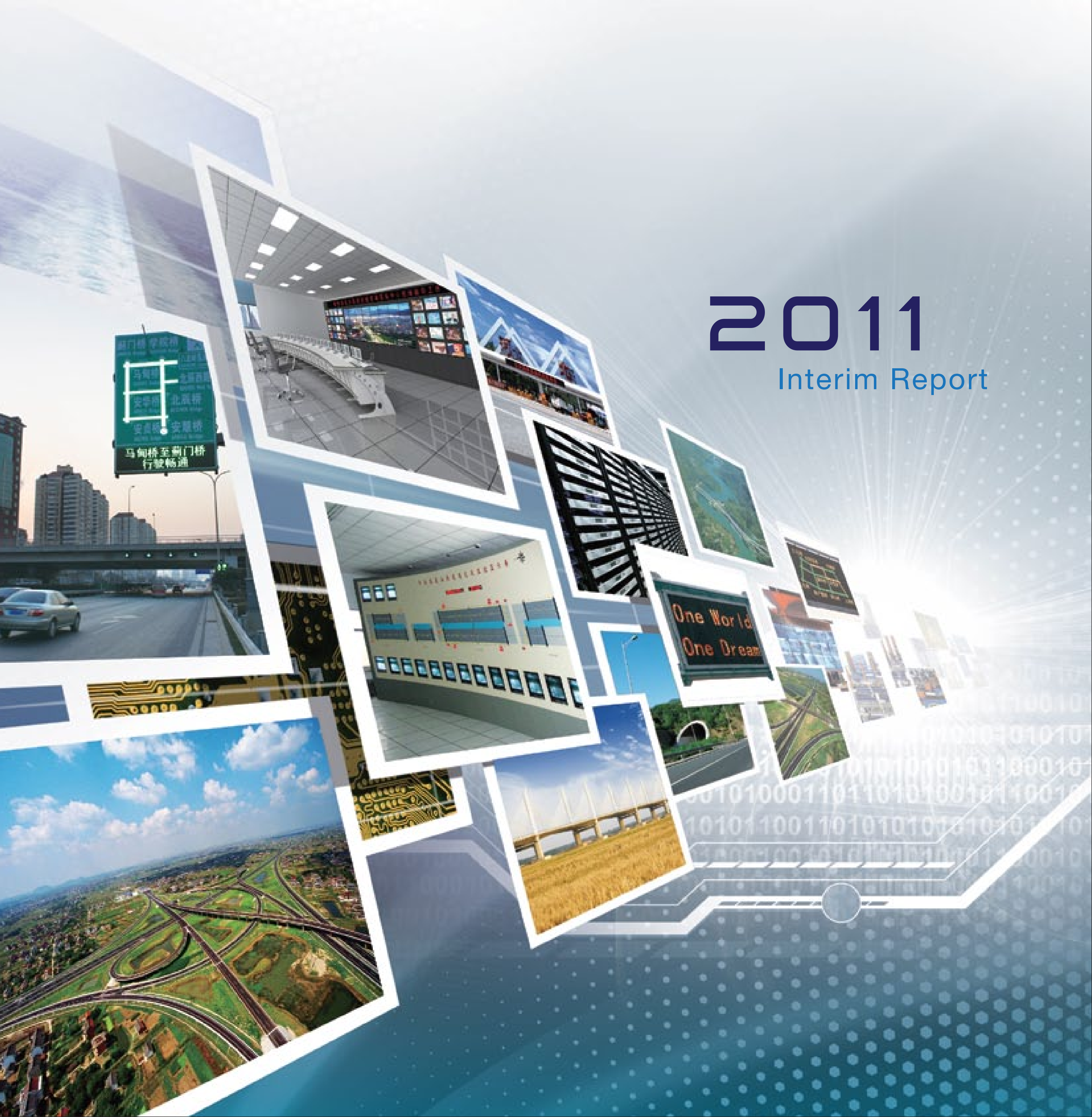
中国智能交通系统(控股)有限公司

# China ITS (Holdings) Co., Ltd.

*(incorporated in the Cayman Islands with limited liability)*

Stock Code: 1900

# 2011
## Interim Report



Designed and Printed: RR DONNELLEY ROMAN FINANCIAL

# Contents

# Financial Highlights

- Revenue grew by approximately 6.4% to approximately RMB683.1 million
- Gross profit increased by approximately 8.1% to approximately RMB208.1 million
- Gross profit margin was approximately 30.5%, which is higher than that in 2010
- Profit before tax grew by approximately 54.0% to approximately RMB100.4 million
- Profit attributable to owners of the Company grew by approximately 60.5% to approximately RMB74.7 million
- Earnings per share was RMB0.05 per share
- Backlog as at June 30, 2011 increased by approximately 41.5% from December 31, 2010 to approximately RMB1,852.8 million

# Corporate Information

## Board of Directors

Executive Directors
Mr. Jiang Hailin *(Chairman)*
Mr. Liao Jie *(appointed on August 24, 2011)*
Mr. Wang Jing
Mr. Lu Xiao
Mr. Pan Jianguo
Mr. Lv Xilin *(appointed on August 24, 2011)*

Independent Non-executive Directors
Mr. Zhou Chunsheng
Mr. Choi Onward
Mr. Sun Lu

## Company Secretary

Mr. Leung Ming Shu *(FCCA, FCPA)*

## Authorized Representatives

Mr. Jiang Hailin
Suite 102, 1st Unit, 8th Building
1 Balizhuang Beili, Haidian District
Beijing
China

Mr. Leung Ming Shu *(FCCA, FCPA)*
Flat 1309, Block B, Tai Hang Terrace
5 Chun Fai Road
Jardine's Lookout
Hong Kong

## Audit Committee

Mr. Choi Onward *(FCCA, HKICPA)* *(Chairman)*
Mr. Zhou Chunsheng
Mr. Sun Lu

## Remuneration Committee

Mr. Sun Lu *(Chairman)*
Mr. Zhou Chunsheng
Mr. Choi Onward

## Nomination Committee

Mr. Zhou Chunsheng *(Chairman)*
Mr. Choi Onward
Mr. Sun Lu

## Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## Head Office in the PRC

Unit 1801A, 18/F.
West Tower
World Financial Centre
No. 1 East 3rd Ring Road Middle
Chaoyang District
Beijing 100020, China

## Principal Place of Business in Hong Kong

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Wu Chung House
213 Queen's Road East
Wanchai, Hong Kong

## Company Website

www.its.cn

## Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

## Hong Kong Branch Share Registrar and Transfer Office

Union Registrars Limited
18th Floor, Fook Lee Commercial Centre
Town Place
33 Lockhart Road
Wanchai
Hong Kong

# Corporate Information

## Auditor
Ernst & Young
*Certified Public Accountants*
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

## Compliance Advisor
CCB International Capital Limited

## Legal Advisor
Morrison & Foerster *(Hong Kong law)*

## Listing Exchange Information
Place of listing: Main Board of The Stock Exchange of Hong Kong Limited
Stock Code: 1900
Board lot: 1000 shares

## Principal Bankers
Industrial and Commercial Bank of China Co., Ltd.
Beijing Branch
China Construction Bank Corporation
Beijing Branch, Shijingshan sub-branch
Bank of Communications Co., Ltd. Beijing Branch
Zhongguancun Science Park sub-branch
China Merchants Bank Co., Ltd. Beijing Branch
Beisanhuan sub-branch
China Bohai Bank Co., Ltd.
Beijing Branch
China Guanfa Bank
Beijing Branch

# Management Discussion and Analysis

## Overview and Prospect

### OVERVIEW OF THE OVERALL OPERATION OF THE COMPANY DURING THE REPORTING PERIOD

In the first half of 2011, the Company earnestly implemented its strategic development plan, pushed forward its commitment to streamlining structure, scaling up, preventing risks and sharpening competitiveness. The Company made significant progress in the transformation of its business and worked to optimize management processes. These efforts strengthened its core competitiveness led to healthy growth across all business sectors, and steadily increased its profitability and efficiency. Despite the tough industry condition, especially the significant slow down in the high speed passenger train projects, during the six months ended June 30, 2011, the Company recorded revenue of RMB683.1 million, representing an increase of 6.4% as compared to RMB642.0 million in the six months ended June 30, 2010. The overall gross profit was RMB208.1 million, representing an increase of 8.1% compared with the same period of 2010. With a mature business model, leading market position, dominant market share and strict cost control procedures, the Company managed to maintain a high level of gross profit margin of 30.5%. The Company recorded a profit attributable to owners of the Company of RMB74.7 million, representing an increase of 60.5% from RMB46.5 million for the corresponding period in 2010. Backlog amounted to approximately RMB1,852.8 million.

### CORE BUSINESSES OF THE COMPANY AND OPERATION THEREOF

The Company provides turnkey solutions, specialized solutions and VA services for the expressway, railway and urban traffic (including subway and urban traffic roadway) sectors. It maintains a diversified and healthy revenue mix of these four sectors with the strongest interim revenue growth in urban traffic. For the six months ended June 30, 2011, the Company's revenue from the expressway sector reached RMB281.5 million, representing an increase of 3.2% from 272.9 million for the corresponding period in 2010, making up 41.2% of the Company's total revenue. Revenue from the railway sector decreased by 15.5% to RMB277.2 million during the reporting period. Revenue from the two urban traffic sectors rose significantly by 344.0% to RMB110.9 million, compared with the same period of the previous year, representing 16.2% of the Company's total revenue.

In terms of revenue contribution, compared with the corresponding period in 2010, revenue contributions from the expressway sector slightly decreased by 1.6%, while those from the railway sector decreased by 10.5%. In contrast, revenues from the two urban traffic sectors increased by 12.3%, reflecting the Company's increased focus on these two sectors by cross leveraging its competitive edge in both expressway and railway specialized solutions.

**(i) Expressway**

The overall increase of expressway revenue was particularly attributable to the strong growth of turnkey projects. During the reporting period, turnkey solutions recorded revenue of RMB213.0 million, representing an increase of 35.1% compared with the same period of 2010. The Company's impressive project lists on landmark projects in the first half of 2011 were testimony to its strong project management skills and industry expertise. For example, the Shui-Du Expressway, a milestone "National 7918 Highway" project (Shuikou to Duyun, part of Gui-Guang Expressway, from Guizhou province to Guangdong province). Guizhou province is well known for its harsh mountainous terrain. Through this project, our technological advantages and expertise in providing tunnels related solutions were fully demonstrated in the complex environment of mountains, waterways and roads. This project and other important projects, such as the Ji-Cha Expressway, the Da-Guang Expressway, the Xinjiang Du-Qiao-Na Expressway, the Ji-Cao Expressway made significant contribution to overall expressway revenue.

## CORE BUSINESSES OF THE COMPANY AND OPERATION THEREOF (continued)

**(i) Expressway** (continued)

However, the strong growth for turnkey projects was partly offset by the reduction of specialized solutions projects. Revenue generated from specialized solutions decreased by 48.6% to RMB57.2 million during the reporting period. This is mainly due to seasonal factor. In the first half of 2011, provincial expressway administration bureaus were busy formulating budget and business plans in order to lay a good foundation for development of the "12th Five-Year Plan" period. As a result, the implementation of specialized solutions projects slowed down. Moreover, most expressway operators generally work on their budgets in the first half of each fiscal year and start implementation in the second half. Thus, on the basis of the volume of signed and secured orders, the Company is still expected to be benefiting from upgrade and expansion demand coming from these expressway operators in terms of improving its safety measures and increasing operating efficiency. Also, those compensating revenue is expected to start kicking in throughout the second half of the year.

By relying on its industry-leading advantages for value-added services, the Company has set transportation management services for ongoing operations as an overall strategy for gradual business transformation. During the reporting period, by leveraging on its first movers advantages, VA services recorded revenue of RMB11.3 million, a strong growth of 177.4% compared with the same period of the previous year.

**(ii) Railway**

A series of negative events hit the railway industry in the first half of 2011. New orders for high speed passengers trains projects were reduced as the MOR focused its energy on quelling concerns over safety as well as revisiting the overall capital investment plan. New orders received by the railway sector decreased by 81.1% to RMB156.9 million during the reporting period. Backlog dropped to RMB425 million as of the end of the reporting period. Both mainly come from the local railway bureaus.

However, it is estimated that by the end of 2015, China will have over 120,000km(1) of railways in operation, of which over 90,000km(1) will be traditional lines. The Company foresees that there will be a lot of upgrade and expansion demand coming from local railway bereaus in terms of electrification, speed acceleration, cargo line dedication and application information technology improvement. During the reporting period, the Company has successfully won the biddings and completed many projects from existing lines, such as the Long-Xia Line, the Bei-Tong-Pu No.4 Line, the Da-Bao, the Tai-Jiao Line, reflecting its' focus on upgrading of existing lines.

The Company expects that going forward, railway spending on ITS(1) over a 5-year period (2011–2015) will remain stable and healthy, given the bulk of such capex will be devoted to the completion of existing projects. Spending on upgrading of existing lines only amounted to less than 10% of railway investment each year during the period between 2005–2010, an area which the Company believes was underinvested in the last few years. As long as safety in the railway industry becomes increasingly important, the Company expects the investment into existing lines will move up over the next few years.

Notes:

(1) Source: MOR Statistics

## CORE BUSINESSES OF THE COMPANY AND OPERATION THEREOF (continued)

**(iii) Urban Traffic — Rapid transit and urban traffic roadway to be catching up**

Revenue from the specialized solutions significantly increased by 508.9% to RMB106.4 million during the reporting period. Looking forward, as driven by the increasing number of large cities, expanding city scale, increasing urban population density, international special events and government support, the Company believes that China will shift away from investing in purely increasing the mileage and capacity of their roads, to moving towards a model of higher utilization on their infrastructure assets. With increasing utilization on these roads, ITS is expected to begin to play an increasingly important role in the management of traffic flows and safety in cities. Therefore, the Company believes that these two urban traffic sectors will grow rapidly.

According to the OC&C industry report on a research project conducted in June 2011 (the "OC&C Industry Report"), urban traffic roadway ITS is expected to grow above 20% from 2006 to 2013, with an estimated market size of RMB16.1 billion in 2013. Urban Traffic Rapid Transit ITS is expected to achieve a market size of RMB27.3 billion in 2013, with an estimated CAGR of 20% from 2006 to 2013. Owing to a favorable market environment in Urban Traffic Rapit Transit and Roadway sectors, the Company believes that these two urban traffic sectors are going to be increasingly important and will become strong revenue generators on top of both expressway and railway business.

