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 Annual Report

Contents

China ITS (Holdings) Co., Ltd.
2011 Annual Report

Corporate Information

Board of Directors

Executive Directors

Mr. Jiang Hailin *(Chairman)*
Mr. Liao Jie *(Chief Executive Officer)*
(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 *(FCCA, HKICPA)*
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 *(Chairman)* *(FCCA, HKICPA)*
Mr. Zhou Chunsheng
Mr. Sun Lu

Remuneration Committee

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

Nomination Committee

Mr. Zhou Chunsheng *(Chairman)*
Mr. Choi Onward *(FCCA, HKICPA)*
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, 18th Floor
West Tower, World Financial Centre
No. 1 East 3rd Ring Road Middle
Chaoyang District
Beijing 100020, China

Principal Place of Business in Hong Kong

Unit 2209, 22nd Floor
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

Corporate Information

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

Auditor

Ernst & Young
Certified Public Accountants
22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central

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

Guangdong Development Bank Co., Ltd.
Beijing Branch
Bank of Communications Co., Ltd., Beijing
Zhongguancun Yuanqu sub-branch
China Merchants Bank Co., Ltd. Beijing Branch
Beisanhuan sub-branch
Industrial and Commercial Bank of China Co., Ltd.
Beijing Branch, Fengtai sub-branch
China Bohai Bank Co., Ltd. Beijing Branch
China Everbright Bank Co., Ltd.
Beijing Branch Xicheng sub-branch

Corporate Information

List of key subsidiaries and jointly-controlled entities

"Aproud Technology"	Beijing Aproud Technology Co., Ltd. (北京亞邦偉業技術有限公司)
"Bailian Zhida"	Beijing Bailian Zhida Technology Development Co., Ltd. (北京百聯智達科技發展有限公司)
"Beijing Aproud Information"	Beijing Aproud Information Engineering Co., Ltd. (北京亞邦偉業信息工程有限公司)
"Beijing Huading Hengye"	Beijing Huading Hengye Technology Co., Ltd. (北京华鼎恒業技術有限公司)
"Beijing Newcom"	Beijing Newcom Technology Co., Ltd. (北京航天智通科技有限公司)
"Beijing Newcom Traffic"	Beijing Newcom Traffic Technology Co., Ltd. (北京航天智通交通科技有限公司)
"Beijing Xiyou"	Beijing Xiyou Communication Technology Co., Ltd. (北京西郵通信技術有限公司)
"Beijing Wuzhouzhitong"	Beijing Wuzhouzhitong Traffic Technology Co., Ltd. (北京五洲智通交通科技有限公司)
"Chengdu Zhida Weilute"	Chengdu Zhida Weilute Technology Co., Ltd. (成都智達威路特科技有限公司)
"Guangzhou Communication"	Guangzhou Communication Information Co., Ltd. (廣州交通信息化建設投資營運有限公司)
"Guangzhou Taizheng"	Guangzhou Taizheng Technology Co., Ltd. (廣州泰正科技有限公司)
"Guangdong Xincheng"	Guangdong Yabang Xincheng Communication Technology Co., Ltd. (廣東亞邦鑫程交通技術有限公司)
"Haotian Jiajie"	Beijing Haotian Jiajie Technology Co., Ltd. (北京昊天佳捷科技有限公司)

Corporate Information

"Hexin Risheng"	Beijing Hexin Risheng Technology Co., Ltd. (北京和信日晟科技有限公司)
"Nanjing Communication"	Nanjing Communication Information Co., Ltd. (南京智慧交通信息有限公司)
"Jiangsu Yijie"	Jiangsu Yijie Technology Co., Ltd. (江蘇易捷科技有限公司)
"Jiangsu Zhixun Tiancheng"	Jiangsu Zhixun Tiancheng Technology Co., Ltd. (江蘇智訊天成技術有限公司)
"Jiangsu Zhongzhi Transportation"	Jiangsu Zhongzhi Transportation Technology Co., Ltd. (江蘇中智交通科技有限公司)
"RHY Technology"	Beijing RHY Technology Development Co., Ltd. (北京瑞華贏科技發展有限公司)
"Shandong Yigou"	Shandong Yigou Software Technology Co., Ltd. (山東易構軟件技術有限公司)
"Tianjin Communication"	Tianjin Communication Information Co., Ltd. (天津航天智通交通信息投資營運有限公司)
"Wuhan Chenguang"	Wuhan Chenguang Transportation Technology Development Co., Ltd. (武漢辰光交通科技發展有限公司)
"Xi'an Communication"	Xi'an Communication Information Co., Ltd. (西安交通信息投資營運有限公司)
"Xi'an Youke"	Xi'an Youke Information Technology Co., Ltd. (西安郵科信息技術有限公司)
"Xinjiang RHY"	Xinjiang RHY Technology Co., Ltd. (新疆瑞華贏機電系統技術有限公司)
"Xinjiang Delida"	Xinjiang Delida Information Technology Co., Ltd. (新疆得利達信息技術有限公司)
"Zhixun Tiancheng"	Beijing Zhixun Tiancheng Technology Co., Ltd. (北京智訊天成技術有限公司)

Financial Highlights

- New contracts signed and orders secured decreased by approximately 19.9% to approximately RMB1,900.1 million

- Backlog as at December 31, 2011 increased by approximately 21.7% to approximately RMB1,593.5 million

- Revenue decreased by approximately 14.9% to RMB1,585.2 million

- Gross profit decreased by approximately 33.3% to RMB392.4 million

- Gross profit margin decreased from prior year to approximately 24.8%

- Profit for the year decreased by approximately 61.6% to RMB112.9 million

- Earnings per share* was RMB0.07 per share

* Earnings per share refers to profit for the year attributable to owners of the parent divided by weighted average number of shares in issue, during the year ended December 31, 2011.

Financial Summary

A summary of backlog information, financial performance, financial position and financial ratios of China ITS (Holdings) Co., Ltd. (the "**Company**" or "**CIC**") and its subsidiaries (together with the Company, the "**Group**", "**we**" or "**us**") over the last five financial years, as extracted from published audited financial statements, is set out below:

1. Backlog information

	Year ended December 31				
RMB'000	**2011**	**2010**	**2009**	**2008**	**2007**
New contracts signed and orders secured	**1,900,051**	2,371,933	1,686,347	1,227,704	1,066,457

	As at December 31				
RMB'000	**2011**	**2010**	**2009**	**2008**	**2007**
Backlog	**1,593,531**	1,309,194	917,486	681,858	621,409

2. Financial performance

	Year ended December 31				
RMB'000	**2011**	**2010**	**2009**	**2008**	**2007**
Revenue	**1,585,206**	1,862,184	1,405,447	1,126,930	694,143
Gross profit	**392,392**	587,942	401,061	290,295	225,712
Profit attributable to owners of parent	**112,919**	294,009	214,672	91,286	113,190

3. Financial position

	As at December 31				
RMB'000	**2011**	**2010**	**2009**	**2008**	**2007**
Total assets	**3,941,739**	3,733,896	2,017,415	1,570,741	1,059,813
Net assets	**2,272,700**	2,111,407	953,159	670,466	400,692
Net cash position[1]	**135,491**	659,326	7,023	69,473	36,395

Notes:

(1) Net cash position refers to cash and cash equivalents *plus* short term deposit *minus* interest-bearing bank borrowings.

(2) Details of the above financial information are set out in Management Discussion and Analysis section on page 15 to page 28.

4. Financial ratios

	For the year ended/As at December 31				
	2011	**2010**	**2009**	**2008**	**2007**
Sales cycle ratios:					
Trade receivables turnover Days (days)(1)	**185**	122	86	58	40
Net construction contract turnover days (days)(2)	**63**	64	120	133	149
Combined trade receivables and net construction contract turnover days (days)	**248**	186	206	191	189
Other ratios:					
Trade payables turnover Days (days)(3)	**194**	156	164	128	118
Current ratio (times)(4)	**1.9**	2.1	1.6	1.4	1.2
Gearing ratio (%)(5)	**-12.4%**	-39.6%	-18.5%	-17.6%	-7.9%
Return on assets (%)(6)	**2.9%**	7.9%	10.6%	5.8%	10.7%
Return on equity (%)(7)	**5.0%**	13.9%	22.5%	13.6%	28.2%

Notes:

(1) Trade receivables turnover days refers to average trade receivables *divided* by revenue *multiples* 365 days.

(2) Net construction contract turnover days refers to average net construction contract *divided* by revenue *multiples* 365 days.

(3) Trade payables turnover days refers to average trade payables *divided* by cost of sales *multiples* 365 days.

(4) Current ratio refers to current assets *divided* by current liabilities.

(5) 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.

(6) Return on assets refers to profit attributable to owners of parent *divided* by total assets as at balance sheet date.

(7) Return on equity refers to profit attributable to owners of parent *divided* by total equity as at balance sheet date.

(8) Details of the above financial information are set out in Management Discussion and Analysis section on page 15 to page 28.

Chairman's Statement

Business Overview

China's transportation industry faced unprecedented challenges including tightened budgets, construction slowdown and capital shortage in the year of 2011. Since the new contracts and construction progress were affected by the exceptional changes of the industry, the revenue of the Group was RMB1,585.2 million, representing a decrease of 14.9% as compared to RMB1,862.2 million in 2010. New contracts signed and orders secured in 2011 amounted to RMB1,900.1 million, representing a decrease of 19.9% as compared with 2010. Backlog as at the end of 2011 was RMB1,593.5 million, representing an increase of 21.7% as compared with 2010.

The Group was inevitably affected by the exceptional fluctuation of the industry. However, the Group has strived to demonstrate the commitments to all shareholders by seeking opportunities in the challenging market upon the listing. On one hand, the Group explored new business channels including "Smart City" through mergers and acquisitions and internal business restructuring respectively. On the other hand, the Group streamlined the internal management structure and improved the efficiency of mid/back ends. With the continuous dedication, the Group has developed a more diversified and healthier income source in 2011 which is the first full financial year since its listing, and is well prepared for its future development.

In August 2011, Mr. Liao Jie was appointed as the chief executive officer of the Company (the "**Chief Executive Officer**"). Being a leader with extensive experience in business operation, organisation management as well as strategic investment, Mr. Liao Jie led the Group to conduct a number of mergers and acquisitions and reorganisations to overcome challenges, grasp opportunities and maximise values for shareholders. During the process, the Group further emphasises the corporate value of "integrity, professionalism, innovation and people".

In 2011, in addition to the three major business sectors of the Group, namely the Expressway, Railway (including urban rapid transit) and Urban Traffic sectors, the Group expanded the business scope to the fourth business sector, Smart City, and has been actively preparing for other new business sectors.

(i) Expressway (the "Expressway")

In 2011, the Expressway sector recorded a revenue of RMB881.3 million, representing a decrease of 16.2% as compared to 1,051.8 million in 2010. This was primarily due to the delay of government expenditures in fixed assets and the postponement of certain projects, resulting from the slowdown of macro-economic growth and the tightening of liquidity. In addition, in 2011, being the first year of the "12th Five-Year Plan" most governmental departments were still in the process of preparing financial budgets and investment was reported to be made at a later stage. In view of these, the Group has actively explored new opportunities with customers. To improve customers' satisfaction, the Group has launched various new products and upgraded existing equipments. Furthermore, the Group has strived to develop overseas markets, including the successful tender for the highway monitoring system for Tolo Harbour, Hong Kong.

In 2011, the major projects of our Expressway sector included Hebei Lang-Cang (Langfang – Cangzhou) Expressway, Hubei Da-Guang South (Daqing – Guangzhou) Expressway, Jilin Ji-Cao (Jilin – Caoshi) Expressway etc. In 2011, the new contracts signed and orders secured of the Expressway sector amounted to RMB924.5 million, representing a decrease of 30.1% as compared with last year. As at the end of 2011, backlog of the Expressway sector was RMB586.0 million, representing a decrease of 2.4% as compared with last year.

(ii) Railway (including urban rapid transit) (the "Railway")

The revenue of the Railway sector (including urban rapid transit) in 2011 amounted to RMB520.0 million, representing a decrease of 29.6% as compared to RMB738.5 million in 2010. The railway industry was adversely affected by a series of incidents in 2011, including the replacement of senior officers of the Ministry of Railways ("**MOR**") in early 2011, the deadly crash of two trains in Wenzhou on 23 July 2011, the signal failure of Shanghai Metro Line 10, the capital shortage and the postponement in issuance of long-term debentures of the MOR. After these serious incidents, the MOR slowed down speed of trains, announced a thorough review of the safety of the railway system, postponed approvals of new high-speed rail lines, as well as revisited the overall capital investment plan in infrastructure. The tendering and construction of railways completely stopped in the second half of 2011. These were the major reasons for the decrease of revenue in 2011. Under such circumstances, the Group targeted at local railway bureaus and actively seized opportunities to generate revenue from VAOS and made breakthroughs in sales of new products under the Railway sector. The Group believes that the new attempts and development in new businesses will continue to contribute to the growth of the Group, and enable the Group to develop a more diversified and healthier income sources. New orders mainly include railway electrification and acceleration, improvement of freight railway and upgrade of application software. In addition, the Group endeavoured to explore overseas markets. The Group established a joint venture with GTECH Services (Hong Kong) Limited to bid for the wireless communication system project for Hong Kong-Shenzhen Express Rail Link.

In 2011, major projects of the Railway sector included Anhui He-Beng (Hefei — Bengbu) Passenger Railway Fujian Long-Xia (Longyan — Xiamen) Railway Tai-Zhong-Yin (Taiyuan — Zhongwei — Yinchuan) Railway GSM-R Network Project across Shanxi and Gansu, Beijing-Shanghai High Speed Railway, etc. New contracts signed and orders secured in 2011 amounted to RMB586.2 million, representing a decrease of 36.0% as compared with last year. As at the end of 2011, backlog amount was RMB702.2 million, representing a moderate increase of 10.4% as compared with last year.

(iii) Urban Traffic (the "Urban Traffic")

In the Urban Traffic sector, we realised revenue of RMB172.2 million in 2011, representing an increase of 384.2% as compared to RMB36.0 million in 2010. The main reason was that the Group has put in significant efforts in the Urban Traffic sector in 2011. Through the acquisition of CTH[1] and the reorganisation of Bailian Zhida, the Group further improved the business structure and product portfolio of the Urban Traffic sector to strengthen the existing turnkey solutions (the "**TS**"), specialised solutions (the "**SS**") and expand new value-added operation and service (the "**VAOS**").

Notes:

1 CTH: China Traffic Holding Limited

Major projects of the Urban Traffic sector in 2011 include the Wuhan Traffic Guidance Project, Universiade Shenzhen 2011 Project, Guangzhou Driving School Project and International Horticultural Exposition 2011 Xilan China Project. As the Group continued to put additional efforts in this sector, new contracts signed and orders secured in 2011 amounted to RMB343.4 million, representing an increase of 304.2% as compared with last year. As at the end of 2011, backlog was RMB295.6 million, representing a huge increase of 325.2% as compared with last year.

(iv) Smart City (the "Smart City")

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

As a new business sector of the Group in 2011, the Smart City sector integrated resources of the existing Urban Traffic sector and further expanded the business scope by providing one-stop-shop solutions to municipal governments. The Group established a strategic cooperation with Zhongguancun Development Group to prepare for the further development of the Smart City sector. The penetration of Smart City sector will increase the revenue of the Group by expanding the coverage of the products and services. In 2011, the Group completed five experimental Smart City projects in Northeast China.

In addition to the actively developing of existing businesses, the Group has enhanced the profitability and risk resistance capability in 2011 through mergers and acquisitions in order to maintain a stable and sustainable development. The major mergers and acquisitions carried out were as follows:

(i) In January 2011, the Group acquired 29% additional equity in Xinjiang RHY, and owned 80% equity. The acquisition further strengthened the expressway business of the Group and generated more recurring revenue.

(ii) In August 2011, the Group acquired 100% equity in CTH. This was the largest acquisition of the Group since the incorporation with a consideration of approximately RMB244 million. The acquisition was a strategic milestone of the long-term development of the Group, which enabled the Group to expand into the intelligent public transportation system market and increase overall market shares in the urban intelligent transportation systems (the "**ITS**") industry. The leading position of the Group in major regional markets such as Guangzhou, Xi'an and Nanjing has been reassured. The Group has planned to replicate this successful business model to other cities and strengthen the services and operations in those cities. As a result, the Group can benefit from diversified businesses and recurring income, which will eventually enhance the quality of income sources and the stability of cash flow in post-construction period.

(iii) In August 2011, the Group entered into an agreement to acquire 16.6% of equity in eSOON[2], which has both strategic and financial contributions to the Group. From a strategic perspective, the Group is expected to expand the products and services horizontally and enter into call center solutions market in the transportation industry. From a financial perspective, the Group is expected to benefit from the stable cash flow and profitability of the call center solution sales generated by eSoon.

On January 18, 2012, the Company granted share options to 191 grantees, which includes certain directors, chief executive, substantial shareholders and employees of the Company to subscribe for an aggregate of 155,000,000 shares of the Company (the "**Shares**"). The share options granted are vested in different tranches with different target price for each respective tranche ranging from HKD2.5 to HKD3.5. This reflects the management's confidence in the operation and future development of the Company.

Business Prospects

(i) Expressway

During the period of the "12th Five-Year Plan", it is expected that the expressway network in the PRC will be further expanded, with an increase in coverage and accessibility of expressway network and overall improvement of the national, provincial and rural transportation networks. Furthermore, it is expected that the construction of national expressway network of the PRC will be completed during the period of the "12th Five-Year Plan". The national expressway network will comprise of 7 radial expressways, 9 vertical expressways and 18 horizontal expressways. With a total length of 108,000 km, the network covers over 90% of the cities with a population of over 200,000 people. In particular, the central and western region will be the major development area. Besides, the reconstruction of provincial expressways will be further enhanced. The proportion of level-two and above national highway to the total length will exceed 70%, achieving the basic condition of standardised cross-county highways. During the period of the "12th Five-Year Plan", the Group anticipates that the performance of the Expressway sector will increase steadily by maximising our market share in the Expressway sector of central and western region as well as our leading position in tunnel solutions.

(ii) Railway (including urban rapid transit)

According to Medium and Long Term Railway Network Plan of the MOR, the railway network in the PRC will expand from 100,000 km to over 120,000 km by the end of 2020. New construction of railways, extension of existing railways and railway electrification projects will be the major focus. Pursuant to the "12th Five-Year Plan", four vertical and four horizontal passenger railway lines will be constructed. Combining with inter-city railways and inter-region railways, the high-speed railway network will have operation length of 45,000 km, covering cities with population over 500,000. According to the Investment Research Institute of National Development and Reform Commission, the investment in railways will amount to RMB3 trillion during the period of the "12th Five-Year Plan". In short, the growth of railway infrastructure investment in the PRC will be slowing down. However, due to the large demand of railway

Notes:

2 eSOON: eSOON Holdings Corp.

transportation in the PRC, the railway construction is expected to grow steadily in the next few years. In addition, along with the completion of large scale railway constructions, the demand for maintenance and improvement of existing railways is expected to increase. In view of this, the Group anticipates that the shrunken business of railway will experience a rebound in one to two years with the support of the local railway bureaus during the "12th Five-Year Plan" period.[3]

(iii) Urban Traffic

According to the "12th Five-Year Plan" in relation to urban traffic, the PRC Government plans to build up transportation networks in Beijing, Shanghai, Guangzhou and Shenzhen. In addition, main urban traffic routes will be constructed in Tianjin, Chongqing, Shenyang, Changchun, Wuhan, Xi'an, Hangzhou, Fuzhou, Jinan and Urumqi. The Ministry of Housing and Urban-Rural Development anticipates that the investment in urban traffic construction will exceed RMB700 billion during the period of the "12th Five-Year Plan", which is the third largest investment in transportation system after expressway and railway. As a result, the Group anticipates that the growth of the Urban Traffic sector will exceed the growth of Expressway sector during the period of the "12th Five-Year Plan".

(iv) Smart City

Pursuant to the Development Plan for Science and Technology of 12th Five-Year Plan issued in July 2011, the development of smart city will be prioritised. The press conference for the release of China Smart City (Town) Sustainability Index held in August 2011 in Beijing proposed to evaluate the city development with the indices of happiness, management and social responsibility. In the "12th Five-Year Plan", the development of smart city is an important measure to urbanisation, production of the city and innovation for lifestyle and management.

The Group is well-prepared for the further development of this sector.

In addition to the four major sectors, the Group will strategically expand business into other traffic sectors and carry out reorganisation for other traffic related major business sectors in 2012.

Looking forward, construction of national high speed railway, expressway and urban traffic network are the major development goals of the "12th Five-Year Plan". Moreover, the population density is high in the PRC, yet the transportation system severely lags behind those of developed countries. As such, the current tightening policy is deemed temporary and there is ample room for development in the near future. In one or two years, the growth is expected to rebound from the tightened situation in 2011.

In 2012, the Group will focus on strengthening the existing business sectors, expanding overseas markets, establishing a diversified and stable business platform, proactively seeking opportunities for merger and acquisition, integrating mid/back ends of all sectors, reducing operating costs, and keep improving and

Notes:

3 Source: outline of the 12th Five-Year (2011–2015) Plan for National Economic and Social Development

implementing staff incentive systems. In the future, the Group will strive to become an enterprise with responsibility, capability and exceptional culture. Leveraging on the strong synergy effects of the three major business sectors, the Group will switch from business/product-oriented to industry/customer-oriented, expand to various intelligent transport fields, formulate long-term development plans and continue to make investments in order to become a leading player in the industry. The Group aims at delivering solutions which enhance safety, efficiency, convenience and sustainability of the transportation industry.

I would like to take this opportunity to express my deep gratitude to the members of the board, the management team and the entire staff for their hard work over the last year. Finally, I would also like to thank our customers, suppliers and business partners for their continued support and confidence in the Group. I am confident to say that we are well-prepared to continue creating even greater value to our shareholders in the foreseeable future.

JIANG HAILIN
Chairman

Beijing, 28 March 2012

Management Discussion & Analysis

Revenue

By industry sectors

The Group's revenue for the year ended December 31, 2011 decreased by 14.9% to RMB1,585.2 million as compared to RMB1,862.2 million for the year ended December 31, 2010. The overall decrease in revenue was caused by a 16.2% decrease in Expressway sector, a 29.6% decrease in Railway sector (including urban rapid transit), a 30.8% decrease in Energy sector and partially offset by a 384.2% increase in Urban Traffic sector. The following table sets out the revenue breakdown by industry sectors:

Revenue by industry sectors	Year ended December 31	
RMB'000	2011	2010
Expressway	881,306	1,051,750
Railway (including urban rapid transit)	519,999	738,526
Urban traffic	172,194	35,559
Energy	39,282	56,769
Elimination	(27,575)	(20,420)
Total	1,585,206	1,862,184

(i) Expressway

Revenue from the Expressway sector in the year ended December 31, 2011 was RMB881.3 million, representing a decrease of RMB170.5 million as compared with RMB1,051.8 million for the year ended December 31, 2010. 2011 was a challenging year for all the infrastructure companies in the PRC due to cautious macroeconomic policies and the tight liquidity environment. The local expressway bureaus tightened capital expenditure and postponed some of the constructing projects. As a result, recognised revenue recorded less than the prior year. Furthermore, 2011 was the first year of 12th Five-Year Plan, so the local expressway bureaus focus on planning under the Central Government guideline and did not exercise full speed on the execution. The Group believes the expressway construction will continue to grow under the 12th Five-Year Plan in the coming years. The new contracts signed and orders secured in the year ended December 31, 2011 was RMB924.5 million and the backlog amount as at December 31, 2011 was RMB586.0 million for the Expressway sector.

(ii) Railway (including urban rapid transit)

Revenue from the Railway (including urban rapid transit) sector in the year ended December 31, 2011 was RMB520.0 million, representing a decrease of RMB218.5 million as compared with RMB738.5 million for the year ended December 31, 2010. After the Wenzhou train collision and Shanghai Metro Line 10 signal accident, the MOR and local government postponed the constructions of railway and urban rapid transit. Therefore, both the new contract value and revenue recognised from railway and urban rapid transit of the Group declined in 2011 as compared with 2010. Even in such a challenging year, the Group continued to search for opportunities to provide innovative products such as VAOS for each industry sector. It was the first year for the Group to record RMB18.3 million in VAOS revenue in the Railway sector and the management believed this will continue to bring positive effect to the Group despite the unfavorable macroeconomic environment. The new contracts signed and orders secured in the year ended December 31, 2011 was RMB586.2 million and the backlog amount as at December 31, 2011 was RMB702.2 million for the Railway (including urban rapid transit) sector.

