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, 2012

HIGHLIGHTS OF 2012 INTERIM RESULTS

New Contracts Signed and Orders Secured

- For the six months ended June 30, 2012, the amount of new contracts signed and orders secured was approximately RMB1,475.6 million, compared to approximately RMB629.5 million for the six months ended December 31, 2011, or an approximately 134.4% increase and approximately RMB1,270.5 million for the six months ended June 30, 2011, or an approximately 16.1% increase, respectively.

Backlog

- As at June 30, 2012, the backlog recorded historical high, which was approximately RMB2,185.2 million, compared to approximately RMB1,593.5 million as at December 31, 2011, or an approximately 37.1% increase and approximately RMB1,852.8 million as at June 30, 2011, or an approximately 17.9% increase, respectively.

Revenue

- For the six months ended June 30, 2012, revenue recorded historical high, which was approximately RMB728.1 million, compared to approximately RMB683.1 million for the six months ended June 30, 2011, or an approximately 6.6% increase.

Gross Profits

- For the six months ended June 30, 2012, gross profit was approximately RMB205.3 million, compared to RMB184.3 million for the six months ended December 31, 2011, or an approximately 11.4% increase and approximately RMB208.1 million for the six months ended June 30, 2011, or an approximately 1.3% decrease, respectively.

- For the six months ended June 30, 2012, gross profit margin recovered significantly back to approximately 28.2%, compared to approximately 20.4% for the six months ended December 31, 2011, and approximately 30.5% for the six months ended June 30, 2011, respectively.

Pro forma Profits and profit for the period

- For the six months ended June 30, 2012, the equity-settled share option expense including the newly granted option on January 18, 2012 which was a non-cash accounting charge, was approximately RMB22.0 million, compared to approximately RMB2.5 million for the six months ended December 31, 2011 and approximately RMB3.6 million for the six months ended June 30, 2011, respectively.

- Before deducting such expense, the pro forma profit for the six months period ended June 30, 2012 was approximately ***RMB47.9 million***, compared to approximately ***RMB39.1 million*** for the six months period ended December 31, 2011, or an approximately ***22.5%*** increase, and approximately RMB78.1 million for the six months period ended June 30, 2011, or an approximately 38.7% decrease, respectively.

- After deducting such expense, the profit for the six months period ended June 30, 2012 was approximately RMB25.9 million, compared to approximately RMB36.5 million for the six months ended December 31, 2011 and approximately RMB74.5 million for the six months ended June 30, 2011, respectively.

Pro forma Earnings Per Share and Earnings Per Share

- Pro forma basic and diluted earnings per share was RMB0.03 per share.

- Basic and diluted earnings per share was RMB0.02 per share.

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, 2012, with comparative figures, as follows:

Consolidated Income Statement

		For the six-month period ended June 30,	
	Notes	**2012**	2011
		RMB'000	*RMB'000*
		Unaudited	Unaudited
REVENUE	4	**728,081**	683,085
Cost of revenue	5	**(522,760)**	(474,996)
Gross profit		**205,321**	208,089
Other income and gains		**9,434**	9,231
Selling, general and administrative expenses		**(144,676)**	(112,074)
Equity-settled share option expenses		**(21,972)**	(3,644)
Other expenses		**(100)**	(156)
OPERATING PROFIT		**48,007**	101,446
Finance income		**6,060**	3,173
Finance costs		**(10,578)**	(6,803)
Share of profits/(losses) of jointly-controlled entities/operation		**(4,774)**	2,547
Share of profits of associates		**802**	—
PROFIT BEFORE TAX		**39,517**	100,363
Income tax expense	6	**(13,571)**	(25,942)
PROFIT FOR THE PERIOD		**25,946**	74,421
Attributable to:			
Owners of the parent		**26,702**	74,682
Non-controlling interests		**(756)**	(261)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
		RMB	*RMB*
Basic — for the profit for the period	7	**0.02**	0.05
Diluted — for the profit for the period	7	**0.02**	0.05

Consolidated Statement of Comprehensive Income

	For the six-month period ended June 30,	
	2012	2011
	RMB'000	*RMB'000*
	Unaudited	Unaudited
PROFIT FOR THE PERIOD	**25,946**	74,421
Exchange differences on translation of foreign operations	**618**	(10,026)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**618**	(10,026)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**26,564**	64,395
Attributable to:		
Owners of the parent	**27,320**	64,656
Non-controlling interests	**(756)**	(261)
	26,564	64,395

Consolidated Statement of Financial Position

	Notes	**June 30, 2012** *RMB'000* **Unaudited**	December 31, 2011 *RMB'000* Audited
NON-CURRENT ASSETS			
Property and equipment		**59,943**	56,243
Investment properties		**145,800**	145,800
Goodwill		**426,600**	347,321
Other intangible assets		**89,287**	34,467
Investments in jointly-controlled entities/operation		**26,838**	31,611
Investments in associates		**82,403**	84,740
Deferred tax assets		**13,023**	13,350
Prepayments for acquisition of equity interests in other entities		**22,481**	105,715
Other assets		**607**	557
Total non-current assets		**866,982**	819,804
CURRENT ASSETS			
Inventories		**38,669**	31,262
Construction contracts	8	**1,116,246**	785,172
Trade and bills receivables	9	**740,350**	769,186
Prepayments, deposits and other receivables		**909,998**	869,206
Due from related companies		**74,148**	81,991
Pledged deposits		**79,138**	79,841
Cash and cash equivalents		**142,413**	435,881
Held-to-maturity investment		**69,781**	69,396
Other financial assets		**3,445**	—
Total current assets		**3,174,188**	3,121,935
CURRENT LIABILITIES			
Trade and bills payables	10	**540,532**	672,652
Other payables and accruals		**258,551**	166,842
Construction contracts	8	**399,532**	458,709
Interest-bearing bank borrowings		**391,291**	300,390
Due to related companies		**15,092**	15,409
Income tax payable		**(2,487)**	14,948
Deferred income		**—**	4,200
Total current liabilities		**1,602,511**	1,633,150
NET CURRENT ASSETS		**1,571,677**	1,488,785
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,438,659**	2,308,589

	June 30, 2012	December 31, 2011
	RMB'000	*RMB'000*
	Unaudited	Audited
NON-CURRENT LIABILITIES		
Deferred tax liabilities	**59,839**	35,889
NET ASSETS	**2,378,820**	2,272,700
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**283**	283
Reserves	**2,345,820**	2,265,529
	2,346,103	2,265,812
Non-controlling interests	**32,717**	6,888
TOTAL EQUITY	**2,378,820**	2,272,700

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 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 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
- Value-added operation and services business — providing 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 unaudited interim condensed consolidated financial statements for the six months ended June 30, 2012 have been prepared in accordance with International Accounting Standard ("**IAS**") 34 Interim Financial Reporting and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange.

