



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



INTERIM REPORT **2012**



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The background features a collage of images related to infrastructure and technology, including a globe, a train, a modern building interior, and various data charts and graphs. The text 'Financial Highlights' is prominently displayed in a large, bold, blue font on the left side of the page.

Financial Highlights

New Contracts Signed and Orders Secured

- For the six months ended June 30, 2012, the amount of new contracts signed and orders secured was approximately RMB1,475.6 million, compared to approximately RMB629.5 million for the six months ended December 31, 2011, or an approximately 134.4% increase and approximately RMB1,270.5 million for the six months ended June 30, 2011, or an approximately 16.1% increase, respectively.

Backlog

- As at June 30, 2012, the backlog recorded historical high, which was approximately RMB2,185.2 million, compared to approximately RMB1,593.5 million as at December 31, 2011, or an approximately 37.1% increase and approximately RMB1,852.8 million as at June 30, 2011, or an approximately 17.9% increase, respectively.

Revenue

- For the six months ended June 30, 2012, revenue recorded historical high, which was approximately RMB728.1 million, compared to approximately RMB683.1 million for the six months ended June 30, 2011, or an approximately 6.6% increase.

Gross Profits

- For the six months ended June 30, 2012, gross profit was approximately RMB205.3 million, compared to RMB184.3 million for the six months ended December 31, 2011, or an approximately 11.4% increase and approximately RMB208.1 million for the six months ended June 30, 2011, or an approximately 1.3% decrease, respectively.
- For the six months ended June 30, 2012, gross profit margin recovered significantly back to approximately 28.2%, compared to approximately 20.4% for the six months ended December 31, 2011, and approximately 30.5% for the six months ended June 30, 2011, respectively.

Pro forma Profits and Profits for the period

- For the six months ended June 30, 2012, the equity-settled share option expense including the newly granted option on January 18, 2012 which was a non-cash accounting charge, was approximately RMB22.0 million, compared to approximately RMB2.5 million for the six months ended December 31, 2011 and approximately RMB3.6 million for the six months ended June 30, 2011, respectively.
- Before deducting such expense, the pro forma profit for the six months period ended June 30, 2012 was approximately **RMB47.9 million**, compared to approximately **RMB39.1 million** for the six months period ended December 31, 2011, or an approximately **22.5%** increase, and approximately RMB78.1 million for the six months period ended June 30, 2011, or an approximately 38.7% decrease, respectively.
- After deducting such expense, the profit for the six months period ended June 30, 2012 was approximately RMB25.9 million, compared to approximately RMB36.5 million for the six months ended December 31, 2011 and approximately RMB74.5 million for the six months ended June 30, 2011, respectively.

Pro forma Earnings Per Share and Earnings Per Share

- Pro forma basic and diluted earnings per share was RMB0.03 per share.
- Basic and diluted earnings per share was RMB0.02 per share.

Corporate Information

Board of Directors Executive Directors

Mr. Liao Jie (*Chairman*)
Mr. Jiang Hailin (*Chief Executive Officer*)
Mr. Wang Jing
Mr. Lu Xiao
Mr. Pan Jianguo
Mr. Lv Xilin

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

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Cayman Islands

Head Office in the PRC

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Chaoyang District
Beijing 100020, China

Principal Place of Business in Hong Kong

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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

The background features a collage of images related to infrastructure and technology, including a globe, a train, a stadium, and various data charts and graphs. The text is overlaid on this collage.

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, Hong Kong

Legal Advisor

Orrick, Herrington & Sutcliffe (Hong Kong law)
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 Beijing Co., Ltd.
Beijing Branch Cuiweilu 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

Management Discussion and Analysis

Overview and Prospect

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

In the first half of 2012, China ITS (Holdings) Co., Ltd. (the “**Company**”) earnestly implemented its strategic development plan, pushed forward its commitment to streamlining structure, scaling up, diversifying risks and sharpening competitiveness. The Company and its subsidiaries (together as the “**Group**”) continued to diversified and healthy development in the transportation industry. In the first half of 2012, the Group recorded revenue of RMB728.1 million, representing an increase of 6.6% as compared to RMB683.1 in the six months ended June 30, 2011. The new contracts signed and orders secured recorded RMB1,475.6 million, representing an increase of 16.1% as compared to RMB1,270.5 in the six months ended June 30, 2011. Backlog reached historical high, which was RMB2,185.2 as at June 30, 2012. The overall gross profit was RMB205.3 million, representing an increase of 11.4% compared with second half year of 2011, gross profit margin rebounded 7.8% to 28.2% as compared with second half year of 2011. The pro forma profit for the period for the six months ended June 30, 2012 was RMB47.9 million, compared to RMB39.1 million for the six months ended December 31, 2011 and RMB78.1 million for the six months ended June 30, 2011.

CORE BUSINESS OF THE GROUP AND OPERATION THEREOF

For the six months ended June 30, 2012, the Group’s revenue from the expressway sector (the “**Expressway**”) reached RMB372.4 million, representing an increase of 32.3% from RMB281.5 million for the corresponding period in 2011, making up 50.5% of the Group’s total revenue. Revenue from the railway sector (the “**Railway**”) decreased by 6.5% to RMB271.6 million during the reporting period and representing 36.8% of the Group’s total revenue. Revenue from the urban traffic sector (the “**Urban Traffic**”) decreased by 16.4% to RMB81.7 million, compared with the same period of the previous year, representing 11.1% of the Group’s total revenue.

(i) *Expressway*

The overall increase of Expressway revenue was particularly attributable to the strong growth of specialized solution (the “**SS**”). During the reporting period, SS recorded revenue of RMB105.7 million, representing an increase of 84.9% compared with same period of 2011. 2012 is the second year of the “12th Five-Year Plan”, local expressway bureau restarted the original projects which has been postponed last year. In such optimistic situation, the Group had recorded the highest revenue recognition in this sector.

In the first half of 2012, the major projects of Expressway included Ji-cha (Jishou-chadong) Expressway, Ning-Wu (Ningde-Wuyishan) Expressway, Yi-Ba (Yichang-Badong) Expressway. The new contracts signed and orders secured amount in the six months ended June 30, 2012 was RMB970.6 million and the backlog amount as at June 30, 2012 was RMB1,175.7 million for Expressway, representing good outlook into the second half or even beyond.



Management Discussion and Analysis

Overview and Prospect

CORE BUSINESS OF THE GROUP AND OPERATION THEREOF (continued)

(ii) Railway

After a series of negative events hit the railway industry in 2011, the industry has started to recover gradually. During the first half year of 2012, the Railway revenue was RMB271.6 million, representing a decrease of 6.5% compared with same period of 2011, but representing an increase of 18.3% compared with the second half year of 2011. The Group also entered into new solutions of Railway such as passenger ticketing system. Under the continued railway construction in China followed by the “12th Five-Year Plan”, the Group believes it will resume and bring more opportunities in this sector.

In the first half of 2012, the major projects of Railway included web passenger ticket system project, Ning Hang (Nanjing-Hangzhou) Highspeed railway, Jing Bao (Beijing-Baotou) Railway, The new contracts signed and orders secured amount in the six months ended June 30, 2012 was RMB343.8 million and the backlog amount as at June 30, 2012 was RMB631.5 million for railway sector.