(iii) Urban Traffic

Revenue from the Urban Traffic sector in the year ended December 31, 2011 was RMB172.2 million, representing a massive increase of RMB136.6 million as compared to RMB35.6 million for the year ended December 31, 2010. The increase was due to successful business expansion strategy implemented by the management team. Through a strategic acquisition of CTH, our Urban Traffic business had been diversified from pure specialised surveillance solutions to comprehensive solutions such as the integrated solution for multiple transportation networks of modern cities in the PRC. Our jointly-controlled entity, Guangzhou Communication Information Co., Ltd. ("**GCI**") had generated significant revenue streams under the cooperation with Guangzhou Transportation Group. Please refer to the investment income section for more details. The management believes that the new businesses such as urban traffic projects will continue to bring impressive revenue growth in the coming years. The new contracts signed and orders secured in the year ended December 31, 2011 was RMB343.4 million and the backlog amount as at December 31, 2011 was RMB295.6 million for the Urban Traffic sector.

(iv) Energy

Revenue generated from the Energy sector decreased by RMB17.5 million, or 30.8% in the year ended December 31, 2011. As the Energy sector is in a mature stage and is no longer a key focus of the Group, the management has directed more attention to the transportation sectors, such as Expressway, Railway (including urban rapid transit) and Urban Traffic, which are expected to provide higher growth for the Group. The new contracts signed and orders secured in the year ended December 31, 2011 was RMB45.8 million and the backlog amount as at December 31, 2011 was RMB9.7 million for the Energy sector.

Business seasonality and major projects

The Group's business is correlated with the Central Government's macroeconomic policies on infrastructure investment and has unique seasonal characteristics. Generally, most of the construction projects undergo a bidding stage and implementations begin in the first half of a year. Therefore, the new contracts are confirmed in the first half and revenue is recognised in the second half. This resulted in a higher backlog amount as at June 30 when comparing with the balance at year end. The business pattern remained unchanged in 2011 and the backlog were approximately RMB1,593.5 million and RMB1,852.8 million as at December 31, 2011 and June 30, 2011 respectively.

During this year, the Group had implemented more than 1,176 projects in varied sizes, covering most of the regions in the PRC. The following table sets out the major projects generating revenue in each industry sector:

Industry sector	Project name
Expressway	Lang-Cang (Langfang — Cangzhou) Expressway
	Da-Guang South (Dalian — Guangzhou) Expressway in Hubei province
	Ji-cao (Jilin — Caoshi) Expressway
Railway	He-Beng (Hefei — Bengbu) Railway Dedicated Passenger Line
	Long-Xia (Longyan — Xiamen) Railway
	Tai-Zhong-Yin (Taiyuan — Zhongwei — Yinchuan) Railway G Network Project
Urban	Wuhan Traffic Guidance Project
	Universiade Shenzhen 2011 Project
	Guangzhou Driving School Project
	International Horticultural Exposition 2011 Xi'an China Project
Energy	Henan Electricity Agriculture Network Transformation Project

By segments

The revenue for the year ended December 31 2011 represented a 8.3% decrease in the TS business, a 19.4% decrease in the SS business, and partially offset by a 78.9% increase in the VAOS business. The following table sets out the revenue breakdown by segments:

Revenue by segments	Year ended December 31	
RMB'000	2011	2010
TS	630,555	687,890
SS	946,350	1,174,655
VAOS	35,876	20,059
Elimination	(27,575)	(20,420)
Total	1,585,206	1,862,184

(i) TS

Revenue from the TS segment for the year ended December 31, 2011 was RMB630.6 million, a decrease of RMB57.3 million, or 8.3%, as compared to RMB687.9 million for the year ended December 31, 2010.

The TS as a whole accounted for 39.7% of the Group's revenue in the year ended December 31, 2011, which is greater than 36.9% as recorded for the year ended December 31,2010. This increase was because the revenue of SS decreased more than TS during the two periods.

(ii) SS

Revenue from the SS segment in the year ended December 31, 2011 was RMB946.4 million, a decrease of RMB228.3 million, or 19.4%, as compared with RMB1,174.7 million for the year ended December 31, 2010.

The SS segment as a whole accounted for 58.0% of the Group's revenue in the year ended December 31, 2011, which is less than 62.0% as recorded for the year ended December 31, 2010.

(iii) VAOS

Revenue from the VAOS segment in the year ended December 31, 2011 was RMB35.9 million, an increase of RMB15.8 million as compared with RMB20.1 million for the year ended December 31, 2010. It reflects gradual business transformations of the Group from a single, project-based model to a model with stable, recurring revenue.

The VAOS segment as a whole accounted for 2.3% of the Group's revenue in the year ended December 31, 2011, which is greater than 1.1% as recorded for the year ended December 31 2010.

Cost of sales

Cost of sales was incurred on a project-by-project basis for individual legal entities and was subsequently aggregated at segmental and corporate level. The cost of sales was based on the equipment and other direct project costs incurred for completion of each of the relevant contracts. The cost of sales constituted 75.2% of the Group's revenue in the year ended December 31, 2011, which represented an increase of 6.8% as compared to the corresponding period in 2010.

By industry sectors

Cost of sales by industry sectors	Year ended December 31	
RMB'000	2011	2010
Expressway	681,147	761,151
Railway (including urban rapid transit)	397,838	473,116
Urban Traffic	112,913	21,828
Energy	28,491	38,567
Elimination	(27,575)	(20,420)
Total	1,192,814	1,274,242
% of Revenue	75.2%	68.4%

(i) Expressway

The cost of sales of the Expressway sector decreased by RMB80.0 million to RMB681.1 million in the year ended December 31, 2011 as compared to RMB761.2 million for the year ended December 31, 2010.

(ii) Railway (including urban rapid transit)

The cost of sales of the Railway sector (including urban rapid transit) decreased by RMB75.3 million to RMB397.8 million in the year ended December 31, 2011 as compared to RMB473.1 million for the year ended December 31, 2010.

(iii) Urban traffic

The cost of sales of the Urban Traffic sector increased by RMB91.1 million to RMB112.9 million in the year ended December 31, 2011 as compared to RMB21.8 million for the year ended December 31, 2010.

(iv) Energy

The cost of sales of the Energy sector decreased by RMB10.1 million to RMB28.5 millon in the year ended December 31, 2011 as compared to RMB38.6 million for the year ended December 31, 2010.

Management Discussion & Analysis

By segments

Cost of sales by segments RMB'000	Year ended December 31 2011	2010
TS	**531,801**	553,962
SS	**671,915**	731,800
VAOS	**16,673**	8,900
Elimination	**(27,575)**	(20,420)
Total	**1,192,814**	1,274,242
% of Revenue	**75.2%**	68.4%

(i) TS

The cost of sales incurred for TS constituted 44.6% of the Group's cost of sales in the year ended December 31, 2011, which remained at a similar level as compared with 2010, reflecting the stable contribution of TS to the Group's business.

(ii) SS

The cost of sales incurred for SS constituted 54.0% of the Group's cost of sales in the year ended December 31, 2011, which is slightly less as compared with 2010.

(iii) VAOS

The cost of sales incurred for VAOS constituted 1.4% of the Group's cost of sales in the year ended December 31, 2011, which is greater as compared to the corresponding period in 2010, reflecting the rising contribution of VAOS to the Group's sales in the year ended December 31, 2011.

Gross Profit

Overall gross profit of the Group decreased from RMB587.9 million for the year ended December 31, 2010 to RMB392.4 million in the year ended December 31, 2011. Gross profit margin has decreased from 31.6% for the year ended December 31, 2010 to 24.8% in the year ended December 31, 2011

By industry sectors

Gross profit by industry sectors	Year ended December 31	
RMB'000	2011	2010
Expressway	200,159	290,599
Margin %	*22.6%*	*27.6%*
Railway (including urban rapid transit)	122,160	265,410
Margin %	*23.5%*	*35.9%*
Urban traffic	59,282	13,731
Margin %	*34.4%*	*38.6%*
Energy	10,791	18,202
Margin %	*27.5%*	*32.1%*
Total	392,392	587,942
Overall Margin %	*24.8%*	*31.6%*

(i) Expressway

The gross profit margin of Expressway sector decreased by 5.0% to 22.6% in the year ended December 31, 2011 as compared to 27.6% for the year ended December 31, 2010. The decline was mainly because of the application of marketing strategy in some regions such as northeast, southwest, and southeast of the PRC. As there are some key customers in such regions and the Group has foreseen significant opportunities in the aforesaid expressway market, the management team decided to apply more aggressive and competitive pricing strategy as well as bundling sales of traditional specialised solutions with new products e.g. high resolution surveillance solutions in some large size projects. The management believes the strategy adopted in these markets will bring higher growth of new contracts in the coming years.

(ii) Railway (including urban rapid transit)

The gross profit margin of the Railway sector decreased by 12.4% to 23.5% in the year ended December 31, 2011 as compared to 35.9% for the year ended December 31, 2010. The decline is because of the Group's flexible sales strategy in 2011 in facing the significant economic events. There was massive investment in railway during 2008 to 2010 till the "7-23" Wenzhou train collision accident. The MOR turned cautious in capital expenditure and mainly focused on the safety of railway network construction under the Central Government's guidance. Although the Group was in such unfavourable macroeconomic environment, the management team had made remarkable breakthrough in the following products or services: a) new products in power supply and air conditioning services; b) new surveillance products to improve safety of railway; c) providing VAOS in existing railway lines. As the aforesaid new products and services are not as mature as the traditional communication products in the railway industry, the Group has applied a bundle sales strategy in breaking through the market, which resulted in the marginal decline as compared with prior year. With the recovery of the infrastructure investment by the Central Government in the foreseeable future, management believes the new contract value and revenue in the Railway sector will continue to grow in the coming years.

(iii) Urban traffic

The gross profit margin of the Urban Traffic sector slightly decreased from 38.6% for the year ended December 31, 2010 to 34.4% in the year ended December 31, 2011. The primary reason for the decrease is that the acquisition of CTH brought to the Group the higher contract value solutions such as the urban intelligent transportation information platform with slight lower margin as compared to traditional surveillance products. With the unremitting effort in developing new market opportunities, management team believes that the Urban Traffic sector will contribute sustainable profit in the coming years.

(iv) Energy

The gross profit margin of the Energy sector decreased from 32.1% in the year ended December 31, 2010 to 27.5% for the year ended December 31, 2011 due to the mature stage of this business sector, which is no longer a major industry sector for the Group. In the coming years, the Group will direct more attention to the transportation sectors and mainly focus on the quality of profit generated from Energy sector. The management team will pursue the opportunity to reorganise the business in appropriate manners.

By segments

Gross profit by segments	Year ended December 31	
RMB'000	2011	2010
TS	**98,754**	133,928
Margin %	***15.7%***	*19.5%*
SS	**274,435**	442,855
Margin %	***29.0%***	*37.7%*
VAOS	**19,203**	11,159
Margin %	***53.5%***	*55.6%*
Total	**392,392**	587,942
Overall Margin %	***24.8%***	*31.6%*

(i) TS

Gross profit margin for TS decreased by 3.8% to 15.7% in the year ended December 31, 2011 as compared with 19.5% for the year ended December 31, 2010. However, the margin of the TS business is still within our normal margin variations range. This means overall margin in this business segment will vary year to year, within this range, based on the project mix.

(ii) SS

Gross profit margin for SS decreased by 8.7% to 29.0% in the year ended December 31, 2011, as compared to 37.7% for the year ended December 31, 2010. This is due to the decrease in both the Expressway and Railway sectors. Reasons of which has been analysed in industry sector section.

(iii) VAOS

Gross profit margin for VAOS decreased from 55.6% for the year ended December 31, 2010 to 53.5% in the year ended December 31, 2011.

Other Income and Gains

Other income and gains arise from rental income, the fair value changes on investment properties, government grants and exchange gains and so on. Rental income was accounted for on a straight-line basis over the lease terms and the fair value changes on investment properties was accounted based on property valuations. The increase in other income and gains was due to changes in property usage as the Group had moved to a new office in March 2010 and leased out the entire self-owned office premise starting from April 2010, which contributed both the fair value gains in the investment properties and the rental income for the year ended December 31, 2011.

Selling, General and Administration Expenses

In the year ended December 31, 2011, selling, general and administration expenses (the "**SG&A**") as a percentage of sales increased by 6.6% to 17.9% as compared to the year ended December 31, 2010, which was mainly due to the significant increase of headcounts for developing new business such as urban traffic and smart city.

The staff costs remained a large component of the Group's SG&A while travelling, entertainment and business expansion expenses and office supplies expenses are highly correlated with the headcount numbers. Therefore the total amount of the aforesaid expenses (the "**Headcount Related Cost**") contributed the largest portion of the Group's SG&A. The Headcount Related Cost increased from RMB134.7 million in year ended December 31, 2010 to RMB189.3 million in year ended December 31, 2011, representing a 40.5% increase and contributed 66.8% of total SG&A in year ended December 31, 2011. This fluctuation was mainly due to general headcount increase for the business expansions in new industry and new products. As mentioned in the revenue section, the Group has put more and more efforts in developing new business opportunities through the following ways: a) hiring talent people b) adjusting salary rates in order to retain valuable employees c) incurred more marketing expenses in the new markets. Management believes the expenditure in human resources will bring corresponding profits in the coming future.

The rental expense increased from RMB16.9 million for the year ended December 31, 2010 to RMB20.2 million in the year ended December 31, 2011 due to the higher rental cost of the Group's new centralised office in Beijing. Subsequent to the Group's relocation to the new office in April of 2010, the impact of the higher rent was reflected in rental expenses in the full year of 2011 while only eight months in 2010.

Research & Developments expenses increased from RMB13.7 million for the year ended December 31, 2010 to RMB16.1 million for the year ended December 31, 2011, which was mainly due to an increase in expenditure in R&D for the new products in each business sector such as Urban Traffic sector.

Equity-settled share option expenses refer to the share options expenses related to the Pre-IPO share incentive scheme adopted by the Company on December 28, 2008 (the "**Pre-IPO Share Incentive Scheme**"). Equity-settled share option expenses decreased from RMB9.9 million for the year ended December 31, 2010 to 6.2 million for the year ended December 31, 2011, which accounted for 2.2% of the total SG&A in the year ended December 31, 2011, a decrease of 3.4% as compared to the corresponding period in 2010. Subsequent to year end, the Company granted Share options under the share option scheme adopted by the Company on June 18, 2010 (the "**Share Option Scheme**") to 191 grantees. As such, it is expected there will be an increase in equity-settled share option expenses in the coming year.

Expenses Relating to the Listing of the Shares

The major components of the listing expenses includes fees of legal counsel, printers and auditors who were involved in the listing of the Shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Listing**"). During the year ended December 31, 2011, no such expenses were incurred by the Group.

Finance Income and Finance Costs

Finance income mainly comprises of interest income and finance costs mainly comprises of interest expenses for interest-bearing bank loan. The net financial expenses represented the total finance cost minus finance income. This net financial expense was RMB10.9 million in the year ended December 31, 2011, which represented an increase of 84.0% as compared to the year ended December 31, 2010. The increase was mainly due to the combined effect of higher loan interest rate and lower level of bank balances as compared to the corresponding period in 2010.

Share of Profits of Jointly-Controlled Entities and Associates

Share of profits of Jointly-Controlled Entities (the "**JCE**") and associates in the year ended December 31, 2011 was totally RMB11.3 million, which represented an increase of 217.9% from the year ended December 31, 2010. This huge increase was mainly due to the contribution of net profit from the associates after the acquisition of CTH. GCI, one of the associates under CTH had established long-term cooperation with Guangzhou Transportation Group and will continue to generate sustainable income in Urban Traffic sector. Furthermore, the GCI's business model will be replicated in other cities such as Xi'an, Nanjing and so on by establishing local joint ventures with local traffic bureau.

Income Tax Expenses

The total income tax expense in the year ended December 31, 2011 was lower than that recorded for the year ended December 31, 2010 due to the decrease of profit before taxation. The effective tax rate in the year ended December 31, 2011 was 15.1%, which represented an decrease of 0.3% as compared to the corresponding period in 2010. The increase was due to the subsidiaries had gradually applied the preferential tax rate of 15%. Effective tax rate refers to income tax expenses divided by adjusted profit before tax (profit before tax plus expenses related to the listing of the Company's share plus share-based payment expenses).

Profit for the year attributable to owners of the parent

Profit for the year attributable to owners of the parent of the Group for the year ended December 31, 2011 was RMB112.9 million.

Trade Receivables Turnover Days

The trade receivables turnover days in the year ended December 31, 2011 was 185 days (in the year ended December 31, 2010: 122 days). The increase in trade receivables turnover days was mainly due to the slowdown of macro-economic growth and the tightening of liquidity. Particularly, after a series of incidents in Railway sector, the turnover days reached to the historical highest level. However, very limited amount of trade receivables were impaired because of the good payment track record of the transportation industry customers. Management believes the turnover days will improve in the future when the central government resumes the regular payment policy across the transportation industry.

Net Construction Contract Turnover Days

The net construction contract turnover days in the year ended December 31, 2011 was 63 days (in the year ended December 31, 2010: 64 days). The decrease in net construction contract turnover days was mainly due to the continued effort in enhancing project billing timeliness and efficiency during tough times in 2011.

Trade Payables Turnover Days

The trade payables turnover days in the year ended December 31, 2011 was 194 days (in the year ended December 31, 2010: 156 days). The increase in trade payables turnover days was mainly due to the effort in bargaining with suppliers for a longer settlement period under such tighten liquidity environment.

Inventory Turnover Days

The inventories of the Group mainly comprised of raw materials, work-in-progress, finished goods and general merchandise for surveillances SS as well as the integrated TAXI or BUS monitoring & dispatching system. The inventory turnover days in the year ended December 31, 2011 was 5 days (in the year ended December 31, 2010: 2 days). The increase in inventory turnover days was mainly due to the acquisition of CTH, which maintained inventories of standard products applied in multiple transportation networks.

Liquidity and Financial Resources

The Group's principal sources of working capital included cash flow from operating activities, bank borrowings and the proceeds from the Global Offering. As at December 31, 2011, the Group's current ratio (current assets divided by current liabilities) was 1.9 (as at December 31, 2010: 2.1). The Group's financial position remains healthy.

As at December 31, 2011, the Group was in a net cash position of RMB135.5 million (as at December 31, 2010: RMB659.3 million) which included cash and cash equivalent of RMB435.9 million (as at December 31, 2010: RMB949.3 million) and short-term bank loans of RMB300.4 million (as at December 31, 2010: RMB290.0 million). As at December 31, 2011, the Group's gearing ratio was -12.4%, which has increased from -39.6% as at December 31, 2010, due to the cash position had dropped from prior year as the Group has deployed more effort in expansion through acquisitions and development into other business sectors. Gearing ratio refers to adjusted cash (interest-bearing bank borrowings minus pledged deposits, short-term deposit and cash and bank balances plus due to related parties) divided by total equity.

Contingent Liabilities

As at December 31, 2011, the Group has no material contingent liability.

Charges on Group Assets

As at December 31, 2011, besides the secured deposits of approximately RMB79.8 million, the Group pledged its buildings having net book values of approximately RMB84.4 million (As at December 31, 2010: RMB83.3 million) to banks to secure banking facilities granted to the Group. Save as disclosed above, as at December 31, 2011, the Group has no other asset charged to financial institution.

Material Acquisitions or Disposals of Subsidiaries and Associated Company

— 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 SS and VAOS. Before the acquisition, Xinjiang RHY was a jointly-controlled entity of the Group. Upon the completion of the acquisition, Xinjiang RHY became a subsidiary and is owned as to 80% by the Group.

— Acquisition of CTH

On 24 August 2011, Elegant Cape Limited, a wholly-owned subsidiary of the Company, acquired 100% equity interest of CTH, a company incorporated in Cayman Islands for a total consideration of US$45 million which was satisfied by cash of US$29.8 million and issuance of new Shares by the Group for the remaining consideration of US$15.2 million. Upon the completion of the acquisition, CTH together with its subsidiaries became subsidiaries of the Group. CTH is a leading company in the research and development of intelligent traffic information technologies and related services and solutions provider in the PRC.

— Acquisition of eSOON

In August 2011, the Group entered into an agreement to acquire 16.6% of equity interests in eSOON, which has strategic and financial contributions to the Group. From a strategic perspective, the Group is expected to expand its products and services horizontally and enter into call center solutions market in the transportation industry. From a financial perspective, the Group is expected to benefit from the stable cash flow and profitability of the call center solution sales generated by eSOON.

Event after the Reporting Period

Grant of Share Options

On January 18, 2012, the Board resolved to grant share options under the share option scheme adopted by the Company on June 18, 2010 (the "**Share Option Scheme**") to 191 grantees, which includes certain Directors, chief executive, Substantial Shareholders and employees of the Company to subscribe for an aggregate of 155,000,000 Shares.

The share options granted to Mr. Lu Xiao and Mr. Lv Xilin, each representing in the aggregate over 0.1% of the Shares in issue and having an aggregate value, based on the closing price of the securities on the date of each grant, in excess of HK$5 million in the 12-month period up to and including the date of the grant. The grant of share options to each of Mr. Lu Xiao and Mr. Lv Xilin was therefore conditional upon shareholders' approval being obtained at an extraordinary general meeting of the Company.

Further, the share options granted to Mr. Liao Jie exceeded 1% of the Shares in issue in the 12 month period up to and including the date of the grant. Accordingly, the grant of share options to Mr. Liao Jie was also conditional upon shareholders' approval being obtained at an extraordinary general meeting of the Company.

On January 18, 2012, the Board also proposed to refresh the 10% limit on the maximum number of Shares which may be issued upon the exercise of all share options granted or to be granted under the Share Option Scheme by the Company as permitted under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Share Option Scheme Limit**") for the purpose of future grants of share options to the eligible participants under the Share Option Scheme.

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

An extraordinary general meeting of the Company was convened on February 29, 2012 (the "**EGM**") to consider and approve 1.) the share options granted to each of Mr. Lu Xiao, Mr. Lv Xilin and Mr. Liao Jie to subscribe for 6,959,432 Shares, 6,402,677 Shares and 40,735,874 Shares respectively, and 2.) the refreshment of the Share Option Scheme Limit. All of these proposed resolutions had been duly passed by way of poll at the EGM.

Further, the application made by the Company to the Listing Committee of The Stock Exchange of Hong Kong Limited for the grant of the listing of, and permission to deal in, the Shares (representing a maximum of 10% of the Shares in issue at the date of the EGM) that may fall to be issued upon the exercise of any options that may be granted under the Share Option Scheme and any other share option scheme(s) of the Company, had been granted. The new Share Option Scheme Limit is 161,281,776 Shares.

Use of Proceeds

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

The use of the net proceeds from the global offering as at December 31, 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	319.7	–
Project-related working capital needs	35%	248.7	168.5	80.2
Research and development	10%	71.1	33.4	37.7
General corporate purposes	10%	71.1	67.2	3.9
Total	100%	710.6	588.8	121.8

Human Resources

As at December 31, 2011, the Group had 827 full-time employees (as at December 31, 2010: 655 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, the performance of our Group and market conditions.

In addition to basic salaries, the Company has the Pre-IPO Share Incentive Scheme and the Share Option Scheme as an incentive for directors and eligible employees. The Company also distributes performance-based year-end bonuses to certain eligible employees.

