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, 2011

HIGHLIGHTS OF 2011 ANNUAL RESULTS

- New contracts signed and orders secured decreased by approximately 19.9% to approximately RMB1,900.1 million
- Backlog as at December 31, 2011 increased by approximately 21.7% to approximately RMB1,593.5 million
- Revenue decreased by approximately 14.9% to approximately RMB1,585.2 million
- Gross profit decreased by approximately 33.3% to approximately RMB392.4 million
- Gross profit margin decreased from prior year to approximately 24.8%
- Profit for the year attributable to owners of the parent decreased by approximately 61.6% to approximately RMB112.9 million
- Earnings per share* was RMB0.07 per share

ANNUAL RESULTS

The board of directors (individually, a "**Director**", or collectively, the "**Board**") of China ITS (Holdings) Co., Ltd. (the "**Company**") wishes to announce the audited financial results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended December 31, 2011, together with comparative figures for the same period in 2010, as follows:

* Earnings per share refers to profit for the year attributable to owners of the parent divided by weighted average number of shares in issue, during the year ended December 31, 2011.

CONSOLIDATED INCOME STATEMENT*

Year ended December 31, 2011

	Notes	2011 RMB'000	2010 RMB'000
REVENUE	4	**1,585,206**	1,862,184
Cost of sales		**(1,192,814)**	(1,274,242)
Gross profit		**392,392**	587,942
Other income and gains	4	**23,636**	8,870
Expenses relating to the listing of the Company's shares		**—**	(35,488)
Selling, general and administrative expenses		**(283,365)**	(211,051)
Other expenses		**(1,364)**	(247)
OPERATING PROFIT		**131,299**	350,026
Finance income		**4,037**	5,605
Finance costs	6	**(14,894)**	(11,505)
Share of profits of			
Jointly-controlled entities		**5,947**	3,556
Associates		**5,358**	—
PROFIT BEFORE TAX	5	**131,747**	347,682
Income tax expense	7	**(20,779)**	(53,673)
PROFIT FOR THE YEAR		**110,968**	294,009
Attributable to:			
Owners of the parent	8	**112,919**	294,009
Non-controlling interests		**(1,951)**	—
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
		RMB	*RMB*
Basic			
— For the profit for the year	10	**0.07**	0.21

* Details of the dividends payable and proposed for the year ended December 31, 2011 are disclosed in note 9 of belowing selected notes to financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2011

	Notes	**2011** *RMB'000*	2010 *RMB'000*
PROFIT FOR THE YEAR		**110,968**	294,009
Exchange differences on translation of foreign operations		**(17,829)**	(13,893)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(17,829)**	(13,893)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**93,139**	280,116
Attributable to:			
Owners of the parent	8	**95,090**	280,116
Non-controlling interests		**(1,951)**	—

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**December 31, 2011** *RMB'000*	December 31, 2010 *RMB'000*
NON-CURRENT ASSETS			
Property and equipment		**56,243**	27,074
Investment properties		**145,800**	141,037
Goodwill		**347,321**	230,664
Other intangible assets		**34,467**	—
Investments in jointly-controlled entities/operation		**31,611**	19,750
Investments in associates		**84,740**	—
Deferred tax assets		**13,350**	5,350
Prepayments for acquisition of equity interests in companies		**105,715**	—
Other assets		**557**	566
Total non-current assets		**819,804**	424,441
CURRENT ASSETS			
Inventories		**31,262**	4,467
Construction contracts	11	**785,172**	777,875
Trade and bills receivables	12	**769,186**	834,436
Prepayments, deposits and other receivables		**869,206**	555,280
Due from related parties		**81,991**	5,571
Pledged deposits		**79,841**	182,502
Short term deposit		**—**	112,441
Cash and cash equivalents		**435,881**	836,883
Held-to-maturity investment		**69,396**	—
Total current assets		**3,121,935**	3,309,455

	Notes	**December 31, 2011** ***RMB'000***	December 31, 2010 *RMB'000*
CURRENT LIABILITIES			
Trade and bills payables	13	**672,652**	597,838
Other payables and accruals		**166,842**	122,130
Construction contracts	11	**458,709**	559,531
Interest-bearing bank borrowings		**300,390**	289,998
Due to related parties		**15,409**	6,537
Income tax payable		**14,948**	10,174
Deferred income		**4,200**	—
Total current liabilities		**1,633,150**	1,586,208
NET CURRENT ASSETS		**1,488,785**	1,723,247
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,308,589**	2,147,688
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**35,889**	36,281
Total non-current liabilities		**35,889**	36,281
NET ASSETS		**2,272,700**	2,111,407
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**283**	276
Reserves		**2,265,529**	2,111,131
		2,265,812	2,111,407
Non-controlling interests		**6,888**	—
Total equity		**2,272,700**	2,111,407

SELECTED NOTES TO 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 registered address of the Company is Criket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. 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 (the "Shares") were listed on the Main Board of the Stock Exchange of Hong Kong Limited on July 15, 2010.

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 has 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 organised into business units based on their products and services and has three reportable operating segments as follows:

(a) Turnkey Solutions (the "TS") segment engages in the integration of information technology with the physical transportation infrastructure;

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

(c) Value-Added Operation and Service (the "VAOS") segment involves operation outsourcing and value-added services, via ITS platforms, servicing transportation operators and participants.

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 or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit or loss before tax except that interest income, finance costs, fair value gain from the Group's investment properties, share of profits of jointly-controlled entities and associates as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, property and equipment, investment properties, amounts due from related parties, investments in jointly-controlled entities and associates, prepayments for acquisition of equity interests in companies, a held-to-maturity investment 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, amounts 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.

	TS *RMB'000*	SS *RMB'000*	VAOS *RMB'000*	Consolidated *RMB'000*
Year ended December 31, 2011				
Segment revenue				
Sales to external customers	**630,555**	**918,775**	**35,876**	**1,585,206**
Intersegment sales	**—**	**27,575**	**—**	**27,575**
	630,555	**946,350**	**35,876**	**1,612,781**
Reconciliation:				
Elimination of intersegment sales				**(27,575)**
Revenue				**1,585,206**
Segment results	**62,995**	**81,470**	**14,330**	**158,795**
Reconciliation:				
Interest income				**4,037**
Share of profits of associates				**5,358**
Share of profits of jointly-controlled entities				**5,947**
Fair value gains on investment properties				**4,763**
Impairment of goodwill				**(427)**
Corporate and other unallocated expenses				**(31,832)**
Finance costs				**(14,894)**
Profit before tax				**131,747**
December 31, 2011				
Segment assets	**1,030,136**	**2,167,378**	**205,491**	**3,403,005**
Reconciliation:				
Elimination of intersegment receivables	**(334,955)**	**(266,148)**	**—**	**(601,103)**
Corporate and other unallocated assets				**1,139,837**
Total assets				**3,941,739**
Segment liabilities	**701,787**	**1,095,792**	**101,727**	**1,899,306**
Reconciliation:				
Elimination of intersegment payables	**(250,911)**	**(350,192)**	**—**	**(601,103)**
Corporate and other unallocated liabilities				**370,836**
Total liabilities				**1,669,039**
Other segment information				
Share of profits of:				
Jointly-controlled entities				**5,947**
Associates				**5,358**
Depreciation and amortisation				**13,106**
Investment in jointly-controlled entities				**31,661**
Investment in associates				**84,740**
Capital expenditure *				**88,959**

* Capital expenditure consists of additions to property and equipment, investments in jointly-controlled entities and intangible assets including assets from the acquisition of subsidiaries.