## PROSPECTS

### New breakthrough in the Public Transport Sector

In response to China's "12th Five-Year Plan" to vigorously develop and utilize the nation's transportation infrastructure, the Company implemented its plan to enter the public transport sector. Based on the OC&C Industry Report, the total ITS market size for public transport ITS in top 20 cities in China reached RMB800 million in 2006 and RMB2.3 billion in 2010, with a CAGR of 28%. Driven by the development of the second and third tier cities, increased popularity of ITS systems and technology advancement of wireless communication, the ITS market in public transport sector is estimated to be RMB5.1 billion in 2013, with a CAGR of 31% between 2010 and 2013. In the second half of 2011, the Company is poised to expand to the sixth transport sub-sectors in order to diversify the risk of the Company, to maintain the growth of the Company and to maintain the stability of its earnings.

### M&A

Since January 1, 2011, the Company has announced a series of M&A activities, such as Xinjiang RHY(1), Sinorail(2), Xinjiang Delida(3) and eSOON(4) reflecting its increased focus on transportation management services for ongoing operations as an overall strategy for gradual business transformation and to diversify from the traditional sectors to other transportation sectors, e.g. public transport. In the second half of this year, the Company will continue to be active in identifying suitable M&A targets and strong companies with realistic and reasonable valuations.

### Prospects

Although in the first half of 2011 the railway industry experienced unprecedented difficulties, the Company has weathered the storm and it expects that the worst times are over. In the future, the Company will actively carry out strategic transformation and strive for diversified and healthy development in the transportation industry, and the Company aims to become the most diversified full bloom ITS solutions and services provider to the transportation industry in China.

Notes:

(1) Xinjiang RHY: Xinjiang RHY Technology Co., Ltd.
(2) Sinorail: Shanghai Sinorail Diamond International Trading Co., Ltd.
(3) Xinjiang Delida: Xinjiang Delida Information Technology Co., Ltd.
(4) eSOON: eSOON Holdings Corp.

## Revenue

The Group's revenue in the six months ended June 30, 2011 increased by 6.4% to RMB683.1 million as compared to RMB642.0 million in the six months ended June 30, 2010. The overall increase in revenue in the six months ended June 30, 2011 is fueled by a 31.7% increase in Turnkey Solutions segment and a 264.9% increase in VA Service segment, and is partially offset by a slight 4.2% decrease in Specialized Solutions segment. The overall fluctuation in revenue is due to the different product mix and various project implementation stage throughout the period. The following table sets out the revenue breakdown by segments:

| Revenue by segments | For the six-month period ended June 30, 2011 RMB'000 Unaudited | 2010 RMB'000 Audited |
|---|---|---|
| Turnkey Solutions | **217,521** | 165,154 |
| Specialized Solutions | **452,889** | 472,718 |
| VA Services | **14,889** | 4,080 |
| Elimination | **(2,214)** | — |
| **Total** | **683,085** | 641,952 |

**(i) Turnkey Solutions**

Revenue from the Turnkey Solutions business in the six months ended June 30, 2011 was RMB217.5 million, an increase of RMB52.4 million, i.e. an increase of 31.7%, as compared to RMB165.2 million in the six months ended June 30, 2010. The increase was mainly attributable to the strong growth in expressway projects.

The revenue growth rate for expressway Turnkey Solution business was 35.1% in the six months ended June 30, 2011, as compared to the six months ended June 30, 2010, and most of the projects, which include the Shui-du Expressway (Shuikou to Duyun, part of Guizhou to Guangdong Expressway in Guizhou province), made great progress and significant contribution to overall revenue. On the urban roadway Turnkey Solutions sector, most of the existing project had been successfully implemented and some new projects in addition to Beijing, Shanghai, Guangzhou, Shenzhen such as those in Siping city of Jilin province are going to be launched this year.

Turnkey Solutions segment accounted for 31.8% of the Group's revenue in the six months ended June 30, 2011 which is higher than the level of 25.7% in the six months ended June 30, 2010.

**(ii) Specialized Solutions**

Revenue from the Specialized Solutions business in the six months ended June 30, 2011 was RMB452.9 million, a slight decrease of RMB19.8 million, i.e. a decrease of 4.2%, as compared with RMB472.7 million in the six months ended June 30, 2010. The decrease was due to the decrease in Expressway and Railway business sectors and was offset by the strong growth in Urban Traffic Rapid Transit and Urban Traffic Roadway business sectors.

## Revenue (continued)

### (ii) Specialized Solutions (continued)

Revenue generated from Expressway Specialized Solutions decreased by RMB54.0 million in the six months ended June 30, 2011. This was due to the fact that projects implementation being slowed down and the expressway bureaus in each province did not focus on the detailed execution plan of the "12th Five-Year Plan", which is in compliance with the Government guideline. Moreover, each of the expressway projects usually has different phases in working progress within one fiscal year. Depending on to the volumes of signed and secured orders, the Group is likely to generate compensating revenue after these existing projects have been implemented.

Revenue from Urban Traffic Specialized Solutions significantly increased by RMB89.0 million, in the six months ended June 30, 2011, as compared to the six months ended June 30, 2010 and was primarily due to the positive outcome of the Group's focused effort in this industry sector. The Group is very confident that the Urban Traffic Rapid Transit and Urban Roadway sectors will become another important revenue generator besides the Expressway and Railway sectors, given the rapid urbanization in mainland China. Revenue from Urban Traffic Specialized Solutions accounted for 23.3% of the Specialized Solutions segment's revenue in the six months ended June 30, 2011, which has significant increment as compared to the level of 3.7% in the six months ended June 30, 2010.

Revenue from railway Specialized Solutions decreased by RMB54.4 million, and this is mainly due to the central government's policy of slowing down the massive investment pace in high-speed railway. When the Jing-Hu high speed railway came into operation, the national railway high speed network had substantially completed and the scale of new railway projects has gradually reduced. Apart from putting effort in the new railway projects, the Group had made great achievements in existing railways' upgrade and maintenance projects from local railway bureaus. Please refer to the analysis of VA services section for the details of revenue recognition.

Revenue generated from the energy business remained stable in the six months ended June 30, 2011. As the energy business is in a mature stage and is no longer a key focus of the Company, management have directed more attention to the transportation sectors, such as Urban Traffic Rapid Transit, Urban Traffic Roadway and Expressway, which are expected to provide higher growth for the Company.

The Specialized Solutions segment as a whole accounted for 66.0% of the Group's revenue in the six months ended June 30, 2011, which is lower compared with 73.6% as recorded in the six months ended June 30, 2010, and was mainly due to the decrease in railway business as a result of slowdown of high speed railway construction.

## Revenue (continued)

### (iii) VA Services

Revenue from the VA Services business in the six months ended June 30, 2011 was RMB14.9 million, a significant increment of RMB10.8 million as compared to RMB4.1 million in the six months ended June 30, 2010. Save as aforesaid, the Group had generated revenue of the VA services not only from the traditional expressway sector but also the railway sector from existing projects, which marked the initial success in the Group's transformation strategy in the railway sector from construction driven to recurring operation focus.

The revenue from VA services in the six months ended June 30, 2011 accounted for 2.2% of the Group's total revenue in the six months ended June 30, 2011, significantly higher than 0.7% as recorded in the six months ended June 30, 2010. This was due to the Group's effort pursuing recurring business model among the strong existing customer network accumulated over the years from the construction period.

## Cost of Sales

Cost of sales was incurred on a project-by-project basis for each individual legal entity and was subsequently aggregated at segment and corporate level. The cost of sales was based on the equipment and other direct project cost incurred for completion for each of the relevant contract. The cost of sales constituted 69.5% of the Group's revenue in the six months ended June 30, 2011, which represented a decrease of 0.5% as compared to the corresponding period in 2010. This was due to a stable and high level of gross profit margin based on the Group's mature project management, successful pricing strategy and strict purchase cost control. The following table sets out the cost of sales with a breakdown by segments:

| Cost of sales by segments | For the six-month period ended June 30, 2011 RMB'000 Unaudited | 2010 RMB'000 Audited |
|---|---|---|
| Turnkey Solutions | **185,760** | 137,284 |
| Specialized Solutions | **284,571** | 309,795 |
| VA Services | **6,879** | 2,411 |
| Elimination | **(2,214)** | — |
| **Total** | **474,996** | 449,490 |
| ***% of Revenue*** | ***69.5%*** | *70.0%* |

### (i) Turnkey Solutions

The cost of sales incurred for Turnkey Solutions constituted 39.1% of the Group's cost of sales in the six months ended June 30, 2011, which is higher than the corresponding period in 2010, reflecting the rising contribution of Turnkey Solutions to the Group's sales in the six months ended June 30, 2011.

## Cost of Sales (continued)

**(ii) Specialized Solutions**

The cost of sales incurred for Specialized Solutions constituted 59.4% of the Group's cost of sales in the six months ended June 30, 2011, which recorded a decrease comparing with the corresponding period in 2010. The decrease was due to reduced contribution of this segment to the Group's sales in the six months ended June 30, 2011.

**(iii) VA Services**

The cost of sales incurred for VA Services constituted 1.5% of the Group's cost of sales in the six months ended June 30, 2011, which recorded an increase comparing with the corresponding period in 2010, reflecting the relatively significant rising contribution of VA Services to the Group's sales in the six months ended June 30, 2011.

## Gross Profit

Overall gross profit of the Group increased from RMB192.5 million in the six months ended June 30, 2010 to RMB208.1 million in the six months ended June 30, 2011. Under the leading experienced project management team, successful pricing strategy and strict purchase costs control, the Group has generated various level of increment in gross profit in Turnkey Solutions, Specialized Solutions and VA services segments. The following table sets out the gross profit breakdown and gross profit margin by segments:

| Gross profit by segments | For the six-month period ended June 30, 2011 RMB'000 Unaudited | 2010 RMB'000 Audited |
|---|---|---|
| Turnkey Solutions | **31,761** | 27,870 |
| *Margin %* | ***14.6%*** | *16.9%* |
| Specialized Solutions | **168,318** | 162,923 |
| *Margin %* | ***37.2%*** | *34.5%* |
| VA Services | **8,010** | 1,669 |
| *Margin %* | ***53.8%*** | *40.9%* |
| **Total** | **208,089** | 192,462 |
| ***Margin %*** | ***30.5%*** | *30.0%* |

**(i) Turnkey Solutions**

Gross profit in Turnkey Solutions increased by RMB3.9 million, i.e. 14.0%, to RMB31.8 million in the six months ended June 30, 2011 as compared to RMB27.9 million in the six months ended June 30, 2010. The margin was in line with normal margin variations range in previous years, reflecting the project nature of the Turnkey Solutions business where margins on individual projects may range from 14% to 18%. The increase of gross profit in this segment is due to increment of revenue during the reporting period.

## Gross Profit (continued)

### (ii) Specialized Solutions

Gross profit in Specialized Solutions increased by RMB5.4 million, i.e. 3.3%, to RMB168.3 million in the six months ended June 30, 2011 as compared to RMB162.9 million in the six months ended June 30, 2010. The gross profit margin is higher than the corresponding period in last year from 34.5% to 37.2%, which reflected the Group's experienced project management team, successful pricing strategy and strict purchase costs control, especially when there was such a hostile environment in Railway sector.

### (iii) VA Services

Gross profit in VA Services increased by RMB6.3 million, i.e. 380.0%, to RMB8.0 million in the six months ended June 30, 2011 as compared to RMB1.7 million in the six months ended June 30, 2010. The gross profit margin is higher than the corresponding period in last year, and it is within the normal level of VA services, business model with principally labour cost and very limited hardware cost, resulting in higher quality revenue than those from turnkey and specialized solutions segments.

## Other Income and Gains

Other income and gains mainly arise from operating leases and were accounted for on a straight line basis over the lease terms. The significant increase in other income and gains was due to a change in property usage as the Group had moved to a new office in April of 2010 and leased out the entire self-owned office premises.

## Selling, General and Administration Expenses

In the six months ended June 30, 2011, the percentage of sales of selling, general and administration expenses ("SG&A") increased 2.7% to 16.9% as recorded in the six months ended June 30, 2010 due to the Group has devoted great effort in expanding the business scope to other transportation sectors to mitigate the risk from railway sector slowdown, including urban traffic, expressway and VA services in existing railway projects. We will further expand organically to more new sectors during the second half of this year to achieve a more healthy mix of revenue composition.

The staff costs remained as a large component of the Group's SG&A in the six months ended June 30, 2011, which accounted for 33.6%. The staff costs increased by 45.9%, which was mainly due to the general headcount increase for the ongoing and new sector business expansions. Staff costs accounted for 5.7% of the total revenue in the six months ended June 30, 2011, which recorded an increase comparing with 4.1% in the six months ended June 30, 2010 and was in line with the Company's business growth strategy and is expected bring the increment to business in the second half this year. Meanwhile, the office supplies expenses increased by RMB3.2 million because of the headcount increase.

Travelling and business expansion expenses has increased because of the growth in business development and implementation of new projects, and was at the average range of 5–7% of the total revenue for each entity in the six months ended June 30, 2011. Travelling and business expansion expenses increased from RMB 24.1 million in the six months ended June 30, 2010 to RMB 30.5 million in the six months ended June 30, 2011. As a percentage of total SG&A, there is a decrease from 26.5% to 26.4% as a result of economies of scale and successful expenses control initiatives on a per headcount basis.

## Selling, General and Administration Expenses (continued)

Rental expenses increased from RMB7.0 million in the six months ended June 30, 2010 to RMB8.1 million in the six months ended June 30, 2011 and was due to the higher rental cost of the Company's new centralized office in Beijing with larger space. Subsequent to the Company's relocation to the new office in April of 2010, the impact of the higher rent was reflected in rental expenses in the six months ended June 30, 2011.

The Group have spent more resources in researching and developing innovative technology and solutions for the new sectors and new business model, and therefore the research and development costs increased from RMB3.3 million in the six months ended June 30, 2010 to RMB8.6 million in the six months ended June 30, 2011. The Group believes that the self-developed product will continually bring massive revenue incremental generation at a reasonable cost level.

Share-based payment expenses refer to the share options expenses relating to the Company's pre-IPO share incentive scheme. In the six months ended June 30, 2011, Share-based payment expenses were RMB3.6 million and it were RMB1.3 million lower than that in the six months ended June 30, 2010, which was due to the different expenses amortization schedule in different periods.