Director and Senior Management

Board of Directors

The Board of Directors of the Company (the "**Board**") consists of nine directors (the "**Directors**"), six of whom are executive Directors and the remaining three are independent non-executive Directors. The table below sets forth certain information regarding members of the Board:

Name	Age	Position
Mr. Jiang Hailin	43	Chairman, executive Director
Mr. Liao Jie	45	executive Director
Mr. Wang Jing	53	executive Director
Mr. Lu Xiao	41	executive Director
Mr. Pan Jianguo	40	executive Director
Mr. Lv Xilin	39	executive Director
Mr. Zhou Chunsheng	45	independent non-executive Director
Mr. Choi Onward	41	independent non-executive Director
Mr. Sun Lu	38	independent non-executive Director

Executive Directors

Mr. Jiang Hailin (姜海林), 43, is the chairman of the Board (the "**Chairman**"), an executive Director of the Company. Mr. Jiang is responsible for formulating strategy of the Company. Mr. Jiang was appointed as Director of the Company on February 20, 2008. He is also one of the controlling shareholders of the Company (the "**Controlling Shareholders**"), a director of China ITS Co., Ltd. (the "**Holdco**", one of the Controlling Shareholders) and Best Partners Development Limited ("**Best Partners**", one of the Controlling Shareholders) and sole director of Sea Best Investments Limited ("**Sea Best**", one of the Controlling Shareholders). Since he joined our Group in May 2002, Mr. Jiang has held various positions within our Group, including serving as a director of RHY Technology since May 2002, a director and chairman of the board of directors of Haotian Jiajie since March 2007, a director and vice chairman of the board of directors of Aproud Technology from August 2002 to February 2010 and again since May 2010, a director of Bailian Zhida since April 2007 and the executive director of Jiangsu Zhongzhi Transportation since December 2011.

Prior to joining our Group, Mr. Jiang was employed by China Ocean Shipping Co., Ltd., a PRC incorporated company listed on the Shanghai Stock Exchange (stock code: 600428) where he was responsible for the development of ground transportation logistics network, in particular, the development of the cargo movement monitoring systems for ground transportation in the China ITS sector. He has established his business relationship and network in the transport industry since 2000.

Mr. Jiang received a bachelor's degree in computing from Nankai University in July 1990 and an EMBA degree from Tsinghua University in July 2006. Mr. Jiang possesses a total of approximately 18 years of experience in general management and over 10 years of experience in the China ITS sector.

Director and Senior Management

Mr. Liao Jie (廖杰), 45, is an executive Director and the Chief Executive Officer. He is responsible for the overall business operations of the Company. Mr. Liao was appointed as Director of the Company on August 24, 2011. He also serves as a managing director of Holdco and Best Partners, responsible for corporate finance and fund raising activities. Mr. Liao became a director of RHY Technology in May 2002, responsible for strategic planning and operational management in the Expressway sector. He subsequently joined the board of directors of two other group companies in the PRC, Wuhan Chenguang in April 2005 and Bailian Zhida in April 2007, respectively. He retired from the three above-mentioned directorships when he started serving as a senior advisor of the Board on business strategy and operational direction of the Group in January 2008.

Prior to joining the Company, Mr. Liao served as a senior engineer of Nortel Canada in 1995. From 1996, he spent a total of four years in North America running an international IT supply chain business before returning to the PRC in 1999. In 1999, Mr. Liao and his family founded Beijing Bailian Youli Information Technology Co., Ltd. (the former investment holding company prior to the establishment of Bailian Youli (Beijing) Investment Co., Ltd.), which invested and co-founded Visual China Holding Limited, CSDN Group Limited and the Group.

Mr. Liao holds a master's degree in applied science from the University of Toronto, and a bachelor degree in industrial automation from the Huazhong University of Science and Technology. Mr. Liao has a long established understanding of the businesses of the Group and deep industry expertise, as a result of which he can help the Group to reshape its business model, achieve operational excellence and diversify our business mix across different transport sectors.

Mr. Wang Jing (王靖), 53, is an executive Director and vice president of the Company. Mr. Wang is responsible for business development of the Company. Mr. Wang was appointed as Director of the Company on February 21, 2008. Mr. Wang is also one of the Controlling Shareholders, and a director of Holdco and Best Partners. Since he founded RHY Technology in January 2001, Mr. Wang has held various positions within our Group. In addition, he served as chairman of the board of directors of RHY Technology from January 2001 to May 2002 at which point he stepped down as chairman, but remained on the board of directors as vice chairman to the present. Mr. Wang has also served as a director and chairman of the board of directors of RAY Holdings Ltd. since January 2000.

Prior to joining our Group, Mr. Wang served as president of Huaneng Basic Industries Investment Company Limited, a Hong Kong incorporated company engaged in infrastructure investment, and acted as the president of Huasheng International Transportation Services Co., Ltd, a PRC incorporated company engaged in the logistics business, from June 1993 to October 1996.

Mr. Wang received a bachelor's degree in military medicine from the First Military Medical University (now known as Southern Medical University) in July 1984. Mr. Wang possesses a total of approximately 11 years of experiences in the China ITS sector.

Mr. Lu Xiao (陸驍), 41, is an executive Director, vice president of the Company and president of our SS business unit focusing on the Railway sector. Mr. Lu is responsible for the overall management of the railway SS business. Mr. Lu is also one of our Controlling Shareholders. Mr. Lu was appointed as Director of the Company on July 1, 2009. Mr. Lu is also a director of Holdco and sole director of Speedy Fast Investments Limited ("**Speedy Fast**", one of the Controlling Shareholders). Since he joined our Group in June 2007, Mr. Lu had been the senior vice president of the railway SS business until March 2009. He served as a director and chairman of the board of directors of Zhixun Tiancheng from February 2010 to December 2011.

Prior to joining our Group, Mr. Lu served as the general manager of Hangzhou Hope Information Technology Co., Ltd., the general manager of Beijing Malijie Technologies Co., Ltd., a PRC incorporated company engaged in the development of network communication equipment and research and development of electronic products, the chief controller of the marketing department at Huawei Technologies Co., Ltd. ("**Huawei**") and a communication engineer of Beijing National Railway Research and Design Institute of Signal and Communication.

Mr. Lu received a bachelor's degree in communications engineering from the Southwest Jiaotong University in 1993. Mr. Lu possesses a total of approximately 19 years of experience in railway industry.

Mr. Pan Jianguo (潘建國), 40, is an executive Director and vice president of the Company. Mr. Pan is responsible for the overall operations platform including general administration and human resources management of the Company. Mr. Pan was appointed as Director of the Company from February 2008 to June 2009 and was reappointed as Director of the Company on February 9, 2010. Mr. Pan is also one of our Controlling Shareholders, and a director of Holdco and Joy Bright Success Limited ("**Joy Bright**", one of our Controlling Shareholders). Since he joined our Group in January 2006 upon the acquisition of Aproud Technology, Mr. Pan has held various positions within our Group including serving as our vice president responsible for budget planning and control of the Group as well as overall management of VAOS business from March 2007 to March 2009, and as vice president responsible for sales and marketing of our SS prior to March 2007. In addition, Mr. Pan was a co-founder of Aproud Technology and has served as a director of Aproud Technology since February 2001 and a director of RHY Technology since October 2007. Mr. Pan has also served as a director of Bailian Zhida since April 2007, Hexin Risheng since January 2008, Zhixun Tiancheng since June 2007, Guangdong Xincheng since September 2011 and as executive director of Beijing Xiyou since July 2011.

Prior to joining our Group, Mr. Pan served as a manager of the transportation department of the Specialised network division at Huawei where he was responsible for process control, supervision and budget formulation for ITS projects relating to communication technology for expressways.

Mr. Pan received a bachelor's degree in communication engineering from the Xi'an Mining Institute of the Xi'an University of Science and Technology in July 1995, and an EMBA degree from Tsinghua University in July 2009. Mr. Pan possesses a total of approximately 14 years of experience in the China ITS sector.

Director and Senior Management

Mr. Lv Xilin (呂西林), 39, is an executive Director and vice president of the Company and president of TS and VAOS business units focusing on the Expressway sector. Mr. Lv is responsible for the overall management of our Expressway TS and VAOS businesses. Mr. Lv was appointed as Director of the Company from October 2006 to June 2009 and reappointed as Director of the Company on August 24 2011. Mr. Lv is also one of our Controlling Shareholders, a director of Holdco and Best Partners and sole director of Key Trade Holdings Limited (the "**Key Trade**", one of the Controlling Shareholders). Since he joined our Group in July 2003, Mr. Lv has held various positions within our Group. From August 2006 to March 2009, he served as Group president of TS responsible for the overall management of TS business. He has served as a director of RHY Technology since June 2004, and chairman of the board of directors of RHY Technology since August 2010, and a director and chairman of the board of directors of Xinjiang RHY since October 2005. Mr. Lv has also served as a director of Wuhan Chenguang since February 2007, Haotian Jiajie since August 2007, Shandong Yigou since December 2011, Guangdong Xincheng since September 2011 and as executive director of Jiangsu Yijie since March 2010. Mr. Lv has served as a director and chairman of the board of directors of Xinjiang Delida since May 2011.

Prior to joining our Group, Mr. Lv served as a senior project manager in China Harbor Engineering Company (Group), the predecessor of China Communications Construction Company Ltd., a company listed on the Stock Exchange of Hong Kong Limited (SEHK: 1800), and was responsible for the management of large scale ITS projects.

Mr. Lv received a bachelor's degree in industrial trade from the Harbin University of Science and Technology in July 1994. He received a master's degree in project management from the University of Sydney in November 2004 and an EMBA degree from the Tsinghua University in January 2011. He was recognized as a Project Management Professional by the Project Management Institute in the United States in January 2003. Mr. Lv received the National Communications Industry Young Expert Award in June 2003 from the Ministry of Transport in recognition of his contribution to the transport industry. Mr. Lv possesses a total of approximately 18 years keep experience in ITS project management.

Independent non-Executive Directors

Mr. Zhou Chunsheng (周春生), 45, is an independent non-executive Director of the Company, chairman of the nomination committee (the "**Nomination Committee**") and a member of the audit committee (the "**Audit Committee**") and remuneration committee (the "**Remuneration Committee**"). Mr. Zhou was appointed as Director of the Company on September 4, 2008. He is currently a professor of the Cheung Kong Graduate School of Business. He has also served as a director of Guanghua Tiancheng Investments Co., Ltd., an independent non-executive director of Centennial Brilliance Science & Technology Co., Ltd., a PRC incorporated company listed on the Shenzhen Stock Exchange (stock code: 000703), an independent non-executive director of China Southern Fund Management Co., Ltd., an independent non-executive director of Hua Chuang Securities Brokerage Co., Ltd., an independent non-executive director of China Information Technology Development Limited, a company listed on the Stock Exchange of Hong Kong Limited (SEHK: 8178), an independent non-executive director of Lentuo International Inc., a company listed on the New York Stock Exchange (stock symbol: LAS), and an independent non-executive director of Industrial Securities Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 601377). Mr. Zhou had ever served as an independent non-executive director of Daqin Railway Co., Ltd., a PRC incorporated company listed on the Shanghai Stock Exchange (stock code: 601006), and then the termination of his service was approved on the general meeting in May 2011 by reason of the expiry of his term of service. Mr. Zhou had also served as an independent non-executive director of Zhuguang Holdings Group Company Limited, a company listed on The Stock Exchange of Hong Kong Limited (SEHK: 1176), and then resigned in October 2011.

Previously, Mr. Zhou acted as a commissioner of the Development and Strategy Committee of the China Securities Regulatory Commission, an economist of the U.S. Federal Reserve Board, where he was responsible for the analysis, control and management of financial risks, an assistant professor at the University of California (Riverside), an associate professor of the Business School of the University of Hong Kong and a finance professor of the Guanghua School of Management at Peking University. Mr. Zhou received a master's degree in applied mathematics from Peking University in July 1988 and a doctoral degree in economics from Princeton University in June 1995. Mr. Zhou was awarded the National Excellent Young Researcher Grant in January 2004 by the National Natural Science Foundation of China for his research in financial investments. Mr. Zhou's professional expertise and his wide experiences of serving as directors in other listed companies will be a significant asset to the Board.

Mr. Choi Onward (蔡安活), 41, is an independent non-executive Director of the Company, the chairman of the Audit Committee and a member of the Remuneration Committee and Nomination Committee. Mr. Choi was appointed as Director of the Company on September 4, 2008. Mr. Choi currently serves as the acting chief financial officer of NetEase.com, Inc., a PRC incorporated internet technology company listed on NASDAQ (NASDAQ: NTES), and an independent non-executive director and the chairman of the audit committee of Beijing Jingkelong Company Limited, a company listed on the Stock Exchange of Hong Kong Limited (SEHK: 814).

Mr. Choi has served as the financial controller and corporate finance director of NetEase.com, Inc. Mr. Choi worked at Ernst & Young in Beijing as a senior manager of the assurance and advisory business services department. Mr. Choi received a bachelor's degree in accountancy with honors from the Hong Kong Polytechnic University in November 1993. Mr. Choi is a member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Association of Chartered Certified Accountants, a fellow member of the CPA Australia, a fellow member of the Hong Kong Institute of Certified Public Accountants and a registered practicing Certified Public Accountant in Hong Kong. He possesses extensive experience in financial consultancy and management, accounting and auditing.

Mr. Sun Lu (孫璐), 38, is an independent non-executive Director of the Company, chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee. Mr. Sun was appointed as Director of the Company on June 18, 2010. He is also the general manager and a director of CITIC Guoan Information Industry Co., Ltd. ("**CITIC Guoan**"), a PRC incorporated company listed on the Shenzhen Stock Exchange (stock code: 000839).

Previously, Mr. Sun served as the assistant to the general manager of CITIC Guoan. Mr. Sun was the manager of the investment department of Huaxia Securities Co., Ltd. and an auditor at the China Securities Regulatory Commission and at Hujiang Deloitte Accountant Co.. Mr. Sun received a bachelor's degree in accounting from the Capital University of Economics and Business in July 1996, and an EMBA degree from the Tsinghua University in July 2006. He possesses rich experience in corporate management.

Director and Senior Management

Senior Management

The table below sets forth information regarding the senior management of the Company (including Directors who also hold executive positions):

Name	Age	Position
Mr. Liao Jie	45	Chief Executive Officer
Mr. Wang Jing	53	Vice president of the Company
Mr. Lu Xiao	41	Vice president of the Company, president of SS railway
Mr. Pan Jianguo	40	Vice president of the Company
Mr. Lv Xilin	39	Vice president of the Company, president of TS and VAOS-expressway
Mr. Leung Ming Shu	36	Chief financial officer and company secretary
Mr. Mou Yi	45	Group financial controller
Mr. Zhang Yi	38	Vice president of the Company
Mr. Liao Yibing	44	Vice president of the Company

For information on Mr. Liao Jie, Mr. Wang Jing, Mr. Lu Xiao, Mr. Pan Jianguo and Mr. Lv Xilin, see "Directors and Senior Management — Board of Directors" above.

Mr. Leung Ming Shu (梁銘樞), 36, is the chief financial officer and company secretary of the Company responsible for overall financial and corporate finance management of the Company. Mr. Leung served as Director of the Company from August 2008 to June 2009. Since he joined our Group in January 2008, Mr. Leung has held his current position within the Group. Mr. Leung also serves as an independent non-executive director, chairman of the audit committee and member of the remuneration committee of Comtec Solar Systems Group Limited (SEHK: 0712), an independent non-executive director, chairman of the audit committee and member of the remuneration committee of Shengli Oil & Gas Pipe Holdings Limited (SEHK: 1080).

Prior to joining our Group, Mr. Leung served as the chief financial officer of Beijing Lingtu Software Co., Ltd., a PRC digital mapping and navigation software company, and Beijing Xinwei Telecom Technology Co., Ltd., a subsidiary of Datang Telecom Technology & Industry Group engaged in the development of a proprietary telecommunications standard and manufacturing of telecommunications equipment. Mr. Leung served as a senior manager in the mergers and acquisitions department and chief financial officer of CDC Corporation (NASDAQ: CHINA) and its subsidiary, China.com Inc. (SEHK: 8006) respectively. As the chief financial officer of China.com Inc., Mr. Leung also supervised the corporate secretarial functions and liaised closely with the compliance advisor and legal counsel on statutory compliance matters. Mr. Leung started his professional career at PriceWaterhouseCoopers in Hong Kong in auditing, and subsequently worked at its global corporate finance department managing several crossborder corporate finance and mergers and acquisitions advisory projects. He also worked as a business consultant in Market Catalyst International (HK) Ltd., the consulting arm of Morningside Group that engages in providing management consulting and marketing advisory services, where he advised companies on issues of strategy, organization and operations.

Mr. Leung graduated with a first class honors bachelor's degree in accountancy from the City University of Hong Kong in June 1998, as well as a master's degree in accountancy from the Chinese University of Hong Kong in September 2001. He is a Fellow Member of the Association of Chartered Certified Accountants (FCCA) and a Fellow Member of the Hong Kong Institute of Certified Public Accountants (FCPA). Mr. Leung possesses a total of approximately 14 years of experience in corporate financial management, including over 10 years with technology companies.

Mr. Mou Yi (牟軼), 45, is the financial controller of our Group responsible for the internal financial management of the Company. Mr. Mou has served as Director of the Company from October 2008 to June 2009. He joined our Group in October 2004. He started as vice president of RHY Technology and was then promoted to Group vice president of our TS responsible for the internal and daily operations such as financial control, human resources and other administrative functions of the TS business unit until October 2009 when he assumed his current role. Mr. Mou has served as a director and chairman of its board of directors of Wuhan Chenguang since April 2005. He has also served as a director of Xinjiang RHY since October 2005, Chengdu Zhida Weilute since May 2010, Zhixun Tiancheng since November 2011, Shandong Yigou since December 2011 and a supervisor of Xinjiang Delida since May 2011.

Prior to joining our Group, Mr. Mou served as vice president of Lang Chao Mobile Communication Products Co., Ltd. which is the predecessor of Inspur International Limited (SEHK: 0596), where he was responsible for the overall operational management of the company. Mr. Mou also served as vice president of Shanghai Zarva Software Application and Service Co., Ltd. where he was responsible for domestic sales and the management of branch offices in the PRC. Mr. Mou served as a manager of Legend Computer Group Co. (Qingdao branch) which is the predecessor of Lenovo Group Limited (SEHK: 0992), where he was responsible for the sales and software development. Prior to that, he served as a manager of Jinan Tuopu Software Research Centre where he was also responsible for the sales and development of software.

Mr. Mou received a bachelor's degree in science and a bachelor's degree in economics from the Tianjin Nankai University in July 1990. Mr. Mou was qualified as an accountant in December 1992, and senior economist in November 2008. Mr. Mou possesses extensive experience in operational management and internal financial management.

Mr. Zhang Yi (張屹), 38, is a vice president of the Company responsible for strategic partnership. Mr. Zhang joined our Group in July 2007. He started as the new product development department supervisor and was then promoted to a director and general manager of Zhixun Tiancheng responsible for the overall operation management in the Railway sector. He assumed his current role in November 2011 responsible for developing, coordinating and maintaining the relationship with the Group's strategic partners. Mr. Zhang has also served as executive director of Jiangsu Zhixun Tiancheng since November 2009.

Prior to joining our Group, Mr. Zhang served as vice general manager of Beijing Wangxun Qidian Technology Co., Ltd. responsible for operating and marketing. Mr. Zhang also served as vice general manager of Beijing Huatie Hengxing Technology Co., Ltd. responsible for operations management. Prior to that, Mr. Zhang served as sales engineer of Tianjin Mobishi Battery Co., Ltd. responsible for the sales in the China.

Mr. Zhang received a bachelor's degree in physics from the Nanjing University in July 1996. Mr. Zhang possesses a total of approximately 10 years of experience in sales and marketing management.

Mr. Liao Yibing (廖一兵), 44, is a vice president of the Company responsible for the supply-chain management of the Company. Mr. Liao joined our Group in February 2001. He started as regional general manager of RHY Technology and was then promoted to vice president of RHY Technology in January 2008 responsible for business development, project management and supply-chain management. Mr. Liao assumed his current role in November 2011 and has been responsible for the design, planning, execution, control and monitoring of supply-chain activities.

Prior to joining our Group, Mr. Liao served as legal advisor of Hunan International Trust Investment Company responsible for the corporate securities legal affairs.

Mr. Liao received a bachelor's degree in law from the Xiangtan University. He was qualified as a senior engineer in electromechanical engineering. Mr. Liao possesses a total of approximately 10 years legal background and extensive experience in engineering project management.

Corporate Governance Report

Corporate Governance Practices

The Company places high value on its corporate governance 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 principles set out in the "Code of Corporate Governance Practices" (the "**Corporate Governance Code**") as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") as its own code to govern its corporate governance practices. During the year ended December 31, 2011, the Company continued to apply most of the code provisions (the "**Code Provisions**") of the Corporate Governance Code except for the deviation set out in the section headed "The Chairman and the Chief Executive Officer" in this report. The Board also reviews and monitors the practices of the Company from time to time with an aim to maintaining a high standard of corporate governance practices.

Set out below is a detailed discussion of the corporate governance practices adopted and observed by the Company for the year ended December 31, 2011.

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 of the Company, the Directors have confirmed that they have complied with the required standard set out in the Model Code during the year ended December 31, 2011.

The Board

Board Responsibilities

The Board is collectively responsible for the overall management and implementing business plans of the Company, including establishing and monitoring the Company's strategic directions and development, financial goals, and assumes the responsibilities of corporate governance of the Company. The senior management is responsible for supervising and executing the plans of the Group and the Directors review those arrangements on a periodic basis.

The Board may from time to time delegate all or any of its powers that it may think fit to a Director or member of senior management of the Company. To maximise the effectiveness of the Board and to encourage active participation and contribution from Board members, the Board is supported by three committees, which are the Audit Committee, the Remuneration Committee, and the Nomination Committee. The terms of reference of each of the committees are reviewed and amended (if necessary) from time to time, including the committees' structure, duties and memberships.

Corporate Governance Report

Board Members

The Board, as at the date of this report, consists of nine Directors, including six executive Directors, and three independent non-executive Directors:

	Last Re-election Date
Executive Directors	
Mr. Jiang Hailin *(Chairman)*	—
Mr. Liao Jie *(Chief Executive Officer) (appointed on August 24, 2011)*	—
Mr. Wang Jing	—
Mr. Pan Jianguo	May 26, 2011
Mr. Lu Xiao	May 26, 2011
Mr. Lv Xilin *(appointed on August 24, 2011)*	—
Independent Non-executive Directors	
Mr. Zhou Chunsheng	—
Mr. Choi Onward	May 26, 2011
Mr. Sun Lu	—

The details of the Directors' biographical information are contained in the section headed "Director and Senior Management" of this annual report.

There is no financial, business, family or other material/relevant relationships among the Directors.

Independent Non-executive Directors

Three members of the Board are independent non-executive Directors, which meets the minimum requirement under the Listing Rules. Mr. Choi Onward, an independent non-executive Director, has appropriate financial management expertise in compliance with Rule 3.10 of the Listing Rules.

Prior to their respective appointment, each of the independent non-executive Directors has submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence. The Company has received an annual confirmation from each of the independent non-executive Directors on their respective independence pursuant to Rule 3.13 of the Listing Rules and considers that each of them to be independent.

Terms

Save as disclosed in this annual report, all of the executive Directors were appointed for a term of three years, which may be terminated according to the articles of association of the Company and any applicable laws, and all of the Directors are subject to retirement by rotation at the annual general meeting of the Company once every three years in accordance with the articles of association.

Board Meetings

During the year ended December 31, 2011, there were five Board meetings held, at which the Directors approved, among other things, the audited consolidated results of the Group for the year ended December 31, 2010 and the unaudited consolidated results of the Group for the six months ended June 30, 2011.

Notices for regular Board meetings are given to each member of the Board at least 14 days prior to the meeting, whereby the Directors are given opportunities to include matters to be discussed in the agenda of the Board/committee meetings. The agenda and the relevant board papers are then circulated to the Directors 3 days before a scheduled Board meeting and apart from ensuring that the directors have received adequate, complete and reliable information in a timely manner to enable them to make informed decisions during the Board meeting, the chairman will also properly brief the directors present at the Board meeting on issues arising during the Board meeting.

Where the agenda of the Board meetings is in relation to a material matter in which a substantial shareholder or a Director is deemed to have a conflict of interest, independent non-executive Directors who, and whose associates have no material interest in the transaction, would be invited to attend such Board meetings. Where Board meetings relate to financial and other information, the senior management would provide such explanation and information to the Board to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

After the meetings have been held, drafts of the Board minutes and Board committee meeting minutes are circulated to the Directors and the relevant Board committee members respectively for their review before finalization, and the final version of these minutes are kept by the company secretary of the Company and are available for inspection by the Board and auditor of the Company.

