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# 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, 2013

**FINANCIAL HIGHLIGHTS**

The amount of new contract signed and order secured for the six months ended June 30, 2013 was approximately RMB1,659.1 million, compared to approximately RMB1,475.6 million for the six months ended June 30, 2012, or an approximately 12.4% increase.

The amount of backlog as at June 30, 2013 was approximately RMB2,680.5 million, compared to approximately RMB2,019.6 million as at December 31, 2012, or an approximately 32.7% increase.

Revenue for the six months ended June 30, 2013 was approximately RMB975.9 million, compared to approximately RMB728.1 million for the six month ended June 30, 2012, or an approximately 34.0% increase.

Gross profit for the six months ended June 30, 2013 was approximately RMB251.7 million, compared to approximately RMB205.3 million for the six month ended June 30, 2012, or an approximately 22.6% increase.

Gross profit margin increased from 22.0% for the second half of the prior year to approximately 25.8%.

Non-cash expenses[1] for the six months ended June 30, 2013 was approximately RMB21.4 million, compared to approximately RMB26.9 million for the six month ended June 30, 2012, or an approximately 20.4% decrease.

Before deducting the non-cash expenses, the pro forma profit attributable to owners of parent[2] of the Company for the six months ended June 30, 2013 was approximately RMB64.8 million, compared to approximately RMB53.6 million for the six month ended June 30, 2012, or an approximately 20.9% increase.

Profit attributable to owners of the parent of the Company for the six months ended June 30, 2013 was RMB43.4 million, compared to approximately RMB26.7 million for the six month ended June 30, 2012, or an approximately 62.5% increase.

Earnings per share[3] for the six months ended June 30, 2013 was approximately RMB0.03 per share.

The Interim Dividend will be paid in form of cash and/or shares of the Company as elected by the shareholders in accordance with the Scrip Dividend Scheme.

*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 owners of the parent refers to profit attributable to owners of the parent 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 six months ended June 30, 2013.

## 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 interim condensed consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended June 30, 2013, with comparative figures, as follows:

### Interim Condensed Consolidated Income Statement

| | | **For the six-month period ended June 30,** | |
|---|---|---|---|
| | *Notes* | **2013**<br>***RMB'000***<br>**Unaudited** | 2012<br>*RMB'000*<br>Unaudited |
| REVENUE | *4* | **975,905** | 728,081 |
| Cost of revenue | *5* | **(724,236)** | (522,760) |
| Gross profit | | **251,669** | 205,321 |
| Other income and gains | *4* | **4,967** | 9,434 |
| Selling, general and administrative expenses | | **(182,411)** | (166,648) |
| Other expenses | | **(269)** | (100) |
| OPERATING PROFIT | | **73,956** | 48,007 |
| Finance income | | **7,320** | 6,060 |
| Finance costs | | **(26,106)** | (10,578) |
| Share of profits/(losses) of joint ventures | | **2,377** | (4,774) |
| Share of profits of associates | | **3,291** | 802 |
| Gain on disposal of a subsidiary | | **63** | – |
| PROFIT BEFORE TAX | *5* | **60,901** | 39,517 |
| Income tax expense | *6* | **(18,489)** | (13,571) |
| PROFIT FOR THE PERIOD | | **42,412** | 25,946 |
| Attributable to: | | | |
| Owners of the parent | | **43,356** | 26,702 |
| Non-controlling interests | | **(944)** | (756) |
| | | **42,412** | 25,946 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| Basic — for profit for the period | *7* | **RMB0.03** | RMB0.02 |
| Diluted — for profit for the period | *7* | **RMB0.03** | RMB0.02 |

**Interim Condensed Consolidated Statement of Comprehensive Income**

| | For the six-month period ended June 30, | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Unaudited |
| PROFIT FOR THE PERIOD | **42,412** | 25,946 |
| Exchange differences on translation of foreign operations | **(2,747)** | 618 |
| OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX | **(2,747)** | 618 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | **39,665** | 26,564 |
| Attributable to: | | |
| Owners of the parent | **40,609** | 27,320 |
| Non-controlling interests | **(944)** | (756) |
| | **39,665** | 26,564 |

**Interim Condensed Consolidated Statement of Financial Position**

| | Notes | June 30, 2013 RMB'000 Unaudited | December 31, 2012 RMB'000 Audited |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property and equipment | | **54,785** | 55,915 |
| Investment properties | | **98,000** | 154,000 |
| Prepaid land premium | | **13,925** | 14,149 |
| Goodwill | | **406,135** | 406,135 |
| Other intangible assets | | **68,541** | 78,717 |
| Investments in joint ventures | | **44,163** | 33,350 |
| Investments in associates | | **94,742** | 94,043 |
| Available-for-sale investment | | **25,307** | 25,307 |
| Deferred tax assets | | **15,939** | 12,202 |
| Prepayments for acquisition of equity interests in other entity | | **111,710** | 111,710 |
| Other long-term assets | | **20,038** | 19,944 |
| Total non-current assets | | **953,285** | 1,005,472 |
| CURRENT ASSETS | | | |
| Inventories | | **42,932** | 37,853 |
| Construction contracts | *8* | **1,347,908** | 1,255,393 |
| Trade and bills receivables | *9* | **862,878** | 903,794 |
| Prepayments, deposits and other receivables | | **1,298,866** | 1,146,390 |
| Due from related parties | | **110,561** | 74,656 |
| Deferred cost | | **20,364** | 8,071 |
| Held-to-maturity investment | | **68,189** | 69,405 |
| Pledged deposits | | **69,746** | 80,636 |
| Cash and cash equivalents | | **281,837** | 584,783 |
| Other financial assets | | **3,445** | 3,445 |
| Total current assets | | **4,106,726** | 4,164,426 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | *10* | **967,830** | 923,666 |
| Other payables and accruals | | **334,551** | 327,558 |
| Construction contracts | *8* | **461,470** | 679,378 |
| Interest-bearing bank borrowings | | **399,246** | 431,577 |
| Due to related parties | | **19,827** | 13,847 |
| Income tax payable | | **3,059** | 42,072 |
| Deferred income | | **–** | 1,344 |
| Total current liabilities | | **2,185,983** | 2,419,442 |
| NET CURRENT ASSETS | | **1,920,743** | 1,744,984 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **2,874,028** | 2,750,456 |

