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, 2013

FINANCIAL HIGHLIGHTS

- The amount of new contract signed and order secured for the year ended December 31, 2013 reached the Group's all-time record of approximately RMB2,683.4 million, compared to approximately RMB2,617.4 million for the year ended December 31, 2012, or an approximately 2.5% increase.
- The amount of backlog as at December 31, 2013 reached the Group's all-time record of approximately RMB2,210.7 million, compared to approximately RMB2,019.6 million as at December 31, 2012, or an approximately 9.5% increase.
- Revenue for the year ended December 31, 2013 reached the Group's all-time record of approximately RMB2,390.3 million, compared to approximately RMB2,146.0 million for the year ended December 31, 2012, or an approximately 11.4% increase.
- Gross profit for the year ended December 31, 2013 was approximately RMB559.0 million, compared to approximately RMB516.7 million for the year ended December 31, 2012, or an approximately 8.2% increase.
- Gross profit margin slightly decreased as compared with prior year at approximately 23.4%.
- The non-cash expenses[(1)] for the year ended December 31, 2013 was approximately RMB37.8 million, compared to approximately RMB51.0 million for the year ended December 31, 2012, or an approximately 25.9% decrease.

- Before deducting the non-cash expenses, the adjusted profit attributable to owners of the parent[2] for the year-ended December 31, 2013 was approximately RMB187.1 million, compared to approximately RMB182.9 million for the year-ended December 31, 2012, or an approximately 2.3% increase.

- Profit attributable to owners of the parent for the year-ended December 31, 2013 was RMB149.3 million, compared to approximately RMB131.9 million for the year-ended December 31, 2012, or an approximately 13.2% increase.

- Earnings per share[3] was RMB0.09 per share.

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

Notes:

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

(2) Adjusted 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 year-ended December 31, 2013.

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, 2013, with comparative figures, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended December 31, 2013

	Notes	2013 RMB'000	2012 RMB'000
REVENUE	4	**2,390,268**	2,146,000
Cost of sales	5	**(1,831,282)**	(1,629,270)
Gross profit		**558,986**	516,730
Other income and gains	4	**34,140**	47,131
Selling, general and administrative expenses		**(373,619)**	(359,109)
Other expenses		**(1,325)**	(2,130)
OPERATING PROFIT		**218,182**	202,622
Finance income		**15,041**	12,850
Finance costs	6	**(58,018)**	(29,427)
Share of profits of:			
Joint ventures		**12,523**	9
Associates		**10,664**	9,726
Gain on disposal of a subsidiary		**63**	2,462
PROFIT BEFORE TAX	5	**198,455**	198,242
Income tax expense	7	**(45,675)**	(58,913)
PROFIT FOR THE YEAR		**152,780**	139,329
Attributable to:			
Owners of the parent		**149,254**	131,910
Non-controlling interests		**3,526**	7,419
		152,780	139,329

EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

		RMB	RMB
Basic			
—For profit for the year	9	**0.09**	0.08
Diluted			
—For profit for the year	9	**0.09**	0.08

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2013

	2013	2012
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**152,780**	139,329
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(3,281)**	413
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(3,281)**	413
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**149,499**	139,742
Attributable to:		
Owners of the parent	**145,973**	132,323
Non-controlling interests	**3,526**	7,419
	149,499	139,742

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2013

	Notes	**December 31, 2013** *RMB'000*	December 31, 2012 *RMB'000*
NON-CURRENT ASSETS			
Property and equipment		**64,844**	55,915
Investment properties		**109,100**	154,000
Prepaid land premium		**13,726**	14,149
Goodwill		**406,135**	406,135
Other intangible assets		**59,750**	78,717
Investments in joint ventures		**55,375**	33,350
Investments in associates		**104,908**	94,043
Available-for-sale investment		**25,307**	25,307
Deferred tax assets		**12,709**	12,202
Prepayment for acquisition of equity interests in other companies		**96,710**	111,710
Pledged deposits	*12*	**4,500**	–
Other long-term assets		**20,000**	19,944
Total non-current assets		**973,064**	1,005,472
CURRENT ASSETS			
Inventories		**20,922**	37,853
Construction contracts	*10*	**1,294,760**	1,255,393
Trade and bills receivables	*11*	**1,115,858**	903,794
Prepayments, deposits and other receivables		**1,375,658**	1,146,390
Due from related parties		**135,367**	74,656
Deferred cost		**20,364**	8,071
Held-to-maturity investment		**67,299**	69,405
Pledged deposits	*12*	**80,639**	80,636
Cash and cash equivalents	*12*	**695,720**	584,783
Other financial assets		**16,815**	3,445
Total current assets		**4,823,402**	4,164,426
CURRENT LIABILITIES			
Trade and bills payables	*13*	**1,046,574**	923,666
Other payables and accruals		**283,100**	327,558
Construction contracts	*10*	**728,324**	679,378
Interest-bearing bank borrowings		**520,561**	431,577
Due to related parties		**52,108**	13,847
Income tax payable		**27,275**	42,072
Deferred income		**–**	1,344
Total current liabilities		**2,657,942**	2,419,442
NET CURRENT ASSETS		**2,165,460**	1,744,984
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,138,524**	2,750,456

	December 31, 2013 *RMB'000*	December 31, 2012 *RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES	**3,138,524**	2,750,456
NON-CURRENT LIABILITIES		
Guaranteed bonds	**184,918**	201,194
Convertible bonds	**146,033**	–
Interest-bearing bank borrowings	**87,000**	–
Long-term payable	**3,067**	8,537
Deferred tax liabilities	**47,863**	43,319
Total non-current liabilities	**468,881**	253,050
Net assets	**2,669,643**	2,497,406
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**289**	289
Equity component of convertible bonds	**7,903**	–
Reserves	**2,622,165**	2,462,400
	2,630,357	2,462,689
Non-controlling interests	**39,286**	34,717
Total equity	**2,669,643**	2,497,406

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 Cricket 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 (the "**SEHK**") on July 15, 2010.

