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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2012

HIGHLIGHTS OF 2012 ANNUAL RESULTS

- The amount of new contracts signed and orders secured for the year ended December 31, 2012 beat its record high to approximately RMB2,617.4 million, compared to approximately RMB1,900.1 million for the year ended December 31, 2011, or an approximately 37.8% increase.
- The amount of backlog as at December 31, 2012 beat its record high to approximately RMB2,019.6 million, compared to approximately RMB1,593.5 million as at December 31, 2011, or an approximately 26.7% increase.
- Revenue for the year ended December 31, 2012 beat its record high to approximately RMB2,146.0 million, compared to approximately RMB1,585.2 million for the year ended December 31, 2011, or an approximately 35.4% increase.
- Gross profit for the year ended December 31, 2012 was approximately RMB516.7 million, compared to approximately RMB392.4 million for the year ended December 31, 2011, or an approximately 31.7% increase.
- Gross profit margin slightly decreased from prior year to approximately 24.1%.
- The non-cash expenses[(1)] for the year ended December 31, 2012 was approximately RMB51.0 million, compared to approximately RMB9.3 million for the year ended December 31, 2011, or an approximately 448.4% increase.

- Before deducting the non-cash expenses, the pro forma profit attributable to owner of the parent[(2)] for the year ended December 31, 2012 was approximately RMB182.9 million, compared to approximately RMB122.2 million for the year ended December 31, 2011, or an approximately 49.7% increase.

- Profit attributable to owners of the parent for the year ended December 31, 2012 was RMB131.9 million, compared to approximately RMB112.9 million for the year ended December 31, 2011, or an approximately 16.8% increase.

- Earnings per share[(3)] was RMB0.08 per share.

Notes:

(1) Non-cash expenses include equity-settled share option expenses and amortization of intangible assets arising from acquisitions.

(2) Pro forma profit attributable to owner of the parent refers to profit attributable to owner of the parent for the year plus non-cash expenses.

(3) Earnings per share refers to profit attributable to owners of the parent divided by weighted average number of shares in issue, during the year-ended December 31, 2012.

ANNUAL RESULTS

The board of directors (individually "**Director**", or collectively the "**Board**") of China ITS (Holdings) Co., Ltd. ("**CIC**" or the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (together as the "**Group**") for the year ended December 31, 2012, with comparative figures, as follows:

CONSOLIDATED INCOME STATEMENT

Year ended December 31, 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	4	**2,146,000**	1,585,206
Cost of sales	5	**(1,629,270)**	(1,192,814)
Gross profit		**516,730**	392,392
Other income and gains	4	**47,131**	23,636
Selling, general and administrative expenses		**(359,109)**	(283,365)
Other expenses		**(2,130)**	(1,364)
OPERATING PROFIT		**202,622**	131,299
Finance income		**12,850**	4,037
Finance costs	6	**(29,427)**	(14,894)
Share of profits of:			
Jointly-controlled entities/operation		**9**	5,947
Associates		**9,726**	5,358
Gain on disposal of a subsidiary		**2,462**	–
PROFIT BEFORE TAX	5	**198,242**	131,747
Income tax expense	7	**(58,913)**	(20,779)
PROFIT FOR THE YEAR		**139,329**	110,968
Attributable to:			
Owners of the parent		**131,910**	112,919
Non-controlling interests		**7,419**	(1,951)
		139,329	110,968

	Notes	**2012**	2011
		RMB	*RMB*
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
— For profit for the year	*9*	**0.08**	0.07
Diluted			
— For profit for the year	*9*	**0.08**	0.07

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2012

	2012	2011
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**139,329**	110,968
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**413**	(17,829)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**413**	(17,829)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**139,742**	93,139
Attributable to:		
Owners of the parent	**132,323**	95,090
Non-controlling interests	**7,419**	(1,951)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2012

	Notes	**December 31, 2012** ***RMB'000***	December 31, 2011 *RMB'000*
NON-CURRENT ASSETS			
Property and equipment		**55,915**	56,243
Investment properties		**154,000**	145,800
Goodwill		**406,135**	347,321
Prepaid land premium		**14,149**	–
Other intangible assets		**78,717**	34,467
Investments in jointly-controlled entities/operation		**33,350**	31,611
Investments in associates		**94,043**	84,740
Available-for-sale investment		**25,307**	–
Deferred tax assets		**12,202**	13,350
Prepayment for acquisition of equity interests in other companies		**111,710**	105,715
Other long-term assets		**19,944**	557
Total non-current assets		**1,005,472**	819,804
CURRENT ASSETS			
Inventories		**37,853**	31,262
Construction contracts	*10*	**1,255,393**	785,172
Trade and bills receivables	*11*	**903,794**	769,186
Prepayments, deposits and other receivables		**1,146,390**	869,406
Due from related parties		**74,656**	81,791
Deferred cost		**8,071**	–
Held-to-maturity investment		**69,405**	69,396
Pledged deposits	*12*	**80,636**	79,841
Cash and cash equivalents	*12*	**584,783**	435,881
Other financial assets		**3,445**	–
Total current assets		**4,164,426**	3,121,935
CURRENT LIABILITIES			
Trade and bills payables	*13*	**923,666**	672,652
Other payables and accruals		**327,558**	170,557
Construction contracts	*10*	**679,378**	458,709
Interest-bearing bank borrowings		**431,577**	300,390
Due to related parties		**13,847**	11,694
Income tax payable		**42,072**	14,948
Deferred income		**1,344**	4,200
Total current liabilities		**2,419,442**	1,633,150
NET CURRENT ASSETS		**1,744,984**	1,488,785
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,750,456**	2,308,589

	Notes	**December 31, 2012** *RMB'000*	December 31, 2011 *RMB'000*
NON-CURRENT LIABILITIES			
Guaranteed Bonds	*14*	**201,194**	–
Long-term payable		**8,537**	–
Deferred tax liabilities		**43,319**	35,889
Total non-current liabilities		**253,050**	35,889
NET ASSETS		**2,497,406**	2,272,700
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**289**	283
Reserves		**2,462,400**	2,265,529
		2,462,689	2,265,812
Non-controlling interests		**34,717**	6,888
Total equity		**2,497,406**	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 registered address of the Company is Criket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, the 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 (the "**IFRSs**"), which include all International Financial Reporting Standards, International Accounting Standards (the "**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 and certain financial instruments, which have been measured at fair value. These financial statements are presented in Renminbi (the "**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 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 Services (the "**VAOS**") segment involves operation outsourcing and value-added services, via intelligent transport system 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 or loss, 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 finance income, finance costs, gain on disposal of a subsidiary, share of profits of jointly-controlled entities/operation and associates, other income, changes in fair value of investment properties as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, property and equipment, investment properties, prepaid land premium investments in jointly-controlled entities/operation and associates, prepayment for acquisition of equity interests in other companies, goodwill, other intangible assets, held-to-maturity investment, available-for-sale investment, other long-term assets, other financial assets, deferred cost 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, Guaranteed Bonds, 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.