| | June 30, 2013 *RMB'000* Unaudited | December 31, 2012 *RMB'000* Audited |
|---|---|---|
| NON-CURRENT LIABILITIES | | |
| Guaranteed bonds | **183,589** | 201,194 |
| Interest-bearing bank borrowings | **83,000** | – |
| Long-term payable | **2,995** | 8,537 |
| Deferred tax liabilities | **55,066** | 43,319 |
| Total non-current liabilities | **324,650** | 253,050 |
| NET ASSETS | **2,549,378** | 2,497,406 |
| EQUITY | | |
| Equity attributable to owners of the parent | | |
| Issued capital | **289** | 289 |
| Reserves | **2,514,274** | 2,462,400 |
| | **2,514,563** | 2,462,689 |
| Non-controlling interests | **34,815** | 34,717 |
| TOTAL EQUITY | **2,549,378** | 2,497,406 |

## Selected Notes to the Interim Condensed Consolidated 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").

### 2. BASIS OF PRESENTATION

The unaudited interim condensed consolidated financial statements for the six months ended June 30, 2013 have been prepared in accordance with IAS34 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, 2012. 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 (the "TS") segment engages in the integration of information technology with its physical transportation infrastructure;

(b) Specialised solutions (the "SS") 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 (the "VAOS") segment involves operation outsourcing and value-added services, via intelligent transportation system (the "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 finance income, finance costs, share of profits/(losses) of joint ventures, share of profits of associates, gain on disposal of a subsidiary as well as head office and corporate expenses are excluded from such measurement.

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 mainland China. All of the Group's non-current assets are located in the mainland China.

Revenue of approximately RMB133,000,000 for the six-month period ended June 30, 2013 was derived from a single customer (six-month period ended June 30, 2012: RMB81,700,000).

| **Six-month period ended June 30, 2013** | **TS**<br>***RMB'000*** | **SS**<br>***RMB'000*** | **VAOS**<br>***RMB'000*** | **Consolidated**<br>***RMB'000*** |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| Sales to external customers | **496,148** | **445,741** | **34,016** | **975,905** |
| Intersegment sales | **–** | **22,313** | **–** | **22,313** |
| | **496,148** | **468,054** | **34,016** | **998,218** |
| *Reconciliation:* | | | | |
| Elimination of intersegment sales | | | | **(22,313)** |
| Revenue | | | | **975,905** |
| **Segment results** | **54,190** | **9,897** | **15,809** | **79,896** |
| *Reconciliation:* | | | | |
| Finance income | | | | **7,320** |
| Finance costs | | | | **(26,106)** |
| Share of profits of joint ventures | | | | **2,377** |
| Share of profits of associates | | | | **3,291** |
| Gain on disposal of a subsidiary | | | | **63** |
| Corporate and other unallocated expenses | | | | **(5,940)** |
| **Profit before tax** | | | | **60,901** |

| **Six-month period ended June 30, 2012** | TS<br>*RMB'000* | SS<br>*RMB'000* | VAOS<br>*RMB'000* | Consolidated<br>*RMB'000* |
|---|---|---|---|---|
| **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 |
| Finance costs | | | | (10,578) |
| Share of losses of joint ventures | | | | (4,774) |
| Share of profits of associates | | | | 802 |
| Corporate and other unallocated expenses | | | | (15,112) |
| **Profit before tax** | | | | 39,517 |

## 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,** | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| **Revenue** | | |
| Implementation of projects | **896,656** | 646,146 |
| Sale of products | **79,249** | 81,935 |
| | **975,905** | 728,081 |
| **Other income and gains** | | |
| Gross rental income | **3,245** | 4,380 |
| Government grants | **1,202** | 4,460 |
| Exchange gains | **427** | 549 |
| Others | **93** | 45 |
| | **4,967** | 9,434 |

## 5. PROFIT BEFORE TAX

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

| | For the six-month period ended June 30, | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| Cost of services rendered for implementation of projects | **670,423** | 466,222 |
| Cost of inventories sold | **53,813** | 56,538 |
| | **724,236** | 522,760 |
| Depreciation | **9,495** | 9,371 |
| Amortisation of other intangible assets* | **10,176** | 4,950 |
| Amortisation of prepaid land premium | **224** | – |
| | **19,895** | 14,321 |
| Minimum lease payments under operating leases | **13,118** | 10,051 |
| Auditors' remuneration | **1,250** | 1,040 |
| Wages and salaries | **40,507** | 39,621 |
| Pension scheme contributions (defined contribution scheme) | **4,958** | 4,659 |
| Social insurance costs and staff welfare | **9,233** | 8,722 |
| Equity-settled share option expenses | **11,265** | 21,972 |
| Directors' and senior executives' remuneration (excluding equity-settled share option expenses) | **2,302** | 2,159 |
| | **68,265** | 77,133 |
| Foreign exchange differences, net | **(427)** | (549) |
| Net loss/(gain) on disposal of items of property and equipment | **149** | (45) |
| Finance income | **(7,320)** | (6,060) |
| Finance costs | **26,106** | 10,578 |

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

## 6. INCOME TAX EXPENSE

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 period ended June 30, 2012: 25%) on their respective taxable income. During the current period, 11 entities (six-month period ended June 30, 2012: 12) of the Group entitled to 15% preferential corporate income tax rate as High and New Technology Enterprises.