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 December 31, 2011. 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) Turnkey solutions segment engages in the integration of information technology with its physical transportation infrastructure;

(b) 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) Value-added operation and services segment involves operation outsourcing and value added services, via its platforms, servicing transportation operations and participants.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax from continuing operations except that interest income, finance costs, a 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, other intangible assets investment properties, amounts due from related companies, investments in jointly-controlled entities and associates, prepayments for acquisition of equity interests in companies, a held-to-maturity investment, other financial asset and other unallocated head office and corporate assets are managed on a group basis.

Segment liabilities exclude deferred tax liabilities, interest-bearing bank borrowings, amounts 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 RMB81.7 million (six-month period ended June 30, 2011: RMB153.4 million) for the six-month period ended June 30, 2012 was derived from a single customer in the specialised solutions business.

	Turnkey solutions *RMB'000*	Specialised solutions *RMB'000*	Value-added operation and services *RMB'000*	Consolidated *RMB'000*
Six-month period ended June 30, 2012				
Segment revenue				
Sales to external customers	**253,476**	**457,745**	**16,860**	**728,081**
Intersegment sales	**—**	**10,057**	**—**	**10,057**
	253,476	**467,802**	**16,860**	**738,138**
Reconciliation:				
Elimination of intersegment sales				**(10,057)**
Revenue				**728,081**
Segment results	**17,917**	**41,899**	**3,303**	**63,119**
Reconciliation:				
Finance income				**6,060**
Share of losses of jointly-controlled entities/operation				**(4,774)**
Share of profits of associates				**802**
Corporate and other unallocated expenses				**(15,112)**
Finance costs				**(10,578)**
Profit before tax				**39,517**
June 30, 2012				
Segment assets	**973,843**	**2,623,934**	**58,242**	**3,656,019**
Reconciliation:				
Elimination of intersegment assets	**(291,475)**	**(132,681)**	**—**	**(424,156)**
Corporate and other unallocated assets				**809,307**
Total assets				**4,041,170**
Segment liabilities	**478,484**	**1,114,180**	**30,108**	**1,622,772**
Reconciliation:				
Elimination of intersegment liabilities	**(168,680)**	**(255,476)**	**—**	**(424,156)**
Unallocated liabilities				**463,734**
Total liabilities				**1,662,350**
Other segment information				
Share of profits/(losses) of:				
Jointly-controlled entities				**(4,774)**
Associates				**802**
Depreciation and amortisation				**14,321**
Investments in jointly-controlled entities/operation				**26,838**
Investments in associates				**82,403**
Capital expenditure*				**153,207**

* Capital expenditure consists of purchases of property and equipment, goodwill and other intangible assets, acquisition of jointly- controlled entities, acquisition of associates, acquisition of subsidiaries and prepayments for acquisition of equity interests in other entities.

	Turnkey solutions *RMB'000*	Specialised solutions *RMB'000*	Value-added operation and 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:				
Finance income				3,173
Fair value gain on an interest in a jointly-controlled entity				2,512
Share of profits of jointly-controlled entities/operation				2,547
Corporate and other unallocated expenses				(2,235)
Finance costs				(6,803)
Profit before tax				100,363
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/operation				5,947
Write-back of impairment of trade receivables				5,358
Depreciation and amortisation				13,106
Investments in jointly-controlled entities/operation				31,661
Investments in associates				84,740
Capital expenditure*				88,959

* Capital expenditure consists of purchases of property and equipment and other intangible assets and prepayments for acquisition of equity interests in other entities.

Geographical information

(a) Revenue from external customers

	For the six-month period ended June 30,	
	2012	2011
	RMB'000	*RMB'000*
Mainland China	**728,081**	683,085

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

(b) Non-current assets

	June 30, 2012	December 31, 2011
	RMB'000	*RMB'000*
Mainland China	**295,030**	236,510

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

4. REVENUE

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 is as follows:

	For the six-month period ended June 30,	
	2012	2011
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Revenue from:		
Implementation of projects	**646,146**	680,603
Sale of products	**81,935**	2,482
	728,081	683,085
Other income:		
Gross rental income	**4,380**	6,665
Government grants*	**4,460**	54
Fair value gain on an interest in a jointly-controlled entity	**—**	2,512
Exchange gain	**549**	—
Gain on disposal of property and equipment	**45**	—
	9,434	9,231

* 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):

	For the six-month period ended June 30,	
	2012	2011
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Cost of services rendered for implementation of projects	**466,222**	473,758
Cost of inventories sold	**56,538**	1,238
	522,760	474,996
Depreciation	**9,371**	2,833
Amortisation of other intangible assets*	**4,950**	1,021
	14,321	3,854
Minimum lease payments under operating leases	**10,051**	8,128
Auditors' remuneration	**1,040**	1,183
Wages and salaries	**39,621**	27,422
Pension scheme contributions (defined contribution scheme)	**4,659**	3,569
Social insurance costs and staff welfare	**8,722**	6,839
Equity-settled share option expense	**21,973**	3,644
Directors' and senior executives' remuneration	**2,159**	1,148
	77,134	42,622
Foreign exchange differences, net	**549**	119
Interest on bank loans, wholly repayable within one year	**10,578**	6,803
Net (gain)/loss on disposal of items of property and equipment	**(45)**	2
Bank interest income	**(6,060)**	(3,173)

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

6. INCOME TAX

The Group is subject to income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The determination of current and deferred income taxes was based on the enacted tax rates.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

Under the relevant PRC income tax law, except for certain preferential treatment available to the Group, the PRC subsidiaries of the Group are subject to income tax at a rate of 25% (six-month ended June 30, 2011: 25%) on their respective taxable income. During the current period, 12 entities (six-month ended June 30, 2011: Nil) of the Group were designated and approved as High and New Technology Enterprises ("**HNTE**") and entitled to 15% preferential corporate income tax rate.