## Expenses Relating to the Listing of the Company's Shares

The major components of the listing expenses include fees of legal counsel, printers and auditors who were involved in the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited ("Listing"). In the six months ended June 30, 2011, no such expenses were incurred in the Group.

## Finance Income and Finance Cost

Finance income comprised of mainly interest income from deposits and finance costs comprised of mainly interest expenses for interest-bearing bank loan. Net financial expenses represented the total finance costs offset by finance income. The net financial expense was RMB3.6 million in the six months ended June 30, 2011, which represented a decrease of 13.9% as compared to the six months ended June 30, 2010. The decrease was mainly due to a general increase in average bank balances as a result of the proceeds from the Listing since the second half of 2010.

## Share of Results of Jointly-Controlled Entity

Share of Results of Jointly-Controlled Entities ("JCE") in the six months ended June 30, 2011 was RMB2.5 million, which represented a significant growth as compared to the losses incurred in the six months ended June 30, 2010. This was due to the profits contributed by 成都智達威路特科技有限公司, which became the major JCE of the Group in the second half of 2010.

## Income Tax Expense

The total income tax expense in the six months ended June 30, 2011 was higher than that recorded in the six months ended June 30, 2010. The effective income tax rate in the six months ended June 30, 2011 was 24.9%, which represented an increase of 6.9% comparing with the corresponding period in 2010 after carving out the expenses relating to the Listing of the Company's Shares and share-base payment, which are non-taxable items for PRC enterprise income tax purpose. The increase was due to the fact that most of the PRC subsidiaries are currently under the progress of 3-year review of the qualification of High and New Technology Enterprises ("HNTE"). However, as a foreign-invested entity, Beijing RHY Technology Development Co., Ltd. ("Beijing RHY") was entitled to 50% of a transitional tax rate of 10% from January 1, 2009. This preferential tax rate will be progressively increased to 25% over five years starting from January 1, 2007 and the applicable tax rate was 12% in the six months ended June 30, 2011. Due to the restricted preferential tax policy from Chinese government, other subsidiaries except Beijing RHY applied the standard income tax rate before the formal approval from the relevant authorities, which is 25%. The Group believes that all the subsidiaries applied will pass the 3-year review and qualified as HNTE, and therefore the effective income tax rate for the whole year will likely to decrease to the level of approximately 15%, when such approvals are obtained in the later part of the year.

## Profit for the period

Profit attributable to owners of the Company for the period of the Group in the six months ended June 30, 2011 was RMB74.7 million, which represented a significant growth of 60.5% from RMB46.5 million for the six months ended June 30, 2010, and this was mainly due to the revenue growth, increased gross profit margin and absence of expenses relating to the listing of the Company's Shares, etc.

## Trade and Bills Receivables Turnover Days

The trade and bills receivables turnover days for the period from July 1, 2010 to June 30, 2011 was 112 days (in the year ended December 31, 2010: 122 days). The decrease in trade and bills receivables turnover days was mainly due to improvement of payment terms under a tighter credit control initiatives. The Group's trade and bills receivables turnover days were within the normal credit period granted to customers.

## Trade and Bills Payables Turnover Days

The trade and bills payables turnover days for the period from July 1, 2010 to June 30, 2011 was 152 days (in the year ended December 31, 2010: 156 days). The decrease in trade and bills payables turnover days was mainly due to a change in payment terms with certain suppliers. But overall, we consider such trade and bills payables turnover days to be within our normal payment policy with our vendors.

## 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 for the period from July 1, 2010 to June 30, 2011 was 2 days (in the year ended December 31, 2010: 2 days) and remained unchanged from last year as the Group has adopted a minimum inventory policy.

## Liquidity and Financial Resources

The Group's principal sources of working capital included cash flow from operating activities, bank borrowings and the proceeds from the Listing. As at June 30, 2011, the Group's current ratio (current assets divided by current liabilities) was 2.4 (as at December 31, 2010: 2.1). The Group's financial position remains healthy. As at June 30, 2011, the Group was in a net cash position of RMB133.9 million (as at December 31, 2010: net cash of RMB659.3 million) which included cash and cash equivalent (including short term deposit) of RMB313.9 million (as at December 31, 2010: RMB949.3 million) and short-term bank loans of RMB180.0 million (as at December 31, 2010: RMB290.0 million). As at June 30, 2011, the Group's gearing ratio was 9.3%, which has decreased from 39.6% as at December 31, 2010 due to the use of proceeds from the Listing in acquisition and investment during the reporting period. Please also refer to the use of proceeds section for details. Gearing ratio refers to adjusted cash (interest-bearing bank borrowings minus pledged deposits, short-term deposit and cash and bank balances plus due to related parties) divided by total equity.

## Contingent Liabilities

As at June 30, 2011, the Group has no material contingent liability.

## Charges on Group Assets

As at June 30, 2011, except for the secured deposits of approximately RMB76.1 million and the pledged trade receivables of RMB70.4 million, the Group has no other asset charged to financial institution.

## Material Acquisitions of Subsidiaries

— **Acquisition of Xinjiang Delida**

In May 2011, Beijing RHY, a wholly-owned subsidiary of the Company, acquired a total of 57% equity interest in Xinjiang Delida for consideration of RMB2.69 million. Therefore, Xinjiang Delida became a subsidiary and specialized in logistics information solutions, which the Group can leverage on its localized sales coverage and strong client's relationship to roll out the logistics solutions in the Xinjiang region.

— **Acquisition of Xinjiang RHY**

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

## 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 listing of the shares of the Company of approximately HK$710.6 million (after deducting underwriting commissions and related expenses).

The use of the net proceeds from the listing of the shares of the Company as at June 30, 2011 was as follows:

| Use for | Percentage of net proceeds | Amount of net proceeds (in HK$ million) | Amount utilised (in HK$ million) | Amount remaining (in HK$ million) |
|---|---|---|---|---|
| Acquisitions or Investments | **45%** | **319.7** | **290.4** | **29.3** |
| Project-related working capital needs | **35%** | **248.7** | **142.6** | **106.1** |
| Research and development | **10%** | **71.1** | **20.4** | **50.7** |
| General corporate purposes | **10%** | **71.1** | **42.6** | **28.5** |
| | **100%** | **710.6** | **496.0** | **214.6** |

The board of directors (individually, a "Director", or collectively, the "Board") of China ITS (Holdings) Co., Ltd. (the "Company") presents its report together with the unaudited consolidated results of the Company and its subsidiaries (together as the "Group") for the six months ended June 30, 2011.

## Interim Dividend

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

## Reviewed by Audit Committee and External Auditors

The Audit Committee of the Company was established on June 18, 2010 with effect from the Listing with written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee are, among other things, to review and supervise the Company's 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, 2011 together with the management of the Company. Further, the Audit Committee and the management of the Company, has also reviewed the interim results of the Group for the six months ended June 30, 2011 together with the Company's external auditor, Ernst & Young.

In addition, Ernst & Young, has performed an independent review of the unaudited condensed consolidated interim financial information for the six months ended June 30, 2011 in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants.

## Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at June 30, 2011, the interests and short positions of the Directors and chief executive of the Company in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) (the "SFO")), as recorded in the register kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code, were as follows:

### (i) Interest in the Company[5]

| Name of Director | Nature of interest | Number of securities | Approximate percentage of shareholding as at June 30, 2011 |
|---|---|---|---|
| Jiang Hailin[1] | Beneficiary of the Fino Trust | 746,801,056(L)[4] | 47.60%(L)[4] |
| Wang Jing[2] | Beneficiary of the Tesco Trust | 758,151,056(L)[4] | 48.32%(L)[4] |
| Pan Jianguo[3] | Beneficiary of the Binks Trust | 746,801,056(L)[4] | 47.60%(L)[4] |
| Lu Xiao | Beneficiary Owner | 4,662,105(L)[4] | 0.30%(L)[4] |

Notes:

(1) The Shares are held by Best Partners Development Limited, the issued share capital of which is owned as to 83% by Fino Investments Limited, as nominee and trustee for Credit Suisse Trust Limited, which is the trustee holding such interests on trust for the beneficiaries of the Fino Trust, namely Liao Daoxun, Wu Yurui, Liang Shiping, Jiang Hailin, Wu Chunhong, Yuan Chuang, Lv Xilin and Zhao Lisen. The Fino Trust is an irrevocable discretionary trust established under the laws and regulations of Singapore. Jiang Hailin is a beneficiary of the Fino Trust, which is indirectly interested in China ITS Co., Ltd., which in turn is interested in 746,801,056 Shares. On August 8, 2011, the number of shares of the Company held by the Fino Trust (and in turn the number of shares which Jiang Hailin is interested in) changed to 746,752,056 and the approximate percentage of shareholding changed to 47.59% accordingly.

(2) The Shares are held by Best Partners Development Limited, the issued share capital of which is owned as to 17% by Tesco Investments Limited, as nominees and trustee for Credit Suisse Trust Limited, which is the trustee holding such interests on trust for the beneficiaries of the Tesco Trust, namely Wang Jing, Zhang Qian, Guan Xiong, Zheng Hui and Wang Li. The Tesco Trust is an irrevocable discretionary trust established under the laws and regulations of Singapore. Wang Jing is a beneficiary of the Tesco Trust, which is indirectly interested in China ITS Co., Ltd., which in turn is interested in 746,801,056 Shares. Wang Jing is also interested in 11,350,000 underlying shares of the Company, as a result of which Wang Jing is totally interested in 758,151,056 Shares. On August 8, 2011, the number of shares of the Company held by Tesco Trust (and in turn the number of shares which Wang Jing is interested in) changed to 746,752,056 and the approximate percentage of shareholding of Wang Jing remained unchanged after taking into account of his interest in the underlying shares of the Company.

(3) The Shares are held by Joy Bright Success Limited, the issued share capital of which is owned as to 60.3960% by Gouver Investments Limited and as to 39.6040% by Rockyjing Investment Limited, which in turn is wholly-owned by Binks Investments Limited as nominee and trustee for Credit Suisse Trust Limited, which is the trustee holding such interests on trust for the beneficiaries of the Binks Trust, namely Dang Kulun, Pan Jianguo and Jing Yang. The Binks Trust is an irrevocable discretionary trust established under the laws and regulations of Singapore. Pan Jianguo is a beneficiary of the Binks Trust, which is indirectly interested in China ITS Co., Ltd., which in turn is interested in 746,801,056 Shares. On August 8, 2011, the number of shares of the Company held by the Binks Trust (and in turn the number of shares which Pan Jianguo is interested in) changed to 746,752,056 and the approximate percentage of shareholding changed to 47.59% accordingly.

(4) (L) denotes long positions.

(5) On August 24, 2011, Lv Xilin was appointed as an Executive Director of the Company. Lv Xilin has interest in the Company. His Shares are held by Best Partners Development Limited, the issued share capital of which is owned as to 83% by Fino Investments Limited, as nominee and trustee for Credit Suisse Trust Limited, which is the trustee holding such interests on trust for the beneficiaries of the Fino Trust, namely Liao Daoxun, Wu Yurui, Liang Shiping, Jiang Hailin, Wu Chunhong, Yuan Chuang, Lv Xilin and Zhao Lisen. The Fino Trust is an irrevocable discretionary trust established under the laws and regulations of Singapore. Lv Xilin is a beneficiary of the Fino Trust, which is indirectly interested in China ITS Co., Ltd., which in turn is interested in 746,752,056 Shares. Lv Xilin is also interested in 1,773,000 underlying shares of the Company, as a result of which Lv Xilin is totally interested in 748,525,056 Shares and the approximate percentage of shareholding of Lv Xilin is 47.71%.

### (ii) Interest in underlying shares of the Company[1]

| Name of Director | Nature of Interest | Number of Shares in the Company subject to options granted under the Pre-IPO Share Incentive Scheme as at June 30, 2011 | Approximate percentage of shareholding upon the exercise of the options granted under the Pre-IPO Share Incentive Scheme as at June 30, 2011 |
|---|---|---|---|
| Wang Jing | Beneficial owner | 11,350,000 | 0.72% |
| Lu Xiao | Beneficial owner | 4,662,105 | 0.30% |

## Directors' Rights to Acquire Shares

Save as otherwise disclosed in this interim report, at no time during the six months ended June 30, 2011, was the Company or any of its subsidiaries or its holding company or any of the subsidiaries of the Company's holding company a party to any arrangement to enable the Directors or the chief executive of the Company or their respective associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors and chief executive, or their spouse and children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during such period.

Notes:

(1) On August 24, 2011, Lv Xilin was appointed as an Executive Director of the Company. Lv Xilin is a beneficial owner of the Company. He was granted outstanding options comprising 1,773,000 underlying shares under the Pre-IPO Share Incentive Scheme on December 31, 2008 (the approximate percentage of shareholding upon the exercise of the options granted under the Pre-IPO Share Incentive Scheme is 0.11%).

## Pre-IPO Share Incentive Scheme/Share Option Scheme

The terms of the Pre-IPO Share Incentive Scheme and the Share Option Scheme were disclosed in the section headed "Other information — Pre-IPO Share Incentive Scheme" and "Other information — Share Option Scheme" respectively, in Appendix VI to the prospectus of the Company dated June 30, 2010 ("Prospectus").

### 1. Pre-IPO Share Incentive Scheme

The Company and China ITS Co., Ltd. adopted the Pre-IPO Share Incentive Scheme on December 28, 2008, respectively. The purpose of the Pre-IPO Share Incentive Scheme is to recognize and reward the contribution of certain eligible participants have or may have made to the growth and development of the business(es) of the Group.

As of June 30, 2011, a total of 116,653,105 shares may be transferred upon exercise of all options which had been granted under the Pre-IPO Share Incentive Scheme, of which 706,625 underlying shares comprised in the options were transferred upon the exercise of the underlying options and 115,946,480 underlying shares comprised in the options have not been transferred.

The options issued under the Pre-IPO Share Incentive Scheme represent approximately 7.4346% of the Company's enlarged share capital as at June 30, 2011. Upon exercise of such options, China ITS Co., Ltd., the controlling shareholder of the Company, transfered the relevant number of shares of the Company to the grantee of the options. There is therefore no dilutive effect on the shareholders of the Company resulting from the exercise of the options under the Pre-IPO Share Incentive Scheme.