2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Standing Interpretation Committee interpretations issued and approved by the International Accounting Standards Board (the "**IASB**") that remain in effect, and the disclosure requirements of the 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 ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

3. OPERATING SEGMENT INFORMATION

In 2013, for management purposes the Group had changed to the following operating segments based on industry sectors:

(i) Expressway: Provides the turnkey solutions ("TS"), specialised solutions ("SS") and value-added operation and services ("VAOS") to customers in expressway industry;

(ii) Railway: Provides SS, and VAOS to customers in railway industry;

(iii) Urban traffic: Provides TS, SS and VAOS to customers in urban traffic industry;

(iv) Energy: Provides SS to customers in energy industry.

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 or loss, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that finance income, finance costs, other income, changes in fair value of investment properties and call option share of profits of joint ventures and associates, gain on disposal of a subsidiary, exchange loss as well as head office and corporate expenses are excluded from this measurement.

Segment assets exclude deferred tax assets, property and equipment, investment properties, prepaid land premium, investments in joint ventures 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 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, convertible 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, 2013

	Expressway *RMB'000*	Urban Traffic *RMB'000*	Railway *RMB'000*	Energy *RMB'000*	Consolidated *RMB'000*
Segment revenue					
Sales to external customers	**1,153,241**	**465,393**	**742,927**	**28,707**	**2,390,268**
Intersegment sales	**25,434**	**49,567**	**4,256**	**–**	**79,257**
	1,178,675	**514,960**	**747,183**	**28,707**	**2,469,525**
Reconciliation:					
Elimination of intersegment sales					**(79,257)**
Revenue					**2,390,268**
Segment results	**128,729**	**28,778**	**101,723**	**889**	**260,119**
Reconciliation:					
Finance income					**15,041**
Finance costs					**(58,018)**
Share of profits of joint ventures					**12,523**
Share of profits of associates					**10,664**
Gain on disposal of a subsidiary					**63**
Exchange loss					**(744)**
Changes in fair value of investment properties and call option					**24,470**
Corporate and other unallocated expenses					**(65,663)**
Profit before tax					**198,455**
December 31, 2013					
Segment assets	**1,568,649**	**985,885**	**2,095,137**	**37,059**	**4,686,730**
Reconciliation:					
Elimination of intersegment receivables	**(77,902)**	**(34,555)**			**(112,457)**
Corporate and other unallocated assets					**1,222,193**
Total assets					**5,796,466**
Segment liabilities	**870,451**	**439,430**	**421,428**		**1,731,309**
Reconciliation:					
Elimination of intersegment payables	**(77,902)**	**(34,555)**	**–**		**(112,457)**
Corporate and other unallocated liabilities					**1,507,971**
Total liabilities					**3,126,823**

Year ended December 31, 2012

	Expressway *RMB'000*	Urban Traffic *RMB'000*	Railway *RMB'000*	Energy *RMB'000*	Consolidated *RMB'000*
Segment revenue					
Sales to external customers	1,158,428	380,191	580,854	26,527	2,146,000
Intersegment sales		14,404	30,912		45,316
	1,158,428	394,595	611,766	26,527	2,191,316
Reconciliation:					
Elimination of intersegment sales					(45,316)
Revenue					2,146,000
Segment results	76,752	61,269	83,180	7,074	228,275
Reconciliation:					
Finance income					12,850
Finance costs					(29,427)
Share of profits of joint ventures					9
Share of profits of associates					9,726
Gain on disposal of a subsidiary					2,462
Exchange loss					(330)
Other income					20,330
Changes in fair value of investment properties					8,200
Corporate and other unallocated expense					(53,853)
Profit before tax					198,242
December 31, 2012					
Segment assets	1,750,497	659,836	1,762,383	102,630	4,275,346
Reconciliation:					
Elimination of intersegment receivables	(296,765)	(99,492)	(197,505)	(6,688)	(600,450)
Corporate and other unallocated assets					1,495,002
Total assets					5,169,898
Segment liabilities	802,511	448,891	1,189,106	46,074	2,486,582
Reconciliation:					
Elimination of intersegment payables	(225,930)	(75,745)	(150,363)	(5,092)	(457,130)
Corporate and other unallocated liabilities					643,040
Total liabilities					2,672,492

4. REVENUE, OTHER INCOME AND GAINS

Revenue from the 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 from the sales of products, represents the 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:

	2013	2012
	RMB'000	*RMB'000*
Revenue		
Implementation of projects	**2,203,012**	1,926,159
Sale of products	**187,256**	219,841
	2,390,268	2,146,000
Other income		
Gross rental income	**6,309**	9,778
Government grants*	**3,321**	8,195
Others**	**40**	20,958
	9,670	38,931
Gains		
Changes in fair value of investment properties	**11,100**	8,200
Changes in fair value of call option	**13,370**	–
Other income and gains	**34,140**	47,131

* 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" in 2012 included compensation income of RMB20,944,000 from Beijing Global Holdings Limited, a 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):

	2013	2012
	RMB'000	*RMB'000*
Cost of services rendered for the implementation of projects	**1,705,661**	1,490,737
Cost of inventories sold	**125,621**	138,533
Cost of sales	**1,831,282**	1,629,270
Depreciation	**19,316**	19,790
Amortisation of intangible assets*	**18,967**	15,520
Amortisation of land premium	**423**	–
Minimum lease payments under operating leases	**27,325**	25,891
Auditors' remuneration	**2,500**	2,902
Wages and salaries	**81,868**	80,036
Pension scheme contributions (defined contribution scheme)	**10,842**	9,012
Social insurance costs and staff welfare	**21,379**	14,547
Equity-settled share option expenses	**18,853**	35,542
	132,942	139,137
Impairment of receivables	**3,996**	–
Impairment of inventories	**1,387**	–
Interest on bank loans wholly repayable within five year	**31,706**	23,749
Interest on guaranteed bonds	**23,575**	3,494
Interest on convertible bonds	**1,070**	–
Changes in fair value of investment properties	**(11,100)**	(8,200)
Changes in fair value of call option	**(13,370)**	–
Net loss on disposal of items of property and equipment	**326**	80
Gain on disposal of a subsidiary	**(63)**	(2,462)
Charitable donation	**256**	820
Finance income	**(15,041)**	(12,850)
Exchange loss, net	**744**	330