No provision for Hong Kong profits tax has been made for the six-month periods ended June 30, 2012 and 2011, as the Group had no assessable profits arising in Hong Kong for each of the periods.

The major components of income tax expense in the interim consolidated income statement are:

	For the six-month period ended June 30,	
	2012	2011
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Current income tax:		
Current income tax charge in the PRC	**4,265**	15,637
Deferred income tax:		
Relating to origination and reversal of temporary differences	**9,306**	10,305
Income tax expense reported in the interim consolidated income statement	**13,571**	25,942

7. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts are based on the profit attributable to ordinary equity holders of the Company for the six-month period ended June 30, 2012, and the weighted average number of ordinary shares of 1,612,999,929 (six-month period ended June 30, 2011: 1,569,047,334) during the six-month period ended June 30, 2012.

	For the six-month period ended June 30,	
	2012	2011
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation	**26,702**	74,682

	Number of shares For the six-month period ended June 30,	
	2012	2011
	Unaudited	Unaudited
Shares		
Weighted average number of shares in issue during the period used in the basic earnings per share calculation*	**1,612,999,929**	1,569,047,334
Effect of dilution — weighted average number of ordinary shares		
— Share options	**8,407,751**	—
	1,621,407,680	1,569,047,334

* Shares issue to acquire subsidiaries are assumed to be issued on the acquisition date of June 29, 2012 and the weighted average number of ordinary shares is 182,169 during the period.

The Group had no potentially diluted ordinary shares for the six-month period ended June 30, 2011.

8. CONSTRUCTION CONTRACTS

	June 30, 2012	December 31, 2011
	RMB'000	*RMB'000*
	Unaudited	Audited
Gross amount due from contract customers	**1,116,246**	785,172
Gross amount due to contract customers	**(399,532)**	(458,709)
	716,714	326,463
Contract costs incurred plus recognised profits less recognised losses to date	**3,409,007**	4,234,784
Less: Progress billings	**(2,692,293)**	(3,908,321)
	716,714	326,463

9. TRADE AND BILLS RECEIVABLES

	June 30, 2012	December 31, 2011
	RMB'000	*RMB'000*
	Unaudited	Audited
Trade receivables	**698,489**	736,655
Provision for impairment	**(2,576)**	(1,829)
	695,913	734,826
Bills receivables	**44,437**	34,360
	740,350	769,186

Trade and bills receivables, which are non-interest-bearing, are recognised and carried at the 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 does not hold any collateral or other credit enhancements over its trade and bills receivables balances.

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, 2012 *RMB'000* **Unaudited**	December 31, 2011 *RMB'000* Audited
Less than 6 months	**258,988**	440,299
6 months to 1 year	**224,659**	125,714
1 to 2 years	**129,194**	159,750
2 to 3 years	**124,178**	39,141
Over 3 years	**3,331**	4,282
	740,350	769,186

Trade and bills receivables generally have credit terms ranging from 30 to 90 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, 2012 *RMB'000* **Unaudited**	December 31, 2011 *RMB'000* Audited
Neither past due nor impaired	**241,051**	299,004
Past due but not impaired:		
Less than 6 months past due	**239,787**	188,054
6 months to 1 year past due	**141,320**	87,740
1 to 2 years past due	**111,966**	156,511
2 to 3 years past due	**4,678**	35,407
Over 3 years past due	**1,548**	2,470
	740,350	769,186

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 that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The Group did not pledge any of its trade receivables to be received from certain of its projects (December 31, 2011: RMB0.4 million) for a banking facility granted to the Group.

10. TRADE AND BILLS PAYABLES

	June 30, 2012 *RMB'000* **Unaudited**	December 31, 2011 *RMB'000* Audited
Trade payables	**482,779**	624,084
Bills payable	**57,753**	48,568
	540,532	672,652

The Group's bills payable were secured by pledged deposits of the Group of RMB15.1 million as at June 30, 2012 (December 31, 2011: RMB10.5 million).

Trade payables are non-interest-bearing and generally have credit terms ranging from 1 to 360 days. An aging analysis of the Group's trade payables at the end of reporting period, based on invoice date, is as follows:

	June 30, 2012 *RMB'000* **Unaudited**	December 31, 2011 *RMB'000* Audited
Current or less than 1 year	**423,583**	620,096
1 to 2 years	**74,334**	24,488
Over 2 years	**42,615**	28,068
	540,532	672,652

MANAGEMENT DISCUSSION AND ANALYSIS

Overview and Prospect

Overview of the overall operation of the company during the reporting period

In the first half of 2012, the Company earnestly implemented its strategic development plan, pushed forward its commitment to streamlining structure, scaling up, diversifying risks and sharpening competitiveness. The Group continued to diversified and healthy development in the transportation industry. In the first half of 2012, the Group recorded revenue of RMB728.1 million, representing an increase of 6.6% as compared to RMB683.1 in the six months ended June 30, 2011. The new contracts and orders secured recorded (RMB1,475.6 million), representing an increase of 16.1% as compared to RMB1,270.5 in the six months ended June 30, 2011. Backlog reached historical high, which was RMB2,185.2 as at June 30, 2012. The overall gross profit was RMB205.3 million, representing an increase of 11.4% compared with second half year of 2011, gross profit margin rebounded 7.8% to 28.2% as compared with second half year of 2011. The pro forma profit for the period for the six months ended June 30, 2012 was RMB47.9 million, compared to RMB39.1 million for the six months ended December 31, 2011 and RMB78.1 million for the six months ended June 30, 2011.