(iii) Urban Traffic

In the urban traffic sector, we realized revenue of RMB81.7 million in the six months ended June 30, 2012. The rising traffic problem is caused by urbanization, automobiles with intense urban population density. During the “12th Five-Year Plan”, Urban Traffic construction is expected to exceed RMB700 billion. Through two acquisitions of China Traffic Holdings Ltd. (“**CTH**”) in August 2011 and Beijing STONE Intelligent Transportation System Integration Co., Ltd. (“**STONE**”) in June 2012, the Group completed a comprehensive business coverage for the Urban Traffic with established and matured business model across turnkey solutions (the “**TS**”), SS and value-added operation and services (“**VAOS**”) within the ever growing Urban Traffic sector. We intend to replicate these successful business models from proven cities such as Beijing, Guangzhou, Wuhan to the rest of the country leveraging our extensive localized sales coverage.

In the first half of 2012, the major project of Urban Traffic include Shandong Weifang city project and Jilin Siping city project. The new contracts signed and orders secured amount in the six months ended June 30, 2012 was RMB152.5 million and the backlog amount as at June 30, 2012 was RMB372.1 million for urban traffic sector.

M&A Review

On June 20, 2012, the Company announced a transaction with a total consideration of RMB137.3 million of which RMB32.7 million was satisfied by ordinary shares of the Company (“**Shares**”) to acquire a 75% ownership in STONE, an Urban Traffic TS and SS provider. STONE is the leading provider of integrated urban traffic system, solutions and service. After acquiring STONE, the Group completed the strategic layout of its Urban Traffic business segment with great upside potential and the Group believes that Urban Traffic will become a strong and stable revenue generator in addition to Expressway and Railway businesses.



Management Discussion and Analysis

Overview and Prospect

CORE BUSINESS OF THE GROUP AND OPERATION THEREOF (continued)

Grant of Share Options

On January 18, 2012, the board of directors (individually, a “**Director**”, or collectively, the “**Board**”) of the Company 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 include 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 grant of the share options, please refer to the announcement of the Company on January 18, 2012.

Above-mentioned new batch of share options granted in January 2012 recorded approximately RMB22.0 million non-cash accounting charges for the six months ended June 30, 2012.

As disclosed in the announcement of the Company on January 18, 2012, the target selling prices of HK\$2.5, HK\$3, HK\$3.5 for Shares to be issued upon exercise of the new share options granted under the Share Option Scheme show our management team’s strong confidence on the Group’s future. The management team believes the Group will take a leap in its development and become the most diversified full bloom ITS solution and services provider in China.

PROSPECTS

M&A and new sector breakthrough

Since January 1, 2011, the Group has announced a series of merger and acquisition activities, such as Xinjiang RHY, eSOON, CTH, and STONE, reflecting to diversify from the traditional sectors to new and high growth sectors such as Urban Traffic and smart city sector of the Group. In the second half of this year, the Group will continue to be active in searching high growth transport sectors and identify suitable M&A targets.

Prospects

In the first half of 2012 the whole industry is still slumped and recovering. The Group expects that it will continue to rebound in the second half of the year. The Group will continue switching from business/product-oriented to industry/customer-oriented, formulate long-term development plans and become a leading player in the industry. The Group aims at delivering solutions that enhance safety, efficiency, convenience and sustainability of the transportation industry.

Management Discussion and Analysis

Business and Financial Review

REVENUE

By Industry Sectors

The Group's revenue for the six months ended June 30, 2012 was RMB728.1 million, representing a decrease of 19.3% as compared to RMB902.1 million for the six months ended December 31, 2011 (compared to the second half of last year, or "2H comparison") and an increase of 6.6% as compared to RMB683.1 million for the six months ended June 30, 2011 (compared to the first half of last year, or "1H comparison"), respectively. The overall decrease/increase was caused by a 37.9% decrease (2H comparison) and a 32.3% increase (1H comparison) in Expressway, a 18.3% increase (2H comparison) and a 6.5% decrease (1H comparison) in Railway, a 9.7% increase (2H comparison) and a 16.4% decrease (1H comparison) in Urban Traffic, and a 47.7% decrease (2H comparison) and a 21.2% decrease (1H comparison) in energy sector of the Group, respectively. The following table sets out the revenue breakdown by industry sectors:

Revenue by Industry Sectors RMB'000	Six months ended		
	June 30, 2012	December 31, 2011	June 30, 2011
Expressway	372,449	599,785	281,521
Railway	271,639	229,630	290,369
Urban traffic	81,697	74,461	97,733
Energy	12,353	23,606	15,676
Elimination	(10,057)	(25,361)	(2,214)
Total	728,081	902,121	683,085

(i) *Expressway*

Revenue from the Expressway in the six months ended June 30, 2012 was RMB372.4 million, representing a decrease of RMB227.4 million, or 37.9% (2H comparison) and an increase of RMB90.9 million, or 32.3% (1H comparison), respectively. As mentioned in the annual report of 2011, the Group had forecasted the business will resume to a normal level in the coming years after the fall of last year. The actual result exceeded the Group's expectation for that the expressway industry had just strongly rebounded in the first half of 2012. In the early stage of this year, local expressway bureaus such as those in northeast, center, south and west of China had restarted the original projects which had been postponed by them in the last year. In such optimistic situation, the Group had created the highest record in new contracts signed in this industry sector and reserved a large number of backlog as at June 30, 2012. The Group believes the Expressway will have a massive increment in 2012 and have the continued growth in the coming years under the ongoing contribution from government's infrastructure construction. The new contracts and orders secured amount in the six months ended June 30, 2012 was RMB970.6 million and the backlog amount as at June 30, 2012 was RMB1,175.7 million for the Expressway.

Management Discussion and Analysis

Business and Financial Review

REVENUE (continued)

By Industry Sectors (continued)

(ii) *Railway*

Revenue from the Railway in the six months ended June 30, 2012 was RMB271.6 million, representing an increase of RMB42.0 million, or 18.3% (2H comparison) and a decrease of RMB18.7 million, or 6.5% (1H comparison), respectively. After the slowdown in construction because of the 7-23 Wenzhou train collision in last year, the central government had announced some incentive policy such as remaining “12th Five-Year Plan” construction scale and introducing civilian capital in 2012. Although the Railway did not rebound as strongly as the Expressway, we still found obvious indicators of resumption. On one hand the recognized revenue in the first half of 2012 was significant larger than that in the second half of 2011, on the other hand, the backlog reserved for the rest of this year was larger than last year. At the beginning of this year, the Group had entered into the new market of railway, providing products and services for passenger ticket system. Under the continued contribution on railway construction in China, the Group believes it will bring more and more opportunities in this sector especially in the post-construction operation period. The new contracts and orders secured amount in the six months ended June 30, 2012 was RMB343.8 million and the backlog amount as at June 30, 2012 was RMB631.5 million for the railway sector.