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

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2013	2012
	RMB'000	*RMB'000*
Interest on bank loans, overdrafts and other loans wholly repayable within five years	**31,706**	23,749
Interest on guaranteed bonds	**23,575**	3,494
Interest on convertible bonds	**1,070**	–
Total interest expense on financial liabilities not at fair value through profit or loss	**56,351**	27,243
Other finance costs:		
Increase in discounted amounts of long-term payable arising from the passage of time	**1,667**	2,184
	58,018	29,427

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

According to Mainland China tax regulations, from January 1, 2008 onwards, non-resident enterprises without an establishment or place of business in the Mainland China 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 Mainland China, are subject to withholding tax at the rate of 10% on various types of passive income such as dividends derived from entities in the Mainland China. Distributions of the pre-2008 earnings are exempted from the above-mentioned withholding tax. At December 31, 2013, 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 Mainland China (2012: Nil). In the opinion of the directors, it is not probable that the Group's Mainland China subsidiaries will distribute profits in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB935,289,000 (2012: RMB863,570,000).

The major components of income tax expense are:

	2013	2012
	RMB'000	*RMB'000*
Current income tax:		
Current income tax charge in Hong Kong	**69**	–
Current income tax charge in the Mainland China	**39,071**	65,277
Deferred income tax:		
Relating to origination and reversal of temporary differences	**6,535**	(6,364)
Income tax expense reported in the consolidated statement of profit or loss	**45,675**	58,913

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:

2013	**Hong Kong** *RMB'000*	**Cayman Islands and British Virgin Islands** *RMB'000*	**Mainland China** *RMB'000*	**Total** *RMB'000*
Profit/(loss) before tax	**2,230**	**(6,822)**	**203,047**	**198,455**
Tax at statutory tax rate	**368**	**–**	**50,763**	**51,131**
Tax holiday or lower tax rates enacted by local authorities	**–**	**–**	**(19,967)**	**(19,967)**
Expenses not deductible for tax	**–**	**–**	**5,130**	**5,130**
Income not subject to tax	**(299)**	**–**	**(239)**	**(538)**
Adjustments in respect of current income tax of previous periods	**–**	**–**	**137**	**137**
Effect of tax rate change	**–**	**–**	**9,373**	**9,373**
Profit attributable to joint ventures and associates	**–**	**–**	**(3,721)**	**(3,721)**
Tax losses not recognised	**–**	**–**	**4,130**	**4,130**
Income tax expense reported in the consolidated statement of profit or loss	**69**	**–**	**45,606**	**45,675**

2012	Hong Kong *RMB'000*	Cayman Islands and British Virgin Islands *RMB'000*	Mainland China *RMB'000*	Total *RMB'000*
Profit 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 periods	–	–	387	387
Investment gain from reorganisation*	–	–	6,162	6,162
10% withholding tax on profit distribution from a Mainland China subsidiary	–	14,959	–	14,959
Profit attributable to joint ventures and associates	–	–	(1,982)	(1,982)
Tax losses not recognised	–	–	2,127	2,127
Income tax expense reported in the consolidated statement of profit or loss	–	14,959	43,954	58,913

* In 2012, the Group underwent a series of reorganisation of subsidiaries in the Mainland China.

The share of tax attributable to joint ventures and associates amounting to 3,721,000 (2012: RMB1,982,000) is included in "Share of profits of joint ventures" and "Share of profits of associates" in the consolidated statement of profit or loss.

8. DIVIDENDS

	2013	2012
	RMB'000	*RMB'000*
Interim — HK 0.5 cents (2012: Nil) cent per ordinary share	**6,485**	–

On March 25, 2014, the Board proposed a final dividend of HK1.2 cents per share for 2013.

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

Basic earnings per share ("**EPS**") amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

	2013	2012
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**149,254**	131,910
Interest on convertible bonds	**1,070**	–
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds	**150,324**	131,910

	Number of shares	
	2013	2012
Shares		
Weighted average number of shares in issue during the year used in the basic earnings per share calculation	**1,645,752,039**	1,628,539,233
Effect of dilution — weighted average number of ordinary shares:		
Share options	**62,723,159**	4,240,980
Convertible bonds	**7,498,198**	–
	1,715,973,396	1,632,780,213

10. CONSTRUCTION CONTRACTS

	Group	
	2013	2012
	RMB'000	*RMB'000*
Gross amount due from contract customers	**1,294,760**	1,255,393
Gross amount due to contract customers	**(728,324)**	(679,378)
	566,436	576,015
Contract costs incurred plus recognised profits less recognised losses to date	**6,309,916**	4,725,123
Less: Progress billings	**(5,743,480)**	(4,149,108)
	566,436	576,015

11. TRADE AND BILLS RECEIVABLES

	Group	
	2013	2012
	RMB'000	*RMB'000*
Trade receivables	**1,093,082**	869,933
Impairment	**(256)**	(1,690)
	1,092,826	868,243
Bills receivable	**23,032**	35,551
	1,115,858	903,794

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. In view of the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. An estimate for doubtful debts is made when there is objective evidence that an impairment loss on receivables has been incurred. The Group does not hold any collateral or other credit enhancements over its trade and bills receivables balances.

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

	2013	2012
	RMB'000	*RMB'000*
Less than 6 months	**546,802**	415,459
6 months to 1 year	**226,791**	159,230
1 year to 2 years	**199,469**	251,745
2 years to 3 years	**111,118**	56,389
Over 3 years	**31,678**	20,971
	1,115,858	903,794

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

	Group	
	2013	2012
	RMB'000	*RMB'000*
At January 1	**1,690**	1,829
Amount written off as uncollectible	**–**	(139)
Amount written off as disposal of a subsidiary	**(1,434)**	–
At December 31	**256**	1,690

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB256,000 (2012: RMB1,690,000) with a carrying amount before provision of RMB256,000 (2012: RMB1,690,000).