Year ended December 31, 2012

	TS *RMB'000*	**SS** *RMB'000*	**VAOS** *RMB'000*	**Consolidated** *RMB'000*
Segment revenue				
Sales to external customers	**953,226**	**1,136,703**	**56,071**	**2,146,000**
Intersegment sales	**–**	**45,316**	**–**	**45,316**
	953,226	**1,182,019**	**56,071**	**2,191,316**
Reconciliation:				
Elimination of intersegment sales				**(45,316)**
Revenue				**2,146,000**
Segment results	**63,807**	**126,747**	**11,121**	**201,675**
Reconciliation:				
Finance income				**12,850**
Other income				**20,944**
Share of profits of associates				**9,726**
Share of profits of jointly-controlled entities/operation				**9**
Gain on disposal of a subsidiary				**2,462**
Changes in fair value of investment properties				**8,200**
Corporate and other unallocated expenses				**(27,867)**
Exchange loss				**(330)**
Finance costs				**(29,427)**
Profit before tax				**198,242**

December 31, 2012

	TS	SS	VAOS	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	**830,642**	**2,632,384**	**63,217**	**3,526,243**
Reconciliation:				
Elimination of intersegment receivables	**(66,223)**	**(163,059)**		**(229,282)**
Corporate and other unallocated assets				**1,872,937**
Total assets				**5,169,898**
Segment liabilities	**520,698**	**1,563,043**	**36,988**	**2,120,729**
Reconciliation:				
Elimination of intersegment payables	**(108,836)**	**(120,446)**		**(229,282)**
Corporate and other unallocated liabilities				**781,045**
Total liabilities				**2,672,492**
Other segment information				
Share of profits of:				
Jointly-controlled entities/ operation				**9**
Associates				**9,726**
Depreciation and amortisation				**35,310**
Investments in jointly-controlled entities/operation				**33,350**
Investments in associates				**94,043**
Capital expenditure *				**206,152**

* Capital expenditure consists of additions to property and equipment, other intangible assets, prepaid land premium including assets from the acquisition of a subsidiary, prepayment for acquisition of equity interests in other companies.

Year ended December 31, 2011

	TS *RMB'000*	SS *RMB'000*	VAOS *RMB'000*	Consolidated *RMB'000*
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:				
Finance income				4,037
Share of profits of associates				5,358
Share of profits of jointly-controlled entities/operation				5,947
Changes in fair value of 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

	TS *RMB'000*	SS *RMB'000*	VAOS *RMB'000*	Consolidated *RMB'000*
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/ operations				5,947
Associates				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 addition of property and equipment, other intangible assets and prepayment for acquisition of equity interest in other companies.

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, other income and gains is as follows:

	2012 *RMB'000*	2011 *RMB'000*
Revenue		
Implementation of projects	**1,926,159**	1,478,679
Sale of products	**219,841**	106,527
	2,146,000	1,585,206
Other income		
Gross rental income	**9,778**	8,591
Government grants*	**8,195**	3,112
Fair value gain on an interest in a jointly-controlled entity	**–**	2,512
Exchange gains	**–**	4,112
Others**	**20,958**	546
	38,931	18,873
Gains		
Changes in fair value of investment properties	**8,200**	4,763
	47,131	23,636

* 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.

** Others included RMB20,944,000 compensation income from Beijing Global Holdings Limited, an independent third party which is a potential strategic investor of a subsidiary of the Company.

5. PROFIT BEFORE TAX

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

	2012	2011
	RMB'000	*RMB'000*
Cost of services rendered for implementation of projects	**1,490,737**	1,118,001
Cost of inventories sold	**138,533**	74,813
	1,629,270	1,192,814
Depreciation	**19,790**	9,998
Amortisation of intangible assets*	**15,520**	3,108
Minimum lease payments under operating leases	**25,891**	20,243
Auditors' remuneration	**2,902**	3,406
Wages and salaries	**80,036**	59,441
Pension scheme contributions (defined contribution scheme)	**9,012**	8,245
Social insurance costs and staff welfare	**14,547**	13,392
Equity-settled share option expenses	**35,542**	6,151
	139,137	87,229
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	**23,749**	14,894
Changes in fair value of investment properties	**(8,200)**	(4,763)
Net loss on disposal of items of property and equipment	**80**	51
Charitable donation	**820**	121
Finance income	**(12,850)**	(4,037)

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

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

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2012	2011
	RMB'000	*RMB'000*
Interest on bank loans, overdrafts and other loans wholly repayable within five years	**23,749**	14,894
Interest on Guaranteed Bonds	**3,494**	–
Total interest expense on financial liabilities not at fair value through profit or loss	**27,243**	14,894
Other finance cost:		
Increase in discounted amounts of long-term payable arising from the passage of time	**2,184**	–
	29,427	14,894

7. INCOME TAX

The Group was not subject to Hong Kong profits tax for the year ended December 31, 2012 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.

Under the Implementation Rule, from January 1, 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, are subject to withholding tax at the rate of 10% on various types of passive income such as dividends derived from entities in the PRC. Distributions of the pre-2008 earnings are exempted from the above-mentioned withholding tax. In 2012, Beijing RHY Technology Development Co., Ltd (北京瑞華贏科技發展有限公司) (the "**RHY Technology**"), a PRC subsidiary, has distributed earnings to China Toprise Limited which is registered in the British Virgin Islands and RMB14,959,000 of withholding tax has been paid. At December 31, 2012, no deferred tax liabilities have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC (December 31, 2011: Nil). In the opinion of the Directors, it is not probable that the Group's PRC subsidiaries will distribute profits in the foreseeable future. The aggregate amount of temporary differences associates with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totaled approximately RMB863,569,581 (2011: RMB589,247,000).

The major components of income tax expense are:

	2012	2011
	RMB'000	*RMB'000*
Current income tax:		
Current income tax charge in the PRC	**65,277**	29,150
Deferred income tax:		
Relating to origination and reversal of temporary differences	**(6,364)**	(8,371)
Income tax expense reported in the consolidated income statement	**58,913**	20,779

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:

2012	**Hong Kong**	**Cayman and British Virgin Islands**	**Mainland China**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Profit/(loss) before tax	**(3,741)**	**(46)**	**202,029**	**198,242**
Tax at statutory tax rate	**–**	**–**	**50,903**	**50,903**
Tax holiday or lower tax rates enacted by local authorities	**–**	**–**	**(19,557)**	**(19,557)**
Expenses not deductible for tax	**–**	**–**	**6,576**	**6,576**
Income not subject to tax	**–**	**–**	**(662)**	**(662)**
Adjustments in respect of current income tax of previous period	**–**	**–**	**387**	**387**
Investment gain from Reorganisation*	**–**	**–**	**6,162**	**6,162**
10% withholding tax on profit distribution from PRC subsidiary	**–**	**14,959**	**–**	**14,959**
Profit attributable to jointly-controlled entities/operation and associates	**–**	**–**	**(1,982)**	**(1,982)**
Tax losses not recognised	**–**	**–**	**2,127**	**2,127**
Income tax expense reported in the consolidated income statement	**–**	**14,959**	**43,954**	**58,913**

* In 2012, the Group underwent a series of reorganisations of subsidiaries in the PRC (the "Reorganisation").

2011	Hong Kong	Cayman and British Virgin Islands	Mainland China	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Profit 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/operation and associates	–	–	(622)	(622)
Income tax expense reported in the consolidated income statement	–	–	20,779	20,779

The share of tax attributable to jointly-controlled entities/operation and associates amounting to RMB1,982,000 (2011: RMB622,000) is included in "Share of profits of jointly-controlled entities/operation" and "Share of profits of associates" in the consolidated income statement.

8. DIVIDENDS

The Company did not recommend the payment of a final dividend for 2012.

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 1,628,539,233 (2011: 1,582,838,016) during the year.

	2012	2011
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**131,910**	112,919

	Number of shares	
	2012	2011
Shares		
Weighted average number of shares in issue during the year used in the basic earnings per share calculation	**1,628,539,233**	1,582,838,016
Effect of dilution — weighted average number of ordinary shares:		
Share options	**4,240,980**	–
	1,632,780,213	1,582,838,016

The Group had no potentially dilutive ordinary shares for the year ended December 31, 2011.