	TS *RMB'000*	SS *RMB'000*	VAOS *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)
Corporate and other 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 *				76,546

* Capital expenditure consists of additions to property and equipment, investment properties and additional investment in a jointly-controlled entity.

Geographical information

(a) *Revenue from external customers*

	2011	2010
	RMB'000	*RMB'000*
The PRC	**1,585,206**	1,862,184

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

(b) *Non-current assets*

	2011	2010
	RMB'000	*RMB'000*
The PRC	**236,510**	168,111

The non-current asset information above is based on the location of assets and excludes deferred tax assets, goodwill, investments in jointly-controlled entities, investment in associates and other assets and prepayment for the acquisition of equity interests in companies.

Information about a major customer

Revenue of approximately RMB152.6 million for the year ended December 31, 2011 was derived from a single customer in the SS business (2010: RMB122.1 million).

4. REVENUE, OTHER INCOME AND GAINS

Revenue for implementation of projects, which is also the Group's turnover, represents an appropriate proportion of contract revenue of construction contracts, net of business tax and government surcharges.

Revenue for sales of products, represents net 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 and other income and gains is as follows:

	2011	2010
	RMB'000	*RMB'000*
Revenue		
Implementation of projects	**1,478,679**	1,830,136
Sale of products	**106,527**	32,048
	1,585,206	1,862,184
Other income		
Gross rental income	**8,591**	3,662
Government grants*	**3,112**	2,000
Fair value gain on an interest in a jointly-controlled entity	**2,512**	—
Exchange gain	**4,112**	—
Others	**546**	8
	18,873	5,670
Gains		
Net gain from fair value adjustments of investment properties	**4,763**	3,200
	23,636	8,870

* Various government grants have been received by the Group to subsidise the research and development activities of the Group. There are no unfulfilled conditions or contingencies relating to these grants.

5. PROFIT BEFORE TAX

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

	2011	2010
	RMB'000	*RMB'000*
Cost of services rendered for implementation of projects	**1,118,001**	1,257,397
Cost of inventories sold	**74,813**	16,845
	1,192,814	1,274,242
Depreciation	**9,998**	7,502
Amortisation of intangible assets*	**3,108**	—
Minimum lease payments under operating leases	**20,243**	16,936
Auditors' remuneration	**3,406**	2,590
Wages and salaries	**59,441**	42,180
Pension scheme contributions (defined contribution scheme)	**8,245**	6,654
Social insurance costs and staff welfare	**13,392**	8,084
Equity-settled share option expense	**6,151**	9,886
	87,229	66,804
Expenses related to the listing of the Shares	**—**	35,488
Foreign exchange differences, net	**—**	1,504
Write-back of impairment of trade receivables, net	**—**	(1,882)
Impairment of other receivables	**3,678**	—
Impairment of trade receivables	**395**	—
Impairment of property and equipment	**248**	—
Impairment of goodwill**	**427**	—
Interest on bank loans, wholly repayable within one year	**14,894**	11,505
Changes in fair value of investment properties	**(4,763)**	(3,200)
Loss on disposal of items of property and equipment	**51**	17
Charitable donation	**121**	203
Bank interest income	**(4,037)**	(5,605)

* The amortisation of intangible assets for the year are included in "Selling, general and administrative expenses" in the consolidated income statement.

** The impairment of goodwill of a subsidiary is included in "Other expenses" in the consolidated income statement.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2011	2010
	RMB'000	*RMB'000*
Interest on bank loans, overdrafts and other loans wholly repayable within five years	**14,894**	11,505
Total interest expense on financial liabilities not at fair value through profit or loss	**14,894**	11,505

7. INCOME TAX

The Group was not subject to Hong Kong profit tax for the year ended December 31, 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.

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（"百聯智達"） and 北京智訊天成技術有限公司（"智訊天成"）were designated and approved as High and New Technology Enterprises ("HNTE") in September 2011 for a period of three years from January 1, 2011 and were entitled to a preferential tax rate of 15% for the year ended December 31, 2011.

(ii) 北京亞邦偉業信息工程有限公司（"亞邦工程"）, 北京和信日晟科技有限公司（"和信日晟"） and 北京華鼎恒業技術有限公司（"華鼎恒業"）were designated and approved as advanced technology enterprises, were designated and approved as HNTEs in October 2011 for a period of three years from January 1, 2011 and were entitled to a preferential tax rate of 15% for the year ended December 31, 2011 as HNTEs.

(iii) 北京昊天佳捷有限公司（"昊天佳捷"） and 江蘇易捷科技有限公司（"江蘇易捷"） were designated and approved as High and New Technology Enterprises ("HNTE") respectively in November and August 2011, respectively, for a period of three years from January 1, 2011 and were entitled to a preferential tax rate of 15% for the year ended December 31, 2011.

(iv) 北京瑞華贏科技發展有限公司（"瑞華贏科技"）was entitled to 50% reduction of a transitional tax rate of 10% from January 1, 2009 as foreign invested enterprise. 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 was 12% for the year ended December 31, 2011.

(v) 北京航天智通科技有限公司（"航天科技"）was designated and approved as a HNTE in June 2009 for a period of three years from January 1, 2009 and was entitled to a preferential tax rate of 15% for the year ended December 31, 2011.

(vi) 北京航天智通交通科技有限公司（"航天交通"）was designated and approved as a HNTE in October 2010 for a period of three years from January 1, 2010 and was entitled to a preferential tax rate of 15% for the year ended December 31, 2011.

The major components of income tax expense are:

	2011 RMB'000	2010 RMB'000
Current income tax:		
Current income tax charge in the PRC	**29,150**	38,584
Deferred income tax:		
Relating to origination and reversal of temporary differences	**(8,371)**	15,089
Income tax expense reported in the consolidated income statement	**20,779**	53,673

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, is as follows:

Group — 2011	**Hong Kong** *RMB'000*	**Cayman and British Virgin Islands** *RMB'000*	**Mainland China** *RMB'000*	**Total** *RMB'000*
Profit/(loss) before tax	**5,590**	**444**	**125,713**	**131,747**
Tax at statutory tax rate	**922**	**—**	**39,485**	**40,407**
Tax holiday or lower tax rates enacted by local authorities	**—**	**—**	**(18,265)**	**(18,265)**
Expenses not deductible for tax	**—**	**—**	**4,956**	**4,956**
Income not subject to tax	**(922)**	**—**	**(72)**	**(994)**
Adjustments in respect of current income tax of previous period	**—**	**—**	**778**	**778**
Effect of tax rate change	**—**	**—**	**(5,481)**	**(5,481)**
Profit attributable to jointly-controlled entities and associates	**—**	**—**	**(622)**	**(622)**
Income tax expense reported in the consolidated income statement	**—**	**—**	**20,779**	**20,779**

Group — 2010	Hong Kong *RMB'000*	Cayman and British Virgin Islands *RMB'000*	Mainland China *RMB'000*	Total *RMB'000*
Profit/(loss) before tax	3,138	(45,594)	390,138	347,682
Tax at statutory tax rate	518	—	97,534	98,052
Tax holiday or lower tax rates enacted by local authority	—	—	(47,569)	(47,569)
Expenses not deductible for tax	—	—	2,734	2,734
Income not subject to tax	(518)	—	(96)	(614)
Tax losses not recognised	—	—	1,112	1,112
Profit attributable to jointly-controlled entities	—	—	(42)	(42)
Income tax expense reported in the consolidated income statement	—	—	53,673	53,673

The share of tax attributable to jointly-controlled entities and associates amounting to RMB622,000 (2010: RMB42,000), is included in "Share of profits and losses of jointly-controlled entities and associates" in the consolidated income statement.

8. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended December 31, 2011 includes a profit of RMB239,000 (year ended December 31, 2010: loss of RMB35,298,000) which has been dealt with in the financial statements of the Company.

9. DIVIDENDS

The Company did not recommend the payment of a final dividend for 2011.

10. EARINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

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, 2011, and the weighted average number of Shares of 1,582,838,016 (2010: 1,427,287,836) during the year.

	2011	2010
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**112,919**	294,009

	Number of Shares	
	2011	2010
Shares		
Weighted average number of Shares in issue during the year used in the basic earnings per share calculation	**1,582,838,016**	1,427,287,836

The Group had no potentially dilutive ordinary Shares in issue during those years. The share option scheme granted on December 28, 2008 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. which will be transferred to the relevant employees upon the exercise of relevant options.

11. CONSTRUCTION CONTRACTS

Group

	2011	2010
	RMB'000	*RMB'000*
Gross amount due from contract customers	**785,172**	777,875
Gross amount due to contract customers	**(458,709)**	(559,531)
	326,463	218,344
Contract costs incurred plus recognised profits less recognised losses to date	**4,234,784**	2,626,221
Less: Progress billings	**(3,908,321)**	(2,407,877)
	326,463	218,344

12. TRADE AND BILLS RECEIVABLES

Group

	2011	2010
	RMB'000	*RMB'000*
Trade receivables	**736,655**	819,366
Impairment	**(1,829)**	(1,434)
	734,826	817,932
Bills receivables	**34,360**	16,504
	769,186	834,436

Trade and bills receivables, which are non-interest-bearing, are recognised and carried at original invoiced amount less any impairment loss. Trade and bills receivables generally have credit terms ranging from 30 days to 90 days. An estimate for doubtful debts is made when there is objective evidence that an impairment loss on receivables has been incurred. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances.

The movements in impairment of trade and bills receivables are as follows:

	2011	2010
	RMB'000	*RMB'000*
At January 1	**1,434**	3,316
Impairment losses recognised	**395**	—
Impairment losses reversed	**—**	(1,882)
At December 31	**1,829**	1,434

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB395,000 (2010: Nil) with a carrying amount before provision of RMB963,000 (2010: Nil).

The individually impaired trade receivables amounting to RMB757,000 relate to customers who ceased trading during the year, thus a portion of the receivables of RMB189,000 is not expected to be recovered. The other individually impaired trade receivables amounting to RMB206,000 were with aging over 3 years and were not expected to be recovered.

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

	2011	2010
	RMB'000	*RMB'000*
Less than 6 months	**440,299**	707,932
6 months to 1 year	**125,714**	51,462
1 year to 2 years	**159,750**	62,976
2 years to 3 years	**39,141**	11,900
Over 3 years	**4,282**	166
	769,186	834,436

An aged analysis of the trade and bills receivables that are neither individually nor collectively considered to be impaired is as follows:

	2011	2010
	RMB'000	*RMB'000*
Neither past due nor impaired	**299,004**	307,731
Past due but not impaired:		
Less than 6 months past due	**188,054**	395,384
6 months to 1 year past due	**87,740**	54,936
1 year to 2 years past due	**156,511**	64,319
2 years to 3 years past due	**35,407**	11,900
Over 3 years past due	**2,470**	166
	769,186	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 has pledged proceeds to be received from settlement of trade receivables of approximates RMB14.0 million (2010: RMB300.8 million) from the "Jing-hu Railway" project for a banking facility granted to the Group. At December 31, 2011, the related pledged trade receivables amounted to RMB0.4 million.

13. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2011	2010
	RMB'000	*RMB'000*
Current or less than 1 year past due	**620,096**	554,547
1 to 2 years past due	**24,488**	26,767
Over 2 years past due	**28,068**	16,524
	672,652	597,838

The Group's bills payables were secured by pledged deposits of the Group of RMB10.5 million as at December 31, 2011 (December 31, 2010: RMB28.3 million).

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

China's transportation industry faced unprecedented challenges including tightened budgets, construction slowdown and capital shortage in the year of 2011. Since the new contracts and construction progress were affected by the exceptional changes of the industry, the revenue of the Group was RMB1,585.2 million, representing a decrease of 14.9% as compared to RMB1,862.2 million in 2010. New contracts signed in 2011 amounted to RMB1,900.1 million, representing a decrease of 19.9% as compared with 2010. Backlog as at the end of 2011 was RMB1,593.5 million, representing an increase of 21.7% as compared with 2010.

The Group was inevitably affected by the exceptional fluctuation of the industry. However, the Group has strived to demonstrate the commitments to all shareholders by seeking opportunities in the challenging market upon the listing. On one hand, the Group explored new business channels including "Smart City" through mergers and acquisitions and internal business restructuring respectively. On the other hand, the Group streamlined the internal management structure and improved the efficiency of mid/back ends. With the continuous dedication, the Group has developed a more diversified and healthier income source in 2011 which is the first full financial year since its listing, and is well prepared for its future development.

In August 2011, Mr. Liao Jie was appointed as Chief Executive Officer of the Group. Being a leader with extensive experience in business operation, organisation management as well as strategic investment, Mr. Liao Jie led the Group to conduct a number of mergers and acquisitions and reorganisations to overcome challenges, grasp opportunities and maximise values for shareholders. During the process, the Group further emphasises the corporate value of "integrity, professionalism, innovation and people".

In 2011, in addition to the three major business sectors of the Group, namely the Expressway, Railway (including urban rapid transit) and Urban Traffic sectors, the Group expanded the business scope to the fourth business sector, Smart City, and has been actively preparing for other new business sectors.

(i) Expressway

In 2011, the Expressway sector recorded a revenue of RMB881.3 million, representing a decrease of 16.2% as compared to 1,051.8 million in 2010. This was primarily due to the delay of government expenditures in fixed assets and the postponement of certain projects, resulting from the slowdown of macro-economic growth and the tightening of liquidity. In addition, in 2011, being the first year of the "12th Five-Year Plan" most governmental departments were still in the process of preparing financial budgets and investment was reported to be made at a later stage. In view of these, the Group has actively explored new opportunities with customers. To improve customers' satisfaction, the Group has launched various new products and upgraded existing equipments. Furthermore, the Group has strived to develop overseas markets, including the successful tender for the highway monitoring system for Tolo Harbour, Hong Kong.

In 2011, the major projects of our Expressway sector included Hebei Lang-Cang (Langfang – Cangzhou) Expressway, Hubei Da-Guang South (Daqing – Guangzhou) Expressway, Jilin Ji-Cao (Jilin – Caoshi) Expressway etc. In 2011, the new contracts of the Expressway sector amounted to RMB924.5 million, representing a decrease of 30.1% as compared with last year. As at the end of 2011, backlog of the Expressway sector was RMB586.0 million, representing a decrease of 2.4% as compared with last year.