Core business of the Group and operation thereof

For the six months ended June 30, 2012, the Group's revenue from the expressway sector reached RMB372.4 million, representing an increase of 32.3% from 281.5 million for the corresponding period in 2011, making up 50.5% of the Group's total revenue. Revenue from the railway sector decreased by 6.5% to RMB271.6 million during the reporting period and representing 36.8% of the Group's total revenue. Revenue from the urban traffic sector decreased by 16.4% to RMB81.7 million, compared with the same period of the previous year, representing 11.1% of the Group's total revenue.

(i) Expressway

The overall increase of expressway revenue was particularly attributable to the strong growth of specialized solution. During the reporting period, specialized solution recorded revenue of RMB105.7 million, representing an increase of 84.9% compared with same period of 2011. 2012 is the second year of the "12th Five-year Plan", local expressway bureau restarted the original projects which has been postponed last year. In such optimistic situation, the Group had recorded the highest revenue recognition in this sector.

In the first half of 2012, the major projects of expressway sector included Ji-cha (Jishou-chadong) Expressway, Ning-Wu (Ningde-Wuyishan) Expressway, Yi-Ba (Yichang-Badong) Expressway. The new contracts and orders secured amount in the six months ended June 30, 2012 was RMB970.6 million and the backlog amount as at June 30, 2012 was RMB1,175.7 million for expressway sector, representing good outlook into the second half or even beyond.

(ii) Railway

After a series of negative events hit the railway industry in 2011, the industry has started to recover gradually. During the first half year of 2012, the railway sector revenue was RMB271.6 million, representing a decrease of 6.5% compared with same period of 2011, but representing an increase of 18.3% compared with the second half year of 2011. The Group also entered into new solutions of railway such as passenger ticketing system. Under the continued railway construction in China followed by the "12th Five —Year plan", the Group believes it will resume and bring more opportunities in this sector.

In the first half of 2012, the major projects of railway sector included web passenger ticket system project, Ning Hang (Nanjing-Hangzhou) Highspeed railway, Jing Bao (Beijing-Baotou) Railway, The new contracts and orders secured amount in the six months ended June 30, 2012 was RMB343.8 million and the backlog amount as at June 30, 2012 was RMB631.5 million for railway sector.

(iii) Urban Traffic

In the urban traffic sector, we realized revenue of RMB81.7 million in the six months ended June 30, 2012. The rising traffic problem is caused by urbanization, automobiles with intense urban population density. During the "12th five-year plan", urban traffic construction is expected to exceed RMB700 billion. Through two acquisitions of China Traffic Holdings Ltd. ("**CTH**") in August 2011 and Beijing STONE Intelligent Transportation System Integration Co., Ltd. ("**STONE**") in June 2012, the Group completed a comprehensive business coverage for the urban traffic sector with established and matured business model across turnkey solutions, specialized solutions and value-added operation and services ("**VAOS**") within the ever growing urban traffic sector. We intend to replicate these successful business models from proven cities such as Beijing, Guangzhou, Wuhan to the rest of the country leveraging our extensive localized sales coverage.

In the first half of 2012, the major project of urban traffic sector include Shandong Weifang city project and Jilin Siping city project. The new contracts and orders secured amount in the six months ended June 30, 2012 was RMB152.5 million and the backlog amount as at June 30, 2012 was RMB372.1 million for urban traffic sector.

M&A Review

On June 20, 2012, the Company announced a transaction with total consideration of RMB137.3 million of which RMB32.7 million was satisfied by ordinary shares of the Company to acquire a 75% ownership in STONE, an urban traffic specialized and turnkey solutions provider. STONE is the leading provider of integrated urban traffic system, solutions and service. After acquiring STONE, the Company completed the urban traffic layout with great upside potential and the Company believes that urban traffic sector will become a strong and stable revenue generator in addition to expressway and railway businesses.

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 include certain Directors, chief executive, substantial shareholders and employees of the Company, to subscribe for an aggregate of 155,000,000 Shares.

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

Above-mentioned new batch of share options granted in January 2012 recorded RMB22.0 million non-cash accounting charges for the six months ended June 30, 2012.

As disclosed in the announcement of the Company on January 18, 2012, the target selling prices of HK$2.5, HK$3, HK$3.5 for shares to be issued upon exercise of the new share options granted under the Share Option Scheme show our management team's strong confidence on Company's future. The management team believes the Group will take a leap development and becomes the most diversified full bloom ITS solution and services provider in China.

Prospects

M&A and new sector breakthrough

Since January 1, 2011, the Company has announced a series of merger and acquisition activities, such as Xinjiang RHY, eSOON, CTH, and STONE reflecting to diversify from the traditional sectors to new and high growth sectors such as urban traffic and smart city sectors. In the second half of this year, the Company will continue to be active in searching high growth transport sectors and identify suitable M&A targets.

Prospects

In the first half of 2012 the whole industry is still slumped and recovering, the Group expects that it will continue to rebound in the second half of the year. The Group will continue switching from business/product-oriented to industry/customer-oriented, formulate long-term development plans and become a leading player in the industry. The Group aims at delivering solutions that enhance safety, efficiency, convenience and sustainability of the transportation industry.