Movement of the options granted under the Pre-IPO Share Incentive Scheme during the period ended June 30, 2011 is as follows:

| Grantee | Grant date | Vesting start date | Expiry date | Outstanding as at January 1, 2011 | Exercised during the 6 months ended June 30, 2011 | Lapsed or cancelled during the 6 months ended June 30, 2011 | Outstanding as at June 30, 2011 | Exercise price per share (RMB) |
|---|---|---|---|---|---|---|---|---|
| Wang Jing | 31/12/2008 | 31/12/2008 | 31/12/2013 | 3,518,500 | – | – | 3,518,500 | 0.6 |
| | 31/12/2008 | 31/12/2010 | 31/12/2015 | 1,305,250 | – | – | 1,305,250 | 2 |
| | 31/12/2008 | 30/06/2011 | 30/06/2016 | 1,305,250 | – | – | 1,305,250 | 2 |
| | 31/12/2008 | 31/12/2011 | 31/12/2016 | 1,305,250 | – | – | 1,305,250 | 3 |
| | 31/12/2008 | 30/06/2012 | 30/06/2017 | 1,305,250 | – | – | 1,305,250 | 3 |
| | 31/12/2008 | 31/12/2012 | 31/12/2017 | 1,305,250 | – | – | 1,305,250 | 4 |
| | 31/12/2008 | 30/06/2013 | 30/06/2018 | 1,305,250 | – | – | 1,305,250 | 4 |
| Lu Xiao | 31/12/2008 | 31/12/2008 | 31/12/2013 | 1,445,253 | – | – | 1,445,253 | 0.6 |
| | 31/12/2008 | 31/12/2010 | 31/12/2015 | 536,142 | – | – | 536,142 | 2 |
| | 31/12/2008 | 30/06/2011 | 30/06/2016 | 536,142 | – | – | 536,142 | 2 |
| | 31/12/2008 | 31/12/2011 | 31/12/2016 | 536,142 | – | – | 536,142 | 3 |
| | 31/12/2008 | 30/06/2012 | 30/06/2017 | 536,142 | – | – | 536,142 | 3 |
| | 31/12/2008 | 31/12/2012 | 31/12/2017 | 536,142 | – | – | 536,142 | 4 |
| | 31/12/2008 | 30/06/2013 | 30/06/2018 | 536,142 | – | – | 536,142 | 4 |
| Lv Xilin(1) | 31/12/2008 | 31/12/2008 | 31/12/2013 | 549,630 | – | – | 549,630 | 0.6 |
| | 31/12/2008 | 31/12/2010 | 31/12/2015 | 203,895 | – | – | 203,895 | 2 |
| | 31/12/2008 | 30/06/2011 | 30/06/2016 | 203,895 | – | – | 203,895 | 2 |
| | 31/12/2008 | 31/12/2011 | 31/12/2016 | 203,895 | – | – | 203,895 | 3 |
| | 31/12/2008 | 30/06/2012 | 30/06/2017 | 203,895 | – | – | 203,895 | 3 |
| | 31/12/2008 | 31/12/2012 | 31/12/2017 | 203,895 | – | – | 203,895 | 4 |
| | 31/12/2008 | 30/06/2013 | 30/06/2018 | 203,895 | – | – | 203,895 | 4 |

Notes:

(1) On August 24, 2011, Lv Xilin was appointed as Executive Director of the Company.

| Grantee | Grant date | Vesting start date | Expiry date | Outstanding as at January 1, 2011 | Exercised during the 6 months ended June 30, 2011 | Lapsed or cancelled during the 6 months ended June 30, 2011 | Outstanding as at June 30, 2011 | Exercise price per share (RMB) |
|---|---|---|---|---|---|---|---|---|
| Others | 31/12/2008 | 31/12/2008 | 31/12/2013 | 52,657,010 | 665,750[2] | – | 51,991,260 | 0.6 |
| | 31/12/2008 | 31/12/2010 | 31/12/2015 | 7,701,832 | 40,875[3] | – | 7,660,957 | 2 |
| | 31/12/2008 | 30/06/2011 | 30/06/2016 | 7,701,832 | – | – | 7,701,832 | 2 |
| | 31/12/2008 | 31/12/2011 | 31/12/2016 | 7,701,832 | – | – | 7,701,832 | 3 |
| | 31/12/2008 | 30/06/2012 | 30/06/2017 | 7,701,832 | – | – | 7,701,832 | 3 |
| | 31/12/2008 | 31/12/2012 | 31/12/2017 | 7,701,832 | – | – | 7,701,832 | 4 |
| | 31/12/2008 | 30/06/2013 | 30/06/2018 | 7,701,830 | – | – | 7,701,830 | 4 |
| **TOTAL:** | | | | **116,653,105** | **706,625** | | **115,946,480** | |

2. **Share Option Scheme**

The Company conditionally adopted the Share Option Scheme on June 18, 2010 and the Share Option Scheme became effective as at the date of Listing. The purpose of the Share Option Scheme is to recognize and acknowledge the contributions that the Eligible Participants (as defined in the section headed "Other information — Share Option Scheme" in the Prospectus) had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

(i) motivate the Eligible Participants to optimize their performance efficiency for the benefit of the Group; and

(ii) attract and retain or otherwise maintain an ongoing business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

The Board may, at its absolute discretion, offer an option to Eligible Participant to subscribe for the shares at an exercise price and subject to the other terms of the Share Option Scheme.

The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company shall not in aggregate exceed 155,029,633 Shares of the Company, being 10% of the total number of Shares in issue immediately prior to the date on which dealings in the Shares commenced on the Stock Exchange.

The total number of shares issued and to be issued upon the exercise of the options granted to or to be granted to each Eligible Participant under the Share Option Scheme and any other schemes of the Company or any of its subsidiaries (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue.

The Share Option Scheme will remain in force for a period of 10 years from June 18, 2010. Under the Share Option Scheme, each option has a 10-year exercise period.

As at June 30, 2011, no option has been granted under the Share Option Scheme.

Notes:

(2) The weighted average closing price of the Company's shares immediately before the exercise dates of share options was HKD4.08.

(3) The weighted average closing price of the Company's shares immediately before the exercise dates of share options was HKD4.27.

## Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at June 30, 2011, to the best knowledge of the Directors, the records of interest (being 5% or more of the issued share capital of the Company) as registered in the register kept by the Company under section 336 of the SFO were as follows:

### (i) Long positions and short positions in the Shares and underlying shares of the Company

| Name | Capacity/Nature of interest | Number of Shares | Approximate percentage of shareholding[(1)] |
|---|---|---|---|
| China ITS Co., Ltd.[(1)] | Beneficiary owner | 747,414,681(L)[(8)]<br>0(S)[(8)] | 47.63%(L)[(8)]<br>0.00%(S)[(8)] |
| Joy Bright[(2)] | Interest of a controlled corporation | 747,414,681(L)[(8)]<br>0(S)[(8)] | 47.63%(L)[(8)]<br>0.00%(S)[(8)] |
| Gouver Investments Limited[(2)(4)] | Interest of a controlled corporation | 747,414,681(L)[(8)]<br>0(S)[(8)] | 47.63%(L)[(8)]<br>0.00%(S)[(8)] |
| Rockyjing Investment Limited[(2)(4)] | Interest of a controlled corporation | 747,414,681(L)[(8)]<br>0(S)[(8)] | 47.63%(L)[(8)]<br>0.00%(S)[(8)] |
| Best Partners[(3)] | Interest of a controlled corporation | 747,414,681(L)[(8)]<br>0(S)[(8)] | 47.63%(L)[(8)]<br>0.00%(S)[(8)] |
| Fino Investments Limited[(5)] | Interest of a controlled corporation | 747,414,681(L)[(8)]<br>0(S)[(8)] | 47.63%(L)[(8)]<br>0.00%(S)[(8)] |
| Tesco Investments Limited[(6)] | Interest of a controlled corporation | 747,414,681(L)[(8)]<br>0(S)[(8)] | 47.63%(L)[(8)]<br>0.00%(S)[(8)] |
| Binks Investments Limited[(4)] | Interest of a controlled corporation | 747,414,681(L)[(8)]<br>0(S)[(8)] | 47.63%(L)[(8)]<br>0.00%(S)[(8)] |
| Credit Suisse Trust Limited[(4)(5)(6)] | Trustee | 747,414,681(L)[(8)]<br>0(S)[(8)] | 47.63%(L)[(8)]<br>0.00%(S)[(8)] |
| Huaxin Investments Limited[(4)] | Beneficial owner | 157,457,995(L)[(8)] | 10.04%(L)[(8)] |
| Central Huijin Investment Limited[(7)] | Interest of a controlled corporation | 368,490,232(L)[(8)] | 23.48%(L)[(8)] |

Notes:

(1) The issued share capital of China ITS Co. Ltd. is owned as to 27.1806% by Joy Bright Success Limited and as to 72.8194% by Best Partners Development Limited.

(2) The issued share capital of Joy Bright Success Limited is owned as to 60.3960% by Gouver Investments Limited and as to 39.6040% by Rockyjing Investment Limited.

(3) The entire issued share capital of Best Partners Development Limited is held as to 83% by Fino Investments Limited and as to 17% by Tesco Investments Limited.

(4) Huaxin Investments Limited, Gouver Investments Limited and Rockyjing Investment Limited are wholly-owned by Binks Investments Limited. Binks Investments Limited is owned as to 50% by Serangoon Limited and as to 50% by Seletar Limited, as nominees and trustees for Credit Suisse Trust Limited, which is the trustee holding such interest on trust for the beneficiaries of the Binks Trust, namely Dang Kulun, Pan Jianguo and Jing Yang. The Binks Trust is an irrevocable discretionary trust established under the laws and regulations of Singapore.

(5) Fino Investments Limited is owned as to 50% by Serangoon Limited and as to 50% by Seletar Limited, as nominees and trustees for Credit Suisse Trust Limited, which is the trustee holding such interest on trust for the beneficiaries of the Fino Trust, namely Liao Daoxun, Wu Yurui, Liang Shiping, Jiang Hailin, Wu Chunhong, Yuan Chuang, Lv Xilin and Zhao Lisen. The Fino Trust is an irrevocable discretionary trust established under the laws and regulations of Singapore.

(6) Tesco Investments Limited is owned as to 50% by Serangoon Limited and as to 50% by Seletar Limited, as nominees and trustees for Credit Suisse Trust Limited, which is the trustee holding such interest on trust for the beneficiaries of the Tesco Trust, namely Wang Jing, Zhang Qian, Guan Xiong, Zheng Hui and Wang Li. The Tesco Trust is an irrevocable discretionary trust established under the laws and regulations of Singapore.

(7) These 368,490,232 Shares held by CCB International Asset Management Limited ("CCBIAM") include 349,959,317 Shares charged to CCBIAM which are owned by China ITS Co., Ltd.. CCBIAM is wholly owned by CCB International Assets Management (Cayman) Limited. CCB International Assets Management (Cayman) Limited is wholly owned by CCB International (Holdings) Limited, which is wholly owned by CCB Financial Holdings Limited. CCB Financial Holdings Limited is wholly owned by CCB International Group Holdings Limited, which is wholly owned by China Construction Bank Corporation. China Construction Bank Corporation is owned as to 57.09% by Central Huijin Investment Ltd. On August 12, 2011, the number of Shares held by CCBIAM changed to 115,394,097, including 96,863,182 shares charged to CCBIAM which are owned by China ITS Co., Ltd.. The approximate percentage of shareholding of the Company held by CCBIAM changed to 7.35% accordingly.

(8) (L) denotes long positions; (S) denotes short positions.

## Purchase, Sale or Redemption of Listed Securities

During the six months ended June 30, 2011, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

## Employment and Emolument Policies

As at June 30, 2011, the Group has 711 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 the 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.

## Remuneration Committee

The Company has established a remuneration committee on June 18, 2010, whose primary duties are to evaluate and make recommendations to the Board regarding the compensation of the Directors. In addition, the remuneration committee conducts reviews of the performance, and determines the compensation structure of senior management of the Group.

The current members of the remuneration committee are Mr. Choi Onward, Mr. Zhou Chunsheng and Mr. Sun Lu. The remuneration committee is chaired by Mr. Sun Lu.

## Nomination Committee

The Company established a nomination committee on June 18, 2010 to make recommendations to the Board regarding candidates to fill vacancies on the board of directors.

The current members of the nomination committee are Mr. Zhou Chunsheng, Mr. Choi Onward and Mr. Sun Lu. The nomination committee is chaired by Mr. Zhou Chunsheng.

## Changes to Information in Respect of Directors

In the six months ended June 30, 2011, there were no changes to information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules since the publication of the Prospectus.

## Use of Proceeds from Listing

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

The use of the net proceeds from the Listing of the Shares of the Company as at June 30, 2011 was as follows:

| Use for | Percentage of net proceeds | Amount of net proceeds (in HK$ million) | Amount utilised (in HK$ million) | Amount remaining (in HK$ million) |
|---|---|---|---|---|
| Acquisitions or Investments | 45% | 319.7 | 290.4 | 29.3 |
| Project-related working capital needs | 35% | 248.7 | 142.6 | 106.1 |
| Research and development | 10% | 71.1 | 20.4 | 50.7 |
| General corporate purposes | 10% | 71.1 | 42.6 | 28.5 |
| | 100% | 710.6 | 496.0 | 214.6 |

## 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 Corporate Governance Code as its own code to govern its corporate governance practices. The Board also reviews and monitors the practices of the Company from time to time with an aim to maintaining and improving a high standard of corporate governance practices.

In the six months ended June 30, 2011, the Company continued to apply most of the code provisions (the "**Code Provisions**") of the Corporate Governance Code. A summary of the deviations from the Code Provisions is set out as below:

### Code Provision A2.1

The Code Provision A2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

During the six months ended June 30, 2011, the positions of the Chairman of the Board and the Chief Executive Officer of the Company were held by Mr. Jiang Hailin. Although this deviates from the practice under the Code Provision A2.1, where the two positions should be held by two different individuals, Mr. Jiang has considerable and extensive knowledge and experience in the intelligent traffic system industry and in enterprise operation and management in general.

From a corporate governance point of view, the decisions of the Board are made collectively by way of voting and therefore the Chairman of the Board should not be able to monopolize the voting result. The Board considers that the balance of power between the Board and the senior management can still be maintained under the current structure.

On August 24, 2011, in order to comply with Code Provision A2.1, Mr. Jiang retired from the position as the Chief Executive Officer of the Company. Mr. Liao Jie was appointed as the Chief Executive Officer of the Company and an Executive Director on the same date.