10. CONSTRUCTION CONTRACTS

	Group	
	2012	2011
	RMB'000	*RMB'000*
Gross amount due from contract customers	**1,255,393**	785,172
Gross amount due to contract customers	**(679,378)**	(458,709)
	576,015	326,463
Contract costs incurred plus recognised profits less recognised losses to date	**4,725,123**	4,234,784
Less: Progress billings	**(4,149,108)**	(3,908,321)
	576,015	326,463

11. TRADE AND BILLS RECEIVABLES

	Group	
	2012	2011
	RMB'000	*RMB'000*
Trade receivables	**869,933**	736,655
Impairment	**(1,690)**	(1,829)
	868,243	734,826
Bills receivables	**35,551**	34,360
	903,794	769,186

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 the impairment of trade and bills receivables are as follows:

	2012	2011
	RMB'000	*RMB'000*
At January 1	**1,829**	1,434
Impairment loss recognised	**–**	395
Written off	**(139)**	–
At December 31	**1,690**	1,829

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:

	2012	2011
	RMB'000	*RMB'000*
Less than 6 months	**415,459**	440,299
6 months to 1 year	**159,230**	125,714
1 year to 2 years	**251,745**	159,750
2 years to 3 years	**56,389**	39,141
Over 3 years	**20,971**	4,282
	903,794	769,186

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

	2012	2011
	RMB'000	*RMB'000*
Neither past due nor impaired	**422,551**	299,004
Past due but not impaired:		
Less than 6 months past due	**110,063**	188,054
6 months to 1 year past due	**136,717**	87,740
1 year to 2 years past due	**175,756**	156,511
2 years to 3 years past due	**44,723**	35,407
Over 3 years past due	**13,984**	2,470
	903,794	769,186

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 are of the opinion that no provision for impairment is necessary in respect of these balances as they are still considered fully recoverable.

The Group has no pledged trade receivables for the year 2012 (2011: RMB14 million).

12. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2012	2011
	RMB'000	*RMB'000*
Cash and bank balances	**584,783**	435,881
Pledged deposits	**80,636**	79,841
	665,419	515,722
Less: Pledged deposits for		
— Project bonds	**(54,815)**	(69,352)
— Bills payables	**(25,821)**	(10,489)
	(80,636)	(79,841)
Cash and bank balances	**584,783**	435,881

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

The cash and bank balances and pledged deposits of the Group denominated in RMB totaled RMB631.4 million (RMB559.2 million is located in Mainland China and RMB72.2 million is located in overseas) as at December 31, 2012 (2011: RMB463.9 million). In Mainland China, the RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

13. TRADE AND BILLS PAYABLES

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

	2012	2011
	RMB'000	RMB'000
Current or less than 1 year past due	**836,418**	620,096
1 to 2 years past due	**87,248**	24,488
Over 2 years past due	**–**	28,068
	923,666	672,652

The Group's bills payables were secured by pledged deposits of the Group of RMB25.8 million as at December 31, 2012 (2011: RMB10.5 million).

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

14. GUARANTEED BONDS

In November 2012, the Company issued RMB210.0 million guaranteed bonds (the "Guaranteed Bonds") with 10% of interest rate per annum, due 2015. The net proceeds of the Guaranteed Bonds were RMB201.2 million after deduction of commission and expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

Over decades, a sound foundation for the development of intelligent transportation system (the "**ITS**") in China has gradually been laid. During "12th Five-Year Plan" period, the technological innovation will be the main driving force to optimize the full deployment of intelligent transportation. Despite the slowing down of macro economic growth in 2011, the Group, as a leading provider of the ITS solutions with pioneering track record and core technology competence, has successfully rebounded with considerable revenue in 2012. The revenue of the Group was RMB2,146.0 million, representing an increase of 35.4% as compared to RMB1,585.2 million in 2011. New contracts signed and orders secured in 2012 amounted to RMB2,617.4 million, representing an increase of 37.8% as compared to 2011. Backlog as at the end of 2012 was RMB2,019.6 million, representing an increase of 26.7% as compared to 2011.

In 2012, The Group adopted a series of timely reactions to meet the challenge of rapid changes in ITS market and promoted a strong growth in its business. We successfully participated in the "National Highway information and communication system networking projects of Ministry of Transport (the "**MOT**")", which is a backbone expressway network project covering various provinces and cities. Meanwhile, the Group continued to strengthen cooperation with National Development and Reform Commission, Ministry of Science and Technology, and achieved certain breakthrough in terms of support for scientific research. From business point of view, the Group's market share still retained its top position in China ITS market.

In 2012, the management team followed the principle of "front-end decentralization and mid/back-end centralization", and divided the business units into five relatively independent front-end sectors, including Expressway sector, Railway sector (including urban rapid transit), Urban Traffic sector, Smart City sector and New Industries sector. The Group also implemented the restructuring of mid-end departments, such as marketing, research and development (the "**R&D**"), in order to centralize resources.

Merger and acquisition, which is a key strategy for expansion of the Group, has been contributing to the integration of business resources and consolidation of the Group's market position. In June 2012, the Group successfully acquired Beijing STONE Intelligent Transportation System Integration Co., Ltd.* (北京四通智能交通系統集成有限公司) (the "**STONE**") to enhance the TS and SS segments in Urban traffic sector by leveraging the leading market presence of STONE in landmark cities like Beijing. In the future, the Group will keep on expanding into new sectors to archive overall industry coverage and comprehensive product offerings.

In July 2012, Mr. Liao Jie ("**Mr. Liao**") has been elected as the chairman of the Board (the "**Chairman**") and retired from chief executive officer of the Company. Mr. Liao focuses his effort in formulating and implementing direction and strategy of the Group. Mr. Jiang Hailin ("**Mr. Jiang**") has been appointed as the chief executive officer of the Company with effect from July 2012. The Board believed that this change will best optimize Mr. Liao and Mr. Jiang's expertise and create excellent values for shareholders during the post-business transformation stage since mid 2011.

In 2012, three major business sectors of the Group, which are Expressway (the "**Expressway**"), Railway (the "**Railway**") (including urban rapid transit) and Urban Traffic (the "**Urban Traffic**") sectors, were revenue generators. The Group expanded the business scope to the fourth sector, Smart City (the "**Smart City**") sector, and has been actively preparing for the other new industry sector. The latter two are in operational investment stage and hence do not reflect revenue recognized during the year.

Business Review

In 2012, the Expressway sector recorded revenue of RMB1,158.4 million, representing 51.9% of the Group's total revenue, the Railway (including urban rapid transit) sector recorded revenue of RMB611.8 million, representing 28.5% of the Group's total revenue, and the Urban Traffic sector recorded revenue of RMB394.6 million, representing 18.4% of the Group's total revenue.

(i) Expressway

In 2012, the Expressway sector recorded revenue of RMB1,158.4 million, representing an increase of 31.4% as compared to RMB881.3 million in 2011. The new contracts and orders secured of the Expressway sector amounted to RMB1,465.6 million, representing an increase of 58.5% as compared with last year. As at the end of 2012, backlog of the Expressway sector was RMB887.2 million, representing an increase of 51.4% as compared with last year. The results reflected a historical high revenue for the Expressway sector with numerous milestone projects showing our Group's solid track record and new product implementation abilities.

In 2012, the major projects of the Expressway sector included Liaoning Zhuang-Gai (Zhuanghe-Gaizhou) Expressway Project, Hebei Zhang-Shi (Zhangjiakou-Shijiazhuang) Expressway Tunnel Project, and Jiangsu Expressway Network Communication Renovation Project.

In December 2012, the Group introduced strategic investor Beijing Global Holdings Limited (the "**Beijing Global**"), a wholly owned subsidiary of CSOP Growth Fund (together with Beijing Global, the "**Expressway Strategic Investor**") as a 36.75% shareholder of the Expressway sector. Under the agreement, Beijing Global will subscribe to new shares to be issued by the Group's expressway holding company, China Expressway Group at the amount of RMB550 million. The proceeds will be used to facilitate the reorganization of the Group's businesses in the Expressway sector, to increase company's working capital for business expansion, and to meet further capital requirement in our future innovative business model. As the Expressway Strategic Investor has extensive experience in investing in businesses in the technology sector in the PRC, it is expected that the Expressway Strategic Investor will bring strategic values including the contribution of capital and the strategic input into the Company to future business expansion and new technology implementation of the expressway business of the Company. In early 2013, the Expressway sector was awarded a contract with Yunnan Dali Expressway Construction Headquarters at the amount of RMB510.6 million, of which the contract value is a historical high in Mainland expressway ITS industry. The board believes that this construction contract reflects our new business breakthrough in the western region after introducing the Expressway Strategic Investor as our strategic investor and reorganization in the Expressway sector.