Every Director is entitled to have access to Board papers and relevant materials and have unrestricted access to advice and services of the company secretary, and is able to seek independent professional advice as and when required at the Company's expense.

Before the listing of the Company, the Directors had been provided with training on their duties and responsibilities as a director of a listed company and the compliance issues under the Listing Rules including ensuring that he or she can give sufficient time and attention to the affairs of the Company (Mr. Liao Jie and Mr. Lv Xilin had also been provided with such training before their appointment as directors of the Company on August 24, 2011).

Attendance Record

Code Provision A1.1 of the Corporate Governance Code stipulates that the Board should meet regularly and meetings should be held at least four times a year at approximately quarterly intervals. During the year ended December 31, 2011, the Board convened a total of five Board meetings and there were two meetings for the Audit Committee, one meeting for the Remuneration Committee and two meetings for the Nomination Committee based on the need of the operation and business development of the Company. Details of attendance are as follows:

		Board Committee Meetings		
Name	**Board Meetings**	**Audit Committee Meetings**	**Remuneration Committee Meetings**	**Nomination Committee Meetings**
	(Number of times of attendance/number of times of meeting)			
Executive Directors				
Mr. Jiang Hailin *(Chairman)*	5/5	N/A	N/A	N/A
Mr. Liao Jie *(Chief Executive Officer)* *(appointed on August 24, 2011)*	2/2	N/A	N/A	N/A
Mr. Wang Jing	5/5	N/A	N/A	N/A
Mr. Pan Jianguo	5/5	N/A	N/A	N/A
Mr. Lu Xiao	5/5	N/A	N/A	N/A
Mr. Lx Xilin *(appointed on August 24, 2011)*	2/2	N/A	N/A	N/A
Independent Non-executive Directors				
Mr. Zhou Chunsheng	5/5	2/2	1/1	2/2
Mr. Choi Onward	5/5	2/2	1/1	2/2
Mr. Sun Lu	5/5	2/2	1/1	2/2

Note:

Mr. Liao Jie and Mr. Lu Xilin were both appointed as executive Directors on August 24, 2011 and they have attended all the Board meetings held since their appointments.

The Chairman and the Chief Executive Officer

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 period between January 1, 2011 and August 23, 2011, the positions of the Chairman and the Chief Executive Officer were held by Mr. Jiang Hailin.

Although this deviated 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 transportation systems 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 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 this 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. Mr. Liao Jie was appointed as the Chief Executive Officer and an executive Director on the same date.

Board Committees

Remuneration Committee

The Remuneration Committee consists of three independent non-executive Directors, namely, Mr. Sun Lu, Mr. Zhou Chunsheng and Mr. Choi Onward. Mr. Sun Lu is the chairman of the Remuneration Committee.

The primary functions of the Remuneration Committee are to:

(a) evaluate and make recommendations to the Board on the policy and structure for remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing such policies;

(b) determine terms of specific remuneration package for executive directors and senior management;

(c) conduct reviews and approve performance-based remuneration by reference to corporate goals and objectives resolved by directors from time to time;

(d) review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

(e) review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and

(f) ensure that no director or any of his or her associates is involved in deciding his own remuneration and advise shareholders on how to vote with respect to service contracts of directors that require shareholders' approval under rule 13.68 of the Listing Rules.

To ensure that the Remuneration Committee is given the opportunity to discharge its functions effectively, the Remuneration Committee will be given opportunities to consult the chairman and/or chief executive officer of the Company about its proposals relating to the remuneration of other executive Directors and be provided with sufficient resources including access to professional advice if considered necessary.

During the year, the Remuneration Committee convened one meeting and drafts and final versions of the minutes of the Remuneration Committee have been sent to all members of the Remuneration Committee for their comment and records, respectively. All resolutions passed at the meetings were duly recorded and retained by a duly appointed secretary of the meeting or the company secretary.

A summary of the work performed by the Remuneration Committee during the year ended December 31, 2011 is set out as follows:

- reviewed the Directors' fees; and
- reviewed and determined the remuneration structure/package of executive Directors and senior management.

Nomination Committee

The Nomination Committee consists of three independent non-executive Directors, namely, Mr. Zhou Chunsheng, Mr. Choi Onward and Mr. Sun Lu. Mr. Zhou Chunsheng is the chairman of the Nomination Committee.

The primary functions of the Nomination Committee are to:

(a) review the structure, size and composition of the Board regularly and make recommendations to the Board regarding any proposed changes; and

(b) identify, select or make recommendations to the Board on the selection of individuals nominated for directorships to fill vacancies in the Board.

During the year, the Nomination Committee convened two meetings and drafts and final versions of the minutes of the Nomination Committee have been sent to all members of the Nomination Committee for their comment and records, respectively. All resolutions passed at the meetings were duly recorded and retained by a duly appointed secretary of the meeting or the company secretary.

A summary of the work performed by the Nomination Committee during the year ended December 31, 2011 is set out as follows:

- reviewed and recommended the re-appointment of the retiring Directors for shareholders' approval;
- discussed and reviewed the Board composition of the Company as well as other related matters; and
- recommended on the selection of individuals nominated for directorships.

Audit Committee

The Audit Committee comprises three independent non-executive Directors, being Mr. Choi Onward, Mr. Zhou Chunsheng and Mr. Sun Lu. The members of the Audit Committee confirm that they are not a former partner or affiliated to the Company's existing auditing firm nor do they have any financial interest in the Company's existing auditing firm.

The primary functions of the Audit Committee are to:

(a) be primarily responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;

(b) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards and regulations. The audit committee should discuss with the auditor, the nature and scope of the audit and reporting obligations before the audit commences;

(c) develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

(d) monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the committee should focus particularly, on any changes in accounting policies and practices, major judgmental areas, significant adjustments resulting from audit, the ongoing concern assumptions and any qualifications, compliance with accounting standards and compliance with the Listing Rules and other legal requirements to financial reporting;

(e) to consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

(f) to review the Company's financial controls, internal control and risk management systems;

(g) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources;

(h) qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget;

(i) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;

(j) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;

(k) to review the Company's financial and accounting policies and practices;

(l) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;

(m) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(n) to report to the Board on the matters set out in the Code Provisions; and

(o) to consider other topics, as defined by the Board.

To ensure that the Audit Committee is given the opportunity to discharge its functions effectively, the Audit Committee will be provided with sufficient resources including access to professional advice if considered necessary and members of the Audit Committee must liaise with the Company's Board and senior management and the Audit committee must meet, at least once a year, with the Company's auditors.

During the year, the Audit Committee convened two meetings and drafts and final versions of the minutes of the Audit Committee have been sent to all members of the audit committee for their comment and records, respectively. All resolutions passed at the meetings were duly recorded and retained by a duly appointed secretary of the meeting or the company secretary.

A summary of the work performed by the Audit Committee during the year ended December 31, 2011 is set out as follows:

- reviewed the Company's interim report and annual report;
- reviewed accounting policies adopted by the Group and issues related to accounting practice;
- supervised internal auditing of the Group;
- assisted the Board to evaluate on the effectiveness of financial reporting procedure and internal control system;
- advised on material events and draw the attention of management on related risks;
- reviewed the external auditor's independence and approved the engagement of external auditor;
- recommended the Board on the re-appointment of external auditor;
- noted the amendments to the standards and the development of corporate governance.

Accountability and Audit

Auditor's Remuneration

The remuneration paid to the Company's auditor, Ernst & Young, during the year ended December 31, 2011 in relation to audit service are RMB2,150,000.

Directors' Responsibilities for Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company and for ensuring that the financial statements are balanced and clear and prepared in accordance with applicable statutory requirements and accounting standards.

Auditor's Statement

The statement of the Company's auditor, Ernst & Young, on its reporting responsibilities in respect of the consolidated financial statements of the Group for the year ended December 31, 2011 is set out on pages 59.

Internal Control and Risk Management

The Board acknowledges that it is responsible for maintaining a sound system of internal controls to safeguard the shareholders' interest and reviewing the effectiveness of the system of internal control of the Group.

In reviewing the effectiveness of the system of internal control of the Group, the Board will also consider the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and the training programmes and budget allocated.

The Group's internal control system has been designed to provide reasonable assurance that assets are safeguarded, operational controls are in place, business risks are suitably reduced, proper accounting records and financial information are maintained, and, where appropriate, relevant legislation, regulation and best practices are complied with.

The Board has delegated to the Audit Committee responsibility for reviewing the effectiveness of the Group's internal control system and the Audit Committee will report its findings to the Board for discussion. The Audit Committee works with the Group's internal audit department (the "**Internal Audit Department**") to carry out internal audit works based on an internal audit plan which is reviewed and approved by the Audit Committee. The Internal Audit Department, reports its findings and recommendations for any corrective action required to the Audit Committee. The Audit Committee reviews the reports submitted by the Internal Audit Department and the issues on the internal control system of the Group are then discussed and evaluated by the Board every year.

The Internal Audit Department conducted an examination on various material control aspects during the year including financial, operational and compliance controls with the aim of mitigating the overall business and operational risk of the Group. Internal control reports were submitted to the Audit Committee for review and the findings and recommendations were discussed at the committee meetings. The significant findings have been remediated by the management of the Company.

Communications with Shareholders and Investors

The Board values the importance of communications with the shareholders. The general meetings of the Company provide a forum for communication between the Board and the Shareholders and at such general meetings, the chairman will ensure that an explanation is provided of the detailed procedures for conducting a poll and ensure that resolutions are proposed separately. The chairman of the Board as well as chairman of the Remuneration Committee, the Nomination Committee and the Audit Committee and, in their absence, other members of the respective committees will also be available to answer questions at Shareholders' meetings.

The 2011 Annual General Meeting (the "**AGM**") will be held on 29 May 2012. The notice of AGM will be sent to Shareholders at least 20 clear business days before the AGM.

To promote effective communication, the Company maintains a website at www.its.cn, where extensive information and updates on the Company's financial information, corporate governance practices and other information are posted and available for public access.

Report of the Directors

The Directors present their report together with the audited consolidated financial statements of the Group for the year ended December 31, 2011, along with any supplementary commentary on trend and conditions that impacted the Group's business during the year.

Principal Activities

The Company is an investment holding company. The principal activities of the principal subsidiaries of the Company are to provide intelligent transportation systems and transportation infrastructure technology solutions and services to Expressway, Railway, Urban Traffic (including urban roadways and rapid transit) and Energy sectors in China. Details of the activities of the subsidiaries of the Company are set out in note 18 to the consolidated financial statements on page 119.

Corporate Reorganization and Change in Shareholding Structure of Controlling Shareholders

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on February 20, 2008 under the Companies Law of the Cayman Islands.

The Company became the holding company of the Group through a series of reorganization, details of which are set out in the section headed "History and Corporate Structure — Reorganization" in the IPO prospectus of the Company dated June 30, 2010 (the "**Prospectus**").

Subsequently, there was a restructuring exercise of the shareholding of Controlling Shareholders on November 28, 2011 in which there were (i) reorganization of individual shareholders' (Mr. Liao Daoxun, Ms. Wu Yurui, Mr. Jiang Hailin, Mr. Wang Jing, Mr. Liang Shiping, Mr. Wu Chunhong, Mr. Zhao Lisen, Mr. Yuan Chuang, Mr. Zhang Qian, Mr. Guan Xiong, Mr. Zheng Hui, Mr. Lv Xilin, Mr. Wang Li, Mr. Dang Kulun, Mr. Pan Jianguo and Mr. Jing Yang (collectively the "**Individual Shareholders**")) shareholding structure in the Company; (ii) transfer of an aggregate of 247,430,215 Shares from Holdco to Pride Spirit Company Limited ("**Pride Spirit**"), Kang Yang Holdings Limited ("**Kang Yang**"), Key Trade, Sea Best, Joy Bright and Speedy Fast; (iii) transfer of 58,179,908 Shares from Huaxin Investments Limited ("**Huaxin**") to Holdco; and (iv) the reorganization of Binks Trust and Ampio Trust.

Also as part of the above-mentioned restructuring, Mr. Lu Xiao, Speedy Fast, Pride Spirit, Sea Best, Kang Yang and Key Trade had acceded to the shareholders voting agreements entered into by and amongst Best Partners, Gouver Investments Limited ("**Gouver**"), Holdco, Huaxin, the Individual Shareholders, Joy Bright and Rockyjing Investment Limited ("**Rockyjing**") (the "**Shareholders Voting Agreement**") to facilitate the management and operation of the Company. Parties to the Shareholders Voting Agreement have authorized Holdco to exercise their voting rights on their behalves.

The details of the above-mentioned restructuring are set out in the announcement of the Company dated November 28, 2011.

Report of the Directors

Results and Dividend

The consolidated results of the Group for the year ended December 31, 2011 are set out on page 62 of this annual report.

The Board did not recommend the payment of a dividend for 2011 and propose that the profit for the year be retained.

Property and Equipment

Details of movements in the property and equipment of the Group are set out in note 14 to the consolidated financial statements on page 112.

Share Capital

Details of the movement in the Company's share capital during the year ended December 31, 2011 are set out in note 34 to the consolidated financial statements on page 136.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Reserves

Details of movements in the reserves of the Company and the Group for the year ended December 31, 2011 are set out in note 35 to the consolidated financial statements on page 137.

As at December 31, 2011, the Group's distributable reserve is RMB1,616.4 million.

Directors

The Directors who held office during the year ended December 31, 2011 and up to the date of this annual report are:

	Last Re-election Date
Executive Directors	
Mr. Jiang Hailin *(Chairman)*	—
Mr. Liao Jie *(Chief Executive Officer) (appointed on August 24, 2011)*	—
Mr. Wang Jing	—
Mr. Pan Jianguo	May 26, 2011
Mr. Lu Xiao	May 26, 2011
Mr. Lv Xilin *(appointed on August 24, 2011)*	—
Independent Non-executive Directors	
Mr. Zhou Chunsheng	—
Mr. Choi Onward	May 26, 2011
Mr. Sun Lu	—

In accordance with Article 84 of the Articles of Association of the Company and the Listing Rules, Mr. Wang Jing, Mr. Sun Lu and Mr. Zhou Chunsheng shall retire by rotation, and being eligible, have offered themselves for re-election as Directors at the forthcoming annual general meeting.

Further, Mr. Liao Jie and Mr. Lv Xilin shall hold office only until the forthcoming annual general meeting and shall then be eligible and have offered themselves for re-election at the forthcoming annual general meeting.

Biographies of Directors and senior management of the Company are set out on pages 29 to 36 of this annual report.

Independence of the Independent Non-executive Directors

The Board has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules, and considers that all of the independent non-executive Directors are independent.

Directors' Service Contracts

None of the Directors has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Remuneration of the Directors

The determination of the remuneration of the Directors and senior management of the Company is based on the individual performance, the nature and responsibilities of the individual concerned and the performance of our Group and market conditions. Proposals for increase in remuneration, payment of discretionary bonus or adjustment to any benefits scheme will be approved by the remuneration committee of the Board. The Company will also periodically review and assess its human resource requirements and the prevailing market trend and make appropriate adjustments. Details of the remuneration of the Directors are set out in note 8 to the consolidated financial statements on page 105.

Employment and Emolument Policies

As at December 31, 2011, the Group had 827 full-time employees (as at December 31, 2010: 655 full-time employees). The emolument policy of the employees of the Group is set up by the Board on the basis of individual performance, the nature and responsibilities of the individual concerned and the performance of our Group and market conditions.

In addition to basic salaries, the Company has the Pre-IPO Share Incentive Scheme and the Share Option Scheme as an incentive for directors and eligible employees. Details of the schemes are set out in note 36 to the consolidated financial statements on page 139.The Company also distributes performance-based year-end bonuses to certain eligible employees.

Retirement Benefit Scheme

The Group does not have any employee who is required to participate in the Mandatory Provident Fund in Hong Kong. The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC municipal government. The employees of the PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to this retirement benefits scheme is to make the required contributions under the scheme.

Particulars of the retirement benefits scheme of the Group are set out in note 6 to the consolidated financial statements on page 104.

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

As at December 31, 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 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[1]

Name of Director	Nature of interest	Number of securities	Approximate percentage of shareholding as at December 31, 2011
Mr. Jiang Hailin[2]	Beneficiary of the Fino Trust	887,081,551 (L)[7]	55.00% (L)[7]
Mr. Wang Jing[3]	Beneficiary of the Tesco Trust/Beneficial owner	894,431,551 (L)[7]	55.46% (L)[7]
Mr. Pan Jianguo[4]	Beneficiary of the Ampio Trust	887,081,551 (L)[7]	55.00% (L)[7]
Mr. Lu Xiao[5]	Beneficial owner/Interest of a controlled corporation	103,040,567 (L)[7]	6.39% (L)[7]
Mr. Lv Xilin[6] (appointed on August 24, 2011)	Beneficiary of the Fino Trust/Beneficial owner	888,854,551 (L)[7]	55.11% (L)[7]

Notes:

1. Pursuant to the Shareholders Voting Agreement, Holdco, Fino Trust, Tesco Trust, Ampio Trust, Best Partners and Gouver are deemed to be interested in equal shareholding of the Company, which is the total of the shareholdings of the Company of all the parties to the Shareholders Voting Agreement.

   As a result, on December 31, 2011 and March 28, 2012, each of Holdco, Fino Trust, Tesco Trust, Ampio Trust, Best Partners and Gouver is deemed to be interested in 887,081,551 Shares and 886,794,551 Shares respectively.

2. The Shares are held by Best Partners, 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 in turn is interested in 887,081,551 Shares. On January 18, 2012, share options under the Share Option Scheme were granted to Jiang Hailin to subscribe for an aggregate of 1,855,848 Shares. On March 28, 2012, the Shares held by the Fino Trust (and in turn the number of Shares which Jiang Hailin is interested in) changed to 886,794,551, as a result of which Jiang Hailin is totally interested in 888,650,399 Shares and the approximate percentage of shareholding changed to 55.10% after taking into account of his interest in the underlying Shares.

3. The Shares are held by Best Partners, 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 in turn is interested in 887,081,551 Shares. Wang Jing is also interested in 7,350,000 underlying Shares, as a result of which Wang Jing is totally interested in 894,431,551 Shares. On January 18, 2012, shares options under the Share Option Scheme were granted to Wang Jing to subscribe for an aggregate of 1,855,848 Shares. On March 28, 2012, the Shares held by the Tesco Trust (and in turn the number of Shares which Wang Jing is interested in) changed to 886,794,551, as a result of which Wang Jang is totally interested in 896,000,399 Shares and the approximate percentage of shareholding changed to 55.55% after taking into account of his interest in the underlying Shares.

4. The Shares are held by Rockyjing and Gouver, the issued share capital of both are owned by Ampio International Limited, as nominees and trustee for Credit Suisse Trust Limited, which is the trustee holding such interests on trust for the beneficiaries of the Ampio Trust, namely Pan Jianguo and Jing Yang. The Ampio Trust is an irrevocable discretionary trust established under the laws and regulations of Singapore. Pan Jianguo is a beneficiary of the Ampio Trust, which in turn is interested in 887,081,551 Shares. On January 18, 2012, share options under the Share Option Scheme were granted to Pan Jianguo to subscribe for an aggregate of 4,175,659 Shares. On March 28, 2012, the Shares held by the Ampio Trust (and in turn the number of Shares which Pan Jianguo is interested in) changed to 886,794,551, as a result of which Pan Jianguo is totally interested in 890,970,210 Shares and the approximate percentage of shareholding changed to 55.24% after taking into account of his interest in the underlying Shares.

5. Lu Xiao is interested in 4,662,105 underlying Shares and also holds 98,378,462 Shares through Speedy Fast, as a result of which Lu Xiao is totally interested in 103,040,567 Shares. On January 18, 2012. share options under the Share Option Scheme were granted to Lu Xiao to subscribe for an aggregate of 6,595,432 Shares. On March 28, 2012, Lu Xiao is totally interested in 109,999,999 Shares and the approximate percentage of shareholding changed to 6.82% after taking into account of his interest in the Underlying Shares.

6. The Shares are held by Best Partners, 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 in turn is interested in 887,081,551 Shares. Lv Xilin is also interested in 1,773,000 underlying Shares, as a result of which Lv Xilin is totally interested in 888,854,551 Shares. On January 18, 2012, share options under the Share Option Scheme were granted to Lv Xilin to subscribe for an aggregate of 6,402,677 Shares. On March 28, 2012, the Shares held by the Fino Trust (and in turn the number of Shares which Lv Xilin is interested in) changed to 886,794,551, as a result of which Lv Xilin is totally interested in 894,970,228 Shares and the approximate percentage of shareholding changed to 55.49% after taking into account of his interest in the underlying Shares.

7. (L) denotes long positions.

(ii) Interest in Underlying Shares

Name of Director	Nature of interest	Number of shares in the Company upon the exercise of the outstanding options granted under the Pre-IPO Share Incentive Scheme as at December 31, 2011	Approximate percentage of shareholding upon the exercise of the outstanding options granted under the Pre-IPO Share Incentive Scheme as at December 31, 2011
Mr. Wang Jing	Beneficial owner	7,350,000	0.46%
Mr. Lu Xiao	Beneficial owner	4,662,105	0.29%
Mr. Lv Xilin	Beneficial owner	1,773,000	0.11%

Directors' Rights to Acquire Shares

Save as otherwise disclosed in this annual report, at no time during the year ended December 31, 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.

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.

The Board would like to clarify that the paragraph set out on page VI-22 of the Prospectus under clause 1(l)(i) has an inadvertent typographical error in respect of the duration of the period whereby the period should be "within three months (or such longer period as the Board may determine)" instead of one month. The Board is of the view that this correction set out herein is not material and does not alter the disclosure in the Prospectus.

1. Pre-IPO Share Incentive Scheme

The Company and Holdco. adopted the Pre-IPO Share Incentive Scheme on December 28, 2008. The purpose of our 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(s) of the Group.

On January 1, 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 13,118,139 underlying Shares comprised in the options were transferred upon the exercise of the underlying options, 5,928,486 underlying Shares comprised in the options were cancelled or lapsed, and 97,606,480 underlying Shares comprised in the options have not been transferred.

The options granted under the Pre-IPO Share Incentive Scheme represent approximately 7.23% of the Company's enlarged share capital as at December 31, 2011. Upon exercise of such options, Holdco, the controlling shareholder of the Company, will transfer 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 year ended December 31, 2011 is as follows:—

Grantee	Grant date	Vesting start date	Expiry date	Outstanding as at January 1, 2011	Exercised during the year ended December 31, 2011	Lapsed or cancelled during the year ended December 31, 2011	Outstanding as at December 31, 2011	Exercise price per share (RMB)
Mr. Wang Jing	31/12/2008	31/12/2008	31/12/2013	3,518,500	3,518,500[(1)]	–	0	0.6
(executive Director)	31/12/2008	31/12/2010	31/12/2015	1,305,250	481,500[(1)]	–	823,750	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
Mr. Lu Xiao	31/12/2008	31/12/2008	31/12/2013	1,445,253	–	–	1,445,253	0.6
(executive Director)	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
Mr. Lv Xilin	31/12/2008	31/12/2008	31/12/2013	549,630	–	–	549,630	0.6
(executive Director)	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
Others	31/12/2008	31/12/2008	31/12/2013	52,657,010	6,533,020[(2)]	–	46,123,990	0.6
	31/12/2008	31/12/2010	31/12/2015	7,701,832	2,585,119[(3)]	–	5,116,713	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	–	1,692,122	6,009,710	3
	31/12/2008	30/06/2012	30/06/2017	7,701,832	–	1,272,122	6,429,710	3
	31/12/2008	31/12/2012	31/12/2017	7,701,832	–	1,692,122	6,009,710	4
	31/12/2008	30/06/2013	30/06/2018	7,701,830	–	1,272,120	6,429,710	4
TOTAL:				**116,653,105**	**13,118,139**	**5,928,486**	**97,606,480**	

Notes:

(1) The weighted average closing price of the Company's shares immediately before the exercise dates of share options was HK$1.09.