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in both interest and/or principal payments and only a portion of the receivables is expected to be recovered.

An aged analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	2013	2012
	RMB'000	*RMB'000*
Neither past due nor impaired	**546,802**	422,551
Past due but not impaired:		
Less than 6 months past due	**226,791**	110,063
6 months to 1 year past due	**99,734**	136,717
1 year to 2 years past due	**155,293**	175,756
2 years to 3 years past due	**71,526**	44,723
Over 3 years past due	**15,712**	13,984
	1,115,858	903,794

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 there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The Group has no pledged proceeds to be received from settlement of trade receivables as at December 31, 2013 (2012: RMB9.9 million) from the sales contract with 北京國鐵華晨通信信息技術有限公司 for a banking facility granted to the Group.

12. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group	
	2013	2012
	RMB'000	*RMB'000*
Cash and bank balances	**695,720**	584,783
Pledged deposits	**85,139**	80,636
	780,859	665,419
Less: Pledged deposits for		
—Project bonds	**(66,839)**	(54,815)
—Bills payable	**(6,284)**	(25,821)
—Bank loan	**(12,016)**	–
	(85,139)	(80,636)
Cash and bank balances	**695,720**	584,783

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 totalled RMB642.3 million (RMB642 million is located in Mainland China and RMB0.3 million is located in overseas) as at December 31, 2013 (2012: RMB631.4 million in total). 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:

	Group	
	2013	2012
	RMB'000	*RMB'000*
Current or less than 1 year past due	**732,776**	836,418
1 to 2 years past due	**267,536**	87,248
Over 2 years past due	**46,262**	–
	1,046,574	923,666

The Group's bills payable were secured by pledged deposits of the Group of RMB6.3 million as at December 31, 2013 (2012: RMB25.8 million).

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

MANAGEMENT DISCUSSION & ANALYSIS

Business Overview

In 2013, the Group have completed over 2,000 projects across three major ITS sectors. The revenue of the Group was RMB2,390.3 million, representing an increase of 11.4% as compared to RMB2,146.0 million in 2012, new contracts signed and order secured in 2013 amounted to RMB2,683.4 million, representing an increase of 2.5% as compared to 2012. Backlog as at the end of 2013 was RMB2,210.7 million, representing an increase of 9.5% as compared to 2012.

Expressway

In 2013, the Group has entered several western regions in the PRC and made a success in Yunnan and Xinjiang. In Yunnan, the Group has entered into a contract with Dali Expressway Construction Headquarters* (雲南大麗高速公路建設指揮部), which is responsible for the management of the construction of the Yunnan Dali Expressway, with a contract price of approximately RMB510.6 million. In Xinjiang, the Group had engaged business with Xinjiang Communications Construction (Group) Co., Ltd.* (新疆交通建設(集團)有限責任公司) and strengthens and further expands its market share in Xinjiang and other western province in the PRC and even extends to mid-Asian countries. We also completed over 1,100 projects in this sector such as Hubei Yi-Ba (Yichang — Badong) Expressway Project and the National Expressway Trunk Communication Network Project.

Railway

Since 2011 the Railway sector have been recovering healthily. In 2013, the Group's Railway sector's project implementation accelerated and revenue increased. We continue to cover 18 local bureaus to upgrade existing Railway services and explore more opportunities in high-speed railway. We completed over 750 projects in this sector such as Express Rail Link (Guangzhou-Shenzhen-Hong Kong) High-Speed Railway Project, Hangzhou-Changsha High-Speed Railway Project and the Lanzhou-Urumqi High-Speed Railway Project. The Board believes it will bring more opportunities in this sector.

Urban traffic

In the second half year of 2013, the Urban Traffic Sector faced liquidity issues arising from circumstances of local government. However, due to M&A synergies (sharing of clients base, business model cross-selling), we still recorded revenue in this sector of RMB515.0 million, representing a substantial increase from RMB394.6 million for the year ended December 31, 2012. We also made a breakthrough of Urban Rapid Transit. We completed over 220 projects in this sector such as Guangzhou Huadu District Electronic Police System Project, Siping City Network and Digital Urban Management Project, etc. The Group believes there will be more opportunities in the Urban Traffic sector in 2014.

2013 was a year of urban progress. The Group expected a fast growth of Urban Rapid Transit infrastructure and a huge ITS demand in Urban Rapid Transit sector. In 2013, the Group secured a master contractor agreement with Chongqing Urban Railway Transportation (Group) Co., Ltd.* (重慶市軌道交通(集團)有限公司) to provide an ITS turnkey solution for the Second Phase Construction Project for the 6th Line of the Chongqing Rapid Transit* (重慶市軌道交通六號線二期工程) (the "**Second Phase of the 6th Line**"), with a contract value of approximately RMB220 million.

Mid/back-end

In 2013, the management team of the Group (the "**Management**") followed the principle of "front end decentralization and mid/back end centralization" and restructure mid/back end in order to reduce expenses. The Group made a signification progress on cutting down selling, general and administration expenses (the "**SG&A**") as a percentage of sales decreased by 1.1% to 15.6% as compared to 16.7% for the year ended December 31, 2012.

Management Review

In August 2013, the Group's wholly owned subsidiary has entered into a cooperation agreement with a company listed on the Shenzhen Stock Exchange, Dahua Technology Co., Ltd ("**Dahua**") (Stock code:002236.SZ) for three years responsible for sales and marketing of video surveillance products. Dahua is a market leader in surveillance hardware design and manufacturing in the PRC. By engaging Dahua as a strategic business partner, the Board believes that the Group will benefit from stable quality customized hardware product supply on surveillance product. The Group will continue searching for a suitable hardware supplier in other area other than communication and surveillance and keep the leadership in ITS market.

In May 2013, January and February 2014, the Company has purchased and cancelled parts of the 10.0% guaranteed bonds due 2015 with an original principal amount of RMB210,000,000 (the "**RMB Bonds**") in the aggregate principal amount of RMB61,000,000, representing approximately 29.05% of the original principal amount of the RMB Bonds of RMB210,000,000. The Company considers that the purchase of the purchased RMB Bonds will 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. The Company will continue seeking for opportunities to purchase of the outstanding RMB Bonds in 2014.