For the further information of the Expressway Strategic Investor's investment into the Expressway sector, please refer to the circular of the Company on January 18, 2013, and the announcements of the Company dated December 11, 2012, December 12, 2012, January 4, 2013 and January 14, 2013.

(ii) Railway (including urban rapid transit)

In 2012, the Railway sector recorded revenue of RMB611.8 million, representing an increase of 17.7% as compared to RMB520.0 million in 2011. The new contracts signed and orders secured of the Railway sector amounted to RMB595.7 million, representing an increase of 1.6% as compared with last year. As at the end of 2012, backlog of the Railway sector was RMB686.1 million, representing a slight decrease of 2.3% as compared with last year. The MOR restructuring was well expected and the Group was strategically positioned to continue capture "12th Five-Year Plan" spending in railway construction with diversified coverage in high speed passenger train and local railway bureaus by traditional specialized communications solutions products and new SS respectively. The Group successfully launched new solutions such as video conferencing and platform screen doors automation solution in order to diversify our railway offerings, and also completed meaningful milestone projects such as passenger ticket system.

In 2012, the major projects of the Railway sector included Xiang-Gui (Hunan-Guangxi) GSM Network Project, Web Passenger Ticket System Project and Beijing Subway Line 6 Project.

(iii) Urban Traffic

The Urban Traffic sector is considered the most promising high growth generator of the group in 2013 and 2014 as the market is full of exciting opportunities without a lot of powerful players. Apparently, the Group's current setup in the Urban Traffic sector after combining the traditional urban traffic specialized solution business units with the two newly acquired entities China Traffic Holding Limited (the "**CTH**") and STONE formed a very strong and leading player in the market, who can dominate the booming urban traffic sector in the ITS industry in any part of the PRC.

In 2012, the Urban Traffic sector recorded revenue of RMB394.5 million, representing a significant increase of 129.2% as compared to RMB172.2 million in 2011. The new contracts signed and orders secured of the Urban Traffic sector amounted to RMB527.2 million, representing an increase of 53.5% as compared with last year. As at the end of 2012, backlog of the Urban Traffic sector was RMB434.2 million, representing an increase of 46.9% as compared with last year.

In 2012, the major projects of our Urban Traffic sector included Jining ITS Project, Weifang ITS Project, and Zhongshan ITS Project.

In 2012, the Company announced a transaction with total consideration of RMB137.3 million of which RMB32.7 million was satisfied by Shares to acquire a total of 75% ownership in STONE, an urban traffic TS and SS provider. STONE is the leading provider of integrated urban traffic system, solutions and service. After acquiring the STONE, the Company completed the urban traffic layout with solid potential from all fronts including product portfolio, geographical and customer coverage. The Urban Traffic sector is currently undergoing internal restructuring process, and the Board believes that Urban Traffic sector will become a strong and stable recurring revenue generator in addition to expressway and railway businesses.

(iv) Smart City

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

As a new business sector of the Group since 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 is still on experimental stage with five projects undergoing in Northeast China. The Group will carefully evaluate the feasibility, profitability, and account receivable recoverability of each project before committing to any resource in the Smart City sector. The Board believes that the Smart City sector will create much more value in 2013.

Business Prospects

(i) Expressway

2013 is the third year of "12th Five-Year Plan", the government will continue to invest in and increase the capital expenditure (the "**CAPEX**") spending on enhancing coverage of the expressway network. The national expressway network will comprise of 7 radial expressways, 9 vertical expressways and 18 horizontal expressways, respectively. The expressway construction in east region of China has come into post-construction stage where new technology is required in value-added services provision. Meanwhile, west region is still at construction stage and more capital is required in new innovative business models. The Board believes that the Group's business in the Expressway sector will experience significant growth and increase in market shares, especially after the introduction of Expressway Strategic Investor at the end of 2012.

(ii) Railway

To cover cities with population of over 500,000, China's "12th Five-Year Plan" for railway targets to build 30,000 km of new railway lines by 2015. In September 2012, the National Development and Reform Commission approved the feasibility reports of 25 urban railway projects with a total contract value of over RMB700 billion as part of the new economic stimulus package. The related projects are located in Shenzhen, Chengdu, Changchun, Tianjin, Hangzhou, Suzhou, etc. High-speed railway network will also reach 45,000 km according to the "12th Five-Year Plan". The total investments in railways amount to RMB2.8 trillion during the "12th Five-Year Plan" period. The Group will continue focusing on local bureaus' product upgrading and maintaining existing lines, especially those newly built high-speed railways with over 60% market share we served before during the last three to four years.

(iii) Urban Traffic

To accommodate the needs resulted from growth of urban traffic and to resolve traffic congestion issues, RMB700 billion was planned to be invested in urban roadway traffic construction during the period of the "12th Five-Year Plan" according to the Ministry of Housing and Urban-Rural Development. According to China's Ministry of Public Security, motor vehicle ownership in the country reached 233 million by mid-2012, and the number is expected to become more than double in the next 10 years. As a side effect of this boom, urban traffic congestion has been deteriorating rapidly in almost every city in China, bringing attention to the need for more efficient traffic management systems.

After acquiring CTH in 2011 and STONE in 2012, the Urban Traffic sector has completed its full shape structuring with pioneering track record, top tier team members, extensive products and completed business model coverage amongst other competitors in the market. After finishing the ongoing restructuring, the Group will have three business units covering video surveillance, information platform and ITS integration solutions. With such diversified corporate structure, the sales network will be expanded to all types of businesses in the Urban Traffic business throughout China. The Board believes that the Urban Traffic sector performance will be the top compared with other sectors as a result of the abundance of internal resources and external policy advantages.

(iv) Smart City

The development of smart city will be prioritized and around 600-800 cities are expected to begin work on their smart city projects within the "12th Five-Year Plan" period, which could stimulate market demand of RMB2 trillion across the entire value chain. The Group will carefully evaluate the smart city business opportunities and find a proper way to maintain the quality of customers and contracts in balance with top line growth. The Group believes that the Smart City sector will be one of the most distinctive smart city solution providers in China.

In addition to the four major sectors, the Group will strategically expand our business into new traffic sectors and carry out reorganization for other traffic related businesses in 2013.

From the human resource angle, as many new teams join the Group, we are facing challenges of compatibility of corporate culture and management integrations. The new teams will be trained and integrated with the existing ones, who will learn from each other and grow together. The Board believes that new teams will not only play a role in promoting the development of business, but also bring lots of experience and business talents to improve the Group's overall management team levels.

As for marketing and R&D, the Group will continue to promote the development in order to maintain our leading position in ITS industry. Furthermore, the Group aims to be the standard maker in the PRC ITS industry, which implies our business model, products, solutions and technologies will occupy the leading position in the industry. As a result, the Group will establish marketing and R&D systems which are tailored made for long-term development planning, major cooperation developing and technology management.

Looking forward, the Group will continue offering turnkey and specialized ITS solutions and value-added services that address fundamental needs such as safety, reliability, efficiency, pollution reduction and efficiency enhancement in Expressway, Railway, Urban Traffic and Smart City sectors. We believe that ITS industry, taking advantage of the implementation of new urbanization strategy, will remain at a fast development stage. The Group will consolidate mature sectors such as the Expressway and the Railway sectors and expand business in the Urban Traffic sector, and the Board believes that this strategy can help the Group to achieve healthy development in the future.