(ii) Railway (including urban rapid transit)

The revenue of the Railway sector (including urban rapid transit) in 2011 amounted to RMB520.0 million, representing a decrease of 29.6% as compared to RMB738.5 million in 2010. The railway industry was adversely affected by a series of incidents in 2011, including the replacement of senior officers of the Ministry of Railways ("MOR") in early 2011, the deadly crash of two trains in Wenzhou on 23 July 2011, the signal failure of Shanghai Metro Line 10, the capital shortage and the postponement in issuance of long-term debentures of the MOR. After these serious incidents, the MOR slowed down speed of trains, announced a thorough review of the safety of the railway system, postponed approvals of new high-speed rail lines, as well as revisited the overall capital investment plan in infrastructure. The tendering and construction of railways completely stopped in the second half of 2011. These were the major reasons for the decrease of revenue in 2011. Under such circumstances, the Group targeted at local railway bureaus and actively seized opportunities to generate revenue from VAOS and made breakthroughs in sales of new products under the Railway sector. The Group believes that the new attempts and development in new businesses will continue to contribute to the growth of the Group, and enable the Group to develop a more diversified and healthier income sources. New orders mainly include railway electrification and acceleration, improvement of freight railway and upgrade of application software. In addition, the Group endeavoured to explore overseas markets. The Group established a joint venture with GTECH Services (Hong Kong) Limited to bid for the wireless communication system project for Hong Kong-Shenzhen Express Rail Link.

In 2011, major projects of the Railway sector included Anhui He-Beng (Hefei — Bengbu) Passenger Railway Fujian Long-Xia (Longyan — Xiamen) Railway Tai-Zhong-Yin (Taiyuan — Zhongwei — Yinchuan) Railway GSM-R Network Project across Shanxi and Gansu, Beijing-Shanghai High Speed Railway, etc. New contracts in 2011 amounted to RMB586.2 million, representing a decrease of 36.0% as compared with last year. As at the end of 2011, backlog amount was RMB702.2 million, representing a moderate increase of 10.4% as compared with last year.

(iii) Urban Traffic

In the Urban Traffic sector, we realised revenue of RMB172.2 million in 2011, representing an increase of 384.2% as compared to RMB36.0 million in 2010. The main reason was that the Group has put in significant efforts in the Urban Traffic sector in 2011. Through the acquisition of CTH[1] and the reorganisation of Bailian Zhida, the Group further improved the business structure and product portfolio of the Urban Traffic sector to strengthen the existing TS, SS and expand new VAOS.

[1] CTH: China Traffic Holding Limited

Major projects of the Urban Traffic sector in 2011 include the Wuhan Traffic Guidance Project, Universiade Shenzhen 2011 Project, Guangzhou Driving School Project and International Horticultural Exposition 2011 Xilan China Project. As the Group continued to put additional efforts in this sector, new contracts in 2011 amounted to RMB343.4 million, representing an increase of 304.2% as compared with last year. As at the end of 2011, backlog was RMB295.6 million, representing a huge increase of 325.2% as compared with last year.

(iv) Smart City

Smart City refers to a new generation of city with a variety of intelligence technologies, including the internet of things, remote sensing systems, intelligent buildings, network surveillances and digital services. By utilising and improving telecommunication and information technology infrastructures, new lifestyles, industries and community management will be facilitated by the massive intelligent information system.

As a new business sector of the Group in 2011, the Smart City sector integrated resources of the existing Urban Traffic sector and further expanded the business scope by providing one-stop-shop solutions to municipal governments. The Group established a strategic cooperation with Zhongguancun Development Group to prepare for the further development of the Smart City sector. The penetration of Smart City sector will increase the revenue of the Group by expanding the coverage of the products and services. In 2011, the Group completed five experimental Smart City projects in Northeast China.

In addition to the actively developing of existing businesses, the Group has enhanced the profitability and risk resistance capability in 2011 through mergers and acquisitions in order to maintain a stable and sustainable development. The major mergers and acquisitions carried out were as follows:

(i) In January 2011, the Group acquired 29% additional equity in Xinjiang RHY[2], and owned 80% equity. The acquisition further strengthened the expressway business of the Group and generated more recurring revenue.

(ii) In August 2011, the Group acquired 100% equity in CTH. This was the largest acquisition of the Group since the incorporation with a consideration of approximately RMB244 million. The acquisition was a strategic milestone of the long-term development of the Group, which enabled the Group to expand into the intelligent public transportation system market and increase overall market shares in the urban intelligence transportation systems industry. The leading position of the Group in major regional markets such as Guangzhou, Xian and Nanjing has been reassured. The Group has planned to replicate this successful business model to other cities and strengthen the services and operations in those cities. As a result, the Group can benefit from diversified businesses and recurring income, which will eventually enhance the quality of income sources and the stability of cash flow in post-construction period.

(iii) In August 2011, the Group entered into an agreement to acquire 16.6% of equity in eSOON[3], which has both strategic and financial contributions to the Group. From a strategic perspective, the Group is expected to expand the products and services horizontally and enter into call center solutions market in the transportation industry. From a financial perspective, the Group is expected to benefit from the stable cash flow and profitability of the call center solution sales generated by eSoon.

[2] Xinjiang RHY: Xinjiang RHY Technology Co., Ltd.

[3] eSOON: eSOON Holdings Corp

On January 18, 2012, the Company granted share options to 191 grantees, which includes certain directors, chief executive, substantial shareholders and employees of the Company to subscribe for an aggregate of 155,000,000 Shares. The share options granted are vested in different tranches with different target price for each respective tranche ranging from HKD2.5 to HKD3.5. This reflects the management's confidence in the operation and future development of the Company.

Business Prospects

(i) Expressway

During the period of the "12th Five-Year Plan", it is expected that the expressway network in the PRC will be further expanded, with an increase in coverage and accessibility of expressway network and overall improvement of the national, provincial and rural transportation networks. Furthermore, it is expected that the construction of national expressway network of the PRC will be completed during the period of the "12th Five-Year Plan". The national expressway network will comprise of 7 radial expressways, 9 vertical expressways and 18 horizontal expressways. With a total length of 108,000 km, the network covers over 90% of the cities with a population of over 200,000 people. In particular, the central and western region will be the major development area. Besides, the reconstruction of provincial expressways will be further enhanced. The proportion of level-two and above national highway to the total length will exceed 70%, achieving the basic condition of standardised cross-county highways. During the period of the "12th Five-Year Plan", the Company anticipates that the performance of the Expressway sector will increase steadily by maximising our market share in the Expressway sector of central and western region as well as our leading position in tunnel solutions.[*]

(ii) Railway (including urban rapid transit)

According to Medium and Long Term Railway Network Plan of the MOR, the railway network in the PRC will expand from 100,000 km to over 120,000 km by the end of 2020. New construction of railways, extension of existing railways and railway electrification projects will be the major focus. Pursuant to the "12th Five-Year Plan", four vertical and four horizontal passenger railway lines will be constructed. Combining with inter-city railways and inter-region railways, the high-speed railway network will have operation length of 45,000 km, covering cities with population over 500,000. According to the Investment Research Institute of National Development and Reform Commission, the investment in railways will amount to RMB3 trillion during the period of the "12th Five-Year Plan". In short, the growth of railway infrastructure investment in the PRC will be slowing down. However, due to the large demand of railway transportation in the PRC, the railway construction is expected to grow steadily in the next few years. In addition, along with the completion of large scale railway constructions, the demand for maintenance and improvement of existing railways is expected to increase. In view of this, the Group anticipates that the shrunken business of railway will experience a rebound in one to two years with the support of the local railway bureaus during the "12th Five-Year Plan" period.[4]

(iii) Urban Traffic

[4] Source: Outline of the 12th Five-Year (2012–2015) Plan for National Economic and Social Development.