In November 2013, the Board has paid an interim scrip dividend of HK0.5 cents per share of the Company for the six months ended June 30, 2013, totalling 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 Board has resolved to declare a scrip dividend of HK1.2 cents per share of the Company for the year ended December 31, 2013, totalling approximately HK$19.0 million to the shareholders of the Company whose names appear on the register of members of the Company at the close of business on May 28, 2014. For detailed information of dividend, please refer to the FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS on page 37 of this announcement.

In December 2013, the Company has issued HK$200 million convertible bonds in the principal amount of HK$200 million (the "**CB**"), which were subscribed by an indirect wholly-owned subsidiary of China Merchants Group (招商局集團) ("**CMG**") as to HK$198 million, and by a company owned by the employees of China Merchants Group and/or its affiliated companies as to HK$2 million. CMG is a state-owned enterprise of the PRC directly controlled by State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會).

In conjunction with the investment pursuant to the CB issue, the Company is exploring strategic cooperation with CMG and/or its affiliates, which include operators of expressway and design institutions related to the transportation sectors. The Company expects to enter into formal strategic cooperation agreements with CMG and/or its affiliates in this respect when the parties reach consensus regarding the terms of the strategic cooperation. In light of the development of a strategic cooperation relationship with CMG, the Company considers that introducing CMG as an investor in the Group by means of the CB issue will further strengthen the relationship and basis of cooperation between the Group and CMG. The proposed use of proceeds from the CB is to expand and strengthen the business and to improve cash flow of the Group.

Looking forward, we believe ITS industry, taking advantage of the implementation of new urbanization strategy, will remain at a fast development stage. As a market leader of ITS industry of China, the Group will continue to be a standard maker and to maintain the leading position in the industry. The Group will consolidate mature sectors and expand new business such as urban rapid transit and civil aviation sectors, and the Board believes that this strategy can help the Group to achieve healthy development in the future.

Revenue

By Industry Sectors

The Group's revenue for the year ended December 31, 2013 increased by 11.4% to RMB2,390.3 million as compared to RMB2,146.0 million for the year ended December 31, 2012 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 1.8% increase in expressway sector, a 22.1% increase in railway sector, a 30.5% increase in urban traffic sector, and a 8.2% increase in energy sector. The following table sets out the revenue breakdown by Industry sectors:

	Year ended December 31	
	2013	2012
	RMB'000	*RMB'000*
Revenue by industry sectors		
Expressway	**1,178,675**	1,158,428
Railway	**747,183**	611,766
Urban traffic	**514,960**	394,595
Energy	**28,707**	26,527
Elimination	**(79,257)**	(45,316)
Total	**2,390,268**	2,146,000

(i) Expressway

Revenue from the Expressway sector in the year ended December 31, 2013 was RMB1,178.7 million, representing an increase of RMB20.2 million as compared to RMB1,158.4 million for the year ended December 31, 2012. As we continued to shift focus to the western regions of the PRC, the revenue from the Expressway sector reached on all-time high. From the market aspect, local expressway bureaus all over mainland China such as northeast, center and south regions restarted the projects in 2013 which had been postponed in 2012. From the Group's aspect, Management had made significant progress in developing new regions such as Henan, Shanxi and Yunnan. In the meantime, Beijing RHY Technology Development Co., Ltd. ("**RHY Technology**"), a subsidiary of the Group 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 2013. RHY Technology 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. This project had contributed significant revenue and profit to the Group in this year. The Group believes the Expressway sector will have the continued growth in the coming years under the ongoing contribution from government's infrastructure construction. The new contract and order secured amount in the year ended December 31, 2013 was RMB1,487.7 million and the backlog amount as at December 31, 2013 was RMB1,196.2 million for the Expressway sector.

(ii) Railway

Revenue from the Railway sector in the year ended December 31, 2013 was RMB747.2 million, representing an increase of RMB135.4 million as compared to RMB611.8 million for the year ended December 31, 2012. There was obvious resumption in the Railway sector business in 2013 after the slowdown of construction in 2012. In the early of 2013, central government had emphasized the "12th Five-Year Plan" construction scale will be remained, which indicated that the postponed investment in railway construction in 2012 will be resumed and completed in the coming years. From the Group's aspect, 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 made significant progress in the construction of Guangzhou-Shenzhen-HK High-Speed Railway with HK MTR. 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 contract and order secured amount in the year ended December 31, 2013 was RMB638.6 million and the backlog amount as at December 31, 2013 was RMB566.9 million for Railway sector.

(iii) Urban Traffic

Revenue from the Urban Traffic sector in the year ended December 31, 2013 was RMB515.0 million, representing a massive increase of RMB120.4 million as compared to RMB394.6 million for the year ended December 31, 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 sector 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 contract and order secured amount in the year ended December 31, 2013 was RMB528.2 million and the backlog amount as at December 31, 2013 was RMB447.4 million for Urban Traffic sector.

(iv) Energy

Revenue from the Energy sector in the year ended December 31, 2013 was RMB28.7 million, representing an increase of RMB2.2 million as compared to RMB26.5 million for the year ended December 31, 2012. As the Energy sector is in a mature stage and is no longer a key focus of the Group, the Group has disposed its Energy sector business in 2013. The new contract and order secured amount in the year ended December 31, 2013 was RMB29.0 million and the backlog amount as at December 31, 2013 was RMB0.2 million for the 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 the bidding stage and their implementations start 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 figure at year end. The business pattern remained unchanged in 2013 for the backlog amount was approximately RMB2,210.7 million and RMB2,680.5 million as at December 31, 2013 and June 30, 2013, respectively.