BUSINESS AND FINANCIAL REVIEW

Revenue

By Industry Sectors

The Group's Revenue for the year ended December 31, 2012 increased by 35.4% to RMB2,146.0 million as compared to RMB1,585.2 million for the year ended December 31, 2011 due to the continuous increasing demand of intelligent transportation networks in China. The Group beat its record high in every key transportation industry sector and was composed of a 31.4% increase in the Expressway sector, a 17.7% increase in the Railway sector, a 129.2% increase in the Urban Traffic sector, and was offset by a 32.5% decrease in the less strategic energy sectors. The following table sets out the revenue breakdown by Industry sectors:

	Year ended December 31	
	2012	2011
	RMB'000	*RMB'000*
Revenue by Industry Sectors		
Expressway	**1,158,428**	881,306
Railway	**611,766**	519,999
Urban traffic	**394,595**	172,194
Energy	**26,527**	39,282
Elimination	**(45,316)**	(27,575)
Total	**2,146,000**	1,585,206

(i) *Expressway*

Revenue from the Expressway sector in the year ended December 31, 2012 was RMB1,158.4 million, representing an increase of RMB277.1 million, or 31.4% as compared to RMB881.3 million for the year ended December 31, 2011. As mentioned in annual report of 2011 and interim report in 2012, the Group had forecasted the expressway business will resume to the normal level in recent years after the challenging year 2011. The actual result reflected the strong rebound that the revenue from the Expressway sector beat its historical high to almost the double size of that in 2007. From the market aspect, local expressway bureaus all over mainland China such as northeast, center and south regions had restarted the projects which had been postponed in 2011. From the Group's perspective, management had made significant progress in developing new regions such as Henan, Shanxi and Yunnan. In early 2013, our expressway subsidiary has entered into the Contract with Dali Expressway Construction Headquarters, which is responsible for the management of the construction of the Yunnan Dali Expressway, with a contract price of approximately RMB510.6 million. We won the Contract through a competitive bidding process and will be responsible for the construction of the communication system, monitoring system, toll collection system, tunnel ventilation and lighting and power distribution infrastructure for the project. The Yunnan Dali Project is a milestone in the Expressway sector for the nature, amount and region aspects. The

Group believes the Expressway sector will have a continued increment in 2013 and have the continued growth in the coming years under the ongoing contribution from government's infrastructure construction. The new contracts signed and orders secured amount in the year ended December 31, 2012 was RMB1,465.6 million and the backlog amount as at December 31, 2012 was RMB887.2 million for the Expressway sector.

(ii) Railway

Revenue from the Railway sector in the year ended December 31, 2012 was RMB611.8 million, representing an increase of RMB91.8 million, or 17.7% as compared to RMB520.0 million for the year ended December 31, 2011. There was obvious resumption in the Railway sector business in 2012 after the slowdown of construction in 2011. In the early of 2012, central government had emphasized the "12th Five-Year Plan" construction scale will be remained, which indicated that the postponed investment in railway construction in 2011 will be resumed and completed in the coming years. Meanwhile, National Development and Reform Commission had approved the urban rapid transit construction in 25 cities, which will be involved approximate RMB800 billion investment scale. From the Group's perspective, the Railway sector had made remarkable achievement in developing and selling new solutions such as video conference solution and platform screen doors solution in order to diversify the business risk of traditional communication solutions. Besides, the Group also completed the large project of passenger ticket system and will continue to provide products and services in the area of passenger service system construction. Under the trend of continued contribution in railway construction in China, the Group believes it will bring more and more business opportunities in this sector especially in the post-construction operation period. The new contracts signed and orders secured amount in the year ended December 31, 2012 was RMB595.7 million and the backlog amount as at December 31, 2012 was RMB686.1 million for Railway sector.

(iii) Urban Traffic

Revenue from the Urban Traffic sector in the year ended December 31, 2012 was RMB394.6 million, representing a massive increase of RMB222.4 million, or 129.2% as compared to RMB172.2 million for the year ended December 31, 2011. The increase was a result of positive business expansion carrying out by the management team. Through two acquisitions of CTH in August 2011 and STONE in June 2012, the Group completed the comprehensive business coverage for the Urban Traffic with established and matured business model across TS, SS and VAOS within the ever growing Urban Traffic sector. After the acquisition, the Group will have three business units covering surveillance, 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. The Group believes there will be continued growth in the industry sector under the significant trend of urbanization in recent China. The new contracts signed and orders secured amount in the year ended December 31, 2012 was RMB527.2 million and the backlog amount as at December 31, 2012 was RMB434.2 million for Urban Traffic sector.

(iv) Energy

Revenue from the energy sector in the year ended December 31, 2012 was RMB26.5 million, representing a decrease of RMB12.8 million, or 32.5% as compared to RMB39.3 million for the year ended December 31, 2011. As the energy business is in a mature stage and is no longer a key focus of the Group, management have directed more attention to the transportation sectors, such as the Expressway, the Railway and the Urban Traffic and other possible new transportation sectors, which are expected to provide higher growth with better synergies for the Company. The Group had successfully reorganized such business and will not continue to operate it in the coming years. The new contracts signed and orders secured amount in the year ended December 31, 2012 was RMB29.0 million and the backlog amount as at December 31, 2012 was RMB12.1 million for energy sector.

Business pattern and major projects

The Group's business is correlated with the central government's macroeconomic policies on infrastructure investment and has unique seasonal character. Most of the construction projects are in bidding stage and start implementations in first half of the year. Therefore, the new contracts are confirmed in the first half and the recognized revenue is recorded in the second half. This resulted in a higher backlog amount as at June 30 comparing with the figure at year end which is considered to be a normal pattern. The business pattern remained unchanged in 2012 for the backlog amount was approximately RMB2,019.6 million and RMB2,185.2 million as at December 31, 2012 and June 30, 2012, respectively. However, it is noteworthy that the comparison for both mid year backlog for 2012 vs 2011 and year end backlog in 2012 with their corresponding period in 2011 did register good improvement which supported the argument of business recovery of the Group as a whole.

During this year, the Group had implemented more than 2,500 projects in varied sizes, covering most of the region in Mainland China. The following table sets out some of the major projects generating revenue in each industry sector:

Industry sector	**Project name**
Expressway:	Liaoning Zhuang-Gai (Zhuanghe-Gaizhou) Expressway Project Hebei Zhang-Shi (Zhangjiakou-Shijiazhuang) Expressway Tunnel Project Jiangsu Expressway Network Communication Renovation Project
Railway:	Xiang-Gui (Hunan-Guangxi) GSM Network Project Web passenger ticket system project Beijing Subway Line 6 Project
Urban Traffic:	Jining ITS Project Weifang ITS Project Zhongshan ITS Project

By Business Models

The revenue for the year ended December 31, 2012 beat the historical high in every business segment and was increased by 44.7% in the TS segment, a 29.7% increase in the SS segment, and a 41.5% increase in the VAOS segment, respectively. The following table sets out the revenue breakdown by Industry sectors:

	Year ended December 31	
	2012	2011
	RMB'000	*RMB'000*
Revenue by Segments		
TS	**953,226**	630,555
SS	**1,182,018**	946,349
VAOS	**56,071**	35,867
Elimination	**(45,316)**	(27,575)
Total	**2,146,000**	1,585,206

(i) TS

Revenue from the TS segment for the year ended December 31, 2012 was RMB953.2 million, an increase of RMB322.7 million, or increase 51.2%, as compared to RMB630.6 million for the year ended December 31, 2011. In 2012, the Group was benefited directly from resumed central government's investment in transportation, which originally should have been completed earlier due to postponement in 2011. From the Group's aspect, as aforementioned, management had made a remarkable breakthrough in developing new expressway business in the new areas such as Henan, Shanxi and Yunnan provinces. In addition, the acquisition of STONE in 2012 brought a brand new turnkey solution business entity in the Urban Traffic sector. Given the continued growth of government investment demand in expressway and the urbanization trend in China, the Group believes the revenue from TS segment will continue to grow in the coming years. The TS as a whole accounted for 44.4% of the Group's revenue in the year ended December 31, 2012, which is higher than 39.8% as recorded for the year ended December 31, 2011.