No provision for Hong Kong profits tax has been made for the six-month periods ended June 30, 2013 and 2012, 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 condensed consolidated statement of income are:

| | For the six-month period ended June 30, | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| Current income tax: | | |
| Current income tax charge in the PRC | **7,980** | 4,265 |
| Deferred income tax: | | |
| Relating to origination and reversal of temporary differences | **10,509** | 9,306 |
| Income tax expense reported in the interim condensed consolidated statement of income | **18,489** | 13,571 |

## 7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY 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 parent for the six-month period ended June 30, 2013, and the weighted average number of ordinary shares of 1,645,608,261 (six-month period ended June 30, 2012: 1,612,999,929) during the six-month period ended June 30, 2013.

| | For the six-month period ended June 30, | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation | **43,356** | 26,702 |

| | Number of shares For the six-month period ended June 30, | |
|---|---|---|
| | **2013** | 2012 |
| **Shares** | | |
| Weighted average number of shares in issue during the period used in the basic earnings per share calculation | **1,645,608,261** | 1,612,999,929 |
| Effect of dilution — weighted average number of ordinary shares | | |
| Potential ordinary shares under the share options scheme | **46,525,183** | 8,407,751 |
| | **1,692,133,444** | 1,621,407,680 |

## 8. CONSTRUCTION CONTRACTS

| | **June 30, 2013** *RMB'000* | December 31, 2012 *RMB'000* |
|---|---|---|
| Gross amount due from contract customers | **1,347,908** | 1,255,393 |
| Gross amount due to contract customers | **(461,470)** | (679,378) |
| | **886,438** | 576,015 |
| Contract costs incurred plus recognised profits less recognised losses to date | **5,478,312** | 4,725,123 |
| Less: progress billings | **(4,591,874)** | (4,149,108) |
| | **886,438** | 576,015 |

## 9. TRADE AND BILLS RECEIVABLES

| | **June 30, 2013** *RMB'000* | December 31, 2012 *RMB'000* |
|---|---|---|
| Trade receivables | **848,957** | 869,933 |
| Impairment | **(256)** | (1,690) |
| | **848,701** | 868,243 |
| Bills receivables | **14,177** | 35,551 |
| | **862,878** | 903,794 |

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.

The Group did not pledge any of its trade receivables to be received from certain of its projects (December 31, 2012: RMB9,900,000) for the banking facility granted to the Group.

## 10. TRADE AND BILLS PAYABLES

| | **June 30, 2013** *RMB'000* | December 31, 2012 *RMB'000* |
|---|---|---|
| Trade payables | **933,254** | 836,418 |
| Bills payables | **34,576** | 87,248 |
| | **967,830** | 923,666 |

The Group's trade payables are non-interest-bearing. Bills payables were secured by pledged deposits of the Group of RMB14,768,000 (December 31, 2012: RMB25,821,000) as at June 30, 2013.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overview and Prospect

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

In the first half of 2013, the Group recorded revenue of RMB975.9 million, representing an increase of RMB247.8 million as compared to RMB728.1 million in the six months ended June 30, 2012. The new contracts signed and orders secured recorded RMB1,659.1 million, representing a increase of 12.4% as compared to RMB1,475.6 million in the six months ended June 30, 2012. Backlog reached historical high, which was RMB2,680.5 million as at June 30, 2013. The overall gross profit was RMB251.7 million, representing a increase of 22.6% compared with first half year of 2012, gross profit margin rebounded 3.8% to 25.8% as compared with second half year of 2012. The pro forma profit for the period for the six months ended June 30, 2013 was RMB63.8 million, compared to RMB52.9 million for the six months ended June 30, 2012.

***Core business of the Group and operation thereof***

For the six months ended June 30, 2013, the Group's revenue from the expressway sector ("**Expressway**") reached RMB573.4 million, representing an increase of RMB201.0 million from RMB372.4 million for the corresponding period in 2012, making up 57.4% of the Group's total revenue, Revenue from the railway sector ("**Railway**") decreased by RMB58.2 million to RMB213.4 million during the reporting period and representing 21.4% of the Group's total revenue. Revenue from the urban traffic ("**Urban Traffic**") sector increased by 150.2% to RMB204.4 million, representing 20.5% of the Group's total revenue.

*(i) Expressway*

The overall increase of Expressway sector recorded revenue was partially attributable to the strong contract growth of western China region, the Company has entered into the contracts of Dali-Lijiang Expressway (大理至麗江高速公路) Construction and this is the largest sales contract entered into by the Group in the history of the Group in terms of contract value of a single contract. Meanwhile, for SS, the Group entered into a contract with construction of the data transmission system of the national expressway communication system-networking project (全國高速公路信息通信系统聯網工程幹綫傳輸系统). This project is a milestone in the Expressway sector, which demonstrated the Group's national coverage as a solid foundation for the expansion of the communication SS business of the Group.

In the first half of 2013, the major projects of Expressway (besides two milestones projects above) contains Hubei Yiba (Yichang-Badong) Expressway project. The amount of new contract signed and order secured in the six months ended June 30, 2013 was RMB1,014.3 million and the backlog amount as at June 30, 2013 was RMB1,328.1 million for Expressway, representing good outlook into the second half of 2013 or even in 2014.

*(ii) Railway*

The slight decrease of revenue from the Railway sector recorded revenue was partially caused by delay of the bidding process and construction project of hi-speed railway such as Hangchang (Hangzhou–Changsha) hi-speed railway construction project. However, as Chinese government continues investment on railway construction and completes restructuring of China Railway Corporation and Ministry of Transport, the Group believes it will bring more business opportunities and rebound with strong sales and new contracts signed in the second half of the year or beyond.

In the first half of 2013, the major projects of Railway include Daxi (Datong–Xi'an) Passenger Transportation Railway Project, Xiashen (Xiamen–Shenzhen) Railway Project, Longhai (Lianyungang–Lanzhou) Railway Upgrade Project. The amount of new contract signed and order secured in the six months ended June 30, 2013 was RMB525.3 million and the backlog amount as at June 30, 2013 was RMB988.3 million for Railway.