(2) The weighted average closing price of the Company's shares immediately before the exercise dates of share options was HK$3.72.

(3) The weighted average closing price of the Company's shares immediately before the exercise dates of share options was HK$3.74.

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 our Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives:

(i) motivate the Eligible Participants to optimize their performance efficiency for the benefit of our 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 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, 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 December 31, 2011, no option has been granted under the Share Option Scheme.

On January 18, 2012, the Board resolved to grant share options under the Share Option Scheme adopted by the Company on June 18, 2010 to 191 grantees, which includes certain Directors, chief executive, substantial shareholders and employees of the Company to subscribe for an aggregate of 155,000,000 Shares.

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

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

As at December 31, 2011, to the best knowledge of the directors of the Company, 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:

Long Positions and Short Positions in the Shares and Underlying Shares

Name	Capacity/Nature of Interest	Number of Shares	Approximate percentage of shareholding
Holdco[(1)]	Beneficial owner	887,081,551 (L)[(10)]	55.00% (L)[(10)]
Best Partners[(2)]	Interest of a controlled corporation	887,081,551 (L)[(10)]	55.00% (L)[(10)]
Fino Investments Limited[(3)]	Interest of a controlled corporation	887,081,551 (L)[(10)]	55.00% (L)[(10)]
Tesco Investments Limited[(4)]	Interest of a controlled corporation	887,081,551 (L)[(10)]	55.00% (L)[(10)]
Gouver[(5)]	Interest of a controlled corporation	887,081,551 (L)[(10)]	55.00% (L)[(10)]
Ampio International Limited[(5)(6)]	Interest of a controlled corporation	887,081,551 (L)[(10)]	55.00% (L)[(10)]
Credit Suisse Trust Limited[(3)(4)(6)(7)]	Trustee	887,081,551 (L)[(10)]	55.00% (L)[(10)]
Huaxin[(7)]	Beneficial owner	99,278,087 (L)[(10)]	6.16% (L)[(10)]
Binks Investments Limited[(7)]	Interest of a controlled corporation	99,278,087 (L)[(10)]	6.16% (L)[(10)]
Speedy Fast[(8)]	Interest of a controlled corporation	98,378,462 (L)[(10)]	6.10% (L)[(10)]
Central Huijin Investment Ltd.[(9)]	Interest of a controlled corporation	96,863,182 (L)[(10)]	6.01% (L)[(10)]

Notes:

(1) The issued share capital of Holdco is owned as to 13.25% by Gouver and as to 86.75% by Best Partners.

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

(3) 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.

(4) 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.

(5) Gouver is wholly owned by Ampio International Limited.

(6) Ampio International 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 Ampio Trust, namely Pan Jianguo and Jing Yang. The Ampio Trust is an irrevocable discretionary trust established under the laws and regulations of Singapore.

(7) Huaxin is 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 beneficiary of the Binks Trust, namely Dang Kulun, Shi Li, Dang Hankun, Dang Hanwen, Dang Zhen and New Song Cristian Life Centre. The Binks Trust is an irrevocable discretionary trust established under the laws and regulations of Singapore.

(8) Speedy Fast is wholly owned by Lu Xiao.

(9) 115,394,097 Shares were originally held by CCB International Asset Management Limited ("**CCBIAM**") as at June, 30 2011, of which 96,863,182 Shares were charged to CCBIAM by Holdco. The Company was orally informed by CCMIAM that CCBIAM sold 18,530,915 Shares before December 31, 2011. As such, CCBIAM was interested in 96,863,182 Shares as at December 31, 2011. 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 February 20, 2012, CCBIAM released and discharged the pledge of 96,863,182 Shares owned by Holdco and did not hold any Shares after such release and discharge.

(10) (L) denotes long positions.

Purchase, Sale or Redemption of Listed Securities

During the year ended December 31, 2011, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

Exchangeable Bonds

On March 29, 2010, Holdco issued to CCBIAM the revised and restated CCBIAM exchangeable bonds (the "**CCBIAM Exchangeable Bonds**") in four tranches with an aggregate principal amount of RMB200.0 million. The exchangeable portion of all four tranches, which represented 84.5% of the total principal amount of the CCBIAM Exchangeable Bonds, were automatically exchanged upon Listing on July 15, 2010 into 55,530,915 Shares. The exchanged Shares were not transferred to CCBIAM until January 17, 2011.

On March 5, 2010, Holdco issued an exchangeable bond with the principal amount of US$11.0 million to Baytree Investments (Mauritius) Pte Ltd (the "**Baytree**"), a wholly-owned subsidiary of Temasek Holdings (Private) Limited (the "**Baytree Exchangeable Bond**"). All of the principal amount of the Baytree Exchangeable Bond were automatically exchanged upon Listing on July 15, 2010 into 50,706,001 Shares. The exchanged Shares were not transferred to Baytree until February 10, 2011.

There is no dilutive effect on the shareholders of the Company resulting from the exchange of the CCBIAM Exchangeable Bonds and the Baytree Exchangeable Bonds as the transfers of the relevant Shares were made by our controlling shareholder Holdco.

For details of the CCBIAM Exchangeable Bonds and Baytree Exchangeable Bond, please refer to the section headed "Our Investors" in the Propsectus.

Changes to Information in respect of Directors

On August 24, 2011, Mr. Liao Jie was appointed as an executive Director and chief executive officer of the Company. Mr. Lv Xilin was also appointed as an executive Director the same day.

Save as disclosed herein, in the year ended December 31, 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 were listed on the main board of the Stock Exchange on July 15, 2010 with net proceeds from the Listing of the Shares 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 as at December 31, 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	319.7	—
Project-related working capital needs	35%	248.7	168.5	80.2
Research and development	10%	71.1	33.4	37.7
General corporate purposes	10%	71.1	67.2	3.9
Total	**100%**	**710.6**	**588.8**	**121.8**

Major Customers and Suppliers

For the year ended December 31, 2011, the aggregate sales to the Group's five largest customers, in aggregate represented approximately 25.5% of the Group's total revenue and sales to the Group's largest customer amounted to approximately 9.4% of the Group's total revenue.

For the year ended December 31, 2011, the aggregate purchases attributable to the Group's five largest suppliers, in aggregate represented approximately 41.7% of the Group's total purchases and purchases attributable to the Group's largest supplier amounted to approximately 27.0% of the Group's total purchases.

For the year ended December 31, 2011, none of the Directors nor any of their associates or any shareholders who, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital, had any interest in the five largest suppliers or customers.

Banking Facilities and Other Borrowings

Details of the bank facilities and other borrowings of the Company as at December, 31 2011 are set out in note 30 to the consolidated financial statements on page 133.

Corporate Governance

The Company is committed to maintaining a high standard of corporate governance practice. Information on the corporate governance practice adopted by the Company is set out in the Corporate Governance Report on pages 37 to 46.

Sufficiency of Public Float

According to information that is publicly available to the Company and within the knowledge of the Board, as at December 31, 2011, the Company has maintained sufficient public float as required under the Listing Rules.

Connected Transactions

There were no connected transactions of the Company for the year ended December 31, 2011.

Related Parties Transactions

The Group was involved in a number of related party transactions during the year ended December 31, 2011, which have been disclosed in note 43 to the consolidated financial statements on pages 145.

Contracts of Significance

No contracts of significance in relation to the business of the Group, to which the Company, its holding companies, its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended December 31, 2011.

No contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries subsisted at December 31, 2011 or any time during the year ended December 31, 2011.

Directors' Interests in Competing Business

None of the Directors and their respective associates (as defined in the Listing Rules) has an interest in any business which competes or may compete with the business in which the Group is engaged.

Non-competition Deed

As disclosed in the Prospectus, the Independent non-executive Directors will review, on an annual basis, the compliance by the controlling shareholders of the Company with the non-competition undertakings under the Non-competition Agreement (as defined in the Prospectus). The Independent non-executive Directors have conducted such review for the year ended December 31, 2011 and found that the Non-competition Agreement has been fully complied with.

Audit Committee

The Group's annual report for the year ended December 31, 2011 has been reviewed by the Audit Committee. Information on the work of the Audit Committee and its composition are set out in the Corporate Governance Report on page 43.

Auditor

The consolidated financial statements of the Group for the year ended December 31, 2011 have been audited by Ernst & Young. A resolution for the re-appointment of Ernst & Young as the Company's auditor will be proposed at the forthcoming annual general meeting.

Events after the Reporting Period

Please refer to note 46 to the consolidated financial statements on page 155 for events of the Company after December 31, 2011.

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

Beijing, March 28, 2012

Independent Auditors' Report

ERNST & YOUNG
安 永

Ernst & Young
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To the shareholders of China ITS (Holdings) Co., Ltd.
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China ITS (Holdings) Co., Ltd. (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 62 to 155, which comprise the consolidated and company statements of financial position as at December 31, 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2011, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong

March 28, 2012

Consolidated Income Statement

Year ended December 31, 2011

	Notes	2011 RMB'000	2010 RMB'000
REVENUE	5	**1,585,206**	1,862,184
Cost of sales		**(1,192,814)**	(1,274,242)
Gross profit		**392,392**	587,942
Other income and gains	5	**23,636**	8,870
Expenses relating to the listing of the Company's shares		**—**	(35,488)
Selling, general and administrative expenses		**(283,365)**	(211,051)
Other expenses		**(1,364)**	(247)
OPERATING PROFIT		**131,299**	350,026
Finance income	6	**4,037**	5,605
Finance costs	7	**(14,894)**	(11,505)
Share of profits of			
Jointly-controlled entities		**5,947**	3,556
Associates		**5,358**	—
PROFIT BEFORE TAX	6	**131,747**	347,682
Income tax expense	10	**(20,779)**	(53,673)
PROFIT FOR THE YEAR		**110,968**	294,009
Attributable to:			
Owners of the parent	11	**112,919**	294,009
Non-controlling interests		**(1,951)**	—
		110,968	294,009
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
		RMB	RMB
Basic			
— For the profit for the year	13	**0.07**	0.21

* Details of the dividends payable and proposed for the year are disclosed in note 13 to financial statements.

Consolidated Statement of Comprehensive Income

Year ended December 31, 2011

	Notes	2011 RMB'000	2010 RMB'000
PROFIT FOR THE YEAR		**110,968**	294,009
Exchange differences on translation of foreign operations		**(17,829)**	(13,893)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(17,829)**	(13,893)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**93,139**	280,116
Attributable to:			
Owners of the parent	11	**95,090**	280,116
Non-controlling interests		**(1,951)**	—

Consolidated Statement of Financial Position

December 31, 2011

	Notes	December 31, 2011 RMB'000	December 31, 2010 RMB'000
NON-CURRENT ASSETS			
Property and equipment	14	**56,243**	27,074
Investment properties	15	**145,800**	141,037
Goodwill	16	**347,321**	230,664
Other intangible assets	17	**34,467**	—
Investments in jointly-controlled entities/operation	19	**31,611**	19,750
Investments in associates	21	**84,740**	—
Deferred tax assets	33	**13,350**	5,350
Prepayments for acquisition of equity interests in companies	20	**105,715**	—
Other assets		**557**	566
Total non-current assets		**819,804**	424,441
CURRENT ASSETS			
Inventories	22	**31,262**	4,467
Construction contracts	23	**785,172**	777,875
Trade and bills receivables	24	**769,186**	834,436
Prepayments, deposits and other receivables	25	**869,206**	555,280
Due from related parties	43	**81,991**	5,571
Pledged deposits	26	**79,841**	182,502
Short term deposit	26	**—**	112,441
Cash and cash equivalents	26	**435,881**	836,883
Held-to-maturity investment	27	**69,396**	—
Total current assets		**3,121,935**	3,309,455
CURRENT LIABILITIES			
Trade and bills payables	28	**672,652**	597,838
Other payables and accruals	29	**166,842**	122,130
Construction contracts	23	**458,709**	559,531
Interest-bearing bank borrowings	30	**300,390**	289,998
Due to related parties	43	**15,409**	6,537
Income tax payable		**14,948**	10,174
Deferred income	32	**4,200**	—
Total current liabilities		**1,633,150**	1,586,208
NET CURRENT ASSETS		**1,488,785**	1,723,247
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,308,589**	2,147,688

Consolidated Statement of Financial Position

December 31, 2011

	Notes	December 31, 2011 RMB'000	December 31, 2010 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	33	**35,889**	36,281
Total non-current liabilities		**35,889**	36,281
NET ASSETS		**2,272,700**	2,111,407
EQUITY			
Equity attributable to owners of the parent			
Issued capital	34	**283**	276
Reserves	35	**2,265,529**	2,111,131
		2,265,812	2,111,407
Non-controlling interests		**6,888**	—
Total equity		**2,272,700**	2,111,407

Jiang Hailin
Director

Pan Jianguo
Director

Consolidated Statement of Changes in Equity

Years ended December 31, 2011

		Attributable to owners of the parent									
	Notes	Issued capital RMB'000	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	Total RMB'000	Non-controlling Interests RMB'000	Total RMB'000
		note 34	note 35(b)	note 35(a)	note 35(a), 36						
At January 1, 2010		216	120,190	55,069	553,581	7,782	16,889	199,432	953,159	–	953,159
Profit for the year		–	–	–	–	–	–	294,009	294,009	–	294,009
Other Comprehensive income for the year:											
Exchange differences on translation of foreign operations		–	–	–	–	–	(13,893)	–	(13,893)	–	(13,893)
Total comprehensive income for the year		–	–	–	–	–	(13,893)	294,009	280,116	–	280,116
Issue of shares		60	918,186	–	–	–	–	–	918,246	–	918,246
Share-based payment transactions		–	–	–	9,886	–	–	–	9,886	–	9,886
Transfer from retained earnings		–	–	17,114	–	–	–	(17,114)	–	–	–
Dividend		–	(50,000)	–	–	–	–	–	(50,000)	–	(50,000)
At December 31, 2010 and January 1, 2011		**276**	**988,376**	**72,183**	**563,467**	**7,782**	**2,996**	**476,327**	**2,111,407**	**–**	**2,111,407**
Profit for the year		**–**	**–**	**–**	**–**	**–**		**112,919**	**112,919**	**(1,951)**	**110,968**
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations		**–**	**–**	**–**	**–**	**–**	**(17,829)**	**–**	**(17,829)**	**–**	**(17,829)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**(17,829)**	**112,919**	**95,090**	**(1,951)**	**93,139**
Issue of shares	34	**7**	**53,157**	**–**	**–**	**–**	**–**	**–**	**53,164**	**–**	**53,164**
Share-based payment transactions	36	**–**	**–**	**–**	**6,151**	**–**	**–**	**–**	**6,151**	**–**	**6,151**
Transfer from retain earnings		**–**	**–**	**14,354**	**–**	**–**	**–**	**(14,354)**	**–**	**–**	**–**
Acquisition of non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,738**	**2,738**
Contribution from non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6,101**	**6,101**
At December 31, 2011		**283**	**1,041,533***	**86,537***	**569,618***	**7,782***	**(14,833)***	**574,892***	**2,265,812**	**6,888**	**2,272,700**

* These reserve accounts comprise the consolidated reserve of RMB2,265,529,000 (2010: RMB2,111,131,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended December 31, 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**110,968**	294,009
Adjustments to reconcile net profit to net cash used in operating activities:			
Depreciation	6	**9,998**	7,502
Amortisation	6	**3,108**	—
Net (gain)/loss on disposal of items of property and equipment	6	**51**	(9)
Equity settled share option expense	36	**6,151**	9,886
Expenses related to the listing of the Company's shares	6	**—**	35,488
Impairment of trade receivables	24	**395**	(1,882)
Impairment of other receivables	25	**3,678**	—
Impairment of property and equipment	14	**248**	—
Deferred income tax charge	10	**(8,371)**	15,089
Share of profits of jointly-controlled entities		**(5,947)**	(3,556)
Fair value (gain)/loss on the interest in a jointly-controlled entity		**(2,512)**	—
Share of profit of associates		**(5,358)**	—
Net gain from fair value adjustments on investment properties	15	**(4,763)**	(3,200)
Impairment of goodwill	16	**427**	—
Finance income	6	**(4,037)**	(5,605)
Finance costs	7	**14,894**	11,505
		118,930	359,227
Changes in assets and liabilities:			
Pledged deposits		**22,301**	19,143
Trade and bills receivables		**166,157**	(421,160)
Prepayments, deposits and other receivables		**(288,934)**	(354,383)
Construction contracts		**(113,883)**	213,080
Inventories		**(16,663)**	1,965
Balances with related parties		**(67,548)**	(890)
Trade and bills payables		**14,037**	109,248
Other payables and accruals		**(44,192)**	11,021
Income tax payable		**4,774**	(2,618)
Cash generated from operations		**(205,021)**	(65,367)
Interest paid		**(14,894)**	(11,505)
Interest received		**5,721**	3,921
Net cash flows used in operating activities		**(214,194)**	(72,951)

Consolidated Statement of Cash Flows

Year ended December 31, 2011

	Notes	2011 RMB'000	2010 RMB'000
Net cash flows used in operating activities		**(214,194)**	(72,951)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of items of property and equipment		**—**	2,815
Purchases of items of property and Equipment		**(9,758)**	(11,159)
Purchases of an investment property	15	**—**	(57,737)
Purchases of a held-to-maturity interest		**(69,396)**	—
Dividend received from a jointly-controlled entity		**1,221**	1,189
Investment in a short term deposit		**112,441**	(112,441)
Acquisition of jointly-controlled entities		**(11,929)**	(7,650)
Acquisition of subsidiaries	37	**(173,164)**	—
Prepayment for acquisition of equity interests in companies		**(105,715)**	—
Net cash flows used in investing activities		**(256,300)**	(184,983)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**420,390**	379,926
Repayment of bank loans		**(409,998)**	(260,078)
Decrease/(Increase) in pledged deposits for bank loans		**80,360**	(30,133)
Dividends paid		**—**	(65,297)
Proceeds from issue of shares		**—**	927,964
Payment of listing expenses		**(10,823)**	(25,117)
Capital contribution from non-controlling interests		**6,101**	—
Net cash flows from financing activities		**86,030**	927,265
Net increase/(decrease) in cash and cash equivalents		**(384,464)**	669,331
Effect of foreign exchange rate changes, net		**(16,538)**	(9,621)
Cash and cash equivalents at beginning of year		**836,883**	177,173
CASH AND CASH EQUIVALENTS AT END OF YEAR	26	**435,881**	836,883

Statement of Financial Position

December 31, 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	18	**557,055**	571,471
Investments in jointly-controlled operation	19	**2,067**	—
Prepayment for acquisition of new entities	20	**56,115**	—
		615,237	571,471
CURRENT ASSETS			
Prepayments, deposits and other receivables	25	**2,531**	8,760
Due from subsidiaries	31	**727,670**	455,027
Held-to-maturity investment	27	**69,396**	—
Short term deposit	26	**—**	112,441
Cash and cash equivalents	26	**47,543**	363,184
		847,140	939,412
CURRENT LIABILITIES			
Other payables and accruals	29	**1,564**	18,860
Due to a subsidiary	31	**962**	18,339
		2,526	37,199
NET CURRENT ASSETS		**844,614**	902,213
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,459,851**	1,473,684
EQUITY			
Issued capital	34	**283**	276
Reserves	35	**1,459,568**	1,473,408
Total equity		**1,459,851**	1,473,684

Jiang Hailin
Director

Pan Jianguo
Director

Notes to the Financial Statements

December 31, 2011

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on February 20, 2008. The registered address of the Company is Criket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, the Cayman Islands. The principal executive office of the Company is located at Unit 1801A, 18/F, West Tower, World Finance Centre, No. 1 East 3rd Ring Road Middle, Chaoyang District, Beijing 100020, the People's Republic of China (the "**PRC**").

The Group is a provider of transportation infrastructure technology solutions and services in the PRC. During the year, the Group was principally involved in the following activities:

- Turnkey Solutions business — engaging in the integration of information technology with the physical transportation infrastructure;

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

- Value-Added Operation and Service segment involves operation outsourcing and value-added services, via ITS platforms, servicing transportation operators and participants.

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

2.1 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Standing Interpretation Committee interpretations issued and approved by the International Accounting Standards Board (the "**IASB**") that remain in effect, and the disclosure requirements of Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, which has been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended December 31, 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

2.1 BASIS OF PRESENTATION (continued)

Basis of consolidation (continued)

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the financial statements for the year ended December 31, 2011.

IFRS1 Amendment	*Amendment to IFRS1 First-time Adoption of International Financial Reporting Standards Limited Exemption from Comparative IFRS7 Disclosures for First-time Adopters*
IAS 24 (Revised)	*Related Party Disclosures*
IAS 32 Amendment	Amendment to IAS 32: *Financial Instruments: Presentation — Classification of Rights Issues*
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to IFRSs 2010	Amendments to a number of IFRSs issued in May 2010

Other than as further explained below regarding the impact of IAS 24 (Revised), and amendments to IFRS 3, IAS 1 and IAS 27 included in *Improvements to IFRSs 2010*, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The principal effects of adopting these IFRSs are as follows:

(a) IAS 24 (Revised) *Related Party Disclosures*

IAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also 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 accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 43 to the consolidated financial statements.

(b) *Improvements to IFRSs 2010* issued in May 2010 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- IFRS 3 *Business Combinations*: The amendment 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 amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS.

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

- IAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- IAS 27 *Consolidated and Separate Financial Statements*: The amendment 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 1 July 2009 or earlier if IAS 27 is applied earlier.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
IFRS 1 Amendments	Amendments to IFRS 1 *Government Loans*[4]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[1]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[4]
IFRS 9	*Financial Instruments*[6]
IFRS 10	*Consolidated Financial Statements*[4]
IFRS 11	*Joint Arrangements*[4]
IFRS 12	*Disclosure of Interests in Other Entities*[4]
IFRS 13	*Fair Value Measurement*[4]
IAS 1 Amendments	Amendments to IFRS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[3]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*[2]
IAS 32 Amendments	Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*[5]
IAS 19 Amendments	*Employee Benefits*[4]
IAS 27 Revised	*Separate Financial Statements*[4]
IAS 28 Revised	*Investments in Associates and Joint Ventures*[4]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Further information about those changes that are expected to significantly affect the Group is as follows:

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

In October 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "**Additions**") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("**FVO**"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("**OCI**"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2015.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities or structure entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in IAS 27 and SIC 12 *Consolidation — Special Purpose Entities*. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in IAS 27 *Consolidated and Separate Financial Statements*, IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. The Group expects to adopt IFRS 10, IFRS 11, IFRS 12 and the consequential amendments to IAS 27 and IAS 28 from 1 January 2013.

IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. The Group expects to adopt IFRS 13 prospectively from 1 January 2013.

Amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

IAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in SIC 21 Income Taxes — Recovery of Revalued Non-Depreciable Assets that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. The Group expects to adopt IAS 12 Amendments from 1 January 2012.

IAS 19 Amendments include a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised amendments introduce significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt IAS 19 Amendments from 1 January 2013.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign currencies

Since the Company conducts its primary business operations through its subsidiaries established in the PRC, the Company adopts RMB as the presentation currency of the Group. The Company's functional currency is Hong Kong dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of the reporting period. All differences arising on settlement or transaction of monetary items are taken to the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)
All differences arising on settlement or translation of monetary items are taken to the income statement with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain non-PRC subsidiaries and a jointly-controlled operation are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of foreign operations are translated into the presentation currency of the Company at the rate of exchange ruling at the end of the reporting period and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of non-PRC subsidiaries and a jointly-controlled operation are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of non-PRC subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at December 31. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries those are not classified as held for sales in accordance with IFRS 5 are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with IAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statements and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost may also include transfers from equity of any gains or losses on qualified cash flow hedges of foreign currency purchases of property and equipment.

Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Buildings	20 years
Computers and electronic equipment	5 years
Office equipment	5 years
Motor vehicles	5 years
Software	5 years
Leasehold improvements	Over the shorter of the expected life of the leasehold improvements and the lease terms

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as loans and receivables. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus transaction costs, in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)
The Group's financial assets include cash and bank balances, trade and bills receivables, amounts due from related parties, and other receivables.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured carried at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in finance costs for loans and in other expenses for receivables.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

Derecognition of financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired or;

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "**pass through**" arrangement, and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Derecognition of financial assets (continued)
When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Impairment of non-financial assets
Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, deferred tax assets, financial assets, investment properties, goodwill and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "**loss event**") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from cost plus construction contracts is recognised on the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amounts. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contracts for services (continued)

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Cash and cash equivalents

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks, and assets similar in nature to cash, which are not restricted as to use.