(ii) SS

Revenue from the SS segment in the year ended December 31, 2012 was RMB1,182.0 million, an increase of RMB235.7 million, or 24.9%, as compared with RMB946.3 million for the year ended December 31, 2011. The increment was fueled by the increment in the Expressway sector for RMB56.6 million, the increment in the Railway sector for RMB81.5 million, the increment in the Urban Traffic sector for RMB155.8 million, and was offset by the slight decline in energy sector which is less strategically focused for RMB12.8 million. Please refer to the sub-sections regarding aforesaid industry sectors for the detailed discussion and analysis. The SS segment as a whole accounted for 53.0% of the Group's revenue in the year ended December 31, 2012, which is lower than 58.0% as recorded for the year ended December 31, 2011 due to the increase in TS segment in relative terms as a result of the STONE acquisition.

(iii) VAOS

Revenue from the VAOS segment in the year ended December 31, 2012 was RMB56.1 million, an increase of RMB20.2 million, or 56.3%, as compared to RMB35.9 million for the year ended December 31, 2011. Firstly, there was a boost in urban traffic industry sector in VAOS segment due to the successful acquisition of STONE in 2012 and CTH in 2011. Secondly, both expressway and railway industry sectors had varying increments under the management's effort in developing recurring business with existing customers who had purchased our TS or SS offering before. Such remarkable business growth reflects the Group's business transformations from a single project-based model to stable recurring pattern. The VAOS segment as a whole accounted for 2.6% of the Group's revenue in the year ended December 31, 2012, which is similar with the 2.3% as recorded for the year ended December 31, 2011.

Cost of Sales

Cost of sales was incurred on a project-by-project basis for individual legal entities and was subsequently aggregated at sector or segment at corporate level. The cost of sales was based on the equipment and other direct relevant costs incurred for completion of each of the relevant projects. The cost of sales constituted 75.9% of the Group's revenue in the year ended December 31, 2012, which represented a slight increase of 0.8% as compared to the corresponding period in 2011, and was mainly due to the strategic development in new regions of expressway industry sector which resulted in a slight decrease in margin in the Expressway sector.

By Industry Sectors

	Year ended December 31	
	2012	2011
	RMB'000	*RMB'000*
Cost of Sales by Sectors		
Expressway	**926,928**	681,147
Railway	**449,342**	397,838
Urban Traffic	**282,558**	112,913
Energy	**15,758**	28,491
Elimination	**(45,316)**	(27,575)
Total	**1,629,270**	1,192,814
% of Revenue	**75.9%**	75.2%

(i) Expressway

Cost of sales incurred in the Expressway sector increased by RMB245.8 million to RMB926.9 million in the year ended December 31, 2012 as compared to RMB681.1 million for the year ended December 31, 2011.

(ii) Railway

Cost of sales incurred in the Railway sector increased by RMB51.5 million to RMB449.3 million in the year ended December 31, 2012 as compared to RMB397.8 million for the year ended December 31, 2011.

(iii) Urban Traffic

Cost of sales incurred in the Urban Traffic sector increased by RMB169.6 million to RMB282.6 million in the year ended December 31, 2012 as compared to RMB112.9 million for the year ended December 31, 2011.

(iv) Energy

Cost of sales incurred in the energy sector decreased by RMB12.7 million to RMB15.8 million in the year ended December 31, 2012 as compared to RMB28.5 million for the year ended December 31, 2011.

By Business Models

	Year ended December 31	
	2012	2011
	RMB'000	*RMB'000*
Cost of Sales by Segments		
TS	**843,981**	531,801
SS	**797,087**	671,915
VAOS	**33,518**	16,673
Elimination	**(45,316)**	(27,575)
Total	**1,629,270**	1,192,814
% of Revenue	***75.9%***	*75.2%*

(i) TS

The cost of sales incurred for TS constituted 49.0% of the Group's cost of sales in the year ended December 31, 2012, which was higher than that in the prior years, and was mainly due to the strategic development in new regions of expressway industry sector. Please refer to the Expressway sector in the "Revenue" and "Gross Profit" sections for the detailed discussion and analysis.

(ii) SS

The cost of sales incurred for SS constituted 48.9% of the Group's cost of sales in the year ended December 31, 2012, which is lower than that in the prior years because of the higher portion from TS segment.

(iii) VAOS

The cost of sales incurred for VAOS constituted 2.1% of the Group's cost of sales in the year ended December 31, 2012, which is higher than that in the prior years, reflecting the continued rising contribution of VAOS to the Group's business.

Gross Profit

Overall gross profit of the Group significantly increased from RMB392.4 million for the year ended December 31, 2011 to RMB516.7 million in the year ended December 31, 2012, and was mainly due to the continuous increasing demand of intelligent transportation networks in China. Gross profit margin has decreased from 24.8% for the year ended December 31, 2011 to 24.1% in the year ended December 31, 2012 mainly due to the strategic development in new regions of expressway industry sector. After carving out the impact of such development, the Group's normalized gross profit margin was approximately 27.2%*.

Note: * gross profit margin was calculated based on management's information and was not audited by the Company's auditor.

By Industry Sectors

	Year ended December 31	
	2012	2011
	RMB'000	*RMB'000*
Expressway	**231,500**	200,159
Margin %	**20.0%**	22.7%
Railway	**162,424**	122,160
Margin %	**26.6%**	23.5%
Urban traffic	**112,037**	59,282
Margin %	**28.4%**	34.4%
Energy	**10,769**	10,791
Margin %	**40.6%**	27.5%
Total	**516,729**	392,392
Margin %	**24.1%**	24.8%

(i) Expressway

The Expressway sector gross profit margin decreased by 2.7% to 20.0% in the year ended December 31, 2012 as compared to 22.7% for the year ended December 31, 2011. The decline was mainly because of the marketing strategy applied in the new regions as stated in the "Revenue" section and the increased proportion of TS business with a lower gross profit margin. As management has foreseen the business opportunities in such strategic areas, the Group has offered preferential prices in some selected breakthrough projects. After removing the impact of the aforesaid projects, the normalized gross profit margin in the Expressway sector was 25.5%.

(ii) Railway

The Railway sector gross profit margin increased by 3.1% to 26.6% in the year ended December 31, 2012 as compared to 23.5% for the year ended December 31, 2011. The increase reflects a recovery of project gross profit in the Railway sector in 2012 after a series of negative industry incidents in 2011. Although the Group has experienced negative impact in 2011 in this sector, management worked extremely hard to find the new breakthrough and to diversify the revenue composition. To some extent, the recovery of gross profit margin proves that the Group can sustain a healthy growth model and successfully walked out of the economic difficulties. Under the impact of the revamped incentive policy in railway construction announced by the central government of the PRC, the Group believes the gross profit margin will remain at a sustainable level in the coming years.

(iii) Urban traffic

The Urban Traffic margin decreased by 6.1% from 34.4% for the year ended December 31, 2011 to 28.4% in the year ended December 31, 2012. The main reason for this change is that the acquisition of STONE brought to the Group the TS projects, which are usually having a lower gross profit margin level. This is the first year that the Group archieves complete coverage across all segments including TS, SS and VAOS for the Urban Traffic sector. The gross profit margin in this sector will be close to the overall blended average gross profit margin level of the Group. With the unremitting effort in developing new market opportunities, the Group believes the Urban Traffic sector will contribute more encouraging profit in the coming years.

(iv) Energy

The margin for the energy sector increased by 13.1% from 27.5% in the year ended December 31, 2011 to 40.6% for the year ended December 31, 2012. As the industry sector is in a mature stage, the Group will direct more attention to the transportation sectors and mainly focus on the quality of profit generated from the energy sector. The management is pursuing the opportunity to reorganize the business in appropriate manners.

