.5% of the Group's cost of sales in the six months ended June 30, 2011, which recorded an increase comparing with the corresponding period in 2010, reflecting the relatively significant rising contribution of VA Services to the Group's sales in the six months ended June 30, 2011.

**Gross Profit**

Overall gross profit of the Group increased from RMB 192.5million in the six months ended June 30, 2010 to RMB208.1 million in the six months ended June 30, 2011. Under the leading experienced project management team, successful pricing strategy and strict purchase costs control, the Group has generated various level of increment in gross profit in Turnkey Solutions, Specialized Solutions and VA services segments. The following table sets out the gross profit breakdown and gross profit margin by segment:

| **Gross profit by segments** *RMB'000* | **For the six-month period ended June 30,** | |
|---|---|---|
| | **2011** | 2010 |
| | **Unaudited** | Audited |
| Turnkey Solutions | **31,761** | 27,870 |
| *Margin %* | ***14.6%*** | *16.9%* |
| Specialized Solutions | **168,318** | 162,923 |
| *Margin %* | ***37.2%*** | *34.5%* |
| VA Services | **8,010** | 1,669 |
| *Margin %* | ***53.8%*** | *40.9%* |
| **Total** | **208,089** | 192,462 |
| *Margin %* | ***30.5%*** | *30.0%* |

### *(i) Turnkey Solutions*

Gross profit in Turnkey Solutions increased by RMB3.9 million, i.e. 14.0%, to RMB31.8 million in the six months ended June 30, 2011 as compared to RMB27.9 million in the six months ended June 30, 2010. The margin was in line with normal margin variations range in previous years, reflecting the project nature of the Turnkey Solutions business where margins on individual projects may range from 14% to 18%. The increase of gross profit in this segment is due to increment of revenue during the reporting period.

### *(ii) Specialized Solutions*

Gross profit in Specialized Solutions increased by RMB5.4 million, i.e. 3.3%, to RMB168.3 million in the six months ended June 30, 2011 as compared to RMB162.9 million in the six months ended June 30, 2010. The gross profit margin is higher than the corresponding period in last year from 34.5% to 37.2%, which reflected the Group's experienced project management team, successful pricing strategy and strict purchase costs control, especially when there was such a hostile environment in Railway sector.

### *(iii) VA Services*

Gross profit in VA Services increased by RMB6.3 million, i.e. 380.0%, to RMB8.0 million in the six months ended June 30, 2011 as compared to RMB1.7 million in the six months ended June 30, 2010. The gross profit margin is higher than the corresponding period in last year, and it is within the normal level of VA services, business model with principally labour cost and very limited hardware cost, resulting in higher quality revenue than those from turnkey and specialized solutions segments.

## Other Income and Gains

Other income and gains arise from operating leases and were accounted for on a straight line basis over the lease terms. The significant increase in other income and gains was due to a change in property usage as the Group had moved to a new office in April of 2010 and leased out the entire self-owned office premises.

## Selling, General and Administration Expenses

In the six months ended June 30, 2011, the percentage of sales of selling, general and administration expenses ("SG&A") increased 2.7% to 16.9% as recorded in the six months ended June 30, 2010 due to the Group has devoted great effort in expanding the business scope to other transportation sectors to mitigate the risk from railway sector slowdown, including urban traffic, expressway and VA services in existing railway projects. We will further expand organically to more new sectors during the second half of this year to achieve a more healthy mix of revenue composition.

The staff costs remained as a large component of the Group's SG&A in the six months ended June 30, 2011, which accounted for 33.6%. The staff costs increased by 45.9%, which was mainly due to the general headcount increase for the ongoing and new sector business expansions. Staff costs accounted for 5.7% of the total revenue in the six months ended June 30, 2011, which recorded an increase comparing with 4.1% in the six months ended June 30, 2010 and was in line with the Company's business growth strategy and is expected bring the increment to business in the second half this year. Meanwhile, the office supplies expenses increased by RMB3.2 million because of the headcount increase.

Travelling and business expansion expenses has increased because of the growth in business development and implementation of new projects, and was at the average range of 5–7% of the total revenue for each entity in the six months ended June 30, 2011. Travelling and business expansion expenses increased from RMB 24.1 million in the six months ended June 30, 2010 to RMB 30.5 million in the six months ended June 30, 2011. As a percentage of total SG&A, there is a decrease from 26.5% to 26.4% as a result of economies of scale and successful expenses control initiatives on a per headcount basis.

Rental expenses increased from RMB7.0 million in the six months ended June 30, 2010 to RMB8.1 million in the six months ended June 30, 2011 and was due to the higher rental cost of the Company's new centralized office in Beijing with larger space. Subsequent to the Company's relocation to the new office in April of 2010, the impact of the higher rent was reflected in rental expenses in the six months ended June 30, 2011.