During this year, the Group had implemented more than 2,200 projects in various 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 Da-Li (Dali — Lijiang) Expressway Project
	National Expressway Trunk Communication Network Project
	Hubei Yi-Ba (Yichang — Badong) Expressway Project
Railway:	Express Rail Link (Guangzhou — Shenzhen — Hong Kong) High-Speed Railway Project
	Hang-Chang (Zhengjiang Hangzhou — Hunan Changsha) High-Speed Railway Project
	Lan-Xin (Gansu Lanzhou — Xinjiang Urumqi) High-Speed Railway Project
Urban:	Guangzhou Huadu District Electronic Police System Project
	Siping City Network and Digital Urban Management Project
	Chongqing Urban Rapid Transit Line 6 Project

By Business models

The revenue in every business segment of the Group for the year ended December 31, 2013 reached an all-time high, which are improved by a 12.8% increase in the TS' business, a 8.8% increase in the SS' business, and a 92.3% increase in the VAOS business. The following table sets out the revenue breakdown by Industry sectors:

	Year ended December 31	
	2013	2012
	RMB'000	*RMB'000*
Revenue by Segments		
TS	**1,075,148**	953,226
SS	**1,286,546**	1,182,019
VAOS	**107,831**	56,071
Elimination	**(79,257)**	(45,316)
Total	**2,390,268**	2,146,000

(i) TS

Revenue from the TS' business for the year ended December 31, 2013 was RMB1,075.1 million, representing an increase of RMB121.9 million, or increase 12.8%, as compared to RMB953.2 million for the year ended December 31, 2012. In 2013, the Group was benefited directly from massive central government's investment in transportation, which originally should be completed earlier due to postponement in 2012. 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 model in urban traffic industry 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 as a whole accounted for 45.0% of the Group's revenue in the year ended December 31, 2013, which is similar with 44.4% as recorded for the year ended December 31, 2012.

(ii) SS

Revenue from the SS business in the year ended December 31, 2013 was RMB1,286.5 million, representing an increase of RMB104.5 million, or 8.8%, as compared with RMB1,182.0 million for the year ended December 31, 2012. This is because the implementation of big projects such as Express Rail Link brought significant contribution on the revenue growth. Please refer to the aforesaid industry sector section for the detailed discussion and analysis. The SS segment as a whole accounted for 50.5% of the Group's revenue in the year ended December 31, 2013, which is lower than 53.0% as recorded for the year ended December 31, 2012.

(iii) VAOS

Revenue from the VAOS business in the year ended December 31, 2013 was RMB107.8 million, representing an increase of RMB51.8 million, or 92.3%, as compared to RMB56.1 million for the year ended December 31, 2012. Firstly, we have developed brand new Urban Traffic business in VAOS sector due to the successful integration of STONE in 2012. Secondly, both Expressway and Railway industry sectors had varying increments under the management's effort in developing recurring business with existing customers. 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 4.5% of the Group's revenue in the year ended December 31, 2013, which is much higher than the 2.6% as recorded for the year ended December 31, 2012.

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 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 76.6% of the Group's revenue in the year ended December 31, 2013, which is maintained at a level similar to that of the year ended 31 December 2012, and was mainly due to the mutual business model and strict cost control policy applied by the Group.

By Industry Sectors

	Year ended December 31	
	2013	2012
	RMB'000	*RMB'000*
Cost of Sales by Sectors		
Expressway	**928,915**	926,928
Railway	**557,235**	449,342
Urban Traffic	**398,176**	282,558
Energy	**26,213**	15,758
Elimination	**(79,257)**	(45,316)
Total	**1,831,282**	1,629,270
% of Revenue	**76.6%**	75.9%

(i) Expressway

The Expressway sectors increased by RMB2.0 million to RMB928.9 million in the year ended December 31, 2013 as compared to RMB926.9 million for the year ended December 31, 2012.

(ii) Railway

The Railway sectors increased by RMB107.9 million to RMB557.2 million in the year ended December 31, 2013 as compared to RMB449.3 million for the year ended December 31, 2012.

(iii) Urban traffic

The Urban Traffic sectors increased by RMB115.6 million to RMB398.2 million in the year ended December 31, 2013 as compared to RMB282.6 million for the year ended December 31, 2012.

(iv) Energy

The Energy sectors increased by RMB10.5 million to RMB26.2 million in the year ended December 31, 2013 as compared to RMB15.8 million for the year ended December 31, 2012.

By Business Models

	Year ended December 31	
	2013	2012
	RMB'000	*RMB'000*
Cost of Sales by Segments		
TS	**923,482**	843,981
SS	**915,895**	797,087
VAOS	**71,162**	33,518
Elimination	**(79,257)**	(45,316)
Total	**1,831,282**	1,629,270
% of Revenue	**76.6%**	75.9%

(i) TS

The cost of sales incurred for TS constituted 46.1% of the Group's cost of sales in the year ended December 31, 2013, which was lower than that in the prior years, and was mainly due to the strategic development in new regions of Expressway industry sector.

(ii) SS

The cost of sales incurred for SS constituted 50.0% of the Group's cost of sales in the year ended December 31, 2013, which is higher than that in the prior years because of the higher portion from projects with high contract prices in Expressway and Railway sectors.

(iii) VAOS

The cost of sales incurred for VAOS constituted 3.9% of the Group's cost of sales in the year ended December 31, 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 increased from RMB516.7 million for the year ended December 31, 2012 to RMB559.0 million in the year ended December 31, 2013, and was mainly due to the continuous increasing demand of intelligent transportation networks in China. Gross profit margin has decreased from 24.1% for the year ended December 31, 2012 to 23.4% in the year ended December 31, 2013.

By industry sectors

	Year ended December 31	
	2013	2012
	RMB'000	*RMB'000*
Gross profit by industry sectors		
Expressway	**249,759**	231,500
Margin %	**21.2%**	20.0%
Railway	**189,949**	162,424
Margin %	**25.4%**	26.6%
Urban traffic	**116,784**	112,037
Margin %	**22.7%**	28.4%
Energy	**2,494**	10,769
Margin %	**8.7%**	40.6%
Total	**558,986**	516,730
Margin %	**23.4%**	24.1%

(i) Expressway

The Expressway sectors increased by 1.2% to 21.2% in the year ended December 31, 2013 as compared to 20.0% for the year ended December 31, 2012. The increase was mainly because of the implementation of large successful projects such as Yunnan Dali project.