According to the "12th Five-Year Plan" in relation to urban traffic, the PRC Government plans to build up transportation networks in Beijing, Shanghai, Guangzhou and Shenzhen. In addition, main urban traffic routes will be constructed in Tianjin, Chongqing, Shenyang, Changchun, Wuhan, Xian, Hangzhou, Fuzhou, Jinan and Urumqi. The Ministry of Housing and Urban-Rural Development anticipates that the investment in urban traffic construction will exceed RMB700 billion during the period of the "12th Five-Year Plan", which is the third largest investment in transportation system after expressway and railway. As a result, the Group anticipates that the growth of the Urban Traffic sector will exceed the growth of Expressway sector during the period of the "12th Five-Year Plan".

(iv) Smart City

Pursuant to the Development Plan for Science and Technology of 12th Five-Year Plan issued in July 2011, the development of smart city will be prioritised. The press conference for the release of China Smart City (Town) Sustainability Index held in August 2011 in Beijing proposed to evaluate the city development with the indices of happiness, management and social responsibility. In the "12th Five-Year Plan", the development of smart city is an important measure to urbanisation, production of the city and innovation for lifestyle and management.

The Group is well-prepared for the further development of this sector.

In addition to the four major sectors, the Group will strategically expand business into other traffic sectors and carry out reorganisation for other traffic related major business sectors.

Looking forward, construction of national high speed railway, expressway and urban traffic network are the major development goals of the "12th Five-Year Plan". Moreover, the population density is high in the PRC, yet the transportation system severely lags behind those of developed countries. As such, the current tightening policy is deemed temporary and there is ample room for development in the near future. In one or two years, the growth is expected to rebound from the tightened situation in 2011.

In 2012, the Group will focus on strengthening the existing business sectors, expanding overseas markets, establishing a diversified and stable business platform, proactively seeking opportunities for merger and acquisition, integrating mid/back ends of all sectors, reducing operating costs, and keep improving and implementing staff incentive systems. In the future, the Group will strive to become an enterprise with responsibility, capability and exceptional culture. Leveraging on the strong synergy effects of the three major business sectors, the Group will switch from business/product-oriented to industry/customer-oriented, expand to various intelligent transport fields, formulate long-term development plans and continue to make investments in order to become a leading player in the industry. The Group aims at delivering solutions which enhance safety, efficiency, convenience and sustainability of the transportation industry.

FINANCIAL REVIEW

Revenue

By industry sectors

The Group's revenue for the year ended December 31, 2011 decreased by 14.9% to RMB1,585.2 million as compared to RMB1,862.2 million for the year ended December 31, 2010. The overall decrease in revenue was caused by a 16.2% decrease in Expressway sector, a 29.6% decrease in Railway sector (including urban rapid transit), a 30.8% decrease in Energy sector and partially offset by a 384.2% increase in Urban Traffic sector. The following table sets out the revenue breakdown by industry sectors:

	Year ended December 31	
	2011	2010
	RMB'000	*RMB'000*
Revenue by industry sectors		
Expressway	**881,306**	1,051,750
Railway (including urban rapid transit)	**519,999**	738,526
Urban traffic	**172,194**	35,559
Energy	**39,282**	56,769
Elimination	**(27,575)**	(20,420)
Total	**1,585,206**	1,862,184

(i) Expressway

Revenue from the Expressway sector in the year ended December 31, 2011 was RMB881.3 million, representing a decrease of RMB170.5 million as compared with RMB1,051.8 million for the year ended December 31, 2010. 2011 was a challenging year for all the infrastructure companies in the PRC due to cautious macroeconomic policies and the tight liquidity environment. The local expressway bureaus tightened capital expenditure and postponed some of the constructing projects. As a result, recognised revenue recorded less than the prior year. Furthermore, 2011 was the first year of 12th Five-Year Plan, so the local expressway bureaus focus on planning under the Central Government guideline and did not exercise full speed on the execution. The Company believes the expressway construction will continue to grow under the 12th Five-Year Plan in the coming years. The new contracts and orders secured in the year ended December 31, 2011 was RMB924.5 million and the backlog amount as at December 31, 2011 was RMB586.0 million for the Expressway sector.

(ii) Railway (including urban rapid transit)

Revenue from the Railway (including urban rapid transit) sector in the year ended December 31, 2011 was RMB520.0 million, representing a decrease of RMB218.5 million as compared with RMB738.5 million for the year ended December 31, 2010. After the Wenzhou train collision and Shanghai Metro Line 10 signal accident, the MOR and local government postponed the constructions of railway and urban rapid transit. Therefore, both the new contract value and revenue recognised from railway and urban rapid transit of the Group declined in

2011 as compared with 2010. Even in such a challenging year, the Group continued to search for opportunities to provide innovative products such as VAOS for each industry sector. It was the first year for the Group to record RMB18.3 million in VAOS revenue in the Railway sector and the management believed this will continue to bring positive effect to the Group despite the unfavorable macroeconomic environment. The new contracts and orders secured in the year ended December 31, 2011 was RMB586.2 million and the backlog amount as at December 31, 2011 was RMB702.2 million for the Railway (including urban rapid transit) sector.

(iii) Urban Traffic

Revenue from the Urban Traffic sector in the year ended December 31, 2011 was RMB172.2 million, representing a massive increase of RMB136.6 million as compared to RMB35.6 million for the year ended December 31, 2010. The increase was due to successful business expansion strategy implemented by the management team. Through a strategic acquisition of CTH, our Urban Traffic business had been diversified from pure specialised surveillance solutions to comprehensive solutions such as the integrated solution for multiple transportation networks of modern cities in the PRC. Our jointly-controlled entity, Guangzhou Communication Information Co., Ltd. ("GCI") had generated significant revenue streams under the cooperation with Guangzhou Transportation Group. Please refer to the investment income section for more details. The management believes that the new businesses such as urban traffic projects will continue to bring impressive revenue growth in the coming years. The new contracts and orders secured in the year ended December 31, 2011 was RMB343.4 million and the backlog amount as at December 31, 2011 was RMB295.6 million for the Urban Traffic sector.

(iv) Energy

Revenue generated from the Energy sector decreased by RMB17.5 million, or 30.8% in the year ended December 31, 2011. As the Energy sector is in a mature stage and is no longer a key focus of the Group, the management has directed more attention to the transportation sectors, such as Expressway, Railway (including urban rapid transit) and Urban Traffic, which are expected to provide higher growth for the Group. The new contracts and orders secured in the year ended December 31, 2011 was RMB45.8 million and the backlog amount as at December 31, 2011 was RMB9.7 million for the Energy sector.

Business seasonality and major projects

The Group's business is correlated with the Central Government's macroeconomic policies on infrastructure investment and has unique seasonal characteristics. Generally, most of the construction projects undergo a bidding stage and implementations begin in the first half of a year. Therefore, the new contracts are confirmed in the first half and revenue is recognised in the second half. This resulted in a higher backlog amount as at June 30 when comparing with the balance at year end. The business pattern remained unchanged in 2011 and the backlog were approximately RMB1,593.5 million and RMB1,852.8 million as at December 31, 2011 and June 30, 2011 respectively.