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables, amounts due to related parties and interest-bearing bank borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would not be material, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm’s length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for warranty-related costs are recognised when the product is sold or service provided. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

Employee benefits

Share option plan

The Company's parent operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contributes to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("**equity settled transactions**").

In situations where equity instruments are issued and some or all of the goods or services received by the Group as consideration cannot be specifically identified, the unidentifiable goods or services are measured as the difference between the fair value of the share-based payment transaction and the fair value of any identifiable goods or services received at the grant date.

Equity-settled transactions

The cost of equity-settled transactions with employees in respect to for awards granted after November 7, 2002 is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using a Hull-White binomial option pricing model, further details of which are given in note 36 below.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Equity-settled transactions (continued)

No expense is recognised for awards that do not ultimately vest, except for equity-settled transaction where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

There is no dilutive effect from the options granted by China ITS Co., Ltd. in the computation of earnings per share of the Company. As further disclosed in note 11 below, the underlying ordinary shares of the Company were in issue and owned by the China ITS Co., Ltd., which will be transferred to the relevant employees upon the exercise of such options.

PRC contribution plans

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The assets of the scheme are held separately from these of the Group in an independent administered fund. These subsidiaries are required to contribute 20% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property and equipment.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above;

(c) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" above;

(d) rental income, on a time proportion basis over the lease terms;

(e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(f) dividend income, when the shareholders' right to receive payment has been established.

Income taxes

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Where the Group receives a non-monetary grant, the asset and the grant are recorded at the fair value of the non-monetary asset and released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating lease.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independent of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for administrative purposes. Judgement is made on an individual property basis is to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Tax provisions

Determining tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions, and tax provisions are set up accordingly. The tax treatment of such transactions is assessed periodically to take into account all the changes in the tax legislation and practices.

No deferred tax liabilities have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. The directors determine that it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2011 was RMB347,321,000 (2010: RMB230,664,000). Further details are given in note 16.

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs. The carrying amount of investment properties at December 31, 2011 was RMB145,800,000 (2010: RMB141,037,000).

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of receivables
The Group's policy for impairment of receivables is based on an assessment of the recoverability of debtors. The identification of doubtful debts requires management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of the receivables and impairment loss in the period in which the estimate has been changed.

The receivables that were past due but not impaired relate to a number of debtors that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that the provision balance for impairment is sufficient in respect of these balances and the remaining balances are still considered fully recoverable. Impairment loss was recognised for receivables for the year ended December 31, 2011 was RMB4,073,000 (December 31, 2010: Nil).

Percentage of completion of construction work
The Group recognises revenue according to the percentage of completion for individual contracts of construction work, which requires estimation to be made by management. The stage of completion is estimated by reference to the actual costs incurred over the total budgeted costs, and the corresponding contract revenue is also estimated by management. Due to the nature of the activity undertaken in construction contracts, the date at which the activity is entered into and the date at which the activity is completed usually fall into different accounting periods. Hence, the Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each contract as the contract progresses. Where the actual contract revenue is less than expected or actual contract costs are more than expected, an impairment loss may arise.

Current income tax and deferred income tax
The Group is subject to income taxes in numerous jurisdictions. Judgement is required to determine the provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the current income tax and deferred income tax provisions in the periods in which the differences arise.

Deferred tax assets relating to certain deductible temporary differences and unused tax losses are recognised as management considers it is probable that future taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised. The realisation of the deferred tax assets mainly depends on whether sufficient profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in the income statement for the period in which such a reversal takes place. The carrying value of deferred tax assets at December 31, 2011 were approximately RMB13,350,000 (December 31, 2010: RMB5,350,000).

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) Turnkey Solutions segment engages in the integration of information technology with the physical transportation infrastructure;

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

(c) Value-Added Operation and Service segment involves operation outsourcing and value-added services, via ITS platforms, servicing transportation operators and participants.

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

Segment assets exclude deferred tax assets, property and equipment, investment properties, amounts due from related parties, investments in jointly-controlled entities and associates, prepayments for acquisition of equity interests in companies, a held-to-maturity investment 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 parties, 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.

4. OPERATING SEGMENT INFORMATION (continued)

Year ended December 31, 2011	Turnkey Solutions RMB'000	Specialised Solutions RMB'000	Value-Added Operation and Services RMB'000	Consolidated RMB'000
Segment revenue				
Sales to external customers	630,555	918,775	35,876	1,585,206
Intersegment sales	—	27,575	—	27,575
	630,555	946,350	35,876	1,612,781
Reconciliation:				
Elimination of intersegment sales				(27,575)
Revenue				1,585,206
Segment results	62,995	81,470	14,330	158,795
Reconciliation:				
Interest income				4,037
Share of profits of associates				5,358
Share of profits of jointly-controlled entities				5,947
Fair value gains on investment properties				4,763
Impairment of goodwill				(427)
Corporate and other unallocated expenses				(31,832)
Finance costs				(14,894)
Profit before tax				131,747

4. OPERATING SEGMENT INFORMATION (continued)

December 31, 2011	Turnkey Solutions RMB'000	Specialised Solutions RMB'000	Value-Added Operation and Services RMB'000	Consolidated RMB'000
Segment assets	1,030,136	2,167,378	205,491	3,403,005
Reconciliation:				
Elimination of intersegment receivables	(334,955)	(266,148)	—	(601,103)
Corporate and other unallocated assets				1,139,837
Total assets				3,941,739
Segment liabilities	701,787	1,095,792	101,727	1,899,306
Reconciliation:				
Elimination of intersegment payables	(250,911)	(350,192)	—	(601,103)
Corporate and other unallocated liabilities				370,836
Total liabilities				1,669,039
Other segment information				
Share of profits of:				
Jointly-controlled entities				5,947
Associates				5,358
Depreciation and amortisation				13,106
Investment in jointly-controlled entities				31,661
Investment in associates				84,740
Capital expenditure *				88,959

* Capital expenditure consists of additions to property and equipment, investments in jointly-controlled entities and intangible assets including assets from the acquisition of subsidiaries.

4. OPERATING SEGMENT INFORMATION (continued)

Year ended December 31, 2010	Turnkey Solutions RMB'000	Specialised Solutions RMB'000	Value-Added Operation and Services RMB'000	Consolidated RMB'000
Segment revenue				
Sales to external customers	687,890	1,154,235	20,059	1,862,184
Intersegment sales	—	20,420	—	20,420
	687,890	1,174,655	20,059	1,882,604
Reconciliation:				
Elimination of intersegment sales				(20,420)
Revenue				1,862,184
Segment results	120,765	271,616	9,375	401,756
Reconciliation:				
Interest income				5,605
Share of profits of jointly-controlled entities				3,556
Fair value gains on investment properties				3,200
Corporate and other unallocated expenses				(54,930)
Finance costs				(11,505)
Profit before tax				347,682

4. OPERATING SEGMENT INFORMATION (continued)

December 31, 2010	Turnkey Solutions RMB'000	Specialised Solutions RMB'000	Value-Added Operation and Services RMB'000	Consolidated RMB'000
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)
Corporate and other unallocated liabilities				361,860
Total liabilities				1,622,489
Other segment information				
Share of profits of:				
Jointly-controlled entities				3,556
Impairment losses reversed				
in the income statement				1,882
Depreciation and amortisation				7,502
Investment in jointly-controlled entities				19,750
Capital expenditure *				76,546

* Capital expenditure consists of additions of property and equipment, investment properties and an additional investment in a jointly-controlled entity.

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2011 RMB'000	2010 RMB'000
The PRC	**1,585,206**	1,862,184

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

(b) Non-current assets

	2011 RMB'000	2010 RMB'000
The PRC	**236,510**	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, investment in associates and other assets and prepayment for the acquisition of equity interests in companies.

Information about a major customer

Revenue of approximately RMB152,629,000 for the year ended December 31, 2011 (2010: RMB122,100,000) was derived from a single customer in the specialised solutions business.

5. REVENUE, OTHER INCOME AND GAINS

Revenue for implementation of projects, which is also the Group's turnover, represents an appropriate proportion of contract revenue of construction contracts, net of business tax and government surcharges.

Revenue for sales of products, represents net invoiced value of goods sold, net of value-added tax and government surcharges, and after allowances for goods returns and trade discounts.

An analysis of revenue and other income and gains is as follows:

	2011 RMB'000	2010 RMB'000
Revenue		
Implementation of projects	**1,478,679**	1,830,136
Sale of products	**106,527**	32,048
	1,585,206	1,862,184
Other income		
Gross rental income	**8,591**	3,662
Government grants*	**3,112**	2,000
Fair value gain on an interest in a jointly-controlled entity	**2,512**	—
Exchange gain	**4,112**	—
Others	**546**	8
	18,873	5,670
Gains		
Net gain from fair value adjustments of investment properties	**4,763**	3,200
	23,636	8,870

* Various government grants have been received by the Group to subsidise the research and development activities of the Group. There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT BEFORE TAX

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

	2011 RMB'000	2010 RMB'000
Cost of services rendered for implementation of projects	**1,118,001**	1,257,397
Cost of inventories sold	**74,813**	16,845
	1,192,814	1,274,242
Depreciation (note 14)	**9,998**	7,502
Amortisation of intangible assets*	**3,108**	—
Minimum lease payments under operating leases	**20,243**	16,936
Auditors' remuneration	**3,406**	2,590
Wages and salaries	**59,441**	42,180
Pension scheme contributions (defined contribution scheme)	**8,245**	6,654
Social insurance costs and staff welfare	**13,392**	8,084
Equity-settled share option expense (note 36)	**6,151**	9,886
	87,229	66,804
Expenses related to the listing of the Company's shares	**—**	35,488
Foreign exchange differences, net	**—**	1,504
Write-back of impairment of trade receivables, net	**—**	(1,882)
Impairment of other receivables	**3,678**	—
Impairment of trade receivables	**395**	—
Impairment of property and equipment	**248**	—
Impairment of goodwill** (note 16)	**427**	—
Interest on bank loans, wholly repayable within one year	**14,894**	11,505
Changes in fair value of investment properties (note 15)	**(4,763)**	(3,200)
Net (gain)/loss on disposal of items of property and equipment	**51**	(9)
Charitable donation	**121**	203
Bank interest income	**(4,037)**	(5,605)

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

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2011 RMB'000	2010 RMB'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	**14,894**	11,505
Total interest expense on financial liabilities not at fair value through profit or loss	**14,894**	11,505

8. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2011 RMB'000	2010 RMB'000
Fee	**30**	15
Other emoluments:		
Salaries, allowances and benefits in kind	**1,296**	746
Equity-settled share option expense	**1,210**	2,251
Pension scheme contributions	**111**	91
	2,617	3,088
	2,647	3,103

Mr. Liao Jie and Mr Lv Xilin were appointed as directors of the Company on August 24, 2011. The directors' remuneration disclosed above only covers the periods during which the abovementioned individuals were directors of the Company.

During the year, no payments were made by the Group to directors of the Company in respect of inducement to join the Group or compensation for loss of office (2010: Nil).

8. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2011 RMB'000	2010 RMB'000
Mr. Zhou Chunsheng	**10**	5
Mr. Choi Onward	**10**	5
Mr. Sun Lu	**10**	5
	30	15

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

(b) Executive directors

2011	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Mr. Lv Xilin	**–**	**129**	**–**	**43**	**22**	**194**
Mr. Jiang Hailin	**–**	**306**	**–**	**–**	**30**	**336**
Mr. Liao Jie	**–**	**150**	**–**	**–**	**–**	**150**
Mr. Wang Jing	**–**	**171**	**–**	**827**	**–**	**998**
Mr. Lu Xiao	**–**	**235**	**–**	**340**	**29**	**604**
Mr. Pan Jianguo	**–**	**305**	**–**	**–**	**30**	**335**
	–	**1,296**	**–**	**1,210**	**111**	**2,617**

2010	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Mr. Jiang Hailin	–	237	–	–	30	267
Mr. Wang Jing	–	101	–	1,595	–	1,696
Mr. Dang Kulun	–	29	–	–	3	32
Mr. Pan Jianguo	–	237	–	–	30	267
Mr. Lu Xiao	–	142	–	656	28	826
	–	746	–	2,251	91	3,088

There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended December 31, 2011.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year 2011 are all non-directors (2010: included two directors). Details of the remuneration of the five non-director highest paid employees (2010: two directors) for the year ended December 31, 2011 are as follows:

	2011 RMB'000	2010 RMB'000
Salaries, allowances and benefits in kind	**2,911**	1,284
Equity-settled share option expense	**1,026**	1,311
Pension scheme contributions	**94**	61
	4,031	2,656

The number of non-director, highest paid individuals whose remuneration fell within the following bands is as follows:

	Number of employees	
	2011	2010
Nil to RMB1,000,000	**4**	3
RMB1,000,001 to RMB1,500,000	**1**	—
	5	3

During the year ended December 31, 2008, share options were granted to three non-director, highest paid employees in respect of their services to the Group, further details of the share option plan are set out in note 36 below. The fair value of these options, which has been recognised in the consolidated income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the year is included in the above non-director, highest paid employees remuneration disclosures.

10. INCOME TAX

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

Details of the tax benefits enjoyed by the Group's PRC subsidiaries are as follows:

(i) Beijing Aproud Technology Co., Ltd. ("**Aproud Technology**"), Beijing Bailian Zhida Technology Development Co., Ltd. ("**Bailian Zhida**") and Beijing Zhixun Tiancheng Technology Co., Ltd. ("**Zhixun Tiancheng**") were designated and approved as High and New Technology Enterprises ("**HNTE**") in September 2011 for a period of three years from January 1, 2011 and were entitled to a preferential tax rate of 15% for the year ended December 31, 2011.

(ii) Beijing Aproud Information Engineering Co., Ltd. ("**Beijing Aproud Information**"), Beijing Hexin Risheng Technology Co., Ltd. ("**Hexin Risheng**") and Beijing Huading Hengye Technology Co., Ltd. ("**Beijing Huading Hengye**") were designated and approved as advanced technology enterprises, were designated and approved as HNTEs in October 2011 for a period of three years from January 1, 2011 and were entitled to a preferential tax rate of 15% for the year ended December 31, 2011 as HNTEs.

(iii) Beijing Haotian Jiajie Technology Co., Ltd. ("**Haotian Jiajie**") and Jiangsu Yijie Technology Co., Ltd. ("**Jiangsu Yijie**") were designated and approved as HNTEs respectively in November and August 2011, respectively, for a period of three years from January 1, 2011 and were entitled to a preferential tax rate of 15% for the year ended December 31, 2011.

(iv) Beijing RHY Technology Development Co., Ltd. ("**RHY Technology**") was entitled to a 50% reduction of a transitional tax rate of 10% from January 1, 2009 as foreign invested enterprise. This preferential tax rate will be progressively increased to 15% over five years. The preferential income tax rate applicable to RHY Technology was 12% for the year ended December 31, 2011.

(v) Beijing Newcom Technology Co., Ltd. ("**Beijing Newcom**") was designated and approved as a HNTE in June 2009 for a period of three years from January 1, 2009 and was entitled to a preferential tax rate of 15% for the year ended December 31, 2011.

(vi) Beijing Newcom Traffic Technology Co., Ltd. ("**Beijing Newcom Traffic**") was designated and approved as a HNTE in October 2010 for a period of three years from January 1, 2010 and was entitled to a preferential tax rate of 15% for the year ended December 31, 2011.

10. INCOME TAX (continued)

Under the Implementation Rule, from January 1, 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or place of business in the PRC, are subject to withholding tax at the rate of 10% on various types of passive income such as dividends derived from entities in the PRC. Distributions of the pre-2008 earnings are exempted from the above-mentioned withholding tax. At December 31, 2011, no deferred tax liabilities have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC (December 31, 2010: Nil). In the opinion of the directors of the Company, it is not probable that the Group's PRC subsidiaries will distribute profits earned during the year ended December 31, 2011 in the foreseeable future. The aggregate amount of temporary differences associates with investment in subsidiaries in mainland China for which deferred tax liabilities have not been recognised totaled approximately RMB589,247,000 (2010: RMB653,898,000).

The major components of income tax expense are:

	2011 RMB'000	2010 RMB'000
Current income tax:		
Current income tax charge in the PRC	**29,150**	38,584
Deferred income tax:		
Relating to origination and reversal of temporary differences	**(8,371)**	15,089
Income tax expense reported in the consolidated income statement	**20,779**	53,673

10. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, is as follows:

Group — 2011	Hong Kong RMB'000	Cayman and British Virgin Islands RMB'000	Mainland China RMB'000	Total RMB'000
Profit/(loss) before tax	5,590	444	125,713	131,747
Tax at statutory tax rate	922	—	39,485	40,407
Tax holiday or lower tax rates enacted by local authorities	—	—	(18,265)	(18,265)
Expenses not deductible for tax	—	—	4,956	4,956
Income not subject to tax	(922)	—	(72)	(994)
Adjustments in respect of current income tax of previous period	—	—	778	778
Effect of tax rate change	—	—	(5,481)	(5,481)
Profit attributable to jointly-controlled entities and associates	—	—	(622)	(622)
Income tax expense reported in the consolidated income statement	—	—	20,779	20,779

Group — 2010	Hong Kong RMB'000	Cayman and British Virgin Islands RMB'000	Mainland China RMB'000	Total RMB'000
Profit/(loss) before tax	3,138	(45,594)	390,138	347,682
Tax at statutory tax rate	518	—	97,534	98,052
Tax holiday or lower tax rates enacted by local authorities	—	—	(47,569)	(47,569)
Expenses not deductible for tax	—	—	2,734	2,734
Income not subject to tax	(518)	—	(96)	(614)
Tax losses not recognised	—	—	1,112	1,112
Profit attributable to jointly-controlled entities	—	—	(42)	(42)
Income tax expense reported in the consolidated income statement	—	—	53,673	53,673

10. INCOME TAX (continued)

The share of tax attributable to jointly-controlled entities and associates amounting to RMB622,000 (2010: RMB42,000), is included in "Share of profits and losses of jointly-controlled entities" and "Share of profits and losses of associates" in the consolidated income statement.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended December 31, 2011 includes a profit of RMB239,000 (year ended December 31, 2010: loss of RMB35,298,000) which has been dealt with in the financial statements of the Company (note 35(b)).

12. DIVIDENDS

The Company did not recommend the payment of a final dividend for 2011.

13. EARINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit attributable to ordinary equity holders of the parent for the year ended December 31, 2011, and the weighted average number of ordinary shares of 1,582,838,016 (2010: 1,427,287,836) during the year.

	2011 RMB'000	2010 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**112,919**	294,009

	Number of Shares	
	2011	2010
Shares		
Weighted average number of shares in issue during the year used in the basic earnings per share calculation	**1,582,838,016**	1,427,287,836

The Group had no potentially dilutive ordinary shares in issue during those years. The share option scheme as disclosed in note 36 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. which will be transferred to the relevant employees upon the exercise of relevant options.

14. PROPERTY AND EQUIPMENT

Group

December 31, 2011	Buildings RMB'000	Computers and electronic equipment RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Software RMB'000	Leasehold improvements RMB'000	Total RMB'000
At January 1, 2011							
Cost	3,164	8,858	5,893	16,086	–	8,974	42,975
Accumulated depreciation	(300)	(4,871)	(2,857)	(7,382)	–	(491)	(15,901)
Net carrying amount	2,864	3,987	3,036	8,704	–	8,483	27,074
At January 1, 2011, net of accumulated depreciation	2,864	3,987	3,036	8,704	–	8,483	27,074
Additions	514	2,881	54	5,315	579	415	9,758
Acquisition of subsidiaries	–	1,126	47	617	27,907	–	29, 697
Impairment	–	–	(248)	–	–	–	(248)
Disposals	–	(29)	–	(11)	–	–	(40)
Depreciation charge for the year	(90)	(2,474)	(337)	(2,838)	(2,426)	(1.833)	(9,998)
At December 31, 2011, net of accumulated depreciation and impairment	3,288	5,491	2,552	11,787	(26,060)	7,065	56,243
At December 31, 2011							
Cost	3,678	14,859	6,341	22,469	36,323	9,390	93,060
Accumulated depreciation	(390)	(9,368)	(3,541)	(10,682)	(10,263)	(2,325)	(36,569)
Impairment	–	–	(248)	–	–	–	(248)
Net carrying amount	3,288	5,491	2,552	11,787	26,060	7,065	56,243

14. PROPERTY AND EQUIPMENT (continued)

Group (continued)

December 31, 2010	Buildings RMB'000	Computers and electronic equipment RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
At January 1, 2010						
Cost	3,059	6,783	5,461	15,530	8,983	39,816
Accumulated depreciation	(160)	(3,236)	(1,980)	(5,708)	(2,509)	(13,593)
Net carrying amount	2,899	3,547	3,481	9,822	6,474	26,223
At January 1, 2010, net of accumulated depreciation	2,899	3,547	3,481	9,822	6,474	26,223
Additions	105	2,195	452	1,189	7,218	11,159
Disposals	–	(29)	–	(155)	(2,622)	(2,806)
Depreciation charge for the year	(140)	(1,726)	(897)	(2,152)	(2,587)	(7,502)
At December 31, 2010, net of accumulated depreciation	2,864	3,987	3,036	8,704	8,483	27,074
At December 31, 2010						
Cost	3,164	8,858	5,893	16,086	8,974	42,975
Accumulated depreciation	(300)	(4,871)	(2,857)	(7,382)	(491)	(15,901)
Net carrying amount	2,864	3,987	3,036	8,704	8,483	27,074

The carrying values of buildings shown above situated on a long term leasehold land in the PRC are as follows:

	December 31, 2011 RMB'000	December 31, 2010 RMB'000
Lease over 50 years	**3,288**	2,864

15. INVESTMENT PROPERTIES

Group

	2011 RMB'000	2010 RMB'000
Carrying amount at January 1	**141,037**	80,100
Additions	**–**	57,737
Net gain from a fair value adjustment	**4,763**	3,200
Carrying amount at December 31	**145,800**	141,037

The Group's investment properties were revalued by Savills Valuation and Professional Services Limited ("**Savills**") on December 31, 2011, an independent firm of professional valuers, at RMB145.8 million, by reference to the comparable market transactions as available and where appropriate, on the basis of capitalisation of net rental incomes (as at December 31, 2010: RMB83.3 million). The Group acquired an investment property in December 2010 from an independent third party through open market offer for a total consideration of RMB57,740,000. In the opinion of directors, the fair value of this investment property at December 31, 2010 approximated to the consideration paid by the Group. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 40 to the financial statements.

The Group's investment properties of RMB84.4 million were pledged to secure bank loans granted to the Group at December 31, 2011 (note 30).

The Group's investment properties are situated in the PRC and are held under a long-term lease.

Further particulars of the Group's investment properties are included on page 156.

16. GOODWILL

Group

	RMB'000
At January 1 2010 and December 31, 2010	
Cost and net carrying amount	**230,664**
At January 1, 2011	
Cost and net carrying amount	**230,664**
Acquisition of subsidiaries (note 37)	**117,084**
Impairment during the year*	**(427)**
At December 31, 2011	**347,321**
At December 31, 2011	
Cost	**347,748**
Accumulated impairment	**(427)**
Net carrying amount	**347,321**

* Goodwill impaired during the year due to the Group's plan of deregistration of a previously acquired subsidiary. The subsidiary was a part of turnkey solutions operating segment. The recoverable amount of the assets of the subsidiary were recorded at fair value less cost to sell which is nil at December 31, 2011. The main classes of assets affected include RMB2,767,000 impairment of prepayments, deposits and other receivables and RMB248,000 impairment of equipments.