(iii) *Urban Traffic*

Revenue from the Urban Traffic in the six months ended June 30, 2012 was RMB81.7 million, representing an increase of RMB7.2 million, or 9.7% (2H comparison) and a decrease of RMB16.0 million, or 16.4% (1H comparison), respectively. Urbanization is one of the most important objects in the “12th Five-Year Plan” of Chinese government. Other than the successful acquisition of CTH in last year, the Group had further enlarged the business scale by acquiring one more leading player STONE in the industry. After the acquisition, the Group will have three business units covering surveillance solution, information platform and ITS integration solution. With such diversified corporate structure, the sales network will be expanded to all types of business in the industry throughout China. From the trend we observe by comparing the performance of second half of last year, indication of resumption in the Group’s revenue from the fall at year end of 2011 to attaining a normal level was obvious. The Group believes there will be continued growth in the industry sector under the strong urbanization trend in China. The new contracts and orders secured amount in the six months ended June 30, 2012 was RMB152.5 million and the backlog amount as at June 30, 2012 was RMB372.1 million for Urban Traffic.

(iv) *Energy*

Revenue from the energy sector of the Group in the six months ended June 30, 2012 was RMB12.4 million, representing a decrease of RMB11.3 million, or 47.7% (2H comparison) and a decrease of RMB3.3 million, or 21.2% (1H comparison), respectively. As the energy business is in a mature stage and is no longer a key focus of the Company, management have directed more attention to the transportation sectors, such as Expressway, Railway and Urban Traffic, which are expected to provide higher growth for the Group. The new contracts and orders secured amount in the six months ended June 30, 2012 was RMB8.6 million and the backlog amount as at June 30, 2012 was RMB5.9 million for the energy sector of the Group.

Management Discussion and Analysis

Business and Financial Review

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 2012 and the backlog were approximately RMB2,185.2 million as at June 30, 2012, resulting in a historical high backlog carried over to the second half of 2012.

During this year, the Group had implemented more than 1,800 projects in varied sizes, covering most of the region in Mainland China. The following table sets out the major projects generating revenue in each industry sector:

Industry sector	Project name
Expressway:	Ji-Cha (Jishou-Chadong) Expressway Ning-Wu (Ningde-Wuyishan) Expressway Yi-Ba (Yichang-Badong) Expressway
Railway:	Web passenger ticket system project Ning-Hang (Nanjing-Hangzhou highspeed railway) Jing-Bao (Beijing-Baotou) Railway
Urban:	Shandong Weifang city project
Energy:	Changjiang River Vision meeting project

By Segments

The revenue for the six months ended June 30, 2012 was changed by a 38.6% decrease (2H comparison) and a 16.5% increase (1H comparison) in the TS business, a 5.2% decrease (2H comparison) and a 3.3% increase (1H comparison) in the SS business, and a 19.7% decrease (2H comparison) and a 13.2% increase (1H comparison) in the VAOS' business. The following table sets out a breakdown of the revenue of the Group by segments:

Revenue by Segments RMB'000	Six months ended		
	June 30, 2012	December 31, 2011	June 30, 2011
TS	253,476	413,034	217,521
SS	467,802	493,461	452,889
VAOS	16,860	20,987	14,889
Elimination	(10,057)	(25,361)	(2,214)
Total	728,081	902,121	683,085

Management Discussion and Analysis

Business and Financial Review

BUSINESS SEASONALITY AND MAJOR PROJECTS (continued)

By Segments (continued)

(i) TS

Revenue from the TS's business in the six months ended June 30, 2012 was RMB253.5 million, representing a decrease of RMB159.6 million, or 38.6% (2H comparison) and an increase of RMB36.0 million, or 16.5% (1H comparison), respectively. The increase is due to the strong rebound of business in Expressway as described in previous section.

The TS as a whole accounted for 34.3% of the Group's revenue in the six months ended June 30, 2012, which is higher than 31.7% as recorded for the six months ended June 30, 2011.

(ii) SS

Revenue from the SS's business in the six months ended June 30, 2012 was RMB467.8 million, representing a decrease of RMB25.7 million, or 5.2% (2H comparison) and an increase of RMB14.9 million, or 3.3% (1H comparison), respectively. The increase is due to the combination of the strong rebound of business in Expressway and resume of business in Railway and Urban Traffic as described in previous section.

The SS segment as a whole accounted for 63.4% of the Group's revenue in the six months ended June 30, 2012, which is lower than 66.1% as recorded in the six months ended June 30, 2011.

(iii) VAOS

Revenue from the VAOS in the six months ended June 30, 2012 was RMB16.9 million, representing a decrease of RMB4.1 million, or 19.7% (2H comparison) and an increase of RMB2.0 million, or 13.2% (1H comparison), respectively. It reflects our business transformations from a single, project-based model to stable, recurring revenue.

The VAOS segment as a whole accounted for 2.3% of the Group's revenue in the six months ended June 30, 2012, which is higher than 2.2% as recorded in the six months ended June 30, 2011.

COST OF SALES

Cost of sales was incurred on a project-by-project basis for individual legal entities and was subsequently aggregated at segment 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. Cost of sales constituted 71.8% of the Group's revenue in the six months ended June 30, 2012, which represented a decrease of 7.8% as compared to the six months ended December 31, 2011 and an increase of 2.3% as compared to the six months ended June 30, 2011.

Management Discussion and Analysis

Business and Financial Review

COST OF SALES (continued)

By Industry Sectors

Cost of Sales by Industry Sectors RMB'000	Six months ended		
	June 30, 2012	December 31, 2011	June 30, 2011
Expressway	282,225	455,833	225,314
Railway	187,585	210,440	187,398
Urban traffic	56,345	58,462	54,451
Energy	6,662	18,444	10,047
Elimination	(10,057)	(25,361)	(2,214)
Total	522,760	717,818	474,996
% of Revenue	71.8%	79.6%	69.5%

(i) *Expressway*

The cost of sales from Expressway in the six months ended June 30, 2012 was RMB282.2 million, representing a decrease of RMB173.6 million, or 38.1% (2H comparison) and an increase of RMB56.9 million, or 25.3% (1H comparison), respectively.

(ii) *Railway*

The cost of sales from Railway in the six months ended June 30, 2012 was RMB187.6 million, representing a decrease of RMB22.9 million, or 10.9% (2H comparison) and a decrease of RMB0.2 million, or 0.1% (1H comparison), respectively.

(iii) *Urban traffic*

The cost of sales from Urban Traffic in the six months ended June 30, 2012 was RMB56.3 million, representing a decrease of RMB2.1 million, or 3.6% (2H comparison) and a decrease of RMB1.9 million, or 3.5% (1H comparison), respectively.

(iv) *Energy*

The cost of sales from energy sector of the Group in the six months ended June 30, 2012 was RMB6.7 million, representing a decrease of RMB11.8 million, or 63.9% (2H comparison) and a decrease of RMB3.4 million, or 33.7% (1H comparison), respectively.