The Group have spent more resources in researching and developing innovative technology and solutions for the new sectors and new business model, and therefore the research and development costs increased from RMB3.3 million in the six months ended June 30, 2010 to RMB8.6 million in the six months ended June 30, 2011. The Group believes that the self-developed product will continually bring massive revenue incremental generation at a reasonable cost level.

Share-based payment expenses refer to the share options expenses relating to the Company's pre-IPO share incentive scheme. In the six months ended June 30, 2011, Share-based payment expenses were RMB3.6 million and it were RMB1.3 million lower than that in the six months ended June 30, 2010, which was due to the different expenses amortization schedule in different periods.

**Expenses Relating to the Listing of the Company's Shares**

The major components of the listing expenses include fees of 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 ("Listing"). In the six months ended June 30, 2011, no such expenses were incurred in the Group.

**Finance Income and Finance Cost**

Finance income comprised of mainly interest income from deposits and finance costs comprised of mainly interest expenses for interest-bearing bank loan. Net financial expenses represented the total finance costs offset by finance income. The net financial expense was RMB3.6 million in the six months ended June 30, 2011, which represented a decrease of 13.9% as compared to the six months ended June 30, 2010. The decrease was mainly due to a general increase in average bank balances as a result of the proceeds from the Listing since the second half of 2010.

**Share of Results of Jointly-Controlled Entity**

Share of Results of Jointly-Controlled Entities ("JCE") in the six months ended June 30, 2011 was RMB2.5 million, which represented a significant growth as compared to the losses incurred in the six months ended June 30, 2010. This was due to the profits contributed by 成都智達威路特科技有限公司, which became the major JCE of the Group in the second half of 2010.

## Income Tax Expense

The total income tax expense in the six months ended June 30, 2011 was higher than that recorded in the six months ended June 30, 2010. The effective income tax rate in the six months ended June 30, 2011 was 24.9%, which represented an increase of 6.9% comparing with the corresponding period in 2010 after carving out the expenses relating to the Listing of the Company's Shares and share-base payment, which are non-taxable items for PRC enterprise income tax purpose. The increase was due to the fact that most of the PRC subsidiaries are currently under the progress of 3-year review of the qualification of High and New Technology Enterprises ("HNTE"). However, as a foreign-invested entity, Beijing RHY Technology Development Co., Ltd. ("Beijing RHY") was entitled to 50% of a transitional tax rate of 10% from January 1, 2009. This preferential tax rate will be progressively increased to 25% over five years starting from January 1, 2007 and the applicable tax rate was 12% in the six months ended June 30, 2011. Due to the restricted preferential tax policy from Chinese government, other subsidiaries except Beijing RHY applied the standard income tax rate before the formal approval from the relevant authorities, which is 25%. The Group believes that all the subsidiaries applied will pass the 3-year review and qualified as HNTE, and therefore the effective income tax rate for the whole year will likely to decrease to the level of approximately 15%, when such approvals are obtained in the later part of the year.

## Profit for the period

Profit attributable to owners of the Company for the period of the Group in the six months ended June 30, 2011 was RMB74.7 million, which represented a significant growth of 60.5% from RMB46.5 million for the six months ended June 30, 2010, and this was mainly due to the revenue growth, increased gross profit margin and absence of expenses relating to the listing of the Company's Shares, etc.

## Trade and Bills Receivables Turnover Days

The trade and bills receivables turnover days for the period from July 1, 2010 to June 30, 2011 was 112 days (in the year ended December 31, 2010: 122 days). The decrease in trade and bills receivables turnover days was mainly due to improvement of payment terms under a tighter credit control initiatives. The Group's trade and bills receivables turnover days were within the normal credit period granted to customers.

## Trade and Bills Payables Turnover Days

The trade and bills payables turnover days for the period from July 1, 2010 to June 30, 2011 was 152 days (in the year ended December 31, 2010: 156 days). The decrease in trade and bills payables turnover days was mainly due to a change in payment terms with certain suppliers. But overall, we consider such trade and bills payables turnover days to be within our normal payment policy with our vendors.

## 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 period from July 1, 2010 to June 30, 2011 was 2 days (in the year ended December 31, 2010: 2 days) and remained unchanged from last year as the Group has adopted a minimum inventory policy.

## 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. As at June 30, 2011, the Group's current ratio (current assets divided by current liabilities) was 2.4 (as at December 31, 2010: 2.1). The Group's financial position remains healthy. As at June 30, 2011, the Group was in a net cash position of RMB133.9 million (as at December 31, 2010: net cash of RMB659.3 million) which included cash and cash equivalent (including short term deposit) of RMB313.9 million (as at December 31, 2010: RMB949.3 million) and short-term bank loans of RMB180.0 million (as at December 31, 2010: RMB290.0 million). As at June 30, 2011, the Group's gearing ratio was 9.3%, which has decreased from 39.6% as at December 31, 2010 due to the use of proceeds from the Listing in acquisition and investment during the reporting period. Please also refer to the use of proceeds section for details. 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) divided by total equity.