# Directors' Report

## Directors' Securities Transactions

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers as contained in the Model Code as the standards for the Directors' dealings in the securities of the Company on June 18, 2010. Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the required standard set out in the Model Code from the date of Listing on July 15, 2010 to the date of the interim report.

## Events after the Reporting Period

Please refer to note 28 to the interim condensed consolidated financial statements on page 68 for events of the Company after June 30, 2011.

On behalf of the Board of Directors
**China ITS (Holdings) Co., Ltd.**
**Jiang Hailin**
*Chairman*

Beijing, August 24, 2011

# Report on Review of Interim Condensed Consolidated Financial Statements

ERNST & YOUNG
安 永

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**To the board of directors of China ITS (Holdings) Co., Ltd.**
(Incorporated in the Cayman Islands with limited liability)

## Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of China ITS (Holdings) Co., Ltd. (the "Company") and its subsidiaries (collectively the "Group"), which comprise the interim condensed consolidated statement of financial position as at June 30, 2011 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the presentation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) issued by the International Accounting Standards Board.

The directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on the interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Hong Kong Institute of Certified Public Accountants*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

**Ernst & Young**
*Certified Public Accountants*
Hong Kong

August 24, 2011

# Interim Condensed Consolidated Statement of Income

For the six-month period ended June 30, 2011

| | Notes | For the six-month period ended June 30, 2011 RMB'000 Unaudited | 2010 RMB'000 Audited |
|---|---|---|---|
| **REVENUE** | 3 | **683,085** | 641,952 |
| Cost of revenue | 4 | **(474,996)** | (449,490) |
| Gross profit | | **208,089** | 192,462 |
| Other income and gains | 4(c) | **9,231** | 1,839 |
| Expenses relating to the listing of the Company's shares | 4 | **—** | (33,309) |
| Selling, general and administrative expenses | | **(115,718)** | (90,911) |
| Other expenses and losses | 4(f) | **(156)** | (304) |
| **OPERATING PROFIT** | | **101,446** | 69,777 |
| Finance income | 4(d) | **3,173** | 1,216 |
| Finance costs | 4(e) | **(6,803)** | (5,434) |
| Share of profits of jointly-controlled entities | 9 | **2,547** | (371) |
| **PROFIT BEFORE TAX** | 4 | **100,363** | 65,188 |
| Income tax expense | 5 | **(25,942)** | (18,649) |
| **PROFIT FOR THE PERIOD** | | **74,421** | 46,539 |
| Attributable to: | | | |
| Owners of the Company | | **74,682** | 46,539 |
| Non-controlling interests | | **(261)** | — |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY** | | **RMB** | RMB |
| Basic — for the profit for the period | 6 | **0.05** | 0.04 |

# Interim Condensed Consolidated Statement of Comprehensive Income

For the six-month period ended June 30, 2011

| | For the six-month period ended June 30, | |
|---|---|---|
| | **2011** | **2010** |
| | **RMB'000** | **RMB'000** |
| | **Unaudited** | **Audited** |
| **PROFIT FOR THE PERIOD** | **74,421** | 46,539 |
| Exchange differences on translation of foreign operations | **(10,026)** | 458 |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX** | **(10,026)** | 458 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **64,395** | 46,997 |
| Attributable to: | | |
| Owners of the Company | **64,656** | 46,997 |
| Non-controlling interests | **(261)** | — |

# Interim Condensed Consolidated Statement of Financial Position

As at June 30, 2011

| | Notes | June 30, 2011 RMB'000 Unaudited | December 31, 2010 RMB'000 Audited |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property and equipment | 7 | **31,816** | 27,074 |
| Investment properties | | **141,037** | 141,037 |
| Intangible assets | | **1,257** | — |
| Goodwill | 8 | **235,445** | 230,664 |
| Investments in jointly-controlled entities | 9 | **26,137** | 19,750 |
| Deferred tax assets | | **13,970** | 5,350 |
| Prepayments for acquisition of equity interests in other entities | 12 | **240,119** | — |
| Other assets | | **567** | 566 |
| Total non-current assets | | **690,348** | 424,441 |
| **CURRENT ASSETS** | | | |
| Inventories | 13 | **6,538** | 4,467 |
| Construction contracts | 10 | **800,410** | 777,875 |
| Trade and bills receivables | 11 | **695,588** | 834,436 |
| Prepayments, deposits and other receivables | 12 | **749,831** | 555,280 |
| Due from related companies | 21 | **1,806** | 5,571 |
| Pledged deposits | 14 | **76,086** | 182,502 |
| Short term deposit | 14 | **111,670** | 112,441 |
| Cash and cash equivalents | 14 | **202,243** | 836,883 |
| Tax recoverable | | **2,006** | — |
| Total current assets | | **2,646,178** | 3,309,455 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 15 | **580,809** | 597,838 |
| Deposits received, other payables and accruals | 16 | **77,742** | 122,130 |
| Construction contracts | 10 | **251,313** | 559,531 |
| Interest-bearing bank borrowings | 17 | **180,000** | 289,998 |
| Due to related companies | 21 | **7,965** | 6,537 |
| Income tax payable | | **—** | 10,174 |
| Total current liabilities | | **1,097,829** | 1,586,208 |
| **NET CURRENT ASSETS** | | **1,548,349** | 1,723,247 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **2,238,697** | 2,147,688 |

# Interim Condensed Consolidated Statement of Financial Position

As at June 30, 2011

| | Notes | June 30, 2011 RMB'000 Unaudited | December 31, 2010 RMB'000 Audited |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liabilities | | **55,513** | 36,281 |
| **NET ASSETS** | | **2,183,184** | 2,111,407 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Issued capital | 18 | **276** | 276 |
| Reserves | | **2,179,431** | 2,111,131 |
| Owners' equity | | **2,179,707** | 2,111,407 |
| Non-controlling interests | | **3,477** | — |
| Total equity | | **2,183,184** | 2,111,407 |

**Jiang Hailin**
*Director*

**Pan Jianguo**
*Director*

# Interim Condensed Consolidated Statement of Changes in Equity

For the six-month period ended June 30, 2011

| | Notes | Issued capital RMB'000 (Note 18) | Share premium RMB'000 | Statutory reserve RMB'000 | Capital reserve RMB'000 | Asset revaluation reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Retained earnings RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to owners of the Company and total equity | | | | | | | | |
| **At January 1, 2010** | | 216 | 120,190 | 55,069 | 553,581 | 7,782 | 16,889 | 199,432 | – | 953,159 |
| Profit for the period | | – | – | – | – | – | – | 46,539 | – | 46,539 |
| Other comprehensive income for the period: | | – | – | – | – | – | – | – | – | – |
| Exchange differences on translation of foreign operations | | – | – | – | – | – | 458 | – | – | 458 |
| Total comprehensive income for the period | | – | – | – | – | – | 458 | 46,539 | – | 46,997 |
| Issue of shares | | 22 | 309,586 | – | – | – | – | – | – | 309,608 |
| Share-based payment transactions | | – | – | – | 4,943 | – | – | – | – | 4,943 |
| Dividend declared | | – | (50,000) | – | – | – | – | – | – | (50,000) |
| **At June 30, 2010** (Audited) | | 238 | 379,776 | 55,069 | 558,524 | 7,782 | 17,347 | 245,971 | – | 1,264,707 |
| **At January 1, 2011** | | **276** | **988,376** | **72,183** | **563,467** | **7,782** | **2,996** | **476,327** | **–** | **2,111,407** |
| Profit for the period | | **–** | **–** | **–** | **–** | **–** | **–** | **74,682** | **(261)** | **74,421** |
| Other comprehensive income for the period: | | | | | | | | | | |
| Exchange differences on translation of foreign operations | | **–** | **–** | **–** | **–** | **–** | **(10,026)** | **–** | **–** | **(10,026)** |
| Total comprehensive income for the period | | **–** | **–** | **–** | **–** | **–** | **(10,026)** | **74,682** | **(261)** | **64,395** |
| Acquisition of a subsidiary | 20 | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **2,738** | **2,738** |
| Capital contributions from a non-controlling shareholder | | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **1,000** | **1,000** |
| Share-based payment transactions | 19 | **–** | **–** | **–** | **3,644** | **–** | **–** | **–** | **–** | **3,644** |
| **At June 30, 2011** (Unaudited) | | **276** | **988,376*** | **72,183*** | **567,111*** | **7,782*** | **(7,030)*** | **551,009*** | **3,477** | **2,183,184** |

* These reserve accounts comprise the consolidated reserves of RMB2,179,431,000 (December 31, 2010: RMB2,111,131,000) in the interim condensed consolidated statement of financial position.

# Interim Condensed Consolidated Statement of Cash Flows

For the six-month period ended June 30, 2011

| | Notes | For the six-month period ended June 30, 2011 RMB'000 Unaudited | 2010 RMB'000 Audited |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit for the year | | **74,421** | 46,539 |
| Adjustments to reconcile net profit to net cash used in operating activities: | | | |
| Depreciation and amortisation | 4(b) | **3,854** | 3,840 |
| Net loss on disposal of items of property and equipment | 4(f) | **2** | 4 |
| Share-based payment expense | 19 | **3,644** | 4,943 |
| Expenses related to the listing of the Company's shares | 4 | **—** | 33,309 |
| Write-back of impairment of trade receivables | 4 | **—** | (178) |
| Deferred income tax charge | 5 | **10,305** | 8,509 |
| Share of profits of jointly-controlled entities | 9 | **(2,547)** | 371 |
| Fair value gain on an interest in a jointly-controlled entity | 4(c) | **(2,512)** | — |
| Net gain from a fair value adjustment on investment properties | | **—** | 300 |
| Finance income | 4(d) | **(3,173)** | (1,216) |
| Finance costs | 4(e) | **6,803** | 5,434 |
| | | **90,797** | 101,855 |
| Changes in assets and liabilities: | | | |
| Pledged deposits | | **26,055** | 41,169 |
| Trade and bills receivables | | **141,457** | (55,754) |
| Prepayments, deposits and other receivables | | **(196,661)** | (67,472) |
| Construction contracts | | **(336,517)** | (275,790) |
| Inventories | | **(21)** | (245) |
| Due from related companies | | **1,306** | (4,619) |
| Due to related companies | | **1,428** | 2,974 |
| Trade and bills payables | | **(19,759)** | 10,517 |
| Deposits received, other payables and accruals | | **(27,216)** | 74,917 |
| Income tax payable | | **(12,180)** | (10,619) |
| Cash generated from operations | | **(331,311)** | (183,067) |
| Interest paid | | **(6,803)** | (5,434) |
| Interest received | | **3,524** | 1,216 |
| **Net cash flows used in operating activities** | | **(334,590)** | (187,285) |

# Interim Condensed Consolidated Statement of Cash Flows

For the six-month period ended June 30, 2011

| | Notes | For the six-month period ended June 30, 2011 RMB'000 Unaudited | 2010 RMB'000 Audited |
|---|---|---|---|
| **Net cash flows used in operating activities** | | **(334,590)** | (187,285) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from disposal of items of property and equipment | | **21** | 4 |
| Purchases of items of property and equipment | 7 | **(6,972)** | (1,760) |
| Purchases of items of intangible assets | | **(397)** | — |
| Investment in a short term deposit | | **772** | (67,723) |
| Acquisition of a jointly-controlled entity | | **(7,350)** | (7,650) |
| Amounts due from related companies | | **—** | 3,673 |
| Acquisition of subsidiaries | | **5,284** | — |
| Prepayment for acquisition of equity interests in other entities | | **(240,119)** | — |
| Net cash flows used in investing activities | | **(248,761)** | (73,456) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| New bank loans | | **150,000** | 165,000 |
| Repayment of bank loans | | **(259,998)** | (145,150) |
| Decrease/(increase) in pledged deposits | | **80,361** | (2,062) |
| Dividends paid | | **—** | (15,297) |
| Proceeds from issue of shares | | **—** | 309,608 |
| Amounts due to related companies | | **—** | 4,619 |
| Payment of listing expenses | | **(17,275)** | (8,501) |
| Contribution from a non-controlling shareholder | | **1,000** | — |
| Net cash flows (used in)/from financing activities | | **(45,912)** | 308,217 |
| Net increase/(decrease) in cash and cash balances | | **(629,263)** | 47,476 |
| Effect of foreign exchange rate changes, net | | **(5,377)** | 458 |
| Cash and cash equivalents at beginning of period | | **836,883** | 177,173 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | | **202,243** | 225,107 |

# Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2011

## 1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on February 20, 2008. The principal executive office of the Company is located at Unit 1801A, 18/F, West Tower, World Finance Centre, No.1 East 3rd Ring Road Middle, Chaoyang District, Beijing 100020, the People's Republic of China (the "PRC"). The ordinary shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on July 15, 2010.

The principal activity of the Company is investment holding. The Group is a transportation infrastructure technology solutions and services provider in the PRC.

The Group's principal businesses are summarised as follows:

- Turnkey solutions business — involving the integration of information technology with physical transportation infrastructure;

- Specialised solutions business — providing solutions to discrete problems occurring in a client's existing or planned transportation infrastructure through the design, development and implementation of hardware-based and software-based systems; and

- Value-added services business — providing post-construction maintenance services for turnkey and specialised solutions.

The Group's principal operations and geographic market are in the PRC.

## 2. BASIS OF PRESENTATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

### Basis of presentation

The interim condensed consolidated financial statements for the six months ended June 30, 2011 have been prepared in accordance with International Accounting Standard ("IAS") 34 interim financial reporting and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange.

The interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2010. The interim condensed consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand, except when otherwise indicated.

## 2. BASIS OF PRESENTATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

### New standards, interpretations and amendments thereof adopted by the Group

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2010, except for the adoption of new and revised standards and interpretations as of January 1, 2011 noted below:

➢ *IFRS 1 Amendment — Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*

The amendment permitted first-time adopters of IFRSs to use the same transition provisions permitted for existing preparers of financial statements prepared in accordance with IFRSs that are included in Amendments to IFRS 7 Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments. The amendment had no material effect on the financial position or performance of the Group.

➢ *IAS 24 Related Party Disclosures (Amendment)*

The IASB has issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any material impact on the financial position or performance of the Group.

➢ *IAS 32 Financial Instruments: Presentation — Classification of Right Issues (Amendment)*

The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no material effect on the financial position or performance of the Group.