During this year, the Group had implemented more than 1,176 projects in varied sizes, covering most of the regions in the PRC. The following table sets out the major projects generating revenue in each industry sector:

Industry sector	**Project name**
Expressway:	Lang-Cang (Langfang — Cangzhou) Expressway Da-Guang South (Dalian — Guangzhou) Expressway in Hubei province Ji-cao (Jilin — Caoshi) Expressway
Railway:	He-Beng (Hefei — Bengbu) Railway Dedicated Passenger Line Long-Xia (Longyan — Xiamen) Railway Tai-Zhong-Yin (Taiyuan — Zhongwei — Yinchuan) Railway G Network Project
Urban:	Wuhan Traffic Guidance Project Universiade Shenzhen 2011 Project Guangzhou Driving School Project International Horticultural Exposition 2011 Xi'an China
Energy:	Henan Electricity Agriculture Network Transformation Project

By segments

The revenue for the year ended December 31 2011 represented a 8.3% decrease in the TS business, a 19.4% decrease in the SS business, and a 78.9% increase in the VAOS business. The following table sets out the revenue breakdown by segments:

	Year ended December 31	
	2011	2010
	RMB'000	*RMB'000*
Revenue by segments		
TS	**630,555**	687,890
SS	**946,350**	1,174,655
VAOS	**35,876**	20,059
Elimination	**(27,575)**	(20,420)
Total	**1,585,206**	1,862,184

(i) TS

Revenue from the TS segment for the year ended December 31, 2011 was RMB630.6 million, a decrease of RMB57.3 million, or 8.3%, as compared to RMB687.9 million for the year ended December 31, 2010.

The TS as a whole accounted for 39.7% of the Group's revenue in the year ended December 31, 2011, which is greater than 36.9% as recorded for the year ended December 31,2010. This increase was because the revenue of SS decreased more than TS during the two periods.

(ii) SS

Revenue from the SS segment in the year ended December 31, 2011 was RMB946.4 million, a decrease of RMB228.3 million, or 19.4%, as compared with RMB1,174.7 million for the year ended December 31, 2010.

The SS segment as a whole accounted for 58.0% of the Group's revenue in the year ended December 31, 2011, which is less than 62.0% as recorded for the year ended December 31, 2010.

(iii) VAOS

Revenue from the VAOS segment in the year ended December 31, 2011 was RMB35.9 million, an increase of RMB15.8 million as compared with RMB20.1 million for the year ended December 31, 2010. It reflects gradual business transformations of the Group from a single, project-based model to a model with stable, recurring revenue.

The VAOS segment as a whole accounted for 2.3% of the Group's revenue in the year ended December 31, 2011, which is greater than 1.1% as recorded for the year ended December 31 2010.

Cost of sales

Cost of sales was incurred on a project-by-project basis for individual legal entities and was subsequently aggregated at segmental 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 75.2% of the Group's revenue in the year ended December 31, 2011, which represented an increase of 6.8% as compared to the corresponding period in 2010.

By industry sectors

	Year ended December 31	
	2011	2010
	RMB'000	*RMB'000*
Cost of sales by industry sectors		
Expressway	**681,147**	761,151
Railway (including urban rapid transit)	**397,838**	473,116
Urban Traffic	**112,913**	21,828
Energy	**28,491**	38,567
Elimination	**(27,575)**	(20,420)
Total	**1,192,814**	1,274,242
% of Revenue	**75.2%**	68.4%

(i) Expressway

The cost of sales of the Expressway sector decreased by RMB80.0 million to RMB681.1 million in the year ended December 31, 2011 as compared to RMB761.2 million for the year ended December 31, 2010.

(ii) Railway (including urban rapid transit)

The cost of sales of the Railway sector (including urban rapid transit) decreased by RMB75.3 million to RMB397.8 million in the year ended December 31, 2011 as compared to RMB473.1 million for the year ended December 31, 2010.

(iii) Urban traffic

The cost of sales of the Urban Traffic sector increased by RMB91.1 million to RMB112.9 million in the year ended December 31, 2011 as compared to RMB21.8 million for the year ended December 31, 2010.

(iv) Energy

The cost of sales of the Energy sector decreased by RMB10.1 million to RMB28.5 millon in the year ended December 31, 2011 as compared to RMB38.6 million for the year ended December 31, 2010.

By segments

	Year ended December 31	
	2011	2010
	RMB'000	*RMB'000*
Cost of sales by segments		
TS	**531,801**	553,962
SS	**671,915**	731,800
VAOS	**16,673**	8,900
Elimination	**(27,575)**	(20,420)
Total	**1,192,814**	1,274,242
% of Revenue	**75.2%**	68.4%

(i) TS

The cost of sales incurred for TS constituted 44.6% of the Group's cost of sales in the year ended December 31, 2011, which remained at a similar level as compared with 2010, reflecting the stable contribution of TS to the Group's business.

(ii) SS

The cost of sales incurred for SS constituted 54.0% of the Group's cost of sales in the year ended December 31, 2011, which is slightly less as compared with 2010.

(iii) VAOS

The cost of sales incurred for VAOS constituted 1.4% of the Group's cost of sales in the year ended December 31, 2011, which is greater as compared to the corresponding period in 2010, reflecting the rising contribution of VAOS to the Group's sales in the year ended December 31, 2011.

Gross Profit

Overall gross profit of the Group decreased from RMB587.9 million for the year ended December 31, 2010 to RMB392.4 million in the year ended December 31, 2011. Gross profit margin has decreased from 31.6% for the year ended December 31, 2010 to 24.8% in the year ended December 31, 2011

By industry sectors

	Year ended December 31	
	2011	2010
	RMB'000	*RMB'000*
Gross profit by industry sectors		
Expressway	**200,159**	290,599
Margin %	**22.6%**	27.6%
Railway (including urban rapid transit)	**122,160**	265,410
Margin %	**23.5%**	35.9%
Urban traffic	**59,282**	13,731
Margin %	**34.4%**	38.6%
Energy	**10,791**	18,202
Margin %	**27.5%**	32.1%
Total	**392,392**	587,942
Overall Margin %	**24.8%**	31.6%

(i) Expressway

The gross profit margin of Expressway sector decreased by 5.0% to 22.6% in the year ended December 31, 2011 as compared to 27.6% for the year ended December 31, 2010. The decline was mainly because of the application of marketing strategy in some regions such as northeast, southwest, and southeast of the PRC. As there are some key customers in such regions and the Company has foreseen significant opportunities in the aforesaid expressway market, the management team decided to apply more aggressive and competitive pricing strategy as well as bundling sales of traditional specialised solutions with new products e.g. high resolution surveillance solutions in some large size projects. The management believes the strategy adopted in these markets will bring higher growth of new contracts in the coming years.

(ii) Railway (including urban rapid transit)

The gross profit margin of the Railway sector decreased by 12.4% to 23.5% in the year ended December 31, 2011 as compared to 35.9% for the year ended December 31, 2010. The decline is because of the Group's flexible sales strategy in 2011 in facing the significant economic events. There was massive investment in railway during 2008 to 2010 till the "7-23" Wenzhou train collision accident. The MOR turned cautious in capital expenditure and mainly focused on the safety of railway network construction under the Central Government's guidance. Although the Company was in such unfavourable macroeconomic environment, the management team had made remarkable breakthrough in the following products or services: a) new products in power supply and air conditioning services; b) new surveillance products to improve safety of railway; c) providing VAOS in existing railway lines. As the aforesaid new products and services are not as mature as the traditional communication products in the railway industry, the Company has applied a bundle sales strategy in breaking through the market, which resulted in the marginal decline as compared with prior year. With the recovery of the infrastructure investment by the Central Government in the foreseeable future, management believes the new contract value and revenue in the Railway sector will continue to grow in the coming years.