Management Discussion and Analysis

Business and Financial Review

COST OF SALES (continued)

By Segments

Cost of Sales by Segments RMB'000	Six months ended		
	June 30, 2012	December 31, 2011	June 30, 2011
TS	215,955	346,041	185,760
SS	307,322	387,344	284,571
VAOS	9,540	9,794	6,879
Elimination	(10,057)	(25,361)	(2,214)
Total	522,760	717,818	474,996
<i>% of Revenue</i>	71.8%	79.6%	69.5%

- (i) **TS**
The cost of sales incurred for TS constituted 40.5% of the Group's cost of sales in the six months ended June 30, 2012, which remained at a similar level as compared to the corresponding period in 2011, reflecting the stable contribution of TS to the Group's business.
- (ii) **SS**
The cost of sales incurred for SS constituted 57.7% of the Group's cost of sales in the six months ended June 30, 2012, which is slightly lower as compared to the corresponding period in 2011.
- (iii) **VAOS**
The cost of sales incurred for VAOS constituted 1.8% of the Group's cost of sales in the six months ended June 30, 2012, which is higher as compared to the corresponding period in 2011, reflecting the significant rising contribution of VAOS to the Group's sales in the six months ended June 30, 2012.

GROSS PROFIT

The overall gross profit for the Group in the six months ended June 30, 2012 was RMB205.3 million, representing an increase of RMB21.0 million, or 11.4% (2H comparison) and a decrease of RMB2.8 million, or 1.3% (1H comparison), respectively. Gross profit margin in the six months ended June 30, 2012 was 28.2%, representing an increase as compared to the second half of 2011 and a slightly decrease as compared to the first half of 2011, respectively.

Management Discussion and Analysis

Business and Financial Review

GROSS PROFIT (continued)

By Industry Sectors

Gross Profit by Industry Sectors RMB'000	Six months ended		
	June 30, 2012	December 31, 2011	June 30, 2011
Expressway	90,224	143,952	56,206
Margin %	24.2%	24.0%	20.0%
Railway	84,054	19,190	102,971
Margin %	30.9%	8.4%	35.5%
Urban traffic	25,352	16,000	43,282
Margin %	31.0%	21.5%	44.3%
Energy	5,691	5,161	5,630
Margin %	46.1%	21.9%	35.9%
Total	205,321	184,303	208,089
Margin %	28.2%	20.4%	30.5%

(i) *Expressway*

Gross profit margin for Expressway in the six months ended June 30, 2012 was 24.2%, representing an increase of 0.2% as compared to the second half of last year and an increase of 4.2% as compared to the first half of last year, respectively. The increase was mainly due to the strong rebound in the industry sector this year, as mentioned in previous sections, as well as the Group's strict budget control.

(ii) *Railway*

Gross profit margin for Railway in the six months ended June 30, 2012 was 30.9%, representing an increase of 22.5% as compared to the second half of last year and a slight decrease of 4.6% as compared to the first half of last year, respectively. The increase was mainly due to the resume of construction in the industry sector this year and the gross profit margin returned to a normal level, as mentioned in previous sections.

(iii) *Urban traffic*

Gross profit margin for Urban Traffic in the six months ended June 30, 2012 was 31.0%, representing an increase of 9.5% as compared to the second half of last year and a decrease of 13.3% as compared to the first half of last year, respectively. The increase was mainly due to the strategic acquisition of CTH in the industry sector last year and the gross profit margin remained between 20% to 40% level, as mentioned in previous sections.

(iv) *Energy*

Gross profit margin for energy sector of the Group in the six months ended June 30, 2012 was 46.1%, representing an increase of 24.2% as compared to the second half of last year and an increase of 10.2% as compared to the first half of last year, respectively. This is mainly due to the mature stage of this business sector, which is no longer a major industry sector for the Group.

Management Discussion and Analysis

Business and Financial Review

GROSS PROFIT (continued)

By Segment

Gross Profit by Segments RMB'000	Six months ended		
	June 30, 2012	December 31, 2011	June 30, 2011
TS	37,521	66,993	31,761
Margin	14.8%	16.2%	14.6%
SS	160,480	106,117	168,318
Margin	34.3%	21.5%	37.2%
VAOS	7,320	11,193	8,010
Margin	43.4%	53.3%	53.8%
Total	205,321	184,303	208,089
Margin	28.2%	20.4%	30.4%

(i) TS

Gross profit margin for TS in the six months ended June 30, 2012 was 14.8%, representing a decrease of 1.4% as compared to the second half of last year and an increase of 0.2% as compared to the first half of last year, respectively. However, the decline was in line with normal margin variations range on an intra-year basis, reflecting the project nature of the TS business. This means overall margins in this business segment will vary year to year, within this range, based on the project mix.

(ii) SS

Gross profit margin for SS in the six months ended June 30, 2012 was 34.3%, representing an increase of 12.8% as compared to the second half of last year and a decrease of 2.9% as compared to the first half of last year, respectively. This is due to the economy resume in the first half of this year from the second half of last year.

(iii) VAOS

Gross profit margin for VAOS in the six months ended June 30, 2012 was 43.4%, representing a decrease of 9.9% as compared to the second half of last year and a decrease of 10.4% as compared to the first half of last year, respectively.

OTHER INCOME AND GAINS

Other income and gains mainly arise from operating leases on investment properties and government grants. The increase in other income and gains was due to the government grants recognised by the Group to subsidise the research and development activities with no unfulfilled conditions for the six months ended June 30, 2012.



Management Discussion and Analysis

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SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

In the six months ended June 30, 2012, selling, general and administrative expenses (“**SG&A**”) as a percentage of sales increased by 3.5% to 19.9% as compared to the six months ended June 30, 2011, 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 RMB80.3 million in the six months ended June 30, 2011 to RMB100.7 million in the six months ended June 30, 2012, representing a 25.5% increase and contributed 69.6% of total SG&A in the period. 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, which has caused the Headcount Related Cost to increase. Management believes the expenditure in human resources will bring corresponding profits in the coming future.

The rental expenses increased from RMB8.1 million for the six months ended June 30, 2011 to RMB10.0 million in the six months ended June 30, 2012 due to the higher rental cost of the Company’s new centralized office in Beijing. Rental expenses accounted for 6.9% of the total SG&A in the six months ended June 30, 2012, a decrease of 0.4% as compared to the corresponding period in 2011.

Research & developments expenses increases from RMB8.6 million for the six months ended June 30, 2011 to RMB10.6 million for the six months ended June 30, 2012. The major growth was due to increase of expenditure in R&D for the new business sectors such as urban traffic industry.

EQUITY-SETTLED SHARE OPTION EXPENSES

Equity-settled share option expenses refer to the share options expenses related to the Company’s pre-IPO share incentive scheme adopted on December 28, 2008 (“**Pre-IPO Share Incentive Scheme**”) and the Share Option Scheme under which share options were granted on January 18, 2012. In the six months ended June 30, 2012, equity-settled share option expenses recorded change from RMB3.6 million for the six months ended June 30, 2011 to RMB22.0 million.

FINANCE INCOME AND FINANCE COST

Finance income comprised of mainly interest income and finance cost comprised of mainly interest expenses for interest-bearing bank loan. The net financial expenses represented the total finance cost minus finance revenue. This financial expense was RMB4.5 million in the six months ended June 30, 2012, which represented an increase of 24.5% as compared to the six months ended June 30, 2011. The increase was mainly due to the composition of increase of loan interest rate and lower level of cash in bank balances compared to the corresponding period in 2011.

Share of Profits/(Losses) of Jointly-Controlled Entities/Operation and Associates

Share of losses of Jointly-Controlled Entities (“**JCE**”) in the six months ended June 30, 2012 was approximately RMB4.8 million, which represented a fall from last year. Such change was due to the operating loss of Chengdu Weilute and the Group is now searching for other partnership in the area.