16. GOODWILL (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing:

- Beijing Aproud Technology Co., Ltd. and its subsidiaries (collectively "**Aproud Group**"); and
- China Traffic Holding Ltd. ("**CTH**") and its subsidiaries (collectively "**CTH Group**")

Aproud Group

The recoverable amount of the Aproud Group cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is approximately 20% (2010: approximately 20%). The growth rate used to extrapolate the cash flows of the industrial products unit beyond the five-year period is 5% (2010: 5%).

The calculation of value in use for this unit is most sensitive to the following assumptions:

- Gross margins;
- Discount rate; and
- Growth rate used to extrapolate cash flows beyond the budget period.

Gross margins — Gross margins are based on average values achieved in the three years preceding the beginning of the budget period.

Discount rate — The discount rate used is before tax and reflects specific risks relating to the relevant entity. In determining an appropriate discount rate, a consideration has been given to the applicable borrowing interest rates in the year immediately before the budget years.

Growth rate — The Group determines the growth rate which shall not exceed the long-term average gross domestic product growth rate of the PRC.

The values assigned to the key assumptions on market development of industrial products and infrastructure industry, discount rate and raw materials price inflation are consistent with external information sources.

16. GOODWILL (continued)

Impairment testing of goodwill (continued)

Aproud Group (continued)

Sensitivity to changes in assumptions
With regard to the assessment of value in use of this unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

CTH Group
The recoverable amount of the CTH Group cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is approximately 20%. The growth rate used to extrapolate the cash flows of the industrial products unit beyond the five-year period is 5%.

The calculation of value in use for this unit is most sensitive to the following assumptions:

- Gross margins;

- Discount rate; and

- Growth rate used to extrapolate cash flows beyond the budget period.

Gross margins — Gross margins are based on average values achieved in the three years preceding the beginning of the budget period.

Discount rate — The discount rates used is before tax and reflects specific risks relating to the relevant entity. In determining appropriate discount rate, a consideration has been given to the applicable borrowing interest rates in the year immediately before the budget years.

Growth rate — The Group determines the growth rate which shall not exceed the long-term average gross domestic product growth rate of the PRC.

The values assigned to the key assumptions on market development of industrial products and infrastructure industry, discount rate and raw materials price inflation are consistent with external information sources.

Sensitivity to changes in assumptions
With regard to the assessment of value in use of this unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

17. OTHER INTANGIBLE ASSETS

Group

	Technical know how RMB'000	Customer relationship RMB'000	Contract backlog RMB'000	Total RMB'000
December 31, 2011				
Cost at 1 January 2011, net of accumulated amortisation	–	–	–	–
Acquisition of subsidiaries (note 37)	21,975	14,800	800	37,575
Amortisation provided during the year	(1,407)	(1,495)	(206)	(3,108)
At 31 December 2011	20,568	13,305	594	34,467
At 31 December 2011:				
Cost	21,975	14,800	800	37,575
Accumulated amortisation	(1,407)	(1,495)	(206)	(3,108)
Net carrying amount	20,568	13,305	594	34,467

18. INVESTMENTS IN SUBSIDIARIES

	2011 RMB'000	2010 RMB'000
Unlisted shares, at cost	557,055	571,471

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries of the Company are as follows:

Name	Place and date of incorporation or registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity interests attributable to the Company Direct/Indirect	Principal activities
Winitop Investments Limited ("**WIL**")	British Virgin Islands February 18,2009	–	100	Investment holding
Well Score International Limited ("**WSI**")	Hong Kong March 27, 2009	HK$1.0	100	Investment holding
China Toprise Limited ("**CTL**")	British Virgin Islands June 16, 2006	US$1,000	100	Investment holding
Fairstar Success Holdings Limited ("**FSH**")	British Virgin Islands June 13, 2006	US$50,000	100	Investment holding
Beijing RHY Technology Development Co., Ltd. ("**RHY Technology**")	PRC February 16, 2001	RMB300 million	100	Intelligent traffic system turnkey solutions and value-added operation and services
Beijing Aproud Technology Co., Ltd. ("**Aproud Technology**")	PRC February 15, 2001	RMB180 million	100	Communications and surveillance specialised solutions and value-added operation and services
Beijing Aproud Information Engineering Co., Ltd. ("**Beijing Aproud Information**")	PRC September 3, 2004	RMB2 million	100	Value-added services and specialised solutions
Beijing Hexin Risheng Technology Co., Ltd. ("**Hexin Risheng**")	PRC December 26, 2003	RMB30 million	100	Communications and surveillance specialised solutions
Beijing Bailian Zhida Technology Development Co., Ltd. ("**Bailian Zhida**")	PRC April 18, 2007	RMB5.5 million	100	Surveillance specialised solutions
Beijing Haotian Jiajie Technology Co., Ltd. ("**Haotian Jiajie**")	PRC March 30, 2007	RMB125 million	100	Communications specialised solutions and value-added operation and services
Beijing Zhixun Tiancheng Technology Co., Ltd. ("**Zhixun Tiancheng**")	PRC June 25, 2007	RMB50 million	100	Communications specialised solutions
Beijing Huading Hengye Technology Co., Ltd. ("**Beijing Huading Hengye**")	PRC July 11, 2007	RMB5 million	100	Development of Intelligent transportation system related software
Jiangsu Zhixun Tiancheng Technology Co., Ltd. ("**Jiangsu Zhixun Tiancheng**")	PRC November 19, 2009	RMB10 million	100	Communications specialised solutions

18. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place and date of incorporation or registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity interests attributable to the Company Direct/Indirect	Principal activities
China Traffic Holdings Limited ("**CTH**")	Cayman Islands November 20,2007	–	100	Investment holding
Beijing Newcom Traffic Technology Co., Ltd. ("**Beijing Newcom Traffic**")*	PRC June 14, 2002	RMB1 million	100	Intelligent communications service
Beijing Newcom Technology Co., Ltd. ("**Beijing Newcom**")* (Note)	PRC December 9, 1999	RMB30 million	100	Intelligent communications service
Beijing Wuzhouzhitong Traffic Technology Co., Ltd. ("**Beijing Wuzhouzhitong**")* (Note)	PRC August 28, 2008	US$4.5 million	100	Computer system and software service
Guangzhou Taizheng Technology Co., Ltd. ("**Guangzhou Taizheng**")*	PRC May 30, 2003	RMB6 million	100	Computer system and software service
Tianjin Communication Information Co., Ltd. ("**Tianjin Communication**")*	PRC February 2, 2010	RMB5 million	100	Communications system and computer related service
Jiangsu Zhongzhi Transportation Technology Co., Ltd. ("**Jiangsu Zhongzhi Transportation**")	PRC December 15, 2011	US$30 million	100	Intelligent traffic system service
Beijing Xiyou Communication Technology Co., Ltd. ("**Beijing Xiyou**")	PRC July 20, 2011	RMB15 million	100	Computer system and software service
Xi'an Youke Information Technology Co., Ltd. ("**Xi'an Youke**")	PRC November 14, 2011	RMB2 million	100	Communications system service
Guangdong Yabang Xincheng Communication Technology Co., Ltd. ("**Guangdong Xincheng**")	PRC September 19, 2011	RMB2 million	70	Communications system service
Xinjiang RHY Technology Co., Ltd. ("**Xinjiang RHY**")	PRC October 24, 2010	RMB10 million	80	Computer system service
Xinjiang Delida Information Technology Co., Ltd. ("**Xinjiang Delida**")	PRC April 21, 2009	RMB5million	57	Value-added operation and services

Note: Beijing Wuzhou Zhitong controls Beijing Newcom through a series of contractual arrangements.

* Those entities are companies comprising CTH Group.

18. INVESTMENTS IN SUBSIDIARIES (continued)

None of the statutory financial statements of the above subsidiaries were audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

RHY Technology, Aproud Technology and Haotian Jiajie are registered as Sino-foreign equity joint ventures, Beijing Wuzhouzhitong is a wholly foreign-owned enterprise under the PRC laws. The other subsidiaries registered in the PRC are domestic companies with limited liabilities under the PRC laws. The registered capital of the Group's PRC subsidiaries has been fully paid as at December 31, 2011.

During the year, the Group acquired CTH Group, Xinjiang RHY and Xinjiang Delida. Further details of these acquisitions are included in note 37 to the financial statements.

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES/OPERATION

Group

	2011 RMB'000	2010 RMB'000
Share of net assets	**31,611**	19,750

The Group's trade receivables due from the jointly-controlled entities/operation are disclosed in note 43 to the financial statements.

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES/OPERATION (continued)

Particulars of the jointly-controlled entities/operation are as follows:

Name of jointly-controlled entities/operation	Place of registration/ incorporation	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Wuhan Chenguang Transportation Technology Development Co. ("**Wuhan Chenguang**")(note i)	PRC	51%	60%	51%	Intelligent traffic system turnkey solutions
Chengdu Zhida Weilute Technology Co., Ltd. ("**Chengdu Weilute**")(note ii)	PRC	51%	60%	51%	Value-added operation and services
Shangdong Yigou Software Technology Co., Ltd. ("**Shangdong Yigou**")(note iii)	PRC	42.8%	40%	42.8%	Intelligent traffic system turnkey solutions
GTECH-CIC Joint Venture ("**GTECH-CIC**")(note iv)	HK	60%	60%	60%	Intelligent traffic system turnkey solutions

Notes:

(i) 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 board of directors' meetings requires 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.

(ii) 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 board of directors' meetings requires at least four-fifth 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.

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Notes: (continued)

(iii) Shandong Yigou is a newly established company in April 2011 with principal activity of being the provision of intelligent traffic system turnkey solutions. The Group entered into an equity transfer agreement with Beijing Bailian Dahe Engineering Technology Co., Ltd., an original shareholder of Shandong Yigou, to acquire 42.8% share in Shandong Yigou. Shandong Yigou was only set up for during the year and there was not much operation within the entity. The equity holders' meeting of Shandong Yigou requires 100% of 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 board of directors' meeting requires 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.

(iv) An joint venture agreement dated May 3, 2011 was entered into between GTECH Services (Hong Kong) Limited and the Company. According to the agreement, the two parties agree to form an unincorporated entity in Hong Kong for the purpose of jointly submitting a tender and combining resources to jointly execute and complete the works in accordance with the contract and on the terms of the agreement. The Group owned a 60% interest in GTECH-CIC, and all rights, interests, liabilities, obligations, responsibilities, risks, costs and expenses and all net profits or net losses accruing to the joint venture out of the contract shall be shared or borne by GETCH and the Company in proportion to their respective percentage share. Since both parties share the interest in the joint venture and by the end of the operating terms, thus the joint venture was equity accounted as jointly-controlled operation.

Other than GTECH-CIC which is directly held by the Company, all above investments in jointly-controlled entities are held indirectly by the Company.

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

Share of the jointly-controlled entities/operation's assets and liabilities	2011 RMB'000	2010 RMB'000
Current assets	**48,587**	27,312
Non-current assets	**7,325**	5,573
Current liabilities	**(24,301)**	(13,135)
Net assets	**31,611**	19,750

Share of the jointly-controlled entities/operation's results	2011 RMB'000	2010 RMB'000
Income	**32,188**	8,601
Costs and expenses	**(24,303)**	(3,860)
Tax	**(1,938)**	(1,185)
Profit after tax	**5,947**	3,556

20. PREPAYMENTS FOR ACQUISITION OF EQUITY INTERESTS IS IN COMPANIES

Group

	2011 RMB'000	2010 RMB'000
Prepayments for acquisition of equity interests in companies	105,715	—

Company

	2011 RMB'000	2010 RMB'000
Prepayments for acquisition of equity interests in companies	56,115	—

The Group, together with other parties, entered into a sale and purchase agreement (the "**SPA**") in relation to the acquisition of the 100% interest in eSOON Holdings Corp., on August 22, 2011. According to the SPA, payment will be made in four instalments. By December 31, 2011, RMB27,426,000 was made by the Group, of which RMB22,426,000 was made by the Company, to existing shareholders of eSOON Holding Corp. Upon completion of the acquisition, the Company will own 16.6% of eSOON Holdings Corp. Further details are set out in the Company's announcement dated August 22, 2011.

In addition, the Group also made initial deposits for a proposed acquisition of a target company specialized in urban traffic industry at an aggregate amount of RMB78,289,000 (Company: RMB33,689,000) at December 31, 2011.

21. INVESTMENTS IN ASSOCIATES

Group

	2011 RMB'000	2010 RMB'000
Share of net assets	84,740	—

The Group's receivables due from associates are disclosed in note 43 to the financial statements.

21. INVESTMENTS IN ASSOCIATES (continued)

Particulars of the associates are as follows:

Name of associates	Place of registration	Particular of paid up capital held	Percentage of ownership interest	Principal activities
Guangzhou Communication Information Co., Ltd. ("**Guangzhou Communication**")(note i)	PRC	RMB50 million	45%	Intelligent traffic system
Xi'an Communication Information Co., Ltd. ("**Xi'an Communication**")(note ii)	PRC	RMB20 million	50%	Intelligent traffic system
Nanjing Communication Information Co., Ltd. ("**Nanjing Communication**")(note iii)	PRC	RMB10 million	50%	Intelligent traffic system

None of above associates are audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

All above investments in associates are held indirectly by the Company.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts or financial statements:

	2011 RMB'000	2010 RMB'000
Current assets	73,017	—
Non-current assets	177,413	—
Current liabilities	(123,888)	—
Non-current liabilities	(15,894)	—
Net assets	110,648	—

21. INVESTMENTS IN ASSOCIATES (continued)

	2011 RMB'000	2010 RMB'000
Income	**70,085**	—
Costs and expenses	**(58,182)**	—
Tax	**(204)**	—
Profit after tax	**11,699**	—

22. INVENTORIES

	2011 RMB'000	2010 RMB'000
Raw materials	**2,436**	841
Work in progress	**283**	123
Finished goods	**28,543**	3,503
	31,262	4,467

23. CONSTRUCTION CONTRACTS

Group

	2011 RMB'000	2010 RMB'000
Gross amount due from contract customers	**785,172**	777,875
Gross amount due to contract customers	**(458,709)**	(559,531)
	326,463	218,344
Contract costs incurred plus recognised profits less recognised losses to date	**4,234,784**	2,626,221
Less: Progress billings	**(3,908,321)**	(2,407,877)
	326,463	218,344

24. TRADE AND BILLS RECEIVABLES

Group

	2011 RMB'000	2010 RMB'000
Trade receivables	**736,655**	819,366
Impairment	**(1,829)**	(1,434)
	734,826	817,932
Bills receivables	**34,360**	16,504
	769,186	834,436

Trade and bills receivables, which are non-interest-bearing, are recognised and carried at original invoiced amount less any impairment loss. Trade and bills receivables generally have credit terms ranging from 30 days to 90 days. An estimate for doubtful debts is made when there is objective evidence that an impairment loss on receivables has been incurred. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances.

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

	2011 RMB'000	2010 RMB'000
At January 1	**1,434**	3,316
Impairment losses recognised	**395**	—
Impairment losses reversed	**—**	(1,882)
At December 31	**1,829**	1,434

Included in the above impairment of trade receivables is a provision for individually impaired trade receivables of RMB395,000 (2010: Nil) with a carrying amount before provision of RMB963,000 (2010: Nil).

24. TRADE AND BILLS RECEIVABLES (continued)

The individually impaired trade receivables amounting to RMB757,000 relate to customers who ceased trading during the year, thus a portion of the receivables of RMB189,000 is not expected to be recovered. The other individually impaired trade receivables amounting to RMB206,000 were with aging over 3 years and were not expected to be recovered.

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

	2011 RMB'000	2010 RMB'000
Less than 6 months	440,299	707,932
6 months to 1 year	125,714	51,462
1 year to 2 years	159,750	62,976
2 years to 3 years	39,141	11,900
Over 3 years	4,282	166
	769,186	834,436

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

	2011 RMB'000	2010 RMB'000
Neither past due nor impaired	299,004	307,731
Past due but not impaired:		
Less than 6 months past due	188,054	395,384
6 months to 1 year past due	87,740	54,936
1 year to 2 years past due	156,511	64,319
2 years to 3 years past due	35,407	11,900
Over 3 years past due	2,470	166
	769,186	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.

24. 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 they are still considered fully recoverable.

The Group has pledged proceeds to be received from settlement of trade receivables of approximates RMB14.0 million (2010: RMB300.8 million) from the "Jing-hu Railway" project for a banking facility granted to the Group. At December 31, 2011, the related pledged trade receivables amounted to RMB0.4 million.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	2011 RMB'000	2010 RMB'000
Prepayments to suppliers for purchases of goods	691,317	474,754
Tender deposits	25,278	27,325
Advances to staff	19,233	12,034
Contract deposits	89,833	29,855
Others	47,223	11,312
	872,884	555,280
Impairment of others	(3,678)	—
	869,206	555,280

Company

	2011 RMB'000	2010 RMB'000
Prepayment to suppliers	—	7,076
Others	2,531	1,684
	2,531	8,760

Included in the above provision for impairment of other receivables is a provision for individually impaired receivables of RMB3,678,000 (2010: Nil) with a carrying amount before provision of RMB4,547,207 (2010: Nil).

26. CASH AND CASH EQUIVALENTS, SHORT TERM DEPOSIT AND PLEDGED DEPOSITS

Group

	2011 RMB'000	2010 RMB'000
Cash and bank balances	**435,881**	836,883
Non-pledged short term deposit with original maturity of more than three months when acquired	**–**	112,441
Pledged deposits	**79,841**	182,502
	515,722	1,131,826
Less: Non-pledged short term deposit with original maturity of more than three months when acquired	**–**	(112,441)
Less: Pledged deposits for		
— Bank loans (note 30)	**–**	(80,361)
— Project bonds	**(69,352)**	(73,795)
— Bills payables	**(10,489)**	(28,346)
	(79,841)	(182,502)
Cash and bank balances	**435,881**	836,883

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

The cash and bank balances, short term deposit and pledged deposits of the Group denominated in RMB totaled RMB463.9 million (December 31, 2010: RMB547.8 million) as at December 31, 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.

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

Company

	2011 RMB'000	2010 RMB'000
Cash and bank balances	47,543	363,184
Non-pledged short term deposit with original maturity of more than three months when acquired	–	112,441
	47,543	475,625
Less: Non-pledged short term deposit with original maturity of more than three months when acquired	–	(112,441)
Cash and bank balances	47,543	363,184

27. HELD-TO-MATURITY INVESTMENT

The Company subscribed for a bond with a principal amount of US10.0 million in December 2011 issued by Trooper Group Limited, a Company incorporate with limited liability in the British Virgin Islands. The bond was issued on December 13, 2011 ("**Issuance Date**") that bears interest at 15% per annum, payable monthly in arrear commencing in January 2012. The bond will mature in December 2012 and is secured by a parcel of land located in Qing Dao, China.

28. TRADE AND BILLS PAYABLES

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

	2011 RMB'000	2010 RMB'000
Current or less than 1 year past due	620,096	554,547
1 to 2 years past due	24,488	26,767
Over 2 years past due	28,068	16,524
	672,652	597,838

The Group's bills payables were secured by pledged deposits of the Group of RMB10.5 million as at December 31, 2011 (December 31, 2010: RMB28.3 million).

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

29. OTHER PAYABLES AND ACCRUALS

Group

	2011 RMB'000	2010 RMB'000
Advance from customers	**25,692**	—
Deposits received	**42,806**	1,728
Staff costs and welfare accruals	**23,480**	16,862
Accruals related to the listing of the Company's shares	**—**	17,380
Other taxes payable	**61,514**	75,852
Others	**13,350**	10,308
	166,842	122,130

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

Company

	2011 RMB'000	2010 RMB'000
Accruals related to the listing of the Company's shares	**—**	17,380
Others	**1,564**	1,480
	1,564	18,860

30. INTEREST-BEARING BANK BORROWINGS

Group

	Contractual interest rate %	2011 RMB'000	2010 RMB'000
Current			
Bank loans — secured and repayable within one year:	6.71–7.54	**110,390**	169,998
Bank loans — guaranteed and repayable within one year:	6.71–7.54	**190,000**	120,000
		300,390	289,998

- Bank loans of RMB88.0 million (2010: RMB55 million) were secured by investment properties of RMB84.4 million (2010: RMB83.3 million) at December 31, 2011 (note 15 above).

- Bank loans of approximately RMB8.0 million (2010: RMB45.0 million) were pledged by contract receivables of RMB14.0 million (2010: RMB300.8 million) of the project "Jing-Hu Railway" as at December 31, 2011. As at December 31, 2011, the Group had related trade receivables under the project "Jing-Hu Railway" of RMB0.4 million (2010: RMB211.9 million).

- Bank loans of approximately RMB14.4 million were pledged by bank acceptance amounting to RMB16 million of Industrial and Commercial Bank of China at December 31, 2011 (December 31, 2010: Nil).

- 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 letters of credit mentioned above were secured by 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.

- Bank loans of approximately RMB160 million as at December 31, 2011 were guaranteed by Aproud Technology and RHY Technology, subsidiaries of the Company (December 31, 2010: RMB120.0 million).

- Bank loans of approximately RMB30 million as at December 31, 2011 were guaranteed by the Company (December 31, 2010: Nil).

As at December 31, 2011, the Group had unutilised available bank borrowing facilities amounting to RMB184.0 million (December 31, 2010: RMB263.9 million).

The Group's bank loans are all denominated in RMB with fixed interest rates. The carrying amounts of the Group's current borrowings approximate to their fair values.

31. DUE FROM/DUE TO SUBSIDIARIES

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The Company made advance to those subsidiaries incorporated overseas which are the immediate holding companies of the Group's subsidiaries established in the PRC. The amounts advanced by the Company to these overseas subsidiaries would be further invested in their respective PRC subsidiaries.

32. DEFERRED INCOME

Deferred income represents government grants received.

33. DEFERRED TAX

The movements in deferred tax assets and liabilities for the year are as follows:

Deferred tax assets

	Notes	Impairment of trade receivables RMB'000	Accrued expenses RMB'000	Intangible assets RMB'000	Total RMB'000
2011					
At January 1, 2011		359	4,991	–	5,350
Arising from acquisition of subsidiaries	37	6,323	2,258	922	9,503
Deferred tax charged/(credited) to the income statement during the year		(105)	(1,480)	82	(1,503)
At December 31, 2011		6,577	5,769	1,004	13,350
2010					
At January 1, 2010		1,119	4,827	–	5,946
Deferred tax charged/(credited) to the income statement during the year		(760)	164	–	(596)
At December 31, 2010		359	4,991	–	5,350

33. DEFERRED TAX (continued)

Deferred tax liabilities

	Notes	Fair value adjustment on investment properties RMB'000	Fair value adjustment of intangible assets RMB'000	Recognition of revenue on construction contracts* RMB'000	Withholding tax of the PRC RMB'000	Total RMB'000
2011						
At January 1, 2011		7,286	–	28,995	–	36,281
Arising from acquisition of subsidiaries	37	–	9,482	–	–	9,482
Deferred tax charged (credited) to the income statement during the year		714	(402)	(10,186)	–	(9,874)
At December 31, 2011		8,000	9,080	18,809	–	35,889
2010						
At January 1, 2010		6,356	763	14,669	–	21,788
Deferred tax charged/(credited) to the income statement during the year		930	(763)	14,326	–	14,493
At December 31, 2010		7,286	–	28,995	–	36,281

* The deferred tax liabilities arising from "Recognition of revenue on construction contracts" were recognised on the taxable temporary difference between the construction revenue recognised based on percentage of completion method under IFRSs and the revenue deemed taxable by relevant tax authorities.