By Business models

	Year ended December 31	
	2012	2011
	RMB'000	*RMB'000*
Gross profit by Segments		
TS	**109,246**	98,755
Margin	**11.5%**	15.7%
SS	**384,931**	274,434
Margin	**32.6%**	29.0%
VAOS	**22,553**	19,203
Margin	**40.2%**	53.5%
Total	**516,729**	392,392
Margin	**24.1%**	24.8%

(i) TS

Gross profit margin for TS decreased by 4.2% to 11.5% in the year ended December 31, 2012 as compared to 15.7% for the year ended December 31, 2011. As stated in the "Revenue" section, the Group had made remarkable breakthrough in the Expressway sector for some new regions such as Henan, Shanxi and Yunnan. The adjusted gross profit margin of TS was 15.5%*, which was within the average range in prior years operations, after removing the aforesaid strategic projects' effects. The Group believes TS segment will produce sustainable project profits in the coming years under the advantageous policy guidance in China's expressway industry.

Note: * gross profit margin was calculated based on management's information and was not audited by the Company's auditor.

(ii) SS

Gross profit margin for SS increased by 3.6% to 32.6% in the year ended December 31, 2012, as compared to 29.0% for the year ended December 31, 2011. The increase represented a recovery of the Group's project profit after the tough industry environment in 2011.

(iii) VAOS

Gross profit margin for VAOS decreased from 53.5% for the year ended December 31, 2011 to 40.2% in the year ended December 31, 2012. The gross profit margin for VAOS is varied from project to project and normally is within a range from 30% to 70% depending on whether it is a pure service contract or service plus components elements. With trend of the year-on-year revenue increase and the highest gross profit margin amongst other business segments, the Group believes VAOS will continue to bring higher quality of profit in the coming years.

Other Income and Gains

Other income and gains mainly comprised (a) the reimbursement of expenses and taxes incurred for the reorganization according to the supplemental agreement with the strategic investor, (b) rental income from investment properties, (c) fair value changes of investment properties, and (d) government grants and other non-operating incomes. The significant increase was mainly due to the amount of RMB20.9 million, which is primarily for the taxes incurred during the internal reorganization in 2012 and agreed to be borne by the strategic investor. Besides the aforesaid reimbursement, both the rental income and fair value changes in investment properties are related to the real estate price in Beijing and was in line with the market growth trend.

Selling, General and Administration Expenses

In the year ended December 31, 2012, selling, general and administration expenses (the "**SG&A**") as a percentage of sales decreased by 1.2% to 16.7% as compared to 17.9% for the year ended December 31, 2011, which was mainly due to the combined effect of revenue increase and strict expenses control policy applied by the Group.

The staff costs remained as a large component of the Group's SG&A while the 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 RMB189.3 million in year ended December 31, 2011 to RMB211.4 million in year ended December 31, 2012, representing a 11.7% increase and accounted for 58.9% of total SG&A in year ended December 31, 2012. This fluctuation was mainly due to general headcount increase for the business expansions in new industry and new products as well as the acquisitions of CTH and STONE. As mentioned in the "Revenue" section, the Group has put more and more efforts in developing the new business opportunities through the following ways: (a) hired talent people (b) adjusted salary rate in order to retain high performing employees (c) spent valuable money in business expansion especially new business sector. Management believed the expenditure in human resource will bring corresponding return in the coming future.

The rental expenses increased from RMB20.2 million for the year ended December 31, 2011 to RMB25.9 million in the year ended December 31, 2012 due to the higher rental cost of the Group's centralized office in Beijing and the increase in rented office areas resulting from the acquisitions of CTH and STONE. Rental expenses accounted for 7.2% of the total SG&A in the year ended December 31, 2012, which remained the similar portion as compared to the corresponding period in 2011.

R&D expenses increased from RMB16.1 million for the year ended December 31, 2011 to RMB26.5 million for the year ended December 31, 2012. The major growth was due to increase of expenditure for the new sectors such as urban traffic industry and other traffic related business which are still in the premature developing stage.

Non-Cash Expenses

Equity-settled share option expenses refer to the share options expenses related to the Company's pre-IPO share incentive scheme adopted on December 28, 2008 (the "**Pre-IPO Share Incentive Scheme**") and the Share Option Scheme under which share options were granted on January 18, 2012. For year ended December 31, 2012, equity-settled share option expenses was RMB35.5 million, which was much higher than that for year ended December 31, 2011, due to the newly granted share option scheme having significant impact in the first year according to the preset vesting periods.

Amortization expenses of intangible assets arising from acquisitions mainly represented the amortization arising from the acquisition of CTH and STONE. Such expenses was RMB15.5 million for year ended December 31, 2012, which was much higher than that for year ended December 31, 2011 due to the CTH acquisition was taking place in August of 2011 which resulted in only four months of amortization charges during last year.

Finance Revenue and Finance Cost

Finance revenue 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 RMB16.6 million in the year ended December 31, 2012, which represented a increase of 52.7% as compared to the year ended December 31, 2011. The increase was mainly due to the interest expenses in amount of RMB3.5 million arising from the RMB bond in amount of RMB210.0 million with coupon at 10% issued in November 2012.

Investment Income from Jointly-Controlled Entity/Operation/Associates

Investment income from investment entities in the year ended December 31, 2012 was approximately RMB9.7 million in total, which represented an decrease of 13.9% from that of the year ended December 31, 2011. The investment income was mainly from share of profit of Guangzhou Communication Information Co., Ltd. (廣州交通信息化建設投資營運有限公司) (the "**Guangzhou Communication**"), which was the co-founded with Guangzhou Transportation Group (廣州交通集團) in operation of urban traffic SS and VAOS segment. The Group believes this type of income will be increased when the business model got successfully further duplicated to other cities.

Income Tax Expenses

The total income tax expense in the year ended December 31, 2012 was RMB58.9 million, which was higher than the RMB20.8 million for the year ended December 31, 2011, and was due to the combined effect of increase of profit before taxation and the taxes arising from reorganization of the Expressway sector. The taxes arising from reorganization was RMB20.9 million, which was agreed to be fully reimbursed by the Expressway Strategic Investor. After removing the effect of such taxes, the normalized income tax expenses was RMB38.0 million for the year ended December 31, 2012. Considering the non-cash expenses in amount of RMB51.0 million stated in "Selling, General and Administrative Expenses" section which was non-taxable, the taxable profit before tax was RMB228.3 million. Therefore, the effective tax rate for the year ended December 31, 2012 was 16.6%, which represented an increase of 1.9% as compared to the corresponding period in 2011. The increase was due to RHY Technology, one of the Expressway subsidiaries, had applied a preferential tax rate in 2011 at 12%. After a 5-year transition period starting from 2007, RHY Technology adopted the preferential tax rate at 15% as the HNTE starting from January 1, 2012, for which most of the Group's subsidiaries are applying now.

Profit for the Year

Before deducting the non-cash expenses with amount of RMB51.0 million, the pro forma profit attributable to owners of the parent for the year ended December 31, 2012 was RMB182.9 million, compared to RMB122.2 million for the year ended December 31, 2011, or a 49.7% increase. This is mainly due to (1) recovery of traditional business; (2) new business expansion resulted from merger and acquisition in new sectors; (3) breakthrough in Expressway unconventional regions.

Trade Receivables Turnover Days

The trade receivables turnover days in the year ended December 31, 2012 was 142 days (in the year ended December 31, 2011: 185 days).

Net Construction Turnover Days

The net amount due from contract customer turnover days in the year ended December 31, 2012 was 72 days (in the year ended December 31, 2011: 63 days).

Trade Payables Turnover Days

The trade payables turnover days in the year ended December 31, 2012 was 179 days (in the year ended December 31, 2011: 194 days).

Inventory Turnover Days

The inventories of the Group mainly comprised of raw materials, work-in-progress, finished goods and general merchandise for surveillances SS. The inventory turnover days in the year ended December 31, 2012 was 8 days (in the year ended December 31, 2011: 5 days).

Liquidity and Financial Resources

The Group's principal sources of working capital included cash flow from operating activities, bank and other borrowings, and the proceeds from Guaranteed Bonds issued. As at December 31, 2012, the Group's current ratio (current assets divided by current liabilities) was 1.7 (as at December 31, 2011: 1.9). The Group's financial position remains healthy.