Management Discussion and Analysis

Business and Financial Review

INCOME TAX EXPENSES

The total income tax expense in the six months ended June 30, 2012 was lower than that recorded for the six months ended June 30, 2011 due to the decrease of profit before tax. The effective tax rate in the six months ended June 30, 2012 was 22.1%, excluding the non-cash equity-settled share option expense. The applicable income tax rate for most of the subsidiaries are 15%, which is the preferential tax rate for HNTe. The higher level of effective tax rate is due to some of the loss subsidiaries will recognise most of the profit in the second half of 2012.

PROFIT FOR THE PERIOD

Profit for the period of the Group for the six months ended June 30, 2012 was RMB25.9 million.

TRADE RECEIVABLES TURNOVER DAYS

The trade receivables turnover days in the six months ended June 30, 2012 was 161 days (in the six months ended June 30, 2011: 112 days).

NET CONSTRUCTION CONTRACT TURNOVER DAYS

The net construction contract turnover days in the six months ended June 30, 2012 was 136 days (in the six months ended June 30, 2011: 115 days).

TRADE PAYABLES TURNOVER DAYS

The trade payables turnover days in the six months ended June 30, 2012 was 165 days (in the six months ended June 30, 2011: 152 days).

INVENTORY TURNOVER DAYS

The inventories of the Group mainly comprised of raw materials, work-in-progress, finished goods and general merchandise for surveillances SS as well as the integrated TAXI or Bus monitoring & dispatching system. The inventory turnover days in the six months ended June 30, 2012 was 7 days (in the six months ended June 30, 2011: 2 days).

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 June 30, 2012, the Group's current ratio (current assets divided by current liabilities) was 2.0 (as at December 31, 2011: 1.9). The Group's financial position remains healthy.

As at June 30, 2012, the Group was in a negative net cash position of RMB248.9 million (as at December 31, 2011: net cash of RMB135.5 million) which included cash and cash equivalent of RMB142.4 million (as at December 31, 2011: RMB435.9 million) and short-term bank loans of RMB391.3 million (as at December 31, 2011: RMB300.4 million). As at June 30, 2012, the Group's gearing ratio was positive 7.1%, which has increased from -9.5% as at December 31, 2011, due to the tough economy environment in China. Gearing ratio refers to adjusted cash (interest-bearing bank borrowings minus pledged deposits, and cash and bank balances) divided by total equity.



Management Discussion and Analysis

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CONTINGENT LIABILITIES

As at June 30, 2012, the Group had no material contingent liability.

CHARGES ON GROUP ASSETS

As at the Group pledged its buildings having net book values of approximately RMB145.8 million (As at December 31, 2011: RMB84.4 million) to banks to secure banking facilities granted to the Group. Save as disclosed above, as at June 30, 2012, the Group had no other asset charged to financial institution.

MATERIAL ACQUISITIONS OF SUBSIDIARIES

— Acquisition of STONE

On 20 June 2012, China ITS Urban Traffic Holding Co., Ltd., a wholly-owned subsidiary of the Company, acquired 100% of issued share capital of Hugecom Limited, which is incorporated in British Virgin Islands and is indirectly interested in 65% of the equity interest of STONE. On the same date, Beijing Bailian Zhida Technology Co., Ltd., a wholly-owned subsidiary of the Company, acquired 10% of the equity interest of STONE. As a result of these acquisitions, the Company has become indirectly interested in 75% of the equity interest in STONE. STONE is principally engaged in providing ITS solutions and services to the urban traffic sector in the PRC. The Board believes that the Group can benefit from the acquisition to enhance the TS and SS in the Urban Traffic by leveraging the leading market presence of STONE. For further details, please refer to the announcements of the Company dated June 20, 2012 and June 28, 2012.

EVENTS AFTER THE REPORTING PERIOD

— Issuance of Consideration Shares

On July 10, 2012, the Company issued 32,790,501 Shares (“**Consideration Shares**”) to United Fortune Overseas Limited at HK\$1.2229 per Consideration Share pursuant to a share purchase agreement dated June 20, 2012 entered into between China ITS Urban Traffic Holding Co., Ltd., a wholly-owned subsidiary of the Company, and United Fortune Overseas Limited. For further details, please refer to the announcement of the Company dated June 20, 2012 and June 28, 2012.

— Change of Chairman of the Board and Chief Executive Officer

With effect from July 9, 2012, Mr. Liao Jie, an executive Director, has been elected as the chairman of the Board and retired from his previous position as the chief executive officer of the Company, and Mr. Jiang Hailin, an executive Director, who served as the chief executive officer of the Company since the date of its incorporation in 2008 until August 24, 2011, has been re-appointed as the chief executive officer of the Company and therefore resigned from his previous position as the chairman of the Board. For further details, please refer to the announcement of the Company dated July 9, 2012.

Management Discussion and Analysis

Business and Financial Review

USE OF PROCEEDS

The Shares were listed on the main board of The Stock Exchange of Hong Kong Limited (the “**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 listing of the Shares as at June 30, 2012 was as follows:

Use for	Percentage of net proceeds	Amount of net proceeds (in HK\$ million)	Amount utilised (in HK\$ million)	Amount remaining (in HK\$ million)
Acquisitions or Investments	45%	319.7	319.7	—
Project-related working capital needs	35%	248.7	224.7	24.0
Research and development	10%	71.1	39.0	32.1
General corporate purposes	10%	71.1	68.4	2.7
Total	100%	710.6	651.8	58.8

Directors' Report

The Board presents its report together with the unaudited consolidated results of the Group for the six months ended June 30, 2012.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended June 30, 2012.

REVIEWED BY AUDIT COMMITTEE AND EXTERNAL AUDITORS

The audit committee of the Company has reviewed the accounting principles and practices and has also reviewed auditing, internal control and financial reporting matters, including the review of the interim results of the Group for the six months ended June 30, 2012 together with the management of the Company.

In addition, Ernst & Young, has performed an independent review of the unaudited condensed consolidated interim financial information of the Group for the six months ended June 30, 2012 in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at June 30, 2012, the interests and short positions of the Directors and chief executive of the Company in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) (the "SFO")), as recorded in the register kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Name of Director	Nature of interest	Number of securities ⁽¹⁾	Approximate percentage of shareholding as at June 30, 2012 ⁽¹⁾
Mr. Jiang Hailin ⁽¹⁾⁽²⁾	Beneficial owner/Beneficiary of the Fino Trust	863,288,939(L)	53.53%(L)
Mr. Wang Jing ⁽¹⁾⁽³⁾	Beneficial owner/Beneficiary of the Tesco Trust	867,238,939(L)	53.77%(L)
Mr. Pan Jianguo ⁽¹⁾⁽⁴⁾	Beneficial owner/Beneficiary of the Ampio Trust	865,608,750(L)	53.67%(L)
Mr. Lv Xilin ⁽¹⁾⁽⁵⁾	Beneficial owner/Beneficiary of the Fino Trust	891,826,495(L)	55.30%(L)
Mr. Lu Xiao ⁽¹⁾⁽⁶⁾	Beneficiary owner/Interest of a controlled corporation	109,999,999(L)	6.82%(L)
Mr. Liao Jie ⁽⁷⁾	Beneficial owner	40,735,874(L)	2.53%(L)
Mr. Choi Onward ⁽⁸⁾	Beneficial owner	98,824(L)	0.01%(L)
Mr. Sun Lu ⁽⁹⁾	Beneficial owner	98,824(L)	0.01%(L)
Mr. Zhou Chunsheng ⁽¹⁰⁾	Beneficial owner	98,824(L)	0.01%(L)