*(iii) Urban Traffic*

Because of completion restructuring of Urban Traffic sector business and management team build up, the Urban Traffic recorded a significant increase on revenues. This is due to M&A synergies from sharing of client base, product offering and business model cross-selling. The Group believes there will be continued strong growth under the urbanization and massive government investment in China.

In the first half of 2013, the major projects of Urban Traffic include Shannxi Ankang Social Security Project, Guangdong Guangzhou Electronic Police Project, Guangdong Huadu Video Surveillance Project. The amount of new contract signed and order secured in the six months ended June 30, 2013 was RMB117.9 million and the backlog amount as at June 30, 2013 was RMB357.4 million for Urban Traffic.

***Purchase and cancellation of bonds***

In May 2013, in consideration of a healthy level of working capital and cash flows, the Company purchased and cancelled part of the Company's 10.0% guaranteed bonds due 2015 ("**Bonds**") in the principal amount of RMB20,000,000, representing approximately 9.5238% of the outstanding Bonds in principal amount of RMB210,000,000 immediately prior to the cancellation to optimize the performance of the Group and enhance the shareholders' interest in terms of the earnings per share of the Company by reducing future financial expenses and financial gearing level of the Company, without affecting the Group's day-to-day operations or restricting the Group's ability to grow. Hence the Board considers that the purchase is in the interest of the Company and its shareholders as a whole.

For further details of the abovementioned purchase and cancellation of Bonds, please refer to the announcement of the Company on May 30, 2013.

## Prospects

### *New sector breakthrough*

As China will spend second 4 trillion RMB on metro construction, and the total length of urban rapid transit lines in China is expected to achieve a mileage of 6,000 kilometers by 2020, urban rapid transit sector is next potential tipping point. In the first half of 2013, the Group entered into a contract of Chongqing Urban Railway Transportation (Group) Co., Ltd to provide TS for the Second Phase Construction Project for the 6th Line of the Chongqing Rapid Transit (重慶市軌道交通六號綫二期工程). In the second half year of 2013 or even in 2014, the Group will continue to extend business in this sector.

With respect to the operation stage, the development of new technologies such as mobile internet, cloud computing and data mining will drive the transformation of the target client of ITS participants from operators to passengers. Given this, the Group will seek appropriate M&A targets or potential partners to enhance our market position of new sectors or business models.

### *Prospects*

Looking forward, the Group will be more focused on the sectors with higher growth and better synergies in the transportation industry, such as Expressway, Railway, Urban Traffic and other new feasible sectors (such as smart city and urban rapid transit). The Group had successfully reorganized and disposed non-core business such as energy and will not operate any other business unrelated to transportation industry in the coming years.

In the point of view of internal management, as for front-end line, the Group will continue to provide full range of solutions and services, develop dedicated strategy tailored to customer needs in each sector, and drive industry innovation and standards. As for mid/back-end line, the Group will streamline management structure, clear division of teams, and optimize operating cost. In general, the Group will continue aiming to become an ITS industry leader and to provide safe, reliable, efficient, and environmental products and services in the future.

### *Others*

With reference to the share subscription agreement dated December 11, 2012 (the "**Share Subscription Agreement**") and supplemental agreement dated January 14, 2013 entered into between Beijing Global Holdings Limited and China Expressway Intelligent Transportation Technology Group Ltd. (formerly known as Bestvilla Investments Limited) ("**China Expressway**"), Beijing Haotian Jiajie Technology Co., Ltd. ("**Haotian Jiajie**") would be transferred to a wholly-owned subsidiary of the Company, which was expected to be completed by the end of April 2013. Due to delay in obtaining the relevant governmental approval involved in the transfer of Haotian Jiajie, such transfer has not been complete as at the completion date of this transaction. The Company and the parties of the agreement consider it appropriate to complete the Share Subscription Agreement on or before March 11, 2014, when the relevant governmental approval is expected to be obtained.

For further details of the abovementioned delay of completion of the Share Subscription Agreement, please refer to the announcement of the Company on June 7, 2013.

## BUSINESS AND FINANCIAL REVIEW

### Revenue

***By Industry Sectors***

The Group's Revenue for the six months ended June 30, 2013 increased by 34.0% to RMB975.9 million as compared to RMB728.1 million for the six month ended June 30, 2012 due to the continuous increasing demand of intelligent transportation networks in China. The Group's revenue increase was composed of a remarkable 54.0% increase in Expressway sector, a strong 150.2% increase in Urban Traffic sector, and was offset by a 21.4% decrease in Railway sector, and a 44.4% decrease in the less strategic energy sectors. The following table sets out the revenue breakdown by industry sectors:

| | **Six months ended June 30,** | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| **Revenue by industry sectors** | | |
| Expressway | **573,427** | 372,449 |
| Railway | **213,409** | 271,639 |
| Urban traffic | **204,437** | 81,697 |
| Energy | **6,945** | 12,353 |
| Elimination | **(22,313)** | (10,057) |
| Total | **975,905** | 728,081 |

*(i) Expressway*

Revenue from the Expressway sector in the six months ended June 30, 2013 was RMB573.4 million, representing an increase of RMB201.0 million as compared to RMB372.4 million for the six months ended June 30, 2012. Expressway sector was still a key revenue and profit driver for the Group in this year. From the market aspect, local expressway bureaus all over mainland China such as Northwest, Southwest and central regions has put more and more effort in expressway constructions. From the Group aspect, management had made significant progress in developing new regions such as Hubei, Shanxi and Yunnan. In the meantime, 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 in early this year. The Group 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 Expressway sector for the nature, amount and region aspects. The Group believes the Expressway sector will have a massive increment in 2013 and have the continued growth in the coming years under the ongoing contribution from government's infrastructure construction. The amount of new contract and order secured in the six months ended June 30, 2013 was RMB1,014.3 million and the backlog amount as at June 30, 2013 was RMB1,328.1 million for Expressway sector.