As at December 31, 2012, the Group was in a net negative cash position of RMB48.0 million (as at December 31, 2011: net cash of RMB135.5 million) which included cash and cash equivalent of RMB584.8 million (as at December 31, 2011: RMB435.9 million) and short-term bank loans of RMB431.6 million (as at December 31, 2011: RMB300.4 million) as well as Guaranteed Bonds of RMB201.2 million (as at December 31, 2011: nil). As at December 31, 2012, the Group's gearing ratio was -3.7%, which has increased from -12.4% as at December 31, 2011, due to the issuance of RMB bond in November of 2012. 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, 2012, the Group has no material contingent liability.

Charges on Group Assets

As at December 31, 2012, except for the secured deposits of approximately RMB80.6 million, the Group pledged its buildings having net book values of approximately RMB154.0 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 December 31, 2012, the Group has no other asset charged to financial institution.

Strategic Investments, Acquisitions or Disposals of Subsidiaries and Associated Company

— Strategic Investment in China Expressway Group

On December 11, 2012, China Expressway Group, a wholly-owned subsidiary of the Company, entered into a share subscription agreement with Beijing Global, pursuant to which China Expressway Group has agreed to allot and issue and Beijing Global has agreed to subscribe for preferred shares of China Expressway Group and as a result, immediately after the closing of such subscription, the shareholding interest of the Company in China Expressway Group will be diluted from 100% to 51%. Such dilution of shareholding interest in China Expressway Group constituted a deemed disposal of China Expressway Group under Rule 14.29 of the Listing Rules. China Expressway Group will continue to be a subsidiary of the Company after the closing. For further details, please refer to the announcements of the Company dated December 11, 2012, December 12, 2012, January 4, 2013 and January 14, 2013.

— Acquisition of STONE

On June 20, 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. (北京百聯智達科技發展有限公司), 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 a total of 75% of the equity interest in STONE. STONE is principally engaged in providing ITS 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 TS and SS in the Urban Traffic sector by leveraging the leading market presence of STONE in landmark cities e.g. Beijing. For further details, please refer to the announcements of the Company dated June 20, 2012 and June 28, 2012.

— Acquisition of Shangdong Yigou Software Technology Co., Ltd.

On November 18, 2012, RHY Technology, an indirect wholly-owned subsidiary of the Company, acquired 10% of the equity interest of Shangdong Yigou Software Technology Co., Ltd.* (山東易構軟件技術有限公司) (the "**Shandong Yigou**"), a non-wholly owned subsidiary of the RHY Technology, from Beijing Bailian Dahe Engineering Technology Co., Ltd.* (北京百聯大和工程技術有限公司), an existing shareholder of Shandong Yigou, at a total consideration of RMB1,717,300.00, which was determined by reference to the net asset value of Shandong Yigou. Subsequent to such transfer, the equity interest in Shandong Yigou held by RHY Technology increased from 42.8% to 52.8%, and Shangdong Yigou remained as a jointly-controlled entity of the Company. Shandong Yigou is primarily engaged in the business of providing SS and software development in expressway ITS industry. The acquisition of further equity interest in Shandong Yigou represented the Company's strategy in making further investment in strategic businesses in the Expressway sector, which was also a crucial step of business reorganizations in the Expressway sector. The abovementioned acquisition of 10% of the equity interest in Shandong Yigou by RHY Technology constituted an exempt connected transaction under Rule 14A.31(2)(b) of the Listing Rules and is exempt from all the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

— Disposal of Xinjiang Delida Information Technology Co., Ltd.

On November 21, 2012, RHY Technology transferred 57% of the equity interest of Xinjiang Delida Information Technology Co., Ltd.* (新疆得利達信息技術有限公司) (the "**Xinjiang Delida**"), a non-wholly owned subsidiary of the RHY Technology, to Mr. Pan Jinghui, an existing shareholder of Xinjiang Delida, at a total consideration of RMB2,688,836.92, which was determined by reference to the net asset value of Xinjiang Delida. Subsequent to such transfer, RHY Technology ceased to hold any interests in Xinjiang Delida, which has ceased to be a subsidiary of the Company. Prior to the disposal, Xinjiang Delida is primarily engaged in the business of offering logistics information solutions to the Xinjiang government. The disposal of Xinjiang Delida represented the Company's strategy to optimize the allocation of resources to core business direction. The abovementioned disposal of 57% of the equity interest in Xinjiang Delida by RHY Technology constituted an exempt connected transaction under Rule 14A.31(2)(b) of the Listing Rules and is exempt from all the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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 December 31, 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	236.5	12.2
Research and development	10%	71.1	45.8	25.3
General corporate purposes	10%	71.1	69.3	1.8
Total	100%	710.6	671.3	39.3

On November 8, 2012, the Company issued Guaranteed Bonds of a total principal amount of RMB210.0 million due in 2015 bearing interest at 10.0% per annum. The net proceeds from the issue of the Guaranteed Bonds amounted to RMB202.1 million. As at December 31, 2012, out of the net proceeds of RMB202.1 million, RMB12.0 million was utilized for acquisitions of selected targets in the ITS industry, RMB3.4 million was utilized for providing and growing the Group's services in overseas markets, RMB4.2 million was utilized as general working capital, and RMB182.5 million remained unutilized.

EVENTS AFTER THE REPORTING PERIOD

On January 4, 2013, Beijing Aproud Technology Co., Ltd.*(北京亞邦偉業技術有限公司)(the "**Aproud Technology**"), an indirect wholly-owned subsidiary of the Company, entered into an equity transfer agreement with an independent third party (the "**Hexin Purchaser**") and Beijing Hexin Risheng Technology Co., Ltd.*(北京和信日晟科技有限公司) (the "**Hexin Risheng**"), a wholly-owned subsidiary of Aproud Technology. Pursuant to the equity transfer agreement, Aproud Technology transferred 100% of the equity interest in Hexin Risheng to the Hexin Purchaser at a total consideration of RMB34,476,211.09, which was determined by reference to the net asset value as recorded in Hexin Risheng's accounts as at October 31, 2012. Prior to the disposal, Hexin Risheng had been engaged in providing specialized ITS solutions in urban rapid transit and energy sectors. The Hexin Purchaser agreed that Hexin Risheng's business in rapid transit sector will be taken over by other subsidiaries of the Group, and the Hexin Purchaser will only continue to operate energy business. The disposal of Hexin Risheng is consistent with the Company's strategy to exit its businesses in the energy sector which is non core to the Group's overall business strategy. As each of the relevant percentage ratios in respect of this transaction is below 5% and the transaction did not involve any securities for which listing would be sought, the transaction did not constitute a notifiable transaction under Chapter 14 of the Listing Rules.

EMPLOYMENT AND EMOLUMENT POLICIES

As at December 31, 2012, the Group had 1,026 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.

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 December 31, 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

On July 10, 2012, the Company issued 32,790,501 Shares to United Fortune Overseas Limited at a price of HK$1.2229 per Share in connection with the acquisition of STONE. Please refer to the announcements of the Company dated June 20, 2012 and June 28, 2012 for details.

On November 8, 2012, the Company issued Guaranteed Bonds of a total principal amount of RMB210.0 million due in 2015 bearing interest at 10.0% per annum. The Guaranteed Bonds are listed on the Stock Exchange (code: 85908). Please refer to the announcement of the Company dated November 1, 2012 for further details.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the year ended December 31, 2012.

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 final results of the Group for the year ended December 31, 2012 together with the management of the Company and external auditor, Ernst & Young.

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, 2012 in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants.

FINAL DIVIDEND

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

PUBLICATION OF ANNUAL REPORT

The 2012 Annual 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
China ITS (Holdings) Co., Ltd.
Liao Jie
Chairman

Beijing, March 28, 2013

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 of the Company are Mr. Zhou Chunsheng, Mr. Choi Onward and Mr. Sun Lu.