## Contingent Liabilities

As at June 30, 2011, the Group has no material contingent liability.

## Charges on Group Assets

As at June 30, 2011, except for the secured deposits of approximately RMB76.1 million and the pledged trade receivables of RMB70.4 million, the Group has no other asset charged to financial institution.

## Material Acquisitions of Subsidiaries

— ***Acquisition of Xinjiang Delida***

In May 2011, Beijing RHY, a wholly-owned subsidiary of the Company, acquired a total of 57% equity interest in Xinjiang Delida for consideration of RMB2.69 million. Therefore, Xinjiang Delida became a subsidiary and specialized in logistics information solutions, which the Group can leverage on its localized sales coverage and strong client's relationship to roll out the logistics solutions in the Xinjiang region.

— ***Acquisition of Xinjiang RHY***

In January 2011, the Group acquired additional 29% of equity interest of Xinjiang RHY, which specializes in providing communication and surveillance specialized solutions and value-added services. Before the acquisition, Xinjiang RHY was a jointly-controlled entity of the Group. Upon completion of the acquisition, Xinjiang RHY became a subsidiary and is owned as to 80% by the Group.

**Events after the Reporting Period**

— ***Acquisition of shares in eSOON***

On August 22, 2011, China eSoon Limited, which is owned as to approximately 16.6% by the Company, entered into the Sale and Purchase Agreement in relation to, amongst others, the acquisition of the entire shareholding in eSOON and certain other assets for a total consideration of US$24 million. eSOON and its subsidiaries (together as "eSOON Group") is one of the leading intelligent call center solutions and services provider with emphasis on the financial institutions industry in Greater China. Having an investment in eSOON Group through China eSoon Limited, strategically, the Company expects that it could have a potential opportunity to horizontally expand its product and service offering into call center solutions in the transportation industry. From a financial investment perspective, the Company is expected to benefit from the stable cash flow and stable profit generation capability from the call center operations.

— ***Change of Chief Executive Officer and appointment of Executive Directors***

The Board announces that with effect from August 24, 2011, Mr. Liao Jie has been appointed as an Executive Director and Chief Executive Officer of the Company to succeed Mr. Jiang Hailin. Mr. Jiang Hailin would remain as an Executive Director and Chairman of the Board.

Further, the Board announces that with effect from August 24, 2011, Mr. Lv Xilin has been appointed as an Executive Director of the Company.

**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 June 30, 2011 was as follows:

| Use for | 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 | 290.4 | 29.3 |
| Project-related working capital needs | 35% | 248.7 | 142.6 | 106.1 |
| Research and development | 10% | 71.1 | 20.4 | 50.7 |
| General corporate purposes | 10% | 71.1 | 42.6 | 28.5 |
| | 100% | 710.6 | 496.0 | 214.6 |

## EMPLOYMENT AND EMOLUMENT POLICIES

As at June 30, 2011, the Group had 711 full-time employees. The emolument policy of the employees of the Group is set up by the Board on the basis of individual performance, the nature and responsibilities of the individual concerned and the performance of our Group and market conditions.

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

## INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend.

## 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 interim results of the Group for the six months ended June 30, 2011 together with the management of the Company and external auditor, Ernst & Young.

# PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the reporting period.

# 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 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.

In the six months ended June 30, 2011, 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.

During the six months ended June 30, 2011, the positions of the Chairman of the Board and the Chief Executive Officer of the Company were 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.

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.

On August 24, 2011, in order to comply with Code Provision A2.1, Mr. Jiang retired from the position as the Chief Executive Officer of the Company. Mr. Liao Jie was appointed as the Chief Executive Officer of the Company and an Executive Director on the same date.

## 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 the date of this announcement.

## PUBLICATION OF INTERIM REPORTS

The 2011 Interim Report of the Company containing all the information as required by Appendix 16 of the Listing Rules will be dispatched to the shareholders and available on the Company's website at www.its.cn and the Stock Exchange's website at www.hkexnews.hk in due course.

## ACKNOWLEDGEMENT

The Chairman of the Company would like to thank the Board, management and all members of our staff for their commitment and diligence. The Chairman of the Company would also like to thank our shareholders and business associates for their strong support to the Group.

By order of the Board of Directors
**China ITS (Holdings) Co., Ltd.**
**Jiang Hailin**
*Chairman*

Hong Kong, August 24, 2011

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