(iii) Urban traffic

The gross profit margin of the Urban Traffic sector slightly decreased from 38.6% for the year ended December 31, 2010 to 34.4% in the year ended December 31, 2011. The primary reason for the decrease is that the acquisition of CTH brought to the Group the higher contract value solutions such as the urban intelligent transportation information platform with slight lower margin as compared to traditional surveillance products. With the unremitting effort in developing new market opportunities, management team believes that the Urban Traffic sector will contribute sustainable profit in the coming years.

(iv) Energy

The gross profit margin of the Energy sector decreased from 32.1% in the year ended December 31, 2010 to 27.5% for the year ended December 31, 2011 due to the mature stage of this business sector, which is no longer a major industry sector for the Group. In the coming years, the Group will direct more attention to the transportation sectors and mainly focus on the quality of profit generated from Energy sector. The management team will pursue the opportunity to reorganise the business in appropriate manners.

By segments

	Year ended December 31	
	2011	2010
	RMB'000	*RMB'000*
Gross profit by segments		
TS	**98,754**	133,928
Margin %	**15.7%**	19.5%
SS	**274,435**	442,855
Margin %	**29.0%**	37.7%
VAOS	**19,203**	11,159
Margin %	**53.5%**	55.6%
Total	**392,392**	587,942
Overall Margin %	**24.8%**	31.6%

(i) TS

Gross profit margin for TS decreased by 3.8% to 15.7% in the year ended December 31, 2011 as compared with 19.5% for the year ended December 31, 2010. However, the margin of the TS business is still within our normal margin variations range. This means overall margin in this business segment will vary year to year, within this range, based on the project mix.

(ii) SS

Gross profit margin for SS decreased by 8.7% to 29.0% in the year ended December 31, 2011, as compared to 37.7% for the year ended December 31, 2010. This is due to the decrease in both the Expressway and Railway sectors. Reasons of which has been analysed in industry sector section.

(iii) VAOS

Gross profit margin for VAOS decreased from 55.6% for the year ended December 31, 2010 to 53.5% in the year ended December 31, 2011.

Other Income and Gains

Other income and gains arise from rental income, the fair value changes on investment properties, government grants and exchange gains and so on. Rental income was accounted for on a straight-line basis over the lease terms and the fair value changes on investment properties was accounted based on property valuations. The increase in other income and gains was due to changes in property usage as the Group had moved to a new office in March of 2010 and leased out the entire self-owned office premise starting from April 2010, which contributed both the fair value gains in the investment properties and the rental income for the year ended December 31, 2011.

Selling, General and Administration Expenses

In the year ended December 31, 2011, selling, general and administration expenses ("SG&A") as a percentage of sales increased by (6.6)% to (17.9%) as compared to the year ended December 31, 2010, which was mainly due to the significant increase of headcounts for developing new business such as urban traffic and smart city.

The staff costs remained a large component of the Group's SG&A while travelling, entertainment and business expansion expenses and office supplies expenses are highly correlated with the headcount numbers. Therefore the total amount of the aforesaid expenses ("headcount related cost") contributed the largest portion of the Group's SG&A. The headcount related cost increased from RMB134.7 million in year ended December 31, 2010 to RMB189.3 million in year ended December 31, 2011, representing a 40.5% increase and contributed 66.8% of total SG&A in year ended December 31, 2011. This fluctuation was mainly due to general headcount increase for the business expansions in new industry and new products. As mentioned in the revenue section, the Group has put more and more efforts in developing new business opportunities through the following ways: a) hiring talent people b) adjusting salary rates in order to retain valuable employees c) incurred more marketing expenses in the new markets. Management believes the expenditure in human resources will bring corresponding profits in the coming future.

The rental expense increased from RMB16.9 million for the year ended December 31, 2010 to RMB20.2 million in the year ended December 31, 2011 due to the higher rental cost of the Group's new centralised office in Beijing. Subsequent to the Group's relocation to the new office in April of 2010, the impact of the higher rent was reflected in rental expenses in the full year of 2011 while only eight months in 2010.

Research & Developments expenses (included depreciation expenses) increased from RMB13.7 million for the year ended December 31, 2010 to RMB16.1 million for the year ended December 31, 2011, which was mainly due to an increase in expenditure in R&D for the new products in each business sector such as Urban Traffic sector.

Share-based payment expenses refer to the share options expenses related to the Company's pre-IPO share incentive scheme. Share-based payment expenses decreased from RMB9.9 million for the year ended December 31, 2010 to 6.2 million for the year ended December 31, 2011, which accounted for 2.2% of the total SG&A in the year ended December 31, 2011, a decrease of 3.4% as compared to the corresponding period in 2010. Subsequent to year end, the Company granted options to 191 grantees. As such, it is expected there will be an increase in Share-based payment expenses in the coming year.

Expenses Relating to the Listing of the Shares

The major components of the listing expenses includes fees of legal counsel, printers and auditors who were involved in the listing of the Shares on the Main Board of The Stock Exchange of Hong Kong Limited ("Listing"). During the year ended December 31, 2011, no such expenses were incurred by the Group.

Finance Income and Finance Costs

Finance income mainly comprises of interest income and finance costs mainly comprises of interest expenses for interest-bearing bank loan. The net financial expenses represented the total finance cost minus finance income. This net financial expense was RMB10.9 million in the year ended December 31, 2011, which represented an increase of 84.0% as compared to the year ended December 31, 2010. The increase was mainly due to the combined effect of higher loan interest rate and lower level of bank balances as compared to the corresponding period in 2010.

Share of Profits of Jointly-Controlled Entities and Associates

Share of profits of Jointly-Controlled Entities ("JCE") and associates in the year ended December 31, 2011 was totally RMB11.3 million, which represented an increase of 217.9% from the year ended December 31, 2010. This huge increase was mainly due to the contribution of net profit from the associates after the acquisition of CTH. GCI, one of the associates under CTH had established long-term cooperation with Guangzhou Transportation Group and will continue to generate sustainable income in Urban Traffic sector. Furthermore, the GCI's business model will be replicated in other cities such as Xi'an, Nanjing and so on by establishing local joint ventures with local traffic bureau.

Income Tax Expenses

The total income tax expense in the year ended December 31, 2011 was lower than that recorded for the year ended December 31, 2010 due to the decrease of profit before taxation. The effective tax rate in the year ended December 31, 2011 was 15.1%, which represented an decrease of 0.3% as compared to the corresponding period in 2010. The increase was due to the subsidiaries had gradually applied the preferential tax rate of 15%. Effective tax rate refers to income tax expenses divided by adjusted profit before tax (profit before tax plus expenses related to the listing of the Company's share plus share-based payment expenses).

Profit for the year attributable to owners of the parent

Profit for the year attributable to owners of the parent of the Group for the year ended December 31, 2011 was RMB112.9 million.

Trade Receivables Turnover Days

The trade receivables turnover days in the year ended December 31, 2011 was 185 days (in the year ended December 31, 2010: 122 days). The increase in trade receivables turnover days was mainly due to the slowdown of macro-economic growth and the tightening of liquidity. Particularly, after a series of incidents in Railway sector, the turnover days reached to the historical highest level. However, very limited amount of trade receivables were impaired because of the good payment track record of the transportation industry customers. Management believes the turnover days will improve in the future when the central government resumes the regular payment policy across the transportation industry.