*(ii) Railway*

Revenue from the Railway sector in the six months ended June 30, 2013 was RMB213.4 million, representing a decrease of RMB58.2 million as compared to RMB271.6 million for the six months ended June 30, 2012. The decrease in the first half this year is mainly due to the postponement of the bidding process and construction schedule for some of our budgeted railway projects. Some large projects such as the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hangchang (Hangzhou–Changsha) railway will have significant process in the second half this year and contributed meaningful revenue respectively. Under the trend of continued contribution in railway construction in China, the Group believes it will bring more business opportunities in this sector especially in the post-construction operation period. The amount of new contract and order secured in the six months ended June 30, 2013 was RMB525.3 million and the backlog amount as at June 30, 2013 was RMB988.3 million for Railway sector.

*(iii) Urban Traffic*

Revenue from the Urban Traffic business in the six months ended June 30, 2013 was RMB204.4 million, representing a massive increase of RMB122.7 million as compared to RMB81.7 million for the six month ended June 30, 2012. The increase was a result of positive business expansion carrying out by the management team. 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 the comprehensive business coverage for the Urban Traffic with established and matured business model across TS, SS and VAOS within the fast growing Urban Traffic sector. After the acquisition, the Group had 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. 2013 is the full fiscal year after the aforesaid business expansions so that the Group has recorded strong revenue growth in the first half this year. The Urban Traffic sector became the Group's major business growth diver after the Expressway and Railway sectors. The Group believes there will be continued growth in the industry sector under the significant trend of urbanization in recent China. The amount of new contract and order secured in the six months ended June 30, 2013 was RMB117.9 million and the backlog amount as at June 30, 2013 was RMB357.4 million for Urban Traffic sector.

*(iv) Energy*

Revenue from the energy business in the six months ended June 30, 2013 was RMB6.9 million, representing a decrease of RMB5.5 million as compared to RMB12.4 million for the six months ended June 30, 2012. 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 Expressway, Railway and Urban traffic, which are expected to provide higher growth for the Company. The Group had successfully reorganized such business and will discontinue running it since this year. The amount of new contract and order secured in the six months ended June 30, 2013 was RMB1.6 million and the backlog amount as at June 30, 2013 was RMB6.7 million for energy sector.

**Business pattern and major projects**

The Group's business is correlated with the PRC 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 in comparing with the interim figure for the six months ended June 30, 2012. The business pattern remained similar in 2013 for the backlog amount was approximately RMB2,680.5 million as at June 30, 2013, resulting in a historical high backlog carried over to the second half of 2013.

During this year, the Group had implemented more than 820 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: | Yunnan Dali (Dali–Lijiang) Expressway Project |
| | National Expressway Communication System Networking Project |
| | Hubei Yiba (Yichang–Badong) Expressway Project |
| Railway: | Daxi (Datong–Xi'an) Passenger Transportation Railway Project |
| | Xiashen (Xiamen–Shenzhen) Railway Project |
| | Longhai (Lianyungang–Lanzhou) Railway Upgrade Project |
| Urban: | Shanxi Ankang Social Security Project |
| | Guangdong Guangzhou Electronic Police Project |
| | Guangdong Huadu Video Surveillance Project |

***By Business models***

The revenue for the six months ended June 30, 2013 was changed by a strong 95.7% increase in the TS' business, a 0.1% increase in the SS' business, and a 101.8% increase in the VAOS' business, respectively. The following table sets out the revenue breakdown by business models:

| | **Six months ended June 30,** | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| **Revenue by Segments** | | |
| TS | **496,148** | 253,476 |
| SS | **468,054** | 467,802 |
| VAOS | **34,016** | 16,860 |
| Elimination | **(22,313)** | (10,057) |
| Total | **975,905** | 728,081 |

*(i) TS*

Revenue from the TS' business for the six months ended June 30, 2013 was RMB496.1 million, representing an strong increase of RMB242.6 million, or 95.7%, as compared to RMB253.5 million for the six months ended June 30, 2012. As aforementioned in industry section, the Group had made a remarkable breakthrough in developing new expressway business in the new areas such as Hubei, Shanxi and Yunnan provinces. The Yunnan Dali Expressway project had contributed significant amount of revenue growth in the first half this year. In addition, the acquisition of STONE in 2012 brought a brand new TS revenue stream in Urban Traffic sector. Given the continued growth of government investment demand in expressway and the civilization trend in China, the Group believes the revenue from TS segment will continue to grow in the coming years. The TS segment as a whole accounted for 49.7% of the Group's revenue in the six months ended June 30, 2013, which is higher than prior period.

*(ii) SS*

Revenue from the SS in the six months ended June 30, 2013 was RMB468.1 million, representing an increase of RMB0.3 million, or 0.1%, as compared with RMB467.8 million for the six months ended June 30, 2012. The increase was composed by the decrement in Railway sector for RMB66.7 million, the decrement in energy sector for RMB5.4 million, and was offset by the increment in Expressway sector for RMB62.5 million, and the increment in Urban Traffic sector for RMB10.0 million. Please refer to the aforesaid industry sector section for the detailed discussion and analysis by separate industry categories. The SS segment as a whole accounted for 46.9% of the Group's revenue in the six months ended June 30, 2013, which is lower than prior period.

*(iii) VAOS*

Revenue from the VAOS in the six months ended June 30, 2013 was RMB34.0 million, representing an increase of RMB17.1 million, or 101.2%, as compared to RMB16.9 million for the six month ended June 30, 2012. Firstly, there was a brand new Urban Traffic sector in VAOS segment due to the successful acquisition of STONE in 2012. Secondly, Railway sectors had significant increments under the management's effort in developing recurring business with existing installed base. Such remarkable business growth reflects the Group's business transformations from a single project-based model to stable recurring pattern. The VAOS segments as a whole accounted for 3.4% of the Group's revenue in the six months ended June 30, 2013, representing the increase of this sector is faster than the Group's overall increase.