BUSINESS AND FINANCIAL REVIEW

Revenue

By Industry Sectors

The Group's revenue for the six months ended June 30, 2012 was RMB728.1 million, represented a decrease of 19.3% as compared to RMB902.1 million for the six months ended December 31, 2011 (compared to the second half of last year, or "2H comparison") and an increase of 6.6% as compared to RMB683.1 million for the six months ended June 30, 2011 (compared to the first half of last year, or "1H comparison"), respectively. The overall decrease/increase was caused by a 37.9% decrease (2H comparison) and a 32.3% increase (1H comparison) in expressway sector, a 18.3% increase (2H comparison) and a 6.5% decrease (1H comparison) in railway sector, a 9.7% increase (2H comparison) and a 16.4% decrease (1H comparison) in urban traffic sector, and a 47.7% decrease (2H comparison) and a 21.2% decrease (1H comparison) in energy sector, respectively. The following table sets out the revenue breakdown by industry sectors:

	Six months ended		
Revenue by Industry Sectors	**June 30,**	December 31,	June 30,
RMB'000	**2012**	2011	2011
Expressway	**372,449**	599,785	281,521
Railway	**271,639**	229,630	290,369
Urban traffic	**81,697**	74,461	97,733
Energy	**12,353**	23,606	15,676
Elimination	**(10,057)**	(25,361)	(2,214)
Total	**728,081**	902,121	683,085

(i) Expressway

Revenue from the expressway sector in the six months ended June 30, 2012 was RMB372.4 million, representing a decrease of RMB227.4 million, or 37.9% (2H comparison) and an increase of RMB90.9 million, or 32.3% (1H comparison), respectively. As mentioned in the annual report of 2011, the Group had forecasted the business will resume to a normal level in the coming years after the fall of last year. The actual result came out exceeded the Group's expectation for that the expressway industry had just strongly rebounded in the first half of 2012. In the early stage of this year, local expressway bureaus such as those in northeast, center, south and west of China had restarted the original projects which had been postponed by them in last year. In such optimistic situation, the Group had created the highest record in new contracts signed in this industry sector and reserved a large number of backlog as at June 30, 2012. The Group believes the expressway sector will have a massive increment in 2012 and have the continued growth in the coming years under the ongoing contribution from government's infrastructure construction. The new contracts and orders secured amount in the six months ended June 30, 2012 was RMB970.6 million and the backlog amount as at June 30, 2012 was RMB1,175.7 million for the expressway sector.

(ii) Railway

Revenue from the railway sector in the six months ended June 30, 2012 was RMB271.6 million, representing an increase of RMB42.0 million, or 18.3% (2H comparison) and a decrease of RMB18.7 million, or 6.5%% (1H comparison), respectively. After the slowdown in construction because of the 7-23 Wenzhou train collision in last year, the central government had announced some incentive policy such as remaining "12th five-year plan" construction scale and introducing civilian capital in 2012. Although the railway sector did not rebound as strongly as the expressway sector, we still found the obvious resuming indications. On one hand the recognized revenue in the first half of 2012 was significant larger than that in the second half of 2011, on the other, the backlog reserved for the rest of this year was larger than last year. At the beginning of this year, the Group had entered into the new market of railway, providing products and services for passenger ticket system. Under the continued contribution on railway construction in China, the Group believes it will bring more and more opportunities in this sector especially in the post-construction operation period. The new contracts and orders secured amount in the six months ended June 30, 2012 was RMB343.8 million and the backlog amount as at June 30, 2012 was RMB631.5 million for the railway sector.

(iii) Urban Traffic

Revenue from the urban traffic sector in the six months ended June 30, 2012 was RMB81.7 million, representing an increase of RMB7.2 million, or 9.7% (2H comparison) and a decrease of RMB16.0 million, or 16.4% (1H comparison), respectively. Urbanization is one of the most important objects in the “12th five-year plan” of Chinese government. Other than the successful acquisition of CTH in last year, the Group had further enlarged the business scale by acquiring one more leading player STONE in the industry. After the acquisition, the Group will have three business units covering surveillance solution, information platform and ITS integration solution. With such diversified corporate structure, the sales network will be expanded to all types of business in the industry throughout China. From the trend by comparing the performance of second half of last year, we can see the obvious resumption indication from the fall at year end of 2011 to a normal level. The Group believes there will be continued growth in the industry sector under the strong urbanization trend in China. The new contracts and orders secured amount in the six months ended June 30, 2012 was RMB152.5 million and the backlog amount as at June 30, 2012 was RMB372.1 million for urban traffic sector.

(iv) Energy

Revenue from the energy sector in the six months ended June 30, 2012 was RMB12.4 million, representing a decrease of RMB11.3 million, or 47.7% (2H comparison) and a decrease of RMB3.3 million, or 21.2% (1H comparison), respectively. 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 expressway, railway and urban traffic, which are expected to provide higher growth for the Group. The new contracts and orders secured amount in the six months ended June 30, 2012 was RMB8.6 million and the backlog amount as at June 30, 2012 was RMB5.9 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 2012 and the backlog were approximately RMB2,185.2 million as at June 30, 2012, resulting in a historical high backlog carried over to the second half of 2012.

During this year, the Group had implemented more than 1,800 projects in varied sizes, covering most of the region in Mainland China. The following table sets out the major projects generating revenue in each industry sector:

Industry sector	**Project name**
Expressway:	Ji-Cha (Jishou-Chadong) Expressway Ning-Wu (Ningde-Wuyishan) Expressway Yi-Ba (Yichang-Badong) Expressway
Railway:	Web passenger ticket system project Ning-Hang (Nanjing-Hangzhou highspeed railway) Jing-Bao (Beijing-Baotou) Railway
Urban:	Shandong Weifang city project
Energy:	Changjiang River Vision meeting project

By Segments

The revenue for the six months ended June 30, 2012 was changed by a 38.6% decrease (2H comparison) and a 16.5% increase (1H comparison) in the Turnkey Solutions' business, a 5.2% decrease (2H comparison) and a 3.3% increase (1H comparison) in the Specialized Solutions' business, and a 19.7% decrease (2H comparison) and a 13.2% increase (1H comparison) in the VAOS Services' business. The following table sets out the revenue breakdown by Industry sectors:

Revenue by Segments ***RMB'000***	**Six months ended** **June 30, 2012**	December 31, 2011	June 30, 2011
Turnkey Solutions	**253,476**	413,034	217,521
Specialized Solutions	**467,802**	493,461	452,889
VAOS	**16,860**	20,987	14,889
Elimination	**(10,057)**	(25,361)	(2,214)
Total	**728,081**	902,121	683,085

(i) Turnkey solutions

Revenue from the Turnkey Solution's business in the six months ended June 30, 2012 was RMB253.5 million, representing a decrease of RMB159.6 million, or 38.6% (2H comparison) and an increase of RMB36.0 million, or 16.5% (1H comparison), respectively. The increase is due to the strong rebound of business in expressway industry sector as described in previous section.