Directors' Report

Notes:

- (1) To facilitate the management and operation of the Company and as a result of previous restructuring exercises of the Group, China ITS Co., Ltd. ("**Holdco**"), Pride Spirit Company Limited, Sea Best Investments Limited, Joy Bright Success Limited, Gouver Investments Limited, Kang Yang Holdings Limited, Huaxin Investments Limited, Rockyjng Investment Limited, Key Trade Holdings Limited, Speedy Fast Investments Limited, Best Partners Development Limited, Mr. Lu Xiao, Mr. Liao Daoxun, Ms. Wu Yurui, Mr. Jiang Hailin, Mr. Wang Jing, Mr. Liang Shiping, Ms. 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, entered into shareholders voting agreements (the "**Shareholders Voting Agreements**"), pursuant to which each of the parties (other than Holdco) to the Shareholder Voting Agreements has authorized Holdco to exercise their voting rights in the Company on their behalves.

Holdco is entitled to exercise or control the exercise of the voting rights of a total of 861,443,091 Shares, representing the aggregate number of Shares held by all of the parties to the Shareholder Voting Agreements.

- (2) 1,855,848 of these Shares are underlying Shares subject to the exercise of share options granted to Mr. Jiang Hailin on January 18, 2012 under the Share Option Scheme.

Mr. Jiang Hailin was also interested in all the Shares in which Fino Trust was interested as a beneficiary of Fino Trust. As the beneficial owner of Fino Investments Limited, Fino Trust is deemed to be interested in all the Shares in which Fino Investments Limited is interested.

- (3) 3,950,000 of these Shares are underlying Shares subject to the exercise of share options granted to Mr. Wang Jing on December 31, 2008 under the Pre-IPO Share Incentive Scheme. 1,855,848 of these Shares are underlying Shares subject to the exercise of share options granted to Mr. Wang Jing on January 18, 2012 under the Share Option Scheme.

Mr. Wang Jing was also interested in all the Shares in which Tesco Trust was interested as a beneficiary of Tesco Trust. As the beneficial owner of Tesco Investments Limited, Tesco Trust is deemed to be interested in all the Shares in which Tesco Investments Limited is interested.

- (4) 4,175,659 of these Shares are underlying Shares subject to the exercise of share options granted to Mr. Pan Jianguo on January 18, 2012 under the Share Option Scheme.

Mr. Pan Jianguo was also interested in all the Shares in which Ampio Trust was interested as a beneficiary of Ampio Trust. As the beneficial owner of Ampio International Limited, Ampio Trust is deemed to be interested in all the Shares in which Ampio International Limited is interested.

- (5) 1,773,000 of these Shares are underlying Shares subject to the exercise of share options granted to Mr. Lv Xilin on December 31, 2008 under the Pre-IPO Share Incentive Scheme. 6,402,677 of these Shares are underlying Shares subject to the exercise of share options granted to Mr. Lv Xilin on January 18, 2012 under the Share Option Scheme.

Mr. Lv Xilin was also interested in all the Shares in which Fino Trust was interested as a beneficiary of Fino Trust. As the beneficial owner of Fino Investments Limited, Fino Trust is deemed to be interested in all the Share in which Fino Investments Limited is interested. Mr. Lv Xilin beneficially and directly owns 22,217,727 Shares, which are part of the 861,443,091 Shares in which Fino Trust is deemed to be interested.

- (6) 4,662,105 of these Shares are underlying Shares subject to the exercise of share options granted to Mr. Lu Xiao on December 31, 2008 under the Pre-IPO Share Incentive Scheme. 6,959,432 of these Shares are underlying Shares subject to the exercise of share options granted to Mr. Lu Xiao on January 18, 2012 under the Share Option Scheme.

Remaining 98,378,462 of these Shares are held by Speedy Fast Investments Limited, which is wholly-owned by Mr. Lu Xiao.

- (7) These Shares are underlying Shares subject to the exercise of share options granted to Mr. Liao Jie on January 18, 2012 under the Share Option Scheme.

- (8) These Shares are underlying Shares subject to the exercise of share options granted to Mr. Choi Onward on January 18, 2012 under the Share Option Scheme.

- (9) These Shares are underlying Shares subject to the exercise of share options granted to Mr. Sun Luon January 18, 2012 under the Share Option Scheme.

- (10) These Shares are underlying Shares subject to the exercise of share options granted to Mr. Zhou Chunsheng January 18, 2012 under the Share Option Scheme.

- (11) (L) denotes long positions.



Directors' Report

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as otherwise disclosed in this interim report, at no time during the six months ended June 30, 2012, 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 of the Company dated June 30, 2010 (the "**Prospectus**") and in the section headed "Report of the Directors" in the 2011 Annual Report of the Company dated March 28, 2012.

1. Pre-IPO Share Incentive Scheme

The Company and Holdco adopted the Pre-IPO Share Incentive Scheme on December 28, 2008, respectively. The purpose of the Pre-IPO Share Incentive Scheme is to recognize and reward the contribution of certain eligible participants to the growth and development of the business(es) of the Group.

Options to subscribe for an aggregate of 116,653,105 Shares have been conditionally granted by Holdco under the Pre-IPO Share Incentive Scheme.

As of January 1, 2012, a total of 97,606,480 Shares which were held by Holdco may be transferred to the relevant grantees upon exercise of all options which had been granted under the Pre-IPO Share Incentive Scheme. Upon exercise of such options, Holdco transfers the relevant number of Shares 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.

Directors' Report

Movement of the options granted under the Pre-IPO Share Incentive Scheme during the six months ended June 30, 2012 is as follows:

Grantee	Grant date	Vesting start date	Expiry date	Outstanding as at January 1, 2012	Exercised during the six months ended June 30, 2012	Lapsed or cancelled during the six months ended June 30, 2012	Outstanding as at June 30, 2012	Exercise price per share (RMB)
Mr. Wang Jing (Executive Director)	31/12/2008	31/12/2008	31/12/2013	0	—	—	0	0.6
	31/12/2008	31/12/2010	31/12/2015	823,750	823,750	—	0	2
	31/12/2008	30/06/2011	30/06/2016	1,305,250	1,305,250	—	0	2
	31/12/2008	31/12/2011	31/12/2016	1,305,250	1,271,000	—	34,250	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
Sub-total				7,350,000	3,400,000 ⁽¹⁾	—	3,950,000	
Mr. Lu Xiao (Executive Director)	31/12/2008	31/12/2008	31/12/2013	1,445,253	—	—	1,445,253	0.6
	31/12/2008	31/12/2010	31/12/2015	536,142	—	—	536,142	2
	31/12/2008	30/06/2011	30/06/2016	536,142	—	—	536,142	2
	31/12/2008	31/12/2011	31/12/2016	536,142	—	—	536,142	3
	31/12/2008	30/06/2012	30/06/2017	536,142	—	—	536,142	3
	31/12/2008	31/12/2012	31/12/2017	536,142	—	—	536,142	4
	31/12/2008	30/06/2013	30/06/2018	536,142	—	—	536,142	4
Sub-total				4,662,105	—	—	4,662,105	
Mr. Lv Xilin (Executive Director)	31/12/2008	31/12/2008	31/12/2013	549,630	—	—	549,630	0.6
	31/12/2008	31/12/2010	31/12/2015	203,895	—	—	203,895	2
	31/12/2008	30/06/2011	30/06/2016	203,895	—	—	203,895	2
	31/12/2008	31/12/2011	31/12/2016	203,895	—	—	203,895	3
	31/12/2008	30/06/2012	30/06/2017	203,895	—	—	203,895	3
	31/12/2008	31/12/2012	31/12/2017	203,895	—	—	203,895	4
	31/12/2008	30/06/2013	30/06/2018	203,895	—	—	203,895	4
Sub-total				1,773,000	—	—	1,773,000	
Others	31/12/2008	31/12/2008	31/12/2013	46,123,990	3,287,920	—	42,836,070	0.6
	31/12/2008	31/12/2010	31/12/2015	5,116,713	2,180,360	—	2,936,353	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	6,009,710	1,090,180	—	4,919,530	3
	31/12/2008	30/06/2012	30/06/2017	6,429,710	—	—	6,429,710	3
	31/12/2008	31/12/2012	31/12/2017	6,119,710	—	—	6,009,710	4
	31/12/2008	30/06/2013	30/06/2018	6,429,710	—	—	6,429,710	4
Sub-total				83,821,375	6,698,460 ⁽²⁾	—	77,122,915	
TOTAL:				97,606,480	9,958,460	0	87,648,020	



Directors' Report

Note:

- (1) The weighted average closing price of the Shares immediately before the exercise dates of the share options was HK\$1.35.
- (2) The weighted average closing price of the Shares immediately before the exercise dates of the share options was HK\$1.25.

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 of the Company on July 15, 2010 (the “**Listing Date**”). The purpose of the Share Option Scheme is to enable the Company to grant options to eligible participants as incentives or rewards for their contribution or potential contribution to 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 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 the Listing Date and ending on the ten anniversary of the Listing Date. Under the Share Option Scheme, each option has an exercise period not exceeding 10 years from the date of grant.

As at the Listing Date, 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 (“**Share Option Scheme Limit**”) 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.

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

Following the grant of share options on January 18, 2012, the remaining mandate not utilized under the above Share Option Scheme Limit is 29,633 Shares. On February 29, 2012, shareholders of the Company approved the refreshment of the Share Option Scheme Limit for the purpose of future grants of share options to the eligible participants under the Share Option Scheme. Under the refreshed Share Option Scheme Limit, the total number of Shares which may be issued upon exercise of options which may be granted under the Share Option Scheme and any other share option scheme(s) of the Company shall not exceed 10% of the total number of Shares in issue at the date of passing the relevant resolutions on refreshment of the Share Option Scheme Limit, i.e. 161,281,776 Shares. Share options previously granted under the Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme or exercised options and those options granted on January 18, 2012) will not be counted for the purpose of calculating the number of share options which may be granted from time to time under the refreshed Share Option Scheme Limit.

Directors' Report

Movement of the options granted under the Share Option Scheme during the six months ended June 30, 2012 is as follows:

Grantee	Grant date ⁽¹⁾	Vesting start date	Expiry date	Outstanding	Exercised	Lapsed or	Outstanding	Exercise price per share (HK\$)
				as at January 1, 2012	during the six months ended June 30, 2012	cancelled during the six months ended June 30, 2012	as at June 30, 2012	
Mr. Jiang Hailin (Executive Director, Chief Executive Officer)	18/01/2012	19 April 2012	Note ⁽²⁾	–	–	–	77,203	1.05
	18/01/2012	19 July 2012	Note ⁽²⁾	–	–	–	77,203	1.05
	18/01/2012	19 October 2012	Note ⁽²⁾	–	–	–	77,203	1.05
	18/01/2012	19 January 2013	Note ⁽²⁾	–	–	–	77,203	1.05
	18/01/2012	19 April 2013	Note ⁽²⁾	–	–	–	154,592	1.05
	18/01/2012	19 July 2013	Note ⁽²⁾	–	–	–	154,592	1.05
	18/01/2012	19 October 2013	Note ⁽²⁾	–	–	–	154,592	1.05
	18/01/2012	19 January 2014	Note ⁽²⁾	–	–	–	154,592	1.05
	18/01/2012	19 April 2014	Note ⁽²⁾	–	–	–	231,981	1.05
	18/01/2012	19 July 2014	Note ⁽²⁾	–	–	–	231,981	1.05
	18/01/2012	19 October 2014	Note ⁽²⁾	–	–	–	231,981	1.05
	18/01/2012	19 January 2015	Note ⁽²⁾	–	–	–	232,725	1.05
Sub-total				–	–	–	1,855,848	
Mr. Pan Jianguo (Executive Director)	18/01/2012	19 April 2012	Note ⁽²⁾	–	–	–	173,707	1.05
	18/01/2012	19 July 2012	Note ⁽²⁾	–	–	–	173,707	1.05
	18/01/2012	19 October 2012	Note ⁽²⁾	–	–	–	173,707	1.05
	18/01/2012	19 January 2013	Note ⁽²⁾	–	–	–	173,707	1.05
	18/01/2012	19 April 2013	Note ⁽²⁾	–	–	–	347,832	1.05
	18/01/2012	19 July 2013	Note ⁽²⁾	–	–	–	347,832	1.05
	18/01/2012	19 October 2013	Note ⁽²⁾	–	–	–	347,832	1.05
	18/01/2012	19 January 2014	Note ⁽²⁾	–	–	–	347,832	1.05
	18/01/2012	19 April 2014	Note ⁽²⁾	–	–	–	521,957	1.05
	18/01/2012	19 July 2014	Note ⁽²⁾	–	–	–	521,957	1.05
	18/01/2012	19 October 2014	Note ⁽²⁾	–	–	–	521,957	1.05
	18/01/2012	19 January 2015	Note ⁽²⁾	–	–	–	523,632	1.05
Sub-total				–	–	–	4,175,659	