Net Construction Contract Turnover Days

The net construction contract turnover days in the year ended December 31, 2011 was 63 days (in the year ended December 31, 2010: 64 days). The decrease in net construction contract turnover days was mainly due to the continued effort in enhancing project billing timeliness and efficiency during tough times in 2011.

Trade Payables Turnover Days

The trade payables turnover days in the year ended December 31, 2011 was 194 days (in the year ended December 31, 2010: 156 days). The increase in trade payables turnover days was mainly due to the effort in bargaining with suppliers for a longer settlement period under such tighten liquidity environment.

Inventory Turnover Days

The inventories of the Group mainly comprised of raw materials, work-in-progress, finished goods and general merchandise for surveillances SS as well as the integrated TAXI or BUS monitoring & dispatching system. The inventory turnover days in the year ended December 31, 2011 was 5 days (in the year ended December 31, 2010: 2 days). The increase in inventory turnover days was mainly due to the acquisition of CTH, which maintained inventories of standard products applied in multiple transportation networks.

Liquidity and Financial Resources

The Group's principal sources of working capital included cash flow from operating activities, bank borrowings and the proceeds from the Global Offering. As at December 31, 2011, the Group's current ratio (current assets divided by current liabilities) was 1.9 (as at December 31, 2010: 2.1). The Group's financial position remains healthy.

As at December 31, 2011, the Group was in a net cash position of RMB135.5 million (as at December 31, 2010: RMB659.3 million) which included cash and cash equivalent of RMB435.9 million (as at December 31, 2010: RMB949.3 million) and short-term bank loans of RMB300.4 million (as at December 31, 2010: RMB290.0 million). As at December 31, 2011, the Group's gearing ratio was -12.4%, which has increased from -39.6% as at December 31, 2010, due to the cash position had dropped from prior year as the Group has deployed more effort in expansion through acquisitions and development into other business sectors. 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 December 31, 2011, the Group has no material contingent liability.

Charges on Group Assets

As at December 31, 2011, besides the secured deposits of approximately RMB79.8 million, the Group pledged its buildings having net book values of approximately RMB84.4 million (As at December 31, 2010: RMB83.3 million) to banks to secure banking facilities granted to the Group. Save as disclosed above, as at December 31, 2011, the Group has no other asset charged to financial institution.

Material Acquisitions or Disposals of Subsidiaries and Associated Company

— Acquisition of Xinjiang RHY

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

— Acquisition of CTH

On 24 August 2011, Elegant Cape Limited, a wholly-owned subsidiary of the Company, acquired 100% equity interest of CTH, a company incorporated in Cayman Islands for a total consideration of US$45 million which was satisfied by cash of US$29.8 million and issuance of new Shares by the Group for the remaining consideration of US$15.2 million. Upon the completion of the acquisition, CTH together with its subsidiaries became subsidiaries of the Group. CTH is a leading company in the research and development of intelligent traffic information technologies and related services and solutions provider in the PRC.

— Acquisition of eSOON

In August 2011, the Group entered into an agreement to acquire 16.6% of equity interests in eSOON, which has strategic and financial contributions to the Group. From a strategic perspective, the Group is expected to expand its products and services horizontally and enter into call center solutions market in the transportation industry. From a financial perspective, the Group is expected to benefit from the stable cash flow and profitability of the call center solution sales generated by eSOON.

EVENT AFTER THE REPORTING PERIOD

Grant of Share Options

On January 18, 2012, the Board resolved to grant share options under the share option scheme adopted by the Company on June 18, 2010 (the "Share Option Scheme") to 191 grantees, which includes certain Directors, chief executive, Substantial Shareholders and employees of the Company to subscribe for an aggregate of 155,000,000 Shares.

The share options granted to Mr. Lu Xiao and Mr. Lv Xilin, each representing in the aggregate over 0.1% of the Shares in issue and having an aggregate value, based on the closing price of the securities on the date of each grant, in excess of HK$5 million in the 12-month period up to and including the date of the grant. The grant of share options to each of Mr. Lu Xiao and Mr. Lv Xilin was therefore conditional upon shareholders' approval being obtained at an extraordinary general meeting of the Company.

Further, the share options granted to Mr. Liao Jie exceeded 1% of the Shares in issue in the 12 month period up to and including the date of the grant. Accordingly, the grant of share options to Mr. Liao Jie was also conditional upon shareholders' approval being obtained at an extraordinary general meeting of the Company.

On January 18, 2012, the Board also proposed to refresh the 10% limit on the maximum number of Shares which may be issued upon the exercise of all share options granted or to be granted under the Share Option Scheme by the Company as permitted under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Share Option Scheme Limit") for the purpose of future grants of share options to the eligible participants under the Share Option Scheme.

For further details of the grant of the share options, please refer to the announcement of the Company on January 18, 2012.

An extraordinary general meeting of the Company was convened on February 29, 2012 (the "EGM") to consider and approve 1.) the share options granted to each of Mr. Lu Xiao, Mr. Lv and Mr. Liao Jie to subscribe for 6,959,432 Shares, 6,402,677 Shares and 46,735,824 Shares respectively, and 2.) the refreshment of the Share Option Scheme Limit. All of these proposed resolutions had been duly passed by way of poll at the EGM.

Further, the application made by the Company to the Listing Committee of The Stock Exchange of Hong Kong Limited for the grant of the listing of, and permission to deal in, the Shares (representing a maximum of 10% of the Shares in issue at the date of the EGM) that may fall to be issued upon the exercise of any options that may be granted under the Share Option Scheme and any other share option scheme(s) of the Company, had been granted. The new Share Option Scheme Limit is 161,281,776 Shares.

Use of Proceeds

The Shares were listed on the Main Board of the Hong Kong Stock Exchange on July 15, 2010 with net proceeds from the Global Offering of the Company of approximately HK$710.6 million (after deducting underwriting commissions and related expenses).

The use of the net proceeds from the global offering as at December 31, 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	319.7	—
Project-related working capital needs	35%	248.7	168.5	80.2
Research and development	10%	71.1	33.4	37.7
General corporate purposes	10%	71.1	67.2	3.9
Total	100%	710.6	588.8	121.8

EMPLOYMENT AND EMOLUMENT POLICIES

As at December 31, 2011, the Group had 827 full-time employees (as at December 31, 2010: 655 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, the performance of our Group and market conditions.

In addition to basic salaries, the Company has 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 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 a high standard of corporate governance practices.

In the year ended December 31, 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 period between January 1, 2011 and August 23, 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 deviated from the practice under the Code Provision A2.1 where the two positions should be held by two different individuals, Mr. Jiang Hailin has considerable and extensive knowledge and experience in the intelligent transportation systems 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, therefore the chairman of the Board should not be able to monopolise the voting results. The Board considers that the balance of power between the Board and the senior management can still be maintained under this structure.

On August 24, 2011, in order to comply with Code Provision A2.1, Mr. Jiang Hailin 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 of the Company, the Directors have confirmed that they have complied with the required standard set out in the Model Code during the year ended December 31, 2011.

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 practice 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, 2011 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, 2011 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 year ended December 31, 2011, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

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 2011 annual report containing all information about the Company set out in this announcement including the financial results for the year ended December 31, 2011 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

Beijing, March 28, 2012

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