**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 and corporate level. The amount of cost of sales was determined based on the equipment and other direct relevant costs incurred for completion of each of the relevant projects. The cost of sales constituted 74.2% of the Group's revenue in the six months ended June 30, 2013, which represented a slight increase of 2.4% as compared to the corresponding period in 2012, and was mainly due to the acquisition of STONE which brought to the Group the TS projects with higher revenue and usually lower gross profit margin than SS projects.

***By Industry Sectors***

| | Six months ended June 30, 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| **Cost of Sales by industry sectors** | | |
| Expressway | **424,777** | 282,225 |
| Railway | **155,877** | 187,585 |
| Urban Traffic | **159,158** | 56,345 |
| Energy | **6,737** | 6,662 |
| Elimination | **(22,313)** | (10,057) |
| Total | **724,236** | 522,760 |
| % of Revenue | **74.2%** | 71.8% |

*(i) Expressway*

The Expressway sectors increased by RMB142.6 million to RMB424.8 million in the six months ended June 30, 2013 as compared to RMB282.2 million for the six month ended June 30, 2012.

*(ii) Railway*

The Railway sectors decreased by RMB31.7 million to RMB155.9 million in the six months ended June 30, 2013 as compared to RMB187.6 million for the six month ended June 30, 2012.

*(iii) Urban traffic*

The Urban Traffic sectors increased by RMB102.9 million to RMB159.2 million in the six months ended June 30, 2013 as compared to RMB56.3 million for the six month ended June 30, 2012.

*(iv) Energy*

The energy sectors remained as RMB6.7 million in the six months ended June 30, 2013 as compared to corresponding period in 2012.

*By business models*

| | Six months ended June 30, | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| **Cost of Sales by Segments** | | |
| TS | **396,611** | 215,955 |
| SS | **336,491** | 307,322 |
| VAOS | **13,447** | 9,540 |
| Elimination | **(22,313)** | (10,057) |
| Total | **724,236** | 522,760 |
| % of Revenue | **74.2%** | 71.8% |

*(i) TS*

The cost of sales incurred for TS constituted 53.1% of the Group's cost of sales in the six months ended June 30, 2013, which was higher than that in the prior years, and was mainly due to the strategic development in new regions of Expressway sector. Please refer to Expressway sector of sales and gross profit sections for the detailed discussion and analysis.

*(ii) SS*

The cost of sales incurred for SS constituted 45.1% of the Group's cost of sales in the six months ended June 30, 2013, 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 1.8% of the Group's cost of sales in the six months ended June 30, 2013, 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 RMB205.3 million for the six month ended June 30, 2012 to RMB251.7 million in the six months ended June 30, 2013, primarily due to the continuous increasing demand of intelligent transportation networks in China. Gross profit margin has decreased from 28.2% for the six month ended June 30, 2012 to 25.8% in the six months ended June 30, 2013, mainly due to the acquisition of STONE which brought to the Group the TS projects with higher revenue and usually lower gross profit margin than SS projects. The following table sets out the gross profit breakdown analysis by industry sectors:

***By industry sectors***

| | Six months ended | | |
|---|---|---|---|
| | **June 30, 2013** | December 31, 2012 | June 30, 2012 |
| | ***RMB'000*** | *RMB'000* | *RMB'000* |
| **Gross profit by industry sectors** | | | |
| Expressway | **148,650** | 141,276 | 90,224 |
| *Margin %* | **25.9%** | 18.0% | 24.2% |
| Railway | **57,532** | 78,370 | 84,054 |
| *Margin %* | **27.0%** | 23.0% | 30.9% |
| Urban traffic | **45,279** | 86,685 | 25,352 |
| *Margin %* | **22.1%** | 27.7% | 31.0% |
| Energy | **208** | 5,078 | 5,691 |
| *Margin %* | **3.0%** | 35.8% | 46.1% |
| Total | **251,669** | 311,409 | 205,321 |
| Margin % | **25.8%** | 22.0% | 28.2% |

*(i) Expressway*

The Expressway sectors increased by 1.7% to 25.9% in the six months ended June 30, 2013 as compared to 24.2% for the six month ended June 30, 2012. The increase fully reflected the success of the Group's expansion strategy in new regions such as Yunnan and Hubei. The Group believes the Expressway business will continued to bring revenue and profit growth in the coming future.

*(ii) Railway*

The Railway sector gross profit margin slightly decreased by 3.9% to 27.0% in the six months ended June 30, 2013 as compared to 30.9% for the six months ended June 30, 2012. The overall gross profit margin of this industry sector remained stable at around 30% after a serial of negative impact in 2011. The Group had worked extremely hard to diversify its revenue composition and maintain a healthy growth model under such tough economic difficulties. The implementation of passenger transportation railways, such as Hangchang (Hangzhou–Changsha) railway, are expected to commence in the second half of this year under the incentive construction plan from central government. The Group believes the gross profit margin of this sector will continue to be in a sustainable level in the coming future.

*(iii) Urban traffic*

The Urban Traffic sector gross profit margin decreased by 8.9% from 31.0% for the six month ended June 30, 2012 to 22.1% in the six months ended June 30, 2013. The main reason for this change is that the acquisition of STONE in June of 2012 brought to the Group the TS projects, which are usually below the average gross profit margin level of SS projects in the Urban Traffic sector. This is the first full fiscal year that the Group covers all the segments include TS, SS and VAOS for the Urban Traffic sector. The gross profit margin in this industry sector will be close to the overall average gross profit margin level of the Group when the revenue portion increases. With the unremitting effort in developing new market opportunities, the Group believes the urban traffic sector will contribute sustainable profit in the coming years.