## 2. BASIS OF PRESENTATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

**New standards, interpretations and amendments thereof, adopted by the Group** (continued)

➢ *IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendments)*

The amendments remove an unintended consequence when an entity is subject to minimum funding requirements (MFR) and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to MFR in Euro land. The amendments to the interpretation therefore had no material effect on the financial position or performance of the Group.

➢ *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*

The interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with IAS 39 financial instruments: recognition and measurement and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. As the Group did not undertake such transactions during the period, the interpretation had no material financial impact on the Group.

➢ *Improvements to IFRSs (issued in May 2010)*

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

| | |
|---|---|
| IFRS 3 | *Business Combinations* |
| IFRS 7 | *Financial Instruments — Disclosures* |
| IAS 1 | *Presentation of Financial Statements* |
| IAS 27 | *Consolidated and Separate Financial Statements* |
| IAS 34 | *Interim Financial Reporting* |
| IFRIC 13 | *Customer Loyalty Programmes* |

## 2. BASIS OF PRESENTATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

**New standards, interpretations and amendments thereof, adopted by the Group** (continued)

➢ *Improvements to IFRs (issued May 2010) (continued)*

While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments have a significant financial impact on the Group. Those amendments that have a significant impact on the Group's policies are as follows:

(a) IFRS 3 *Business Combinations:* Clarifies that the amendments to IFRS 7, IAS 32 and IAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS.

(b) IFRS 7 *Financial Instruments:* disclosures: (i) emphasises the interaction between quantitative and qualitative disclosure and the mature and extent of risk associated with the financial instruments; (ii) amends several quantitative and credit risk disclosures to simplify the disclosures; and (iii) requires the disclosure of the financial effect of collateral held as security and of other credit enhancements in respect of the amount that best represents the maximum exposure of credit risk.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(c) IAS 1 *Presentation of Financial Statements:* Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(d) IAS 27 *Consolidated and Separate Financial Statements:* Clarifies that the consequential amendments from IAS 27 (as revised in 2008) made to IAS 21, IAS 28 and IAS 31 shall be applied prospectively for annual periods beginning on or after July 1, 2009 or earlier if IAS 27 is applied earlier.

## 2. BASIS OF PRESENTATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

**New standards, interpretations and amendments thereof adopted by the Group** (continued)

➢ *Improvements to IFRSs (issued in May 2010) (continued)*

(e) IAS 34: *Interim Financial Reporting:* The amendment requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in the interim condensed financial statements.

(f) IFRIC 13: *Customer Loyalty Programmes:* Clarifies that in determining the fair value of award credits, an entity shall consider discounts and incentives that would otherwise be offered to customers not participating in the loyalty programme.

**Issued but not yet effective International Financial Reporting Standards**

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these interim condensed consolidated financial statements.

| | |
|---|---|
| IFRS 1 Amendments | Amendments to IFRS 1 First-time Adoption of IFRSs — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1] |
| IFRS 7 Amendments | Amendments to IFRS 7 Financial Instruments: Disclosures — Transfers of Financial Assets[1] |
| IFRS 9 | Financial Instruments[2] |
| IFRS 10 | Consolidated Financial Statements[2] |
| IFRS 11 | Joint Arrangements[2] |
| IFRS 12 | Disclosure of Interests in Other Entities[2] |
| IFRS 13 | Fair Value Measurement[2] |
| IAS 12 Amendments | Amendments to IAS 12 Income Taxes — Deferred tax: Recovery of Underlying Assets[3] |
| IAS 27 (Revised) | Separate Financial Statements[2] |
| IAS 28 (Revised) | Investments in Associates and Joint Ventures[2] |

1 Effective for annual periods beginning on or after July 1, 2011

2 Effective for annual periods beginning on or after January 1, 2013

3 Effective for annual periods beginning on or after January 1, 2012

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

## 3. REVENUE

Revenue, which is also the Group's turnover, represents: (i) an appropriate proportion of contract revenue of construction contracts, net of business tax and government surcharges; and (ii) the 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, | |
|---|---|---|
| | **2011** | **2010** |
| | **RMB'000** | **RMB'000** |
| | **Unaudited** | **Audited** |
| Revenue from: | | |
| Implementation of projects | **680,603** | 630,902 |
| Sale of products | **2,482** | 11,050 |
| | **683,085** | 641,952 |

## 4. PROFIT BEFORE TAX

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

| | Notes | For the six-month period ended June 30, 2011 RMB'000 Unaudited | 2010 RMB'000 Audited |
|---|---|---|---|
| Cost of services rendered for implementation of projects | | **473,758** | 443,969 |
| Cost of inventories sold for sale of products | | **1,238** | 5,521 |
| | | **474,996** | 449,490 |
| Employee benefit expense (including directors' and senior executives' remuneration) | (a) | **42,622** | 31,203 |
| Research and development costs | | **8,629** | 3,303 |
| Minimum lease payments under operating leases: | | | |
| Land and buildings | | **8,128** | 7,046 |
| Expenses related to the listing of the Company's shares | | **—** | 33,309 |
| Depreciation and amortisation | (b) | **3,854** | 3,840 |
| Write-back of impairment of trade receivables, net | | **—** | (178) |
| Foreign exchange differences, net | | **119** | 410 |
| Other income and gains | (c) | **(9,231)** | (1,839) |
| Finance income | (d) | **(3,173)** | (1,216) |
| Finance costs | (e) | **6,803** | 5,434 |
| Other expenses | (f) | **156** | 304 |

### (a) Employee benefit expense

| | For the six-month period ended June 30, 2011 RMB'000 Unaudited | 2010 RMB'000 Audited |
|---|---|---|
| Employee benefit expense (excluding directors' and senior executives' remuneration) | | |
| Wages and salaries | **27,422** | 17,227 |
| Social insurance costs and staff welfare | **6,839** | 5,512 |
| Pension plan contributions | **3,569** | 2,135 |
| Share-based payment expenses (note 19) | **3,644** | 4,943 |
| Directors' and senior executives' remuneration | **1,148** | 1,386 |
| | **42,622** | 31,203 |

## 4. PROFIT BEFORE TAX (continued)

### (b) Depreciation and amortisation

| | For the six-month period ended June 30, | |
|---|---|---|
| | **2011** | **2010** |
| | **RMB'000** | **RMB'000** |
| | **Unaudited** | **Audited** |
| Included in selling, general and administrative expenses | | |
| Depreciation | **3,839** | 3,840 |
| Amortisation of intangible assets | **15** | — |
| | **3,854** | 3,840 |

### (c) Other income and gains

| | For the six-month period ended June 30, | |
|---|---|---|
| | **2011** | **2010** |
| | **RMB'000** | **RMB'000** |
| | **Unaudited** | **Audited** |
| Government grants* | **54** | — |
| Gross rental income | **6,665** | 1,775 |
| Fair value gain on an interest in a jointly-controlled entity# | **2,512** | — |
| Other | **—** | 64 |
| | **9,231** | 1,839 |

* There were no unfulfilled conditions or contingencies attaching to these grants.

\# During the period, the Group acquired an additional 29% equity interest in 新疆瑞華贏機電系統技術有限公司 ("Xinjiang RHY"), a jointly-controlled entity of the Group prior to the acquisition. Upon completion of the acquisition of the additional equity interest by the Group, Xinjiang RHY became a subsidiary of the Group. The initial 51% equity interest held by the Group has been revalued prior to its becoming a subsidiary of the Group and the difference between the carrying value and the fair value of the 51% equity interest in Xinjiang RHY was recognised in the statement of income during the current period.

## 4. PROFIT BEFORE TAX (continued)

### (d) Finance income

| | For the six-month period ended June 30, 2011 RMB'000 Unaudited | 2010 RMB'000 Audited |
|---|---|---|
| Bank interest income | **3,173** | 1,216 |

### (e) Finance costs

| | For the six-month period ended June 30, 2011 RMB'000 Unaudited | 2010 RMB'000 Audited |
|---|---|---|
| Interest on bank loans, wholly repayable within one year | **6,803** | 5,434 |

### (f) Other expenses and losses

| | For the six-month period ended June 30, 2011 RMB'000 Unaudited | 2010 RMB'000 Audited |
|---|---|---|
| Loss on disposal of items of property and equipment | **2** | 4 |
| Others | **154** | 300 |
| | **156** | 304 |

## 5. INCOME TAX

The Group was not subject to Hong Kong profit tax for the six-month period ended June 30, 2011 as the Group did not have any taxable profits derived in Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

During the 5th Session of the 10th National People's Congress, which was concluded on March 16, 2007, the PRC Enterprise Income Tax Law (the "New PRC Enterprise Income Tax Law") was approved and became effective on January 1, 2008. The New PRC Enterprise Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%.

Pursuant to the approval from the state tax bureau of the Beijing Economic-technological Development Area, Kaiguoshuisuohan 2008 No.55 (開國税所函[2008]55號) dated May 26, 2008, 北京瑞華赢科技發展有限公司 ("瑞華赢科技") was entitled to 50% of a transitional tax rate of 10% from January 1, 2009. This preferential tax rate will be progressively increased to 25% over five years starting from January 1, 2007. The preferential income tax rate applicable to 瑞華赢科技 was 12% for the six-month period ended June 30, 2011.

The major components of income tax expense are:

| | For the six-month period ended June 30, | |
|---|---|---|
| | **2011** | **2010** |
| | **RMB'000** | **RMB'000** |
| | **Unaudited** | **Audited** |
| Current income tax: | | |
| Current income tax charge in the PRC | **15,637** | 10,140 |
| Deferred income tax: | | |
| Relating to origination and reversal of temporary differences | **10,305** | 8,509 |
| Income tax expense reported in the consolidated statement of income | **25,942** | 18,649 |

## 6. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit attributable to ordinary equity holders of the Company for the six-month period ended June 30, 2011, and the weighted average number of ordinary shares of 1,569,047,334 (six-month period ended June 30, 2010: 1,306,460,952) during the six-month period ended June 30, 2011.

| | For the six-month period ended June 30, | |
|---|---|---|
| | **2011** | **2010** |
| | **RMB'000** | **RMB'000** |
| | **Unaudited** | **Audited** |
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation | **74,682** | 46,539 |

| | Number of shares For the six-month period ended June 30, | |
|---|---|---|
| | **2011** | **2010** |
| | **Unaudited** | **Audited** |
| **Shares** | | |
| Weighted average number of shares in issue during the period used in the basic earnings per share calculation | **1,569,047,334** | 1,306,460,952 |

No diluted earnings per share amounts have been presented as the Company did not have any potentially dilutive ordinary shares during the six-month period ended June 30, 2011. The share option scheme as disclosed in note 19 will not give rise to any additional ordinary shares of the Company upon their exercise because the underlying ordinary shares of the Company were in issue and owned by China ITS Co., Ltd. (a shareholder of the Company) which will be transferred to the relevant employees upon the exercise of the relevant options.

## 7. PROPERTY AND EQUIPMENT

During the six-month period ended June 30, 2011, the Group purchased equipment with a cost of RMB6,972,000 (six-month period ended June 30, 2010: RMB1,760,000), excluding the equipment acquired through business combinations (see note 20).

The depreciation charged during the six-month period ended June 30, 2011 was RMB3,839,000 (six-month period ended June 30, 2010: RMB3,840,000).

Equipment with a net book value of RMB23,000 was disposed of by the Group during the six-month period ended June 30, 2011 (six-month period ended June 30, 2010: RMB8,000), resulting a net loss on disposal of RMB2,000 (six-month period ended June 30, 2010: RMB4,000).

## 8. GOODWILL

The change in goodwill during the six-month period ended June 30, 2011 is as follows:

| | RMB'000 |
|---|---|
| **At January 1, 2011** | **230,664** |
| Acquisition of subsidiaries | **4,781** |
| **At June 30, 2011** | **235,445** |

## 9. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

| | June 30, 2011 RMB'000 Unaudited | December 31, 2010 RMB'000 Audited |
|---|---|---|
| Share of net assets | **26,137** | 19,750 |

Particulars of the jointly-controlled entities are as follows:

| | | Percentage of | | | |
|---|---|---|---|---|---|
| **Name of jointly-controlled entities** | **Place of registration** | **Ownership interest** | **Voting power** | **Profit sharing** | **Principal activities** |
| 武漢辰光交通科技發展有限公司 ("Wuhan Chenguang") (note (1)) | PRC | 51% | 60% | 51% | Intelligent traffic system turnkey solutions |
| 成都智達威路特科技有限公司 ("Chengdu Weilute") (note (2)) | PRC | 51% | 60% | 51% | Intelligent traffic system specialized solutions |
| 山東易構軟件技術有限公司 ("Shangdong Yigou") (note (3)) | PRC | 42.8% | 40% | 42.8% | Intelligent traffic system specialized solutions |

## 9. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Notes:

(1) The equity holders' meeting of Wuhan Chenguang requires three-quarters of votes for approval of essential decisions and two-thirds of votes for other matters. The board of directors of Wuhan Chenguang has five persons and the Group has three representatives. In accordance with the articles of association of Wuhan Chenguang, the meetings of the board of directors' require two-thirds of votes of directors for approval. Based on the above, in the opinion of the directors, the Group is unable to exercise unilateral control over the financial and operating policies of Wuhan Chenguang and accordingly, Wuhan Chenguang is accounted for as a jointly-controlled entity of the Group.

(2) The board of directors of Chengdu Weilute has five persons and the Group has three representatives. In accordance with the articles of association of Chengdu Weilute, the meetings of the board of directors require at least four-fifths of votes of directors for approval. Based on the above, in the opinion of the directors, the Group is unable to exercise unilateral control over the financial and operating policies of Chengdu Weilute and accordingly, Chengdu Weilute is accounted for as a jointly-controlled entity of the Group. The Group made an additional capital contribution of RMB7.65 million to Chengdu Weilute in February 2010.

(3) The equity holders' meeting of Shandong Yigou requires all votes for approval of essential decisions and four-fifths of votes for other matters. The board of directors of Shandong Yigou has five persons and the Group has two representatives. In accordance with the articles of association of Shandong Yigou, the meetings of the board of directors require four-fifths of votes of directors for approval. Based on the above, in the opinion of the directors, the Group is unable to exercise unilateral control over the financial and operating policies of Shandong Yigou and accordingly, Shandong Yigou is accounted for as a jointly-controlled entity of the Group.