(ii) Railway

The Railway sector gross profit margin decreased by 1.2% to 25.4% in the year ended December 31, 2013 as compared to 26.6% for the year ended December 31, 2012. Although the Group has experienced such big events in prior years in this industry sector, management still tried every best to find the new breakthrough and diversify the business risk. To some extent, the recovery of gross profit margin proves that the Group can sustain a wealthy growth model and overcome any economic difficulties. Under the impact of incentive policy in railway construction announced by the central government, the Group believes the gross profit margin will remain in a competitive level in the coming years.

(iii) Urban traffic

The Urban Traffic margin slightly decreased by 5.7% from 28.4% for the year ended December 31, 2012 to 22.7% in the year ended December 31, 2013. The main reason for this change is that the acquisition of STONE brought to the Group the TS projects, which are usually below the average gross profit margin level, in the urban traffic industry 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 from this sector as a portion of the Group's total revenue 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 margin for the energy sector decreased by 31.9% from 40.6% in the year ended December 31, 2012 to 8.7% for the year ended December 31, 2013.

By Business models

	Year ended December 31	
	2013	2012
	RMB'000	*RMB'000*
Gross profit by Segments		
TS	**151,665**	109,246
Margin	**14.1%**	11.5%
SS	**370,651**	384,931
Margin	**28.8%**	32.6%
VAOS	**36,670**	22,553
Margin	**34.0%**	40.2%
Total	**558,986**	516,730
Margin	**23.4%**	24.1%

(i) TS

Gross profit margin for TS increased by 2.6% to 14.1% in the year ended December 31, 2013 as compared to 11.5% for the year ended December 31, 2012. As stated in the revenue section, the Group had made remarkable progress in the successful projects such as Yunnan Dali Expressway which brought high gross profit margin contribution in this year. The Group believes TS segment will produce sustainable project profits in the coming years under the favourable government policy and guidance in China's expressway industry.

(ii) SS

Gross profit margin for SS decreased by 3.8% to 28.8% in the year ended December 31, 2013, as compared to 32.6% for the year ended December 31, 2012. The decrease represented the fast expansion in this segment with large projects which is in lower gross profit margins.

(iii) VAOS

Gross profit margin for VAOS decreased from 40.2% for the year ended December 31, 2012 to 34.0% in the year ended December 31, 2013. The gross profit margin for VAOS is varied from project to project and normally is within a range from 30% to 60%. 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 (a) rental income from investment properties, (b) fair value changes of investment properties and financial assets, and (c) government grants and other non-operating incomes. 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. The fair value changes of financial assets are related to the fair value changes of one of the subsidiaries of the Group. The reimbursement of expenses and taxes incurred for the reorganization did not incurred in this year, which was in amount to RMB20.9 million in 2012.

Selling, General and Administration Expenses

In the year ended December 31, 2013, selling, general and administration expenses ("**SG&A**") as a percentage of sales decreased by 1.1% to 15.6% as compared to 16.7% for the year ended December 31, 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 RMB211.4 million in year ended December 31, 2012 to RMB218.1 million in year ended December 31, 2013, representing a 3.2% increase and contributed 58.4% of total SG&A in year ended December 31, 2013. This fluctuation was mainly due to general headcount increase for the business expansions in new industry and new products. As mentioned in the revenue section, the Group has put more and more efforts in developing the new business opportunities through the following ways: (a) hired talent people (b) adjusted salary rate in order to retain loyal employees. Management believed the expenditure in human resource will bring corresponding profits in the coming future.

The rental expenses increased from RMB25.9 million for the year ended December 31, 2012 to RMB27.2 million in the year ended December 31, 2013 due to the increase of rental cost of the Group's centralized office in Beijing. Rental expenses accounted for 7.3% of the total SG&A in the year ended December 31, 2013, which remained the same as compared to the corresponding period in 2012.

Research & Developments expenses increases form RMB26.5 million for the year ended December 31, 2012 to RMB37.1 million for the year ended December 31, 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 sectors.

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, 2013. For year ended December 31, 2013, equity-settled share option expenses was RMB18.9 million, which was much lower than that in amount of RMB35.5 million for year ended December 31, 2012, due to the diminishing scale of option expenses over the years.

Amortization expenses of intangible assets arising from acquisitions mainly represented the amortization arising from the acquisition of CTH and STONE. Such expenses was RMB19.0 million for year ended December 31, 2013, which was higher than that in amount of RMB15.5 million for year ended December 31, 2012 due to the fact that the aforesaid acquisitions took place in August of 2011 and June of 2012, respectively, which gave rise to amortization effect for a full fiscal year in 2013.

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 RMB43.0 million in the year ended December 31, 2013, which represented an increase of RMB26.4 million as compared to that in amount of RMB16.6 million for the year ended December 31, 2012. The increase was mainly due to the interest arising from the RMB bond in amount of RMB210 million with interest rate at 10% issued in November 2012.

Share of Profits/(Losses) of Joint Ventures/Associates

Share of Profits of investment entities in the year ended December 31, 2013 was approximately RMB23.2 million, which represented an increase from that in amount of RMB9.7 million for the year ended December 31, 2012. The investment income was mainly from share of profit of several associates in both the Expressway and the Urban Traffic sectors.

Income Tax Expenses

The total income tax expense in the year ended December 31, 2012 was RMB58.9 million, which was included the taxes in amount of RMB20.9 million arising from reorganization incurred in late of 2012. After removing the effect of such taxes, the adjusted income tax expenses was RMB38.0 million for the year ended December 31, 2012. The total income tax expense in the year ended December 31, 2013 was RMB45.7 million, which was higher than the adjusted income tax expenses for the year ended December 31, 2012, and was due to the increase of profit before taxation. Considering the non-cash expenses in amount of RMB37.8 million stated in SG&A section which was non-taxable, the taxable profit before tax was RMB236.3 million. Therefore, the effective tax rate for the year ended December 31, 2013 was 19.3%, which represented the combined effect of preferential income tax rate at 15% and the deferred tax rate at 25% for most of the subsidiaries in the Group qualified for preferential tax treatments as High and New Technology Enterprise in 2013, which are subject to renewal in 2014.