*(iv) Energy*

The gross profit margin for the energy sector decreased by 43.1% from 46.1% in the six month ended June 30, 2012 to 3.0% for the six months ended June 30, 2013. As the industry sector is in mature stage, the Group had disposed the sector and had directed more attention to the transportation sectors. The small amount of revenue and profit was attributable to the backlog remained in prior years.

***By business models***

| | Six months ended | | |
|---|---|---|---|
| | **June 30, 2013** | December 31, 2012 | June 30, 2012 |
| | ***RMB'000*** | *RMB'000* | *RMB'000* |
| **Gross profit by Segments** | | | |
| TS | **99,537** | 71,725 | 37,521 |
| *Margin %* | **20.1%** | 10.3% | 14.8% |
| SS | **131,563** | 224,451 | 160,480 |
| *Margin %* | **28.1%** | 31.4% | 34.3% |
| VAOS | **20,569** | 15,233 | 7,320 |
| *Margin %* | **60.5%** | 38.8% | 43.4% |
| Total | **251,669** | 311,409 | 205,321 |
| *Margin %* | **25.8%** | 22.0% | 28.2% |

*(i) TS*

Gross profit margin for TS increased by 5.3% to 20.1% in the six months ended June 30, 2013 as compared to 14.8% for the six month ended June 30, 2012. As stated in the revenue section, the Group had made remarkable breakthrough in Expressway sector for some new regions such as Hubei, Shanxi and Yunnan. The Group believes TS segment will produce sustainable project profits in the coming years under such the policy guidance of advantage in China's expressway industry.

*(ii) SS*

Gross profit margin for SS decreased by 6.2% to 28.1% in the six months ended June 30, 2013, as compared to 34.3% for the six month ended June 30, 2012. The decrease is mainly due to the impact of National Expressway Communication System Networking Project, which involves a very significant contract price but has a lower profit margin than normal SS projects. This project contributed approximately RMB88.2 million revenue and RMB23.3 million gross profit in the first half of this year. The Group believes the SS segment will continuously contribute the higher gross profit margin projects in the coming future.

*(iii) VAOS*

Gross profit margin for VAOS increased from 43.4% for the six month ended June 30, 2012 to 60.5% in the six months ended June 30, 2013. The gross profit margin for VAOS is varied from project to project and normally is within a range from 40% to 70%. With trend of the year-on-year increase revenue and the highest gross profit margin within 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 rental income from investment properties, government grants and other non-operating incomes. The decrease in such income and gains represented the decrease of government grants in the first half this year, which are extraordinary items in the Group's normal operation.

**Selling, General and Administration Expenses**

In the six months ended June 30, 2013, selling, general and administration expenses ("**SG&A**") as a percentage of sales decreased by 4.2% to 18.7% as compared to 22.9% for the six month ended June 30, 2012, 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 ("**T&E 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 RMB100.7 million in the six months ended June 30, 2012 to RMB111.6 million in the six months ended June 30, 2013, representing a 10.8% increase and accounted for 61.2% of total SG&A in year ended June 30, 2013. This fluctuation was mainly due to general headcount increase for the business expansions in new sector and new products. 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 royal employees (c) spent valuable money in business expansion. Management believed the expenditure in human resource will bring corresponding profits in the coming future.

The rental expenses increased from RMB10.0 million for the six months ended June 30, 2012 to RMB13.0 million in the six months ended June 30, 2013 due to the higher rental cost of the Group's new centralized office in Beijing. Rental expenses accounted for 7.1% of the total SG&A in the six months ended June 30, 2013, a increase of 1.1% as compared to the corresponding period in 2012.

Research & Developments expenses increases form RMB10.6 million for the six months ended June 30, 2012 to RMB12.2 million for the six months ended June 30, 2013. The major growth was due to increase of expenditure in R&D for the new sectors such as urban traffic industry and other possible new industries.

***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 ("**Pre-IPO Share Incentive Scheme**") and the share option scheme under which share options were granted on January 18, 2012 ("**Share Option Scheme**"). For the six months ended June 30, 2013, equity-settled share option expenses was RMB11.3 million, which was less than that for the six months ended June 30, 2012, as the share options granted under the Share Option Scheme in 2012 had a more significant impact in the first year than in 2013 according to the preset vesting schedule.

Amortization expenses of intangible assets arising from acquisitions mainly represented the amortization arising from the acquisition of CTH and STONE. Such expenses was RMB10.2 million for the six months ended June 30, 2013, which was much higher than that for the six months ended June 30, 2012 due to the aforesaid acquisitions were took place in August of 2011 and June of 2012 respectively which made the amortization fully reflected in 2013.

**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 expense represented the total finance cost minus finance revenue. The Group's net financial expense was RMB18.8 million in the six months ended June 30, 2013, which represented an increase of RMB14.3 million as compared to the six months ended June 30, 2012. The increase was mainly due to the interest arising from the Bonds in amount of RMB210 million with interest rate at 10% issued in November 2012 and increase of the interest-bearing loan balance.

**Share of Profits/(Losses) of Joint Venture/Operation/Associates**

Share of Profits of investment entities in the six months ended June 30, 2013 was approximately RMB5.7 million, which represented an increase of RMB9.6 million from that of the six months ended June 30, 2012. The investment income was mainly from share of profit of Guangzhou Communication Information Co., Ltd. ("**Guangzhou Communication**"), which was co-founded with Guangzhou Communication Group in operation of urban traffic business. The Group believes this kind of income will increase when the business model is successfully replicated to other cities.

**Income Tax Expenses**

The total income tax expense in the six months ended June 30, 2013 was RMB18.5 million, which was higher than the total income tax expense of RMB13.6 million for the six months ended June 30, 2012. Considering the non-cash expenses in amount of RMB21.4 million as mentioned in the SG&A section above which was non-taxable, the taxable profit before tax was RMB82.3 million. Therefore, the effective tax rate for the six months ended June 30, 2013 was 22.5%, which represented a slight increase of 2.0% as compared to the corresponding period in 2012.