The Turnkey Solutions as a whole accounted for 34.3% of the Group's revenue in the six months ended June 30, 2012, which is higher than 31.7% as recorded for the six months ended June 30, 2011.

(ii) Specialized Solutions

Revenue from the Specialized Solution's business in the six months ended June 30, 2012 was RMB467.8 million, representing a decrease of RMB25.7 million, or 5.2% (2H comparison) and an increase of RMB14.9 million, or 3.3% (1H comparison), respectively. The increase is due to the combination of the strong rebound of business in expressway industry sector and resume of business in railway and urban traffic industry sectors as described in previous section.

The Specialized Solutions segment as a whole accounted for 63.4% of the Group's revenue in the six months ended June 30, 2012, which is lower than 66.1% as recorded in the six months ended June 30, 2011.

(iii) VAOS

Revenue from the VAOS in the six months ended June 30, 2012 was RMB16.9 million, representing a decrease of RMB4.1 million, or 19.7% (2H comparison) and an increase of RMB2.0 million, or 13.2% (1H comparison), respectively. It reflects our business transformations from a single, project-based model to stable, recurring revenue.

The VAOS segment as a whole accounted for 2.3% of the Group's revenue in the six months ended June 30, 2012, which is higher than 2.2% as recorded in the six months ended June 30, 2011.

Cost of Sales

Cost of sales was incurred on a project-by-project basis for individual legal entities and was subsequently aggregated at segment and corporate level. The cost of sales was based on the equipment and other direct project costs incurred for completion of each of the relevant contracts. The cost of sales constituted 71.8% of the Group's revenue in the six months ended June 30, 2012, which represented a decrease of 7.8% as compared to the six months ended December 31, 2011 and an increase of 2.3% as compared to the six months ended June 30, 2011.

By Industry Sectors

Cost of Sales by Industry Sectors *RMB'000*	**Six months ended** **June 30, 2012**	December 31, 2011	June 30, 2011
Expressway	**282,225**	455,833	225,314
Railway	**187,585**	210,440	187,398
Urban traffic	**56,345**	58,462	54,451
Energy	**6,662**	18,444	10,047
Elimination	**(10,057)**	(25,361)	(2,214)
Total	**522,760**	717,818	474,996
% of Revenue	***71.8%***	*79.6%*	*69.5%*

(i) Expressway

The cost of sales from expressway sector in the six months ended June 30, 2012 was RMB282.2 million, representing a decrease of RMB173.6 million, or 38.1% (2H comparison) and an increase of RMB56.9 million, or 25.3% (1H comparison), respectively.

(ii) Railway

The cost of sales from railway sector in the six months ended June 30, 2012 was RMB187.6 million, representing a decrease of RMB22.9 million, or 10.9% (2H comparison) and a decrease of RMB0.2 million, or 0.1% (1H comparison), respectively.

(iii) Urban traffic

The cost of sales from urban traffic sector in the six months ended June 30, 2012 was RMB56.3 million, representing a decrease of RMB2.1 million, or 3.6% (2H comparison) and a decrease of RMB1.9 million, or 3.5% (1H comparison), respectively.

(iv) Energy

The cost of sales from energy sector in the six months ended June 30, 2012 was RMB6.7 million, representing a decrease of RMB11.8 million, or 63.9% (2H comparison) and a decrease of RMB3.4 million, or 33.7% (1H comparison), respectively.

By Segments

	Six months ended		
Cost of Sales by Segments	**June 30,**	December 31,	June 30,
RMB'000	**2012**	2011	2011
Turnkey Solutions	**215,955**	346,041	185,760
Specialized Solutions	**307,322**	387,344	284,571
VAOS	**9,540**	9,794	6,879
Elimination	**(10,057)**	(25,361)	(2,214)
Total	**522,760**	717,818	474,996
% of Revenue	***71.8%***	*79.6%*	*69.5%*

(i) Turnkey Solutions

The cost of sales incurred for Turnkey Solutions constituted 40.5% of the Group's cost of sales in the six months ended June 30, 2012, which remained at a similar level as compared to the corresponding period in 2011, reflecting the stable contribution of Turnkey Solutions to the Group's business.

(ii) Specialized Solutions

The cost of sales incurred for Specialized Solutions constituted 57.7% of the Group's cost of sales in the six months ended June 30, 2012, which is slightly lower as compared to the corresponding period in 2011.

(iii) VAOS

The cost of sales incurred for VAOS constituted 1.8% of the Group's cost of sales in the six months ended June 30, 2012, which is higher as compared to the corresponding period in 2011, reflecting the significant rising contribution of VAOS Services to the Group's sales in the six months ended June 30, 2012.

Gross Profit

The overall gross profit for the Group in the six months ended June 30, 2012 was RMB205.3 million, representing an increase of RMB21.0 million, or 11.4% (2H comparison) and a decrease of RMB2.8 million, or 1.3% (1H comparison), respectively. Gross profit margin in the six months ended June 30, 2012 was 28.2%, representing an increase as compared to the second half of 2011 and a slightly decrease as compared to the first half of 2011, respectively.

By Industry Sectors

	Six months ended		
Gross Profit by Industry Sectors	**June 30,**	December 31,	June 30,
RMB'000	**2012**	2011	2011
Expressway	**90,224**	143,952	56,206
Margin %	***24.2%***	*24.0%*	*20.0%*
Railway	**84,054**	19,190	102,971
Margin %	***30.9%***	*8.4%*	*35.5%*
Urban traffic	**25,352**	16,000	43,282
Margin %	***31.0%***	*21.5%*	*44.3%*
Energy	**5,691**	5,161	5,630
Margin %	***46.1%***	*21.9%*	*35.9%*
Total	**205,321**	184,303	208,089
Margin %	***28.2%***	*20.4%*	*30.5%*

(i) Expressway

Gross profit margin for expressway sector in the six months ended June 30, 2012 was 24.2%, representing an increase of 0.2% as compared to the second half of last year and an increase of 4.2% as compared to the first half of last year, respectively. The increase was mainly due to the strong rebound in the industry sector this year, as mentioned in previous sections, as well as the Group's strict budget control.