The share of profits of jointly-controlled entities during the six-month period ended June 30, 2011 is as follows:

| | Note | For the six-month period ended June 30, 2011 RMB'000 Unaudited | For the six-month period ended June 30, 2010 RMB'000 Audited |
|---|---|---|---|
| Share of profits/(losses) of jointly-controlled entities: | | | |
| Wuhan Chenguang | | **703** | (356) |
| Xinjiang RHY | (a) | **—** | (12) |
| Shandong Yigou | | **110** | — |
| Chengdu Weilute | | **1,734** | (3) |
| | | **2,547** | (371) |

Note:

(a) Xinjiang RHY was a 51% owned jointly-controlled entity of the Group and in January 2011, the Group acquired an additional 29% equity interest and hence owns 80% of the equity interest of Xinjiang RHY. The composition of the board of directors of Xinjiang RHY was changed from five to three directors and the Group can appoint two representatives from January 2011. In accordance with the articles of association of Xinjiang RHY, the meetings of the board of directors require at least two-thirds of votes of directors for approval. Since the Group has two-thirds of voting power in the board of directors of Xinjiang RHY, in the opinion of the Company's directors, the Group is able to exercise unilateral control over the financial and operating policies of Xinjiang RHY upon the change of the board composition and accordingly, Xinjiang RHY is accounted as an 80% owned subsidiary of the Group in the current period.

## 9. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

| | June 30, 2011 RMB'000 Unaudited | December 31, 2010 RMB'000 Audited |
|---|---|---|
| Current assets | **65,404** | 54,623 |
| Non-current assets | **8,586** | 11,146 |
| Current liabilities | **(27,004)** | (27,044) |
| Net assets | **46,986** | 38,725 |

| | For the six-month period ended June 30, | |
|---|---|---|
| | 2011 RMB'000 Unaudited | 2010 RMB'000 Audited |
| Revenue and other income | **25,395** | 3,601 |
| Costs and expenses | **(18,775)** | (3,972) |
| Income Tax | **(1,584)** | — |
| Profit/(loss) after tax | **5,036** | (371) |

## 10. CONSTRUCTION CONTRACTS

| | June 30, 2011 RMB'000 Unaudited | December 31, 2010 RMB'000 Audited |
|---|---|---|
| Gross amount due from contract customers | **800,410** | 777,875 |
| Gross amount due to contract customers | **(251,313)** | (559,531) |
| | **549,097** | 218,344 |
| Contract costs incurred plus recognised profits less recognised losses to date | **3,717,755** | 2,626,221 |
| Less: Progress billings | **(3,168,658)** | (2,407,877) |
| | **549,097** | 218,344 |

## 11. TRADE AND BILLS RECEIVABLES

| | June 30, 2011 RMB'000 Unaudited | December 31, 2010 RMB'000 Audited |
|---|---|---|
| Trade and bills receivables | **694,132** | 819,366 |
| Provision for impairment | **(1,434)** | (1,434) |
| | **692,698** | 817,932 |
| Bills receivable | **2,890** | 16,504 |
| | **695,588** | 834,436 |

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 generally does not require collateral from its customers.

## 11. TRADE AND BILLS RECEIVABLES (continued)

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

| | June 30, 2011 RMB'000 Unaudited | December 31, 2010 RMB'000 Audited |
|---|---|---|
| Less than 6 months | **208,717** | 707,932 |
| 6 months to 1 year | **386,451** | 51,462 |
| 1 to 2 years | **88,487** | 62,976 |
| 2 to 3 years | **10,338** | 11,900 |
| Over 3 years | **1,595** | 166 |
| | **695,588** | 834,436 |

Trade and bills receivables generally have credit terms ranging from 30 to 180 days. An aged analysis of the trade and bills receivables that are neither individually nor collectively considered to be impaired is as follows:

| | June 30, 2011 RMB'000 Unaudited | December 31, 2010 RMB'000 Audited |
|---|---|---|
| Neither past due nor impaired | **154,138** | 307,731 |
| Past due but not impaired: | | |
| Less than 6 months past due | **346,523** | 395,384 |
| 6 months to 1 year past due | **120,332** | 54,936 |
| 1 to 2 years past due | **62,662** | 64,319 |
| 2 to 3 years past due | **10,338** | 11,900 |
| Over 3 years past due | **1,595** | 166 |
| | **695,588** | 834,436 |

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

## 11. TRADE AND BILLS RECEIVABLES (continued)

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The Group pledged its trade receivable to be received from certain of its projects amounting to RMB109.4 million (December 31, 2010: RMB300.8 million) for a banking facility granted to the Group. As at June 30, 2011, the related pledged trade receivable amounted to RMB70.4 million (December 31, 2010: RMB211.9 million).

## 12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

**Current assets:**

| | June 30, 2011 RMB'000 Unaudited | December 31, 2010 RMB'000 Audited |
|---|---|---|
| Prepayments to suppliers for purchases of goods | **575,839** | 474,754 |
| Tender deposits | **35,969** | 27,325 |
| Advances to staff | **16,900** | 12,034 |
| Contract deposits | **84,929** | 29,855 |
| Others | **36,194** | 11,312 |
| | **749,831** | 555,280 |

**Non-current assets:**

| | June 30, 2011 RMB'000 Unaudited | December 31, 2010 RMB'000 Audited |
|---|---|---|
| Prepayments for acquisition of equity interests in other entities | **240,119** | — |

Included in prepayments, deposits and other receivables, amount of RMB2.5 million (December 31 2010: RMB1.8 million) was advanced to certain directors/key managements for the Group's daily business purpose, which is unsecured, interest free and repayment on demand.

## 13. INVENTORIES

| | June 30, 2011 RMB'000 Unaudited | December 31, 2010 RMB'000 Audited |
|---|---|---|
| Raw materials | **1,247** | 841 |
| Work in progress | **115** | 123 |
| Finished goods | **5,176** | 3,503 |
| | **6,538** | 4,467 |

## 14. CASH AND CASH EQUIVALENTS, SHORT TERM DEPOSIT AND PLEDGED DEPOSITS

| | June 30, 2011 RMB'000 Unaudited | December 31, 2010 RMB'000 Audited |
|---|---|---|
| Cash and cash equivalent balances | **202,243** | 836,883 |
| Non-pledged short term deposit with original maturity of more than three months when acquired | **111,670** | 112,441 |
| Pledged deposits | **76,086** | 182,502 |
| | **389,999** | 1,131,826 |
| Less: Non-pledged short term deposit with original maturity of more than three months when acquired | **(111,670)** | (112,441) |
| Less: Pledged deposits for | | |
| — Bank loans | **—** | (80,361) |
| — Project bonds | **(63,358)** | (73,795) |
| — Bills payable | **(12,728)** | (28,346) |
| | **(76,086)** | (182,502) |
| Cash and bank balances | **202,243** | 836,883 |

Cash at banks earns interest at floating rates based on daily bank deposit rates. The short term deposit is made for a period of 12 months when acquired and has a bank deposit rate of 2.23% per annum.

## 14. CASH AND CASH EQUIVALENTS, SHORT TERM DEPOSIT AND PLEDGED DEPOSITS (continued)

The cash and cash equivalent balances, short term deposit and pledged deposits of the Group denominated in RMB amounted to RMB232.5 million (December 31, 2010: RMB547.8 million) as at June 30, 2011. 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.

## 15. TRADE AND BILLS PAYABLES

| | June 30, 2011 RMB'000 Unaudited | December 31, 2010 RMB'000 Audited |
|---|---|---|
| Trade payables | **538,380** | 506,545 |
| Bills payable | **42,429** | 91,293 |
| | **580,809** | 597,838 |

The Group's bills payable were secured by pledged deposits of the Group of RMB12.7 million (December 31, 2010: RMB28.3 million) as at June 30, 2011.

Trade payables are non-interest-bearing and generally have credit terms ranging from 1 to 90 days. An aging analysis of the Group's trade payables at the end of reporting period, based on invoice date, is as follows:

| | June 30, 2011 RMB'000 Unaudited | December 31, 2010 RMB'000 Audited |
|---|---|---|
| Current or less than 1 year | **520,055** | 463,254 |
| 1 to 2 years | **13,424** | 26,767 |
| Over 2 years | **4,901** | 16,524 |
| | **538,380** | 506,545 |

## 16. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

| | June 30, 2011 RMB'000 Unaudited | December 31, 2010 RMB'000 Audited |
|---|---|---|
| Deposits received | **6,228** | 1,728 |
| Staff costs and welfare accruals | **22,247** | 16,862 |
| Accruals related to the listing of the Company's shares | **—** | 17,380 |
| Other taxes payable | **48,378** | 75,852 |
| Others | **889** | 10,308 |
| | **77,742** | 122,130 |

Other payables are non-interest-bearing and have no fixed terms of repayment.

## 17. INTEREST-BEARING BANK BORROWINGS

| | Contractual interest rate % | June 30, 2011 RMB'000 Unaudited | December 31, 2010 RMB'000 Audited |
|---|---|---|---|
| **Current** | | | |
| Bank loans — secured and repayable within one year: | 5.35–6.94 | **50,000** | 169,998 |
| Bank loans — guaranteed and repayable within one year: | 5.23–7.26 | **130,000** | 120,000 |
| | | **180,000** | 289,998 |

The Group's bank loan of RMB50.0 million (December 31, 2010: RMB45 million) was pledged by contract receivables of RMB70.4 million as at June 30, 2011.

Bank loans of approximately RMB70 million as at December 31, 2010 were secured by irrevocable standby letters of credit amounting to HK$26.7 million, US$4.3 million and HK$34.5 million issued by the Off-Shore Banking Department of China Merchants Bank. The foregoing letters of credit mentioned above were secured by the Group's deposits amounting to HK$26.7 million, US$4.3 million and HK$34.5 million placed with the Off-Shore Banking Department of China Merchants Bank.

## 17. INTEREST-BEARING BANK BORROWINGS (continued)

As at June 30, 2011, the Group had unutilised available bank borrowing facilities amounting to RMB64.6 million (December 31, 2010: RMB263.9 million).

The Group's bank loans are all denominated in RMB. Bank loans of RMB180.0 million have fixed interest rates as at June 30, 2011. The carrying amounts of the Group's current borrowings approximate to their fair values.

## 18. ISSUED CAPITAL

**Shares**

| | June 30, 2011 RMB'000 | December 31, 2010 RMB'000 |
|---|---|---|
| Authorised: | | |
| 1,900,000,000 ordinary shares of HK$0.0002 each | **335** | 335 |
| Issued and fully paid | | |
| 1,569,047,334 (December 31, 2010: 1,569,047,334) ordinary shares of HK$0.0002 each | **276** | 276 |

## 19. SHARE OPTION SCHEME

On December 31, 2008 (the "Grant Date"), China ITS Co., Ltd. launched a share option scheme (the "Scheme"). Pursuant to the Scheme, China ITS Co., Ltd. granted 116,653,105 share options to eligible employees of the Group and the directors of the Company to allow them to acquire the equivalent number of the existing ordinary shares of the Company from China ITS Co., Ltd (the "Share Options"). Among the 116,653,105 Share Options, 58,170,393 Share Options were vested on the Grant Date and the remaining 58,482,712 Share Options would be vested over six equal semi-annual installments starting from the second anniversary of the Grant Date provided these employees remain in service at the respective vesting dates. The expiration dates for the Share Options are five years after their respective vesting dates. Exercise prices are RMB0.60 per share for the first batch, RMB2.00 per share for the second and third batches, RMB3.00 per share for the fourth and fifth batches and RMB4.00 per share for the last two batches. There are no cash settlement alternatives.

## 19. SHARE OPTION SCHEME (continued)

The share option expense recognised during the six-month period ended June 30, 2011 is as follows:

| | For the six-month period ended June 30, | |
|---|---|---|
| | **2011** | **2010** |
| | **RMB'000** | **RMB'000** |
| | **Unaudited** | **Audited** |
| Share-based payment expense | **3,644** | 4,943 |

The following table illustrates the numbers and weighted average exercise prices (WAEP) of Share Options for the six-month period ended June 30, 2011:

| | **Numbers '000** | **WAEP RMB** |
|---|---|---|
| Outstanding as at January 1, 2011 | **116,653** | **1.80** |
| Exercised in the current period | **(707)** | **0.68** |
| Outstanding as at June 30, 2011 | **115,946** | **1.81** |
| Exercisable as at January 1, 2011 | **67,918** | **0.80** |
| Vested in the current period | **9,747** | **2.00** |
| Exercised in the current period | **(707)** | **0.68** |
| Exercisable as at June 30, 2011 | **76,958** | **0.95** |

The fair value of the Share Options at the Grant Date was estimated by an independent firm of professional valuers, Marsh (Beijing) Risk Consulting Co., Ltd., using the Hull-White Binomial Model (the "HW Model"), taking into account the terms and conditions upon which the Share Options were granted.

Since the Share Options were granted by China ITS Co., Ltd., the Company did not have any outstanding share options as at June 30, 2011 (December 31, 2010: Nil).

## 20. BUSINESS COMBINATIONS

### Acquisition of 新疆得利達信息技術有限公司 (Xinjiang Delida)

In April 2011, the Group acquired a 57% equity interest in Xinjiang Delida, which specialises in logistics information solutions.

## 20. BUSINESS COMBINATIONS (continued)

### Acquisition of Xinjiang RHY

In January 2011, the Group acquired additional 29% of equity interest of Xinjiang RHY, which specialises in providing communication and surveillance specialised solutions and value-added services. Before the acquisition, Xinjiang RHY was a jointly-controlled entity of the Group (note 9). Upon completion of the acquisition, Xinjiang RHY became a subsidiary and is owned as to 80% by the Group.

The fair value of the identifiable assets and liabilities of Xinjiang Delida and Xinjiang RHY as at the date of acquisition is set out below:

| | **Fair value recognised on the dates of acquisition RMB'000** |
|---|---|
| Equipment | **1,632** |
| Cash and bank balances | **7,973** |
| Trade receivables | **2,609** |
| Inventories | **2,050** |
| Prepayments, deposits and other receivables | **2,892** |
| Intangible assets | **875** |
| Trade payables | **(2,730)** |
| Construction contracts | **(5,764)** |
| Other payables and accruals | **(103)** |
| Deferred tax liabilities | **(307)** |
| Non-controlling interests | **(2,738)** |
| Total identifiable net assets at fair value | **6,389** |
| Goodwill arising on acquisition | **4,781** |
| Cash consideration paid in the prior year and included in prepayments, deposits and other receivables | **(3,680)** |
| Interest in a jointly-controlled entity | **(4,801)** |
| **Satisfied by cash** | **2,689** |

The fair value of the equipment as at the date of acquisition amounted to RMB1,632,000.