Profit for the year

Before deducting the non-cash expenses with amount of RMB37.8 million, which are non-taxable items, the adjusted profit attributable to the owners of parent for the year-ended December 31, 2013 was RMB187.1 million, compared to RMB182.9 million for the year-ended December 31, 2012, or a 2.3% increase.

Trade Receivables Turnover Days

The trade receivables turnover days in the year ended December 31, 2013 was 154 days (in the year ended December 31, 2012: 142 days).

Net Construction Turnover Days

The net amount due from contract customer turnover days in the year ended December 31, 2013 was 82 days (in the year ended December 31, 2012: 72 days).

Trade Payables Turnover Days

The trade payables turnover days in the year ended December 31, 2013 was 196 days (in the year ended December 31, 2012: 179 days).

Inventory Turnover Days

The inventories of the Group mainly comprised of raw materials, work-in-progress, finished goods and general merchandise for surveillances Specialized Solutions. The inventory turnover days in the year ended December 31, 2013 was 6 days (in the year ended December 31, 2012: 8 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 December 31, 2013, the Group's current ratio (current assets divided by current liabilities) was 1.8 (as at December 31, 2012: 1.7). The Group's financial position remains healthy.

As at December 31, 2013, the Group was in a net negative cash of RMB155.8 million (as at December 31, 2012: net negative cash of RMB48.0 million) which included cash and cash equivalent of RMB695.7 million (as at December 31, 2012: RMB584.8 million) and short-term bank loans of RMB520.6 million (as at December 31, 2012: RMB431.6 million) as well as Guaranteed Bonds of RMB184.9 million (as at December 31, 2012: RMB201.2 million), and convertible bonds of RMB146.0 million (as at December 31, 2012: Nil). As at December 31, 2013, the Group's gearing ratio was 2.8%, which has increased from -3.7% as at December 31, 2012, due to the increase of debt financing in such as convertible. 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 December 31, 2013, the Group had no material contingent liability.

Charges on Group Assets

As at December 31, 2013, except for the secured deposits (current portion) of approximately RMB80.6 million (as at December 31, 2012: RMB80.6 million), and the secured deposits (non-current portion) of approximately RMB4.5 million as at December 31, 2012: nil), the Group pledged its buildings having net book values of approximately RMB39.5 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 December 31, 2013, the Group had no other asset charged to financial institution.

Use of Proceeds

The shares of the Company were listed on the main board of SEHK on July 15, 2012 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, 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	56.9	14.2
General corporate purposes	10%	71.1	71.1	–
Total	100%	710.6	696.4	14.2

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

In May 2013, the Company purchased and cancelled part of the RMB Bonds, which are listed on the Stock Exchange (stock code: 85908) in the principal amount of RMB20,000,000, representing approximately 9.5238% of the outstanding RMB Bonds in the principal amount of RMB210,000,000 immediately prior to the cancellation.

Other than the aforementioned purchase and cancellation of the RMB Bonds, 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, 2013.

EVENTS AFTER THE REPORTING PERIOD

In January and February 2014, the Company has purchased and cancelled parts of the RMB Bonds, in the aggregate principal amount of RMB41,000,000. As a result of these cancellations, the aggregate principal amount of RMB Bonds which have been cancelled amounted to RMB61,000,000, representing approximately 29.05% of the original principal amount of the RMB Bonds. The outstanding principal amount of the RMB Bonds as at the date of this announcement is RMB149,000,000. Please refer to the announcements of the Company dated 10 January 2014 and 20 February 2014 for further details.

EMPLOYMENT AND EMOLUMENT POLICIES

As at December 31, 2013, the Group had 981 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 has adopted the code provisions (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on SEHK (the "**Listing Rules**"). The Company has complied with the code provisions contained in the CG Code for the year ended December 31, 2013.

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the standards for the Directors' dealings in the securities of the Company on June 18, 2010. Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the required standard set out in the Model Code during the reporting period.

AUDIT COMMITTEE

The audit committee of the Company was established on June 18, 2010 with effect from the Listing with written terms of reference. The Board has adopted the latest 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, 2013 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, 2013 in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board has recommended the payment of a dividend of HK1.2 cents per share of the Company for the year ended December 31, 2013 (the "**Final Dividend**"). The Final Dividend will be paid in the form of a scrip dividend with Shareholders being given an option to elect to receive cash in lieu of all or part of their scrip dividend entitlements (the "**Scrip Dividend Scheme**"). The Scrip Dividend Scheme will be subject to (i) Shareholders' approval of the Final Dividend at the Company's forthcoming annual general meeting (the "**AGM**"); and (ii) the Stock Exchange granting listing of and permission to deal in the new shares to be allotted thereunder. The Final Dividend will be distributed, and the share certificates issued under the Scrip Dividend Scheme are expected to be sent on or about August 4, 2014 to the Shareholders whose names appear on the register of members of the Company on May 28, 2014 (the "**Record Date for Dividend**"). On the condition that the Final Dividend is approved by the Shareholders at the AGM, a circular containing details of the Scrip Dividend Scheme and the relevant election form will be despatched to the Shareholders of the Company as soon as practicable after the Record Date for Dividend.

The register of members of the Company will be closed for the purpose of determining the identity of members who are entitled to the Final Dividend from May 26, 2014 to May 28, 2014, both days inclusive, during which period no transfer of shares of the Company will be effected. In order for any person to be entitled to the Final Dividend as a shareholder, 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 May 23, 2014 for registration.

ANNUAL GENERAL MEETING

It is proposed that the AGM will be held on May 19, 2014. Notice of the Annual General Meeting will be published and dispatched to the shareholders of the Company in the manner as required by the Listing Rules in due course.

PUBLICATION OF ANNUAL REPORT

The 2013 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 of Directors
China ITS (Holdings) Co., Ltd.
Mr. Liao Jie
Chairman

Beijing, March 25, 2014

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.