(ii) Railway

Gross profit margin for railway sector in the six months ended June 30, 2012 was 30.9%, representing an increase of 22.5% as compared to the second half of last year and a slight decrease of 4.6% as compared to the first half of last year, respectively. The increase was mainly due to the resume of construction in the industry sector this year and the gross profit margin returned to a normal level, as mentioned in previous sections.

(iii) Urban traffic

Gross profit margin for urban traffic sector in the six months ended June 30, 2012 was 31.0%, representing an increase of 9.5% as compared to the second half of last year and a decrease of 13.3% as compared to the first half of last year, respectively. The increase was mainly due to the strategic acquisition of CTH in the industry sector last year and the gross profit margin remained between 20% to 40% level, as mentioned in previous sections.

(iv) Energy

Gross profit margin for energy sector in the six months ended June 30, 2012 was 46.1%, representing an increase of 24.2% as compared to the second half of last year and an increase of 10.2% as compared to the first half of last year, respectively. This is mainly due to the mature stage of this business sector, which is no longer a major industry sector for the Group.

By Segment

	Six months ended		
Gross Profit by Segments	**June 30,**	December 31,	June 30,
RMB'000	**2012**	2011	2011
Turnkey Solutions	**37,521**	66,993	31,761
Margin	***14.8%***	*16.2%*	*14.6%*
Specialized Solutions	**160,480**	106,117	168,318
Margin	***34.3%***	*21.5%*	*37.2%*
VAOS	**7,320**	11,193	8,010
Margin	***43.4%***	*53.3%*	*53.8%*
Total	**205,321**	184,303	208,089
Margin	***28.2%***	*20.4%*	*30.4%*

(i) Turnkey Solutions

Gross profit margin for Turnkey Solutions in the six months ended June 30, 2012 was 14.8%, representing a decrease of 1.4% as compared to the second half of last year and an increase of 0.2% as compared to the first half of last year, respectively. However, the decline was in line with normal margin variations range on an intra-year basis, reflecting the project nature of the Turnkey Solutions business. This means overall margins in this business segment will vary year to year, within this range, based on the project mix.

(ii) Specialized Solutions

Gross profit margin for Specialized Solutions in the six months ended June 30, 2012 was 34.3%, representing an increase of 12.8% as compared to the second half of last year and a decrease of 2.9% as compared to the first half of last year, respectively. This is due to the economy resume in the first half of this year from the second half of last year.

(iii) VAOS

Gross profit margin for VAOS in the six months ended June 30, 2012 was 43.4%, representing a decrease of 9.9% as compared to the second half of last year and a decrease of 10.4% as compared to the first half of last year, respectively.

Other Income and Gains

Other income and gains mainly arise from operating leases on investment properties and government grants. The increase in other income and gains was due to the government grants recognised by the Group to subsidise the research and development activities with no unfulfilled conditions in this year.

Selling, General and Administration Expenses

In the six months ended June 30, 2012, selling, general and administration expenses ("**SG&A**") as a percentage of sales increased by 3.5% to 19.9% as compared to the six months ended June 30, 2011, 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 (the "**Headcount Related Cost**") contributed the largest portion of the Group's SG&A. The Headcount Related Cost increased from RMB80.3 million in the six months ended June 30, 2011 to RMB100.7 million in the six months ended June 30, 2012, representing a 25.5% increase and contributed 69.6% of total SG&A in the period. 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, which has caused the Headcount Related Cost to increase. Management believes the expenditure in human resources will bring corresponding profits in the coming future.

The rental expenses increased from RMB8.1 million for the six months ended June 30, 2011 to RMB10.0 million in the six months ended June 30, 2012 due to the higher rental cost of the Company's new centralized office in Beijing. Rental expenses accounted for 6.9% of the total SG&A in the six months ended June 30, 2012, a decrease of 0.4% as compared to the corresponding period in 2011.

Research & developments expenses increases from RMB8.6 million for the six months ended June 30, 2011 to RMB10.6 million for the six months ended June 30, 2012. The major growth was due to increase of expenditure in R&D for the new business sectors such as urban traffic industry.

Equity-settled Share Option Expenses

Equity-settled share option expenses refer to the share options expenses related to the Company's pre-IPO share incentive scheme and the Share Option Scheme, under which share options were granted on January 18, 2012. In the six months ended June 30, 2012, equity-settled share option expenses recorded change from RMB3.6 million for the six months ended June 30, 2011 to RMB22.0 million.

Finance Income and Finance Cost

Finance income comprised of mainly interest income and finance cost comprised of mainly interest expenses for interest-bearing bank loan. The net financial expenses represented the total finance cost minus finance revenue. This financial expense was RMB4.5 million in the six months ended June 30, 2012, which represented an increase of 24.5% as compared to the six months ended June 30, 2011. The increase was mainly due to the composition of increase of loan interest rate and lower level of cash in bank balances compared to the corresponding period in 2011.

Share of Profits/(Losses) of Jointly-Controlled Entities/Operation and Associates

Share of losses of Jointly-Controlled Entities ("**JCE**") in the six months ended June 30, 2012 was approximately RMB4.8 million, which represented a fall from last year. Such change was due to the operating loss of Chengdu Weilute and the Group is now searching for other partnership in the area.

Income Tax Expenses

The total income tax expense in the six months ended June 30, 2012 was lower than that recorded for the six months ended June 30, 2011 due to the decrease of profit before tax. The effective tax rate in the six months ended June 30, 2012 was 22.1%, excluding the non-cash equity-settled share option expense. The applicable income tax rate for most of the subsidiaries are 15%, which is the preferential tax rate for HNTE. The higher level of effective tax rate is due to some of the loss subsidiaries will recognise most of the profit in the second half of 2012.

Profit for the Period

Profit for the period of the Group in the six months ended June 30, 2012 was RMB25.9 million.