The fair value of the intangible assets which represented the technical know-how and customer list amounted to RMB875,000.

## 20. BUSINESS COMBINATION (continued)

### Acquisition of Xinjiang RHY (continued)

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

| | RMB'000 |
|---|---|
| Cash and bank balances acquired with the subsidiaries | 7,973 |
| Cash consideration paid in the current period | (2,689) |
| Net cash and cash equivalents included in cash flows from investing activities | 5,284 |

From the date of acquisition, Xinjiang Delida and Xinjiang RHY contributed RMB5,998,000 of revenue and losses of RMB2,592,000 to the net profit before tax of the Group.

Had the combination taken place at the beginning of the period, the revenue and the profit after tax of the Group for the current period would have been RMB683,085,000 and RMB74,421,000 respectively.

None of the recognised goodwill is expected to be deductible for income tax purposes.

## 21. RELATED PARTY DISCLOSURES

Save disclosed in notes 12, the Group had the following related party transactions during the six months period ended June 30, 2011:

| | For the six-month period ended June 30, | |
|---|---|---|
| | 2011<br>RMB'000 | 2010<br>RMB'000 |
| **Advances to a jointly-controlled entity** | | |
| Wuhan Chenguang | 413 | — |
| | 413 | — |
| **Dividend from a jointly-controlled entity** | | |
| Wuhan Chenguang | 1,220 | 1,189 |
| | 1,220 | 1,189 |

## 21. RELATED PARTY DISCLOSURES (continued)

| | Notes | June 30, 2011 RMB'000 | Maximum amount outstanding during the six months period 2011 RMB'000 | December 31, 2010 RMB'000 |
|---|---|---|---|---|
| **Due from related companies:** | | | | |
| *Trade related* | | | | |
| Chengdu Weilute | | **169** | **762** | 762 |
| Wuhan Chenguang | | **314** | **314** | — |
| | | **483** | **1,076** | 762 |
| *Non-trade related* | | | | |
| 百聯優力（北京）投資有限公司* | (a) | **—** | **231** | 231 |
| 百聯和力投資有限公司* | (b) | **4** | **4** | 4 |
| 北京瑞華贏控股有限公司* | (c) | **—** | **894** | 894 |
| 新疆盛恒天信息技術有限公司* | (d) | **—** | **3,680** | 3,680 |
| Wuhan Chenguang | (e) | **1,319** | **1,319** | — |
| | | **1,323** | **6,128** | 4,809 |
| Total | | **1,806** | **7,204** | 5,571 |

Notes:

(a) 百聯優力（北京）投資有限公司 is 100% owned by a director of the Company.

(b) 百聯和力投資有限公司 is 51% owned by 百聯優力（北京）投資有限公司.

(c) 北京瑞華贏控股有限公司 is 59% owned by a director of the Company.

(d) 新疆盛恒天信息技術有限公司 is a 20% equity holder of Xinjiang RHY, which is a joint venture of 瑞華贏科技.

(e) The amount due from Wuhan Chenguang included dividend receivable of RMB1.2 million and expense payments made by the Company on behalf of Wuhan Chenguang.

* The Company paid expenses on behalf of and thereafter was reimbursed by each of the above related companies.

## 21. RELATED PARTY DISCLOSURES (continued)

| | June 30, 2011 RMB'000 Unaudited | December 31, 2010 RMB'000 Audited |
|---|---|---|
| **Due to related companies:** | | |
| *Trade related* | | |
| Chengdu Weilute | **1,550** | 2,150 |
| Wuhan Chenguang | **1,415** | 22 |
| | **2,965** | 2,172 |
| *Non-trade related* | | |
| Shangdong Yigou | **5,000** | — |
| Wuhan Chenguang | **—** | 4,365 |
| | **5,000** | 4,365 |
| Total | **7,965** | 6,537 |

### Terms and conditions of transactions with related parties

Outstanding balances as at June 30, 2011 and December 31, 2010 were unsecured and interest-free. There were no fixed terms of repayment and settlement will be in cash. There were no guarantees provided or received for any related party receivables or payables.

### Compensation of key management personnel of the Group

| | For the six-month period ended June 30, 2011 RMB'000 Unaudited | 2010 RMB'000 Audited |
|---|---|---|
| Salaries, bonuses, allowances and benefits in kind | **1,022** | 679 |
| Share-based payment expenses | **1,166** | 1,314 |
| Pension plan contributions | **70** | 77 |
| Total compensation paid to key management personnel | **2,258** | 2,070 |

## 22. 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) the turnkey solutions segment involves the integration of information technology with physical transportation infrastructure;

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

(c) the value-added services segment provides post-construction maintenance services for turnkey and specialised solutions.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax from continuing operations except that interest income, finance costs, a fair value gain on an interest in a jointly-controlled entity, share of profits of jointly-controlled entities as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, property and equipment, investment properties, amounts due from related companies, investments in jointly-controlled entities and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude deferred tax liabilities, interest-bearing bank borrowings, amounts due to related companies, income tax payables and other unallocated head office and corporate assets as these liabilities are managed on a group basis.

Intersegment sales are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

All of the Group's revenue from external customers is generated from the PRC. All of the Group's non-current assets are located in the PRC.

Revenue of approximately RMB153.4 million (six-month period ended June 30, 2010: Nil) for the six-month period ended June 30, 2011 was derived from a single customer in the specialised solutions business.

## 22. OPERATING SEGMENT INFORMATION (continued)

| | Turnkey solutions RMB'000 | Specialised solutions RMB'000 | Value-added services RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|
| **Six-month period ended June 30, 2011** | | | | |
| **Segment revenue** | | | | |
| Sales to external customers | **217,521** | **450,675** | **14,889** | **683,085** |
| Intersegment sales | **—** | **2,214** | **—** | **2,214** |
| | **217,521** | **452,889** | **14,889** | **685,299** |
| *Reconciliation:* | | | | |
| Elimination of intersegment sales | | | | **(2,214)** |
| Revenue | | | | **683,085** |
| **Segment results** | **18,716** | **75,345** | **7,108** | **101,169** |
| *Reconciliation:* | | | | |
| Finance income | | | | **3,173** |
| Fair value gain on an interest in a jointly-controlled entity | | | | **2,512** |
| Share of profits of jointly-controlled entities | | | | **2,547** |
| Corporate and other unallocated expenses | | | | **(2,235)** |
| Finance costs | | | | **(6,803)** |
| **Profit before tax** | | | | **100,363** |
| **June 30, 2011** | | | | |
| **Segment assets** | **707,162** | **1,934,961** | **42,138** | **2,684,261** |
| *Reconciliation:* | | | | |
| Elimination of intersegment assets | | | | **(197,784)** |
| Corporate and other unallocated assets | | | | **850,049** |
| Total assets | | | | **3,336,526** |
| **Segment liabilities** | **290,134** | **799,785** | **17,730** | **1,107,649** |
| *Reconciliation:* | | | | |
| Elimination of intersegment liabilities | | | | **(197,784)** |
| Unallocated liabilities | | | | **243,477** |
| **Total liabilities** | | | | **1,153,342** |
| **Other segment information** | | | | |
| Share of profits of: | | | | |
| Jointly-controlled entities | | | | **2,547** |
| Depreciation and amortisation | | | | **3,854** |
| Investments in jointly-controlled entities | | | | **26,137** |
| Capital expenditure* | | | | **249,554** |

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

## 22. OPERATING SEGMENT INFORMATION (continued)

| | Turnkey solutions RMB'000 | Specialised solutions RMB'000 | Value-added services RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|
| **Six-month period ended June 30, 2010** | | | | |
| **Segment revenue** | | | | |
| Sales to external customers | 165,154 | 472,718 | 4,080 | 641,952 |
| Intersegment sales | — | — | — | — |
| | 165,154 | 472,718 | 4,080 | 641,952 |
| *Reconciliation:* | | | | |
| Elimination of intersegment sales | | | | — |
| Revenue | | | | 641,952 |
| **Segment results** | 15,073 | 98,888 | 263 | 114,224 |
| *Reconciliation:* | | | | |
| Interest income | | | | 1,216 |
| Share of profits of jointly-controlled entities | | | | (371) |
| Corporate and other unallocated expenses | | | | (44,447) |
| Finance costs | | | | (5,434) |
| **Profit before tax** | | | | 65,188 |
| **December 31, 2010** | | | | |
| **Segment assets** | 724,294 | 1,969,795 | 22,874 | 2,716,963 |
| *Reconciliation:* | | | | |
| Elimination of intersegment receivables | | | | (323,001) |
| Corporate and other unallocated assets | | | | 1,339,934 |
| **Total assets** | | | | 3,733,896 |
| **Segment liabilities** | 571,714 | 995,324 | 16,592 | 1,583,630 |
| *Reconciliation:* | | | | |
| Elimination of intersegment payables | | | | (323,001) |
| Unallocated liabilities | | | | 361,860 |
| **Total liabilities** | | | | 1,622,489 |
| **Other segment information** | | | | |
| Share of profits of: | | | | |
| Jointly-controlled entities | | | | 371 |
| Write-back of impairment of trade receivables | | | | (178) |
| Depreciation | | | | 3,840 |
| Investment in jointly-controlled entities | | | | 19,750 |
| Capital expenditure* | | | | 1,760 |

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

## 22. OPERATING SEGMENT INFORMATION (continued)

### Geographical information

*(a) Revenue from external customers*

| | For the six-month period ended June 30, | |
|---|---|---|
| | 2011 | 2010 |
| | RMB'000 | RMB'000 |
| The PRC | **683,085** | 641,952 |

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

*(b) Non-current assets*

| | June 30, 2011 | December 31, 2010 |
|---|---|---|
| | RMB'000 | RMB'000 |
| The PRC | **174,110** | 168,111 |

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

## 23. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in notes 11, 14 and 17 to the interim condensed consolidated financial statements.

## 24. OPERATING LEASE COMMITMENTS

### Group as lessee

The lease commitments are in respect of office premises, all of which are classified as operating leases. These non-cancellable leases have lease terms of between six months and five years. Future minimum lease payments under these leases are as follows:

| | June 30, 2011 RMB'000 Unaudited | December 31, 2010 RMB'000 Audited |
|---|---|---|
| Within one year | **17,305** | 15,348 |
| In the second to fifth years, inclusive | **44,562** | 36,781 |
| | **61,867** | 52,129 |

### Group as lessor

The Group leases its investment properties to independent third parties, with leases negotiated for terms of between two and three years. Future minimum rental receivables under non-cancellable operating leases are as follows:

| | June 30, 2011 RMB'000 Unaudited | December 31, 2010 RMB'000 Audited |
|---|---|---|
| Within one year | **5,436** | 2,999 |
| In the second to fifth years, inclusive | **2,148** | 3,060 |
| | **7,584** | 6,059 |

## 25. COMMITMENTS

As at June 30, 2011, the Group did not have any significant commitments other than disclosed in note 24 above (December 31, 2010: Nil).

## 26. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

### Financial assets

| | June 30, 2011 Loans and receivables RMB'000 Unaudited | December 31, 2010 Loans and receivables RMB'000 Audited |
|---|---|---|
| Trade and bills receivables | **695,588** | 834,436 |
| Due from related companies | **1,806** | 5,571 |
| Financial assets included in prepayments, deposits and other receivables | **53,094** | 23,346 |
| Pledged deposits | **76,086** | 182,502 |
| Short term deposit | **111,670** | 112,441 |
| Cash and cash equivalents | **202,243** | 836,883 |
| | **1,140,487** | 1,995,179 |

### Financial liabilities

| | June 30, 2011 Financial liabilities at amortised cost RMB'000 Unaudited | December 31, 2010 Financial liabilities at amortised cost RMB'000 Audited |
|---|---|---|
| Trade and bills payables | **580,809** | 597,838 |
| Due to related companies | **7,965** | 6,537 |
| Interest-bearing bank borrowings | **180,000** | 289,998 |
| Financial liabilities included in deposits received, other payables and accruals | **29,364** | 46,278 |
| | **798,138** | 940,651 |

## 27. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's financial instruments are as follows:

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | June 30, 2011 RMB'000 Unaudited | December 31, 2010 RMB'000 Audited | June 30, 2011 RMB'000 Unaudited | December 31, 2010 RMB'000 Audited |
| **Financial assets** | | | | |
| Trade and bills receivables | **695,588** | 834,436 | **695,588** | 834,436 |
| Due from related companies | **1,806** | 5,571 | **1,806** | 5,571 |
| Financial assets included in prepayments, deposits and other receivables | **53,094** | 23,346 | **53,094** | 23,346 |
| Pledged deposits | **76,086** | 182,502 | **76,086** | 182,502 |
| Short term deposit | **111,670** | 112,441 | **111,670** | 112,441 |
| Cash and cash equivalents | **202,243** | 836,883 | **202,243** | 836,883 |
| | **1,140,487** | 1,995,179 | **1,140,487** | 1,995,179 |
| **Financial liabilities** | | | | |
| Trade and bills payables | **580,809** | 597,838 | **580,809** | 597,838 |
| Due to related companies | **7,965** | 6,537 | **7,965** | 6,537 |
| Interest-bearing bank borrowings | **180,000** | 289,998 | **180,000** | 289,998 |
| Financial liabilities included in other payables and accruals | **29,364** | 46,278 | **29,364** | 46,278 |
| | **798,138** | 940,651 | **798,138** | 940,651 |

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, pledged deposits, short term deposit, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in deposits received, other payables and accruals, amounts due from/ to related companies, interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

## 27. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

### Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

## 28. EVENTS AFTER THE REPORTING PERIOD

### Acquisition of shares in eSOON

On August 22, 2011, China eSOON Limited, which is owned as to 16.6% by the Company, entered into a sale and purchase agreement in relation to, among others, the acquisition of the entire shareholding in eSOON Holdings Corp., a company incorporated in the British Virgin Islands and certain other assets for a total consideration of US$24 million subject to conditions which were fulfilled on August 22, 2011.

### Change of chief executive officer and appointment of executive directors

With effect from August 24, 2011, Mr. Liao Jie was appointed as an executive director and chief executive officer of the Company to succeed Mr. Jiang Hailin who remains as an executive director and chairman of the board of the Company. Further, with effect from August 24, 2011, Mr. Lv Xilin was appointed as an executive director of the Company.

## 29. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on August 24, 2011.