The Group has no tax losses arising in Mainland China (2010: RMB3,440,000) that will expire in one to five years for offsetting against future taxable profits.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

34. SHARE CAPITAL

Shares

	2011 RMB'000	2010 RMB'000
Authorised:		
1,900,000,000 ordinary shares of HK$0.0002 each	**335**	335
Issued and fully paid		
1,612,817,760 (December 31, 2010: 1,569,047,334) ordinary shares of HK$0.0002 each	**283**	276

During the year ended December 31, 2011, the movement in share capital was as follows:

		Number of shares in issue '000	Issued capital RMB'000	Share premium account RMB'000	Total RMB'000
At January 1, 2010		1,226,329	216	120,190	120,406
Shares subscription	(i)	123,964	22	309,586	309,608
Issue of shares	(ii)	218,754	38	608,600	608,638
Dividend declared	(iii)	—	—	(50,000)	(50,000)
At December 31, 2010 and January 1, 2011		**1,569,047**	**276**	**988,376**	**988,652**
Issue of shares	(iv)	**43,770**	**7**	**53,157**	**53,164**
At 31 December 2011		**1,612,817**	**283**	**1,041,533**	**1,041,816**

i) On February 26, 2010, a consortium consisting of Baytree Investments (Mauritius) Pte Ltd ("**Baytree**"), GE Capital Equity Investment Ltd., Intel Capital Corporation, Greater China PE Fund L.P. and Future Choice Limited ("**Future Choice**") (collectively known as the "**Co-investors**"), entered into an agreement (the "**Agreement**") for (a) the purchase and subscription of ordinary shares of the Company, (b) the subscription by Baytree, the subscription of an exchangeable bond of China ITS Co., Ltd. and the extension of a short term loan to China ITS Co., Ltd., and (c) further subscription of ordinary shares of HK$0.0002 each of the Company upon the initial public offer of the Company.

Pursuant to the Agreement, the Co-investors subscribed for an aggregate 123,964,076 new ordinary shares of HK$0.0002 each of the Company at a subscription price of HK$2.88 per share for an aggregate consideration of US$46,000,000 (equivalent to RMB312,400,000) on March 5, 2010, resulting in a share premium of RMB309,586,000, representing the difference between the subscription price and nominal value of the Company's ordinary share. The resulting issued ordinary shares of the Company increased to 1,350,293,553 ordinary shares.

34. SHARE CAPITAL (continued)

Shares (continued)

ii) The Company issued 200,002,781 ordinary shares of HK$0.0002 each at a price of HK$3.49 per share upon the listing of the Company shares on the Main Board of Stock Exchange of Hong Kong Limited on July 15, 2010 and further issued 18,751,000 ordinary shares of HK$0.0002 each at a subscription price of HK$3.49 per share pursuant to the exercise of over-allotment options on August 4, 2010, resulting in a share premium of RMB665,492,000 before netting off share issue cost of RMB56,892,000.

iii) Pursuant to the resolutions of the board of directors and the shareholders dated March 19, 2010, the Company declared a dividend of RMB50 million payable to shareholders registered at the close of business on December 28, 2008. The dividend was subsequently paid out from the share premium account of the Company in July 2010.

iv) On September 6, 2011, Elegant Cape Limited being a wholly-owned subsidiary of the Company acquired from Siemens Venture Capital GmbH, GP Investment Ltd., and Boomtown Investment Limited their respective shareholdings in CTH at a total Consideration consisting of US$29,822,500 in cash and 43,770,426 ordinary shares ("**Consideration Shares**"). The Consideration Shares were issued on September 6, 2011 and RMB7,000 and RMB53,157,000 were credited for share capital and share premium, respectively, based on the then market price of HK$1.48,

35. RESERVES

(a) Group

The amounts of the Group's statutory reserve and capital reserve and movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 66 of the financial statements.

Statutory reserve

According to the PRC Company Law, the PRC subsidiaries of the Group are required to transfer 10% of their respective after-tax profits, calculated in accordance with the PRC accounting standards and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The statutory surplus reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of the companies, provided that the fund is maintained at a minimum level of 25% of the registered capital.

Capital reserve

The capital reserve of the Group consisted of i) reserves arising from the Reorganisation; ii) reserves arising from the share options granted by China ITS Co., Ltd. to the employees of the Group as set out in note 36 below; and iii) capitalised retained earnings to the capital of certain subsidiaries.

35. RESERVES (continued)

(b) Company

	Note	Share premium RMB'000	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At January 1, 2010		120,190	586,802	4,187	(27,080)	684,099
Loss for the year		—	—	—	(35,298)	(35,298)
Other comprehensive income for the year:						
Exchange difference on translation		—	—	(43,579)	—	(43,579)
Total comprehensive loss for the year		—	—	(43,579)	(35,298)	(78,877)
Issues of ordinary shares		918,186	—	—	—	918,186
Dividend declared		(50,000)	—	—	—	(50,000)
At December 31, 2010 and January 1, 2011		988,376	586,802	(39,392)	(62,378)	1,473,408
Profit for the year		—	—	—	239	239
Other comprehensive income for the year:						
Exchange difference on translation		—	—	(67,236)	—	(67,236)
Total comprehensive Income/(loss) for the year		—	—	(67,236)	239	(66,997)
Issues of ordinary shares	34	53,157	—	—	—	53,157
At December 31, 2011		**1,041,533**	**586,802**	**(106,628)**	**(62,139)**	**1,459,568**

36. SHARE OPTION SCHEME

On December 28, 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 options to acquire the equivalent number of the existing ordinary shares of the Company from China ITS (the "**Share Options**") Co., Ltd. to eligible employees of the Group and directors, included in which 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 instalments 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 for the first batch is RMB0.60 per share for the first batch, RMB2.00 for the second and third batch, RMB3.00 for the fourth and fifth batch and RMB4.00 for the last two batches. There are no cash settlement alternatives.

The following share options were outstanding under the Scheme during the year:

	2011		2010	
	Weighted average exercise price RMB per share	**Number of Options '000**	**Weighted average exercise price RMB per share**	**Number of Options '000**
At January 1	**1.80**	**116,653**	1.80	116,653
Exercised during the year	**0.93**	**(13,118)**	—	—
At December 31	**1.91**	**103,535**	1.80	116,653

The weighted average share price at the date of exercise for share options exercised during the year was RMB0.93 per share (2010: No share options were exercised).

36. SHARE OPTION SCHEME (continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2011

Batches	Number of options '000	Exercise price RMB	Exercise period
Batch 1	48,119	0.60	31 December 2008 to 30 December 2013
Batch 2	6,680	2.00	31 December 2010 to 30 December 2015
Batch 3	9,747	2.00	30 June 2011 to 29 June 2016
Batch 4	9,747	3.00	31 December 2011 to 30 December 2016
Batch 5	9,747	3.00	30 June 2012 to 29 June 2016
Batch 6	9,747	4.00	31 December 2012 to 30 December 2017
Batch 7	9,748	4.00	30 June 2013 to 29 June 2018
	103,535		

2010

Batches	Number of options '000	Exercise price RMB	Exercise period
Batch 1	58,170	0.60	31 December 2008 to 30 December 2013
Batch 2	9,747	2.00	31 December 2010 to 30 December 2015
Batch 3	9,747	2.00	30 June 2011 to 29 June 2016
Batch 4	9,747	3.00	31 December 2011 to 30 December 2016
Batch 5	9,747	3.00	30 June 2012 to 29 June 2017
Batch 6	9,747	4.00	31 December 2012 to 30 December 2017
Batch 7	9,748	4.00	30 June 2013 to 29 June 2018
	116,653		

36. SHARE OPTION SCHEME (continued)

The share option expense recognised during the year ended December 31, 2011 is as follows:

	2011 RMB'000	2010 RMB'000
Share-based payment expense	**6,151**	9,886

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

37. BUSINESS COMBINATION

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 operation and 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 purchase consideration for the acquisition was in the form of cash of RMB3,680,000 and was paid on the acquisition date.

In April 2011, the Group acquired a 57% equity interest in Xinjiang Delida, which specialises in logistics information solutions. The purchase consideration for the acquisition was in the form of cash, with RMB2,688,836 paid in April 2011.

The Group has elected to measure the non-controlling interest in Xinjiang RHY and Xinjiang Delida at the non-controlling interests' respective proportionate share of Xinjiang RHY's and Xinjiang Delida's identifiable net assets.

On September 6, 2011, the Group acquired a 100% interest of CTH Group which specialises in the same business as the Group's. The acquisition was made as part of the Group's strategy to expand its market share in Mainland China. The acquisition was in the form of cash and Consideration Shares of the Group. Cash of USD29,822,500 was paid in June 2011 and the Consideration Shares were issued to the original shareholders of CTH Group on September 6, 2011.

37. BUSINESS COMBINATION (continued)

The fair values of the identifiable assets and liabilities of Xinjiang Ruihuaying, Xinjiang Delida and CTH Group as at the date of acquisition were as follows:

	Note	Fair value recognised on acquisition RMB'000
Plant and equipment	14	29,697
Cash and bank balances		21,703
Trade receivables		101,302
Inventories		10,132
Prepayments, deposits and other receivables		31,702
Deferred tax assets	33	9,503
Intangible assets	17	37,575
Investment in associates		79,382
Long-term prepayment		1,155
Trade payables		(60,777)
Construction contracts		(5,764)
Other payables and accruals		(101,203)
Deferred income		(4,243)
Deferred tax liabilities	33	(9,482)
Non-controlling interests		(2,738)
Total identifiable net assets at fair value		137,944
Goodwill arising on acquisition	16	117,084
		255,028
Satisfied by:		
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
Consideration Shares		53,156
Cash		193,391
		255,028

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB101,302,000 and RMB31,702,000, respectively. The gross contractual amounts of trade receivables and other receivables were RMB101,302,000 and RMB31,702,000, respectively.

The fair value of the intangible assets which represented the technical know-how, customers relationship and contract backlog amounted to RMB37,575,000.

37. BUSINESS COMBINATION (continued)

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

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

	RMB'000
Cash consideration	193,391
Cash and bank balances acquired	(21,703)
Net outflow of cash and cash equivalents included in cash flows from investing activities	171,688
Transaction costs of the acquisition included in cash flows from operating activities	1,476
	173,164

Since the acquisitions, the acquired subsidiaries have contributed RMB54,994,000 to the Group's turnover and RMB5,840,000 to the consolidated profit for the year ended December 31, 2011.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB1,676,034,000 and RMB133,617,000, respectively.

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

On September 6, 2011, the Group acquired CTH and the consideration was partly settled by the Consideration Shares which did not result in any cash flow.

(b) Cash transaction

	2011 RMB'000	2010 RMB'000
Cash paid for income tax	**24,376**	12,428

39. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in notes 15 and 30, respectively, to the financial statements.

40. OPERATING LEASE COMMITMENTS

As lessor

The Group leases its investment properties (note 15) to certain related parties and independent third parties, with leases negotiated for terms ranging from one year to four years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions:

	2011 RMB'000	2010 RMB'000
Within one year	**8,039**	2,999
In the second to fifth years, inclusive	**4,235**	3,060
	12,274	6,059

The Company did not have any operating lease commitments as at December 31, 2011 (2010: Nil).

As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from four months to four years.

At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2011 RMB'000	2010 RMB'000
Within one year	**22,131**	15,348
In the second to fifth years, inclusive	**46,140**	36,781
	68,271	52,129

The Company did not have any operating lease commitments as at December 31, 2011 (December 31, 2010: Nil).

41. COMMITMENTS

As at December 31, 2011, neither the Group nor the Company had any significant commitments save as disclosed in note 40 above (December 31, 2010: Nil).

42. CONTINGENT LIABILITIES

The Company executed a corporate guarantee to the extent of RMB70 million for the bank loan facilities granted to a subsidiary. As at December, 31 2011, the bank loans granted to the subsidiary amounted to RMB30 million.

43. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	2011 RMB'000	2010 RMB'000
Sales to related parties:			
Xi'an Communication	(c)	**356**	—
Guangzhou Communication		**2,382**	—
Total		**2,738**	—
Advances to related parties:			
Xinjiang Shenghengtian Information Technology Co., Ltd.	(a)	**—**	3,680
Bailian Youli (Beijing) Investment Co., Ltd.	(b)	**1,972**	2,001
Xi'an Communication	(c)	**512**	—
北京航天智通電信卡科技有限公司	(d)	**200**	—
Chengdu Zhida Weilute		**1,922**	—
Wuhan Chenguang	(e)	**13,594**	—
RAY Holdings Ltd.	(f)	**2,494**	5
Total		**20,694**	5,686
Purchases from a related parties:			
Shandong Yigou		**1,615**	—
Chengdu Zhida Weilute		**1,880**	—
Wuhan Chenguang*	(e)	**6,845**	4,800
Total		**10,340**	4,800
Dividend from a jointly-controlled entity		**—**	1,189

Notes:

(a) Xinjiang Shenghengtian Information Technology Co., Ltd. ("**Xinjiang Shenghengtian**") holds of 20% equity of Xinjiang RHY, which was a joint venture of RHY Technology as at December 31, 2010.

(b) Bailian Youli (Beijing) Investment Co., Ltd. ("**Bailian Youli**") is 100% owned by a director of the Company.

(c) Xi'an Communication Information Co., Ltd. is an associate of the Group.

(d) 北京航天智通電信卡科技有限公司 is 70% owned by a key management member of the Group and a shareholder of the Company.

(e) Wuhan Chenguang is a jointly-controlled entity of the Group.

(f) RAY Holdings Ltd. is 59% owned by a director of the Company.

* The purchases were made in relation to the business of turnkey solutions and communications and surveillance specialised solutions which involved various types of equipment such as telecommunications equipment, testing equipment, cables, display systems and closed-circuit monitors for project implementation and the purchase of specialised solutions.

43. RELATED PARTY TRANSACTIONS (continued)

In the opinion of the directors, the transactions between the Group and the related parties were conducted in the ordinary course of business and based on prices mutually agreed between the parties and the Group after taking reference of market price.

	Note	December 31, 2011 RMB'000	Maximum amount outstanding during the year 2011 RMB'000	January 1, 2011 RMB'000
Due from related parties:				
Trade related				
Wuhan Chenguang		122	122	–
Chengdu Zhida Weilute		217	217	762
Guangzhou Communication	(a)	45,918	45,918	–
Xi'an Communication		8,489	8,489	–
Nanjing Communication	(b)	460	460	–
		55,206	55,206	762
Non-trade related				
Chengdu Zhida Weilute		2,076	2,076	–
Wuhan Chenguang		1,289	1,289	–
Guangzhou Communication		20,003	20,003	–
Xi'an Communication		695	695	–
Bailian Youli		986	986	231
Bailian Heli Investment Co., Ltd.*	(c)	4	4	4
RAY Holdings Ltd.*		1,532	1,532	894
Xingjiang Shenghengtian*		–	–	3,680
北京航天智通電信卡科技有限公司		200	200	–
		26,785	24,063	4,809
		81,991	81,991	5,571

(a) Guangzhou Communication is a 45% owned associate of Beijing Newcom Traffic.

(b) Nanjing Communication is a 50% owned associate of the Group.

(c) Bailian Heli Investment Co., Ltd. is 51% owned by Bailian Youli.

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

43. RELATED PARTY TRANSACTIONS (continued)

	Note	2011 RMB'000	2010 RMB'000
Due to related parties			
Trade related			
Chengdu Zhida Weilute		**1,316**	2,150
Wuhan Chenguang		**3,520**	22
Shandong Yigou		**1,615**	—
Guangzhou Communication		**18**	—
		6,469	2,172
Non-trade related			
Shandong Yigou		**1,926**	—
Chengdu Zhida Weilute		**3,113**	—
北京航天智通電信卡科技有限公司		**3,715**	—
Xi'an Communication		**183**	—
Guangzhou Communication		**3**	—
Wuhan Chenguang		**—**	4,365
		8,940	4,365
Total		**15,409**	6,537

Terms and conditions of transactions with related parties

Outstanding balances as at December 31, 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

	2011 RMB'000	2010 RMB'000
Salaries, bonuses, allowances and benefits in kind	**2,195**	1,158
Equity-settled share option expense	**2,175**	1,561
Pension scheme contributions	**161**	62
Total compensation paid to key management personnel	**4,531**	2,781

Further details of the directors' remuneration are included in note 8 above.

44. 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:

Group

Financial assets

	2011		2010	
	Held-to-maturity investment RMB'000	Loans and receivables RMB'000	Held-to-maturity investment RMB'000	Loans and receivables RMB'000
Trade and bills receivables	—	769,186	—	834,436
Due from related parties	—	81,991	—	5,571
Financial assets included in prepayments, deposits and other receivables	—	47,224	—	11,312
Pledged deposits	—	79,841	—	182,502
Short term deposit	—	—	—	112,441
Held-to-maturity investment	69,396	—	—	—
Cash and cash equivalents	—	435,881	—	836,883
	69,396	1,414,123	—	1,983,145

Financial liabilities

	2011 Financial liabilities RMB'000	2010 Financial liabilities RMB'000
Trade and bills payables	672,652	597,838
Due to related parties	15,409	6,537
Interest-bearing bank borrowings	300,390	289,998
Financial liabilities included in other payables and accruals	13,350	10,308
	1,001,801	904,681

Company

Financial assets

	2011		2010	
	Held-to-maturity investment RMB'000	Loans and receivables RMB'000	Held-to-maturity investment RMB'000	Loans and receivables RMB'000
Due from subsidiaries	—	727,670	—	455,027
Short term deposit	—	—	—	112,441
Held-to-maturity investment	69,396	—	—	—
Cash and cash equivalents	—	47,543	—	363,184
	69,396	775,213	—	930,652

44. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company (continued)

Financial liabilities

	2011 Financial liabilities RMB'000	2010 Financial liabilities RMB'000
Due to subsidiaries	**962**	18,339
Financial liabilities included in other payables and accruals	**75**	305
	1,037	18,644

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

Group

	Carrying amounts		Fair values	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Financial assets				
Trade and bills receivables	**769,186**	834,436	**769,186**	834,436
Due from related parties	**81,991**	5,571	**81,991**	5,571
Financial assets included in prepayments, deposits and other receivables	**47,224**	11,312	**47,224**	11,312
Pledged deposits	**79,841**	182,502	**79,841**	182,502
Short term deposit	**—**	112,441	**—**	112,441
Held-to-maturity investment	**69,396**	—	**69,396**	—
Cash and cash equivalents	**435,881**	836,883	**435,881**	836,883
	1,483,519	1,983,145	**1,483,519**	1,983,145
Financial liabilities				
Trade and bills payables	**672,652**	597,838	**672,652**	597,838
Due to related parties	**15,409**	6,537	**15,409**	6,537
Interest-bearing bank borrowings	**300,390**	289,998	**300,390**	289,998
Financial liabilities included in other payables and accruals	**13,350**	10,308	**13,350**	10,308
	1,001,801	904,681	**1,001,801**	904,681

44. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

	Carrying amounts		Fair values	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Financial assets				
Due from subsidiaries	727,670	455,027	727,670	455,027
Short term deposit	—	112,441	—	112,441
Held-to-maturity investment	69,396	—	69,396	—
Cash and cash equivalents	47,543	363,184	47,543	363,184
	844,609	930,652	844,609	930,652

	Carrying amounts		Fair values	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Financial liabilities				
Due to subsidiaries	962	18,339	962	18,339
Financial liabilities included in other payables and accruals	75	305	75	305
	1,037	18,644	1,037	18,644

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, held-to-maturity investment, financial liabilities included in other payables and accruals, amounts due from/to subsidiaries, amounts due to/from related parties and interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

44. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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)

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, cash and cash equivalents, a short term deposit, pledged deposits and a held-to-maturity investment. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, amounts due from/to related parties, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accruals, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board or directors reviews and agrees policies for managing each of these risks and they are summarized below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

(i) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to its interest-bearing borrowings with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts.

If there would be a general increase/decrease in the interest rates of bank loans with floating interest rates by one percentage point, with all other variables held constant, the consolidated pre-tax profit would have decreased/increased by approximately RMB3.0 million for the year ended December 31, 2011 (for the year ended December 31, 2010: RMB2.6 million).

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Foreign currency risk

Substantially all of the Group's businesses are denominated in RMB, which is the Group's functional currency. The Group's certain bank balances are denominated in US$ and HK$, and certain expenses of the Group are denominated in currencies other than the RMB.

The following table demonstrates the sensitivity as at December 31, 2011 and 2010 to a reasonable possible change in US$ and HK$ exchange rates, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
December 31, 2011			
If RMB weakens against US$	**5**	**2,368**	**2,368**
If RMB strengthens against US$	**(5)**	**(2,368)**	**(2,368)**
If RMB weakens against HK$	**5**	**—**	**72,059**
If RMB strengthens against HK$	**(5)**	**—**	**(72,059)**
December 31, 2010			
If RMB weakens against US$	5	7,465	7,465
If RMB strengthens against US$	(5)	(7,465)	(7,465)
If RMB weakens against HK$	5	—	69,625
If RMB strengthens against HK$	(5)	—	(69,625)

* Excluding retained earnings

(iii) Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprises cash and cash equivalents, a short term deposit, pledged bank balances, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, a held-to-maturity investment and amounts due from related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iii) Credit risk (continued)

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. As the Group's major customers are the PRC government agencies, the Group believes that they are reliable and of high credit quality and hence, there is no significant credit risk with these customers. As the Group's exposure is spread over a diversified portfolio of customers, there is no significant concentration of credit risk.

(iv) Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade and bills receivables) and projected cash flows from operations.

The Group's objective is to ensure continuity of sufficient funding and flexibility through the use of bank and other borrowings with debt maturities within 12 months.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

As at December 31, 2011

Group

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Trade and bills payables	318,751	353,901	–	672,652
Due to related parties	15,409	–	–	15,409
Interest-bearing bank borrowings	–	–	300,390	300,390
Financial liabilities included in other payables and accruals	13,350	–	–	13,350
	347,510	353,901	300,390	1,001,801

Company

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Due to a subsidiary	962	–	–	962
Financial liabilities included in other payables and accruals	75	–	–	75
	1,037	–	–	1,037

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iv) Liquidity risk (continued)

As at December 31, 2010

Group

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Trade and bills payables	43,291	554,547	—	597,838
Due to related parties	6,537	—	—	6,537
Interest-bearing bank borrowings	—	—	289,998	289,998
Financial liabilities included in other payables and accruals	10,308	—	—	10,308
	60,136	554,547	289,998	904,681

Company

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Due to a subsidiary	18,339	—	—	18,339
Financial liabilities included in other payables and accruals	305	—	—	305
	18,644	—	—	18,644

The directors have carried out a detailed review of the cash flow forecast of the Group for the next twelve months from this report date. Based on this forecast, the directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Group during that period. In preparing the cash flow forecast, the directors have considered historical cash requirements of the Group as well as other key factors, including the availability of the loan financing and additional capital from equity holders of the Company. The directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

(v) Capital management

The Group's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing services and products commensurately with the level of risk.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iv) Capital management (continued)

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2011 and December 31, 2010.

The Group monitors capital using a net debt to capital ratio, which is net debt divided by the capital. The Group's policy is to maintain the net debt to capital ratio between (3%) and (50%). Net debt includes interest-bearing bank borrowings, amounts due to related parties, less cash and cash equivalent. Capital includes convertible bonds and equity attributable to owners of the parent. The net debt to capital ratios as at the end of the reporting periods were as follows:

Group

	2011 RMB'000	2010 RMB'000
Interest-bearing bank and other borrowings	**300,390**	289,998
Due to related parties (note 43)	**15,409**	6,537
Less: Cash and cash equivalents	**(435,881)**	(836,883)
Net debt	**(120,082)**	(540,348)
Equity attributable to owners of the parent	**2,265,812**	2,111,407
Net debt to capital ratio	**(5.3%)**	(25.6%)

46. EVENTS AFTER THE REPORTING PERIOD

On January 18, 2012, the board of directors resolved to grant share options under the share option scheme adopted by the Company on June 18, 2010 to 191 grantees, which include certain directors, the chief executive, substantial shareholders and employees of the Company, to subscribe for an aggregate of 155,000,000 shares.

The aforementioned share options granted to directors of the Company, which include Mr. Lu Xiao, Mr. Lv Xilin and Mr. Liao Jie, are conditional upon shareholders' approval being obtained at an extraordinary general meeting ("**EGM**") of the Company.

On February 29, 2012, the approval was duly passed at the EGM.

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on March 28, 2012.

Particulars of Properties

December 31, 2011

INVESTMENT PROPERTIES

Location	Use	Tenure	Attributable interest of the Group
1st Floor, No.8 Dongdaqiao Road, Chaoyang District, Beijing, the PRC	Office	Long term lease	100%
Building 23, Court 36, Dongzhimen Wai Avenue, Chaoyang District, Beijing, the PRC	Office	Long term lease	100%
Block 8 No.1 Zhong Guan Cun Dong Road, Haidian District, Beijing, the PRC	Office	Long term lease	100%