Trade Receivables Turnover Days

The trade receivables turnover days in the six months ended June 30, 2012 was 161 days (in the six months ended June 30, 2011: 112 days).

Net Construction Contract Turnover Days

The net construction contract turnover days in the six months ended June 30, 2012 was 136 days (in the six months ended June 30, 2011: 115 days).

Trade Payables Turnover Days

The trade payables turnover days in the six months ended June 30, 2012 was 165 days (in the six months ended June 30, 2011: 152 days).

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 as well as the integrated TAXI or Bus monitoring & dispatching system. The inventory turnover days in the six months ended June 30, 2012 was 7 days (in the six months ended June 30, 2011: 2 days).

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 June 30, 2012, the Group's current ratio (current assets divided by current liabilities) was 2.0 (as at December 31, 2011: 1.9). The Group's financial position remains healthy.

As at June 30, 2012, the Group was in a negative net cash position of RMB248.9 million (as at December 31, 2011: net cash of RMB135.5 million) which included cash and cash equivalent of RMB142.4 million (as at December 31, 2011: RMB435.9 million) and short-term bank loans of RMB391.3 million (as at December 31, 2011: RMB300.4 million). As at June 30, 2012, the Group's gearing ratio was positive 7.1%, which has increased from -9.5% as at December 31, 2011, due to the tough economy environment in China. Gearing ratio refers to adjusted cash (interest-bearing bank borrowings minus pledged deposits, and cash and bank balances) divide total equity.

Contingent Liabilities

As at June 30, 2012, the Group has no material contingent liability.

Charges on Group Assets

As at the Group pledged its buildings having net book values of approximately RMB84.4 million (As at December 31, 2011: RMB84.4 million) to banks to secure banking facilities granted to the Group. Save as disclosed above, as at June 30, 2012, the Group has no other asset charged to financial institution.

Material Acquisitions of Subsidiaries

— *Acquisition of STONE*

On 20 June 2012, China ITS Urban Traffic Holding Co., Ltd., a wholly-owned subsidiary of the Company, acquired 100% of issued share capital of Hugecom Limited, which is incorporated in British Virgin Islands and is indirectly interested in 65% of the equity interest of STONE. On the same date, Beijing Bailian Zhida Technology Co., Ltd., a wholly-owned subsidiary of the Company, acquired 10% of the equity interest of STONE. As a result of these acquisitions, the Company has become indirectly interested in 75% of the equity interest in STONE. STONE is principally engaged in providing intelligent transportation system solutions and services to the urban traffic sector in the PRC. The Board believes that the Group can benefit from the acquisition to enhance the turnkey solution and specialized solution businesses in the urban traffic sector by leveraging the leading market presence of STONE. For further details, please refer to the announcements of the Company dated June 20, 2012 and June 28, 2012.

Events after the Reporting Period

— *Issuance of Consideration Shares*

On July 10, 2012, the Company issued 32,790,501 ordinary shares of the Company ("**Consideration Shares**") to United Fortune Overseas Limited at HK$1.2229 per Consideration Share pursuant to a share purchase agreement dated June 20, 2012 entered into between China ITS Urban Traffic Holding Co., Ltd., a wholly-owned subsidiary of the Company, and United Fortune Overseas Limited. For further details, please refer to the announcement of the Company dated June 20, 2012 and June 28, 2012.

— *Change of Chairman of the Board and Chief Executive Officer*

With effect from July 9, 2012, Mr. Liao Jie, an executive Director, has been elected as the chairman of the Board and retired from his previous position as the chief executive officer of the Company, and Mr. Jiang Hailin, an executive Director, who served as the chief executive officer of the Company since the date of its incorporation in 2008 until August 24, 2011, has been re-appointed as the chief executive officer of the Company and therefore resigned from his previous position as the chairman of the Board. For further details, please refer to the announcement of the Company dated July 9, 2012.

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 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 June 30, 2012 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	224.7	24.0
Research and development	10%	71.1	39.0	32.1
General corporate purposes	10%	71.1	68.4	2.7
Total	100%	710.6	651.8	58.8

EMPLOYMENT AND EMOLUMENT POLICIES

As at June 30, 2012, the Group had 1,056 full-time employees. The emolument policy of the employees of the Group is set up by the Board on the basis of individual performance, the nature and responsibilities of the individual concerned and the performance of our Group and market conditions.

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

INTERIM DIVIDEND

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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.

Subsequent to the reporting period, on July 10, 2012, the Company issued 32,790,501 ordinary shares of the Company ("**Consideration Shares**") to United Fortune Overseas Limited at HK$1.2229 per Consideration Share pursuant to a share purchase agreement dated June 20, 2012 entered into between China ITS Urban Traffic Holding Co., Ltd., a wholly-owned subsidiary of the Company, and United Fortune Overseas Limited. For further details, please refer to the announcement of the Company dated June 20, 2012 and June 28, 2012.

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 had adopted the code provisions contained in the code of corporate governance practices (the "**Old CG Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") effective since its adoption by the Company on June 18, 2010 until March 27, 2012. For the purpose of complying with the new corporate governance code as set out in the Appendix 14 of the Listing Rules, which took effect from April 1, 2012, the Company has adopted the revised code provisions contained in the new corporate governance code ("**New CG Code**") on March 28, 2012. The Company has complied with (i) the code provisions contained in the Old CG Code from January 1, 2012 to March 27, 2012; and (ii) the code provisions contained in the New CG Code from March 28, 2012 to June 30, 2012.

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 during the reporting period.

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 Old CG Code. For the purpose of complying with the New CG Code adopted by the Company on March 28, 2012, the Board has adopted revised terms of reference for the Audit Committee on March 28, 2012.

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, 2012 together with the management of the Company and external auditor, Ernst & Young.

PUBLICATION OF INTERIM REPORTS

The 2012 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.
Liao Jie
Chairman

Hong Kong, August 24, 2012

As at the date of this announcement, the executive Directors of the Company are Mr. Liao Jie, Mr. Jiang Hailin, 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.