**Profit for the year**

Before deducting the non-cash expenses with amount of RMB21.4 million, which are non-taxable items, the pro forma net profit for the six months ended June 30, 2013 was RMB63.8 million, compared to RMB52.9 million for the six months ended June 30, 2012, or a 20.6% increase. This is mainly due to the fast growth demand in China's ITS industry and the Group's positive business expansions.

**Trade Receivables Turnover Days**

The trade receivables turnover days in the six months ended June 30, 2013 was 122 days (in the six months ended June 30, 2012: 161 days).

**Net Construction Turnover Days**

The net amount due from contract customer turnover days in the six months ended June 30, 2013 was 118 days (in the six months ended June 30, 2012: 136 days).

**Trade Payables Turnover Days**

The trade payables turnover days in the six months ended June 30, 2013 was 150 days (in the six months ended June 30, 2012: 165 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 six months ended June 30, 2013 was 8 days (in the six months ended June 30, 2012: 7 days).

**Liquidity and Financial Resources**

The Group's principal sources of working capital included cash flow from operating activities, bank and other borrowings, the proceeds from the Global Offering, and the proceeds from bond issued. As at June 30, 2013, the Group's current ratio (current assets divided by current liabilities) was 1.9 (as at December 31, 2012: 1.7). The Group's financial position remains healthy.

As at June 30, 2013, the Group was in a negative net cash position of RMB327.6 million (as at December 31, 2012: negative net cash of RMB48.0 million) which included cash and cash equivalent of RMB338.2 million (as at December 31, 2012: RMB584.8 million) and short-term borrowings of RMB399.2 million (as at December 31, 2012: RMB431.6 million) as well as long-term borrowings of RMB266.6 million (as at December 31, 2012: RMB201.2 million). As at June 30, 2013, the Group's gearing ratio was 8.9%, which has increased from -3.7% as at December 31, 2012, due to the newly issued long-term borrowings. Gearing ratio refers to adjusted cash (interest-bearing bank borrowings minus pledged deposits, short-term deposit and cash and bank balances plus due to related parties) divide total equity.

**Contingent Liabilities**

As at June 30, 2013, the Group had no material contingent liability.

**Charges on Group Assets**

As at June 30, 2013, except for the secured deposits of approximately RMB16.0 million, the Group pledged its buildings having net book values of approximately RMB98.0 million (As at December 31, 2012: RMB154.0 million) to banks to secure banking facilities granted to the Group. Save as disclosed above, as at June 30, 2013, the Group has no other asset charged to financial institution.

**Material Acquisitions or Disposals of Subsidiaries and Associated Company**

In January 2013, Beijing Aproud Technology Co., Ltd. ("**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. ("**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, 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 sector 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.

**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, 2013 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 | 248.7 | – |
| Research and development | 10% | 71.1 | 51.3 | 19.8 |
| General corporate purposes | 10% | 71.1 | 71.1 | – |
| Total | 100% | 710.6 | 690.8 | 19.8 |

## EMPLOYMENT AND EMOLUMENT POLICIES

As at June 30, 2013, the Group had 993 full-time employees (December 31, 2012: 1,026 employees). The remuneration of the existing employees includes basic salaries, discretionary bonuses and social security contributions. The emolument policy of the employees of the Group is set up by the Board on the basis of individual performance, the nature and responsibilities of the individual concerned and the performance of our Group and market conditions.

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

## INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board has resolved to pay an interim dividend (the "**Interim Dividend**") of HK$0.5 cents per share of the Company for the six months ended June 30, 2013, totaling approximately HK$8.2 million to the shareholders of the Company whose names appear on the register of members of the Company at the close of business on September 13, 2013 (the "**Record Date**"). Shareholders will be given an option to elect to receive shares of the Company credited as fully paid in lieu of cash in respect of all or part of the Interim Dividend (the "**Scrip Dividend Scheme**"). Dividend warrants and/or share certificates in respect of the Interim Dividend are expected to be dispatched on October 23, 2013.

The Scrip Dividend Scheme is conditional upon the Stock Exchange granting the listing of and permission to deal in the new shares of the Company to be allotted under the Scrip Dividend Scheme. A circular setting out full details of the Scrip Dividend Scheme together with a form of election will be sent to the shareholders of the Company in due course.

The register of members of the Company will be closed for the purpose of determining the identity of members who are entitled to the Interim Dividend from September 11, 2013 to September 13, 2013, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to qualify for the Interim Dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Union Registrars Limited at 18th Floor, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong not later than 4:00 p.m. on September 10, 2013 for registration.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

In May 2013, the Company purchased and cancelled part of the Bonds in the principal amount of RMB20,000,000, representing approximately 9.5238% of the outstanding Bonds in the principal amount of RMB210,000,000 immediately prior to the cancellation. Please refer to the sub-section headed "Purchase and cancellation of Bonds" in Management Discussion and Analysis section in this announcement for further details. Other than such purchase and cancellation of the Bonds, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the reporting period.

## CORPORATE GOVERNANCE

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

The Company has adopted the code provisions contained in the code of corporate governance practices (the "**CG Code**") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The Company has complied with the code provisions in the CG Code throughout the six months ended June 30, 2013.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules (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 six months ended June 30, 2013.

## AUDIT COMMITTEE

The audit committee of the Company was established on June 18, 2010 with effect from the listing of the Company. The current terms of reference of the audit committee have been adopted on March 28, 2012 in compliance with the CG Code. 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, 2013 together with the management of the Company and external auditor of the Company, Ernst & Young.

## PUBLICATION OF INTERIM REPORTS

The 2013 Interim Report of the Company containing all the information as required under 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*

Hong Kong, August 27, 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 are Mr. Zhou Chunsheng, Mr. Choi Onward and Mr. Sun Lu.*