Directors' Report

Grantee	Grant date ⁽¹⁾	Vesting start date	Expiry date	Outstanding	Exercised	Lapsed or	Outstanding	Exercise price per share (HK\$)
				as at January 1, 2012	during the six months ended June 30, 2012	cancelled during the six months ended June 30, 2012	as at June 30, 2012	
Mr. Wang Jing (Executive Director)	18/01/2012	19 April 2012	Note ⁽²⁾	—	—	—	77,203	1.05
	18/01/2012	19 July 2012	Note ⁽²⁾	—	—	—	77,203	1.05
	18/01/2012	19 October 2012	Note ⁽²⁾	—	—	—	77,203	1.05
	18/01/2012	19 January 2013	Note ⁽²⁾	—	—	—	77,203	1.05
	18/01/2012	19 April 2013	Note ⁽²⁾	—	—	—	154,592	1.05
	18/01/2012	19 July 2013	Note ⁽²⁾	—	—	—	154,592	1.05
	18/01/2012	19 October 2013	Note ⁽²⁾	—	—	—	154,592	1.05
	18/01/2012	19 January 2014	Note ⁽²⁾	—	—	—	154,592	1.05
	18/01/2012	19 April 2014	Note ⁽²⁾	—	—	—	231,981	1.05
	18/01/2012	19 July 2014	Note ⁽²⁾	—	—	—	231,981	1.05
	18/01/2012	19 October 2014	Note ⁽²⁾	—	—	—	231,981	1.05
18/01/2012	19 January 2015	Note ⁽²⁾	—	—	—	232,725	1.05	
Sub-total				—	—	—	1,855,848	
Mr. Liao Jie ⁽³⁾ (Executive Director, Chairman)	18/01/2012	19 April 2012	Note ⁽²⁾	—	—	—	1,694,612	1.05
	18/01/2012	19 July 2012	Note ⁽²⁾	—	—	—	1,694,612	1.05
	18/01/2012	19 October 2012	Note ⁽²⁾	—	—	—	1,694,612	1.05
	18/01/2012	19 January 2013	Note ⁽²⁾	—	—	—	1,694,612	1.05
	18/01/2012	19 April 2013	Note ⁽²⁾	—	—	—	3,393,298	1.05
	18/01/2012	19 July 2013	Note ⁽²⁾	—	—	—	3,393,298	1.05
	18/01/2012	19 October 2013	Note ⁽²⁾	—	—	—	3,393,298	1.05
	18/01/2012	19 January 2014	Note ⁽²⁾	—	—	—	3,393,298	1.05
	18/01/2012	19 April 2014	Note ⁽²⁾	—	—	—	5,091,984	1.05
	18/01/2012	19 July 2014	Note ⁽²⁾	—	—	—	5,091,984	1.05
	18/01/2012	19 October 2014	Note ⁽²⁾	—	—	—	5,091,984	1.05
18/01/2012	19 January 2015	Note ⁽²⁾	—	—	—	5,108,282	1.05	
Sub-total				—	—	—	40,735,874	

Directors' Report

Grantee	Grant date ⁽¹⁾	Vesting start date	Expiry date	Outstanding	Exercised	Lapsed or	Outstanding	Exercise price per share (HK\$)
				as at January 1, 2012	during the six months ended June 30, 2012	cancelled during the six months ended June 30, 2012	as at June 30, 2012	
Mr. Lu Xiao (Executive Director)	18/01/2012	19 April 2012	Note ⁽²⁾	—	—	—	289,512	1.05
	18/01/2012	19 July 2012	Note ⁽²⁾	—	—	—	289,512	1.05
	18/01/2012	19 October 2012	Note ⁽²⁾	—	—	—	289,512	1.05
	18/01/2012	19 January 2013	Note ⁽²⁾	—	—	—	289,512	1.05
	18/01/2012	19 April 2013	Note ⁽²⁾	—	—	—	579,721	1.05
	18/01/2012	19 July 2013	Note ⁽²⁾	—	—	—	579,721	1.05
	18/01/2012	19 October 2013	Note ⁽²⁾	—	—	—	579,721	1.05
	18/01/2012	19 January 2014	Note ⁽²⁾	—	—	—	579,721	1.05
	18/01/2012	19 April 2014	Note ⁽²⁾	—	—	—	869,929	1.05
	18/01/2012	19 July 2014	Note ⁽²⁾	—	—	—	869,929	1.05
	18/01/2012	19 October 2014	Note ⁽²⁾	—	—	—	869,929	1.05
18/01/2012	19 January 2015	Note ⁽²⁾	—	—	—	872,713	1.05	
Sub-total				—	—	—	6,959,432	
Mr. Lv Xiin (Executive Director)	18/01/2012	19 April 2012	Note ⁽²⁾	—	—	—	266,351	1.05
	18/01/2012	19 July 2012	Note ⁽²⁾	—	—	—	266,351	1.05
	18/01/2012	19 October 2012	Note ⁽²⁾	—	—	—	266,351	1.05
	18/01/2012	19 January 2013	Note ⁽²⁾	—	—	—	266,351	1.05
	18/01/2012	19 April 2013	Note ⁽²⁾	—	—	—	533,343	1.05
	18/01/2012	19 July 2013	Note ⁽²⁾	—	—	—	533,343	1.05
	18/01/2012	19 October 2013	Note ⁽²⁾	—	—	—	533,343	1.05
	18/01/2012	19 January 2014	Note ⁽²⁾	—	—	—	533,343	1.05
	18/01/2012	19 April 2014	Note ⁽²⁾	—	—	—	800,335	1.05
	18/01/2012	19 July 2014	Note ⁽²⁾	—	—	—	800,335	1.05
	18/01/2012	19 October 2014	Note ⁽²⁾	—	—	—	800,335	1.05
18/01/2012	19 January 2015	Note ⁽²⁾	—	—	—	802,896	1.05	
Sub-total				—	—	—	6,402,677	

Directors' Report

Grantee	Grant date ⁽¹⁾	Vesting start date	Expiry date	Outstanding	Exercised	Lapsed or	Outstanding	Exercise price per share (HK\$)
				as at January 1, 2012	during the six months ended June 30, 2012	cancelled during the six months ended June 30, 2012	as at June 30, 2012	
Mr. Choi Onward (Independent Non-Executive Director)	18/01/2012	19 April 2012	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 July 2012	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 October 2012	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 January 2013	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 April 2013	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 July 2013	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 October 2013	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 January 2014	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 April 2014	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 July 2014	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 October 2014	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 January 2015	Note ⁽²⁾	—	—	—	8,272	1.05
Sub-total				—	—	—	98,824	
Mr. Zhou Chunsheng (Independent Non-Executive Director)	18/01/2012	19 April 2012	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 July 2012	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 October 2012	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 January 2013	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 April 2013	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 July 2013	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 October 2013	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 January 2014	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 April 2014	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 July 2014	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 October 2014	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 January 2015	Note ⁽²⁾	—	—	—	8,272	1.05
Sub-total				—	—	—	98,824	

Directors' Report

Grantee	Grant date ⁽¹⁾	Vesting start date	Expiry date	Outstanding	Exercised	Lapsed or	Outstanding	Exercise price per share (HK\$)
				as at January 1, 2012	during the six months ended June 30, 2012	cancelled during the six months ended June 30, 2012	as at June 30, 2012	
Mr. Sun Lu (Independent Non-Executive Director)	18/01/2012	19 April 2012	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 July 2012	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 October 2012	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 January 2013	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 April 2013	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 July 2013	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 October 2013	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 January 2014	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 April 2014	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 July 2014	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 October 2014	Note ⁽²⁾	—	—	—	8,232	1.05
	18/01/2012	19 January 2015	Note ⁽²⁾	—	—	—	8,272	1.05
Sub-total				—	—	—	98,824	
Others	18/01/2012	19 April 2012	Note ⁽²⁾	—	—	—	5,589,429	1.05
	18/01/2012	19 July 2012	Note ⁽²⁾	—	—	—	5,589,429	1.05
	18/01/2012	19 October 2012	Note ⁽²⁾	—	—	—	5,589,429	1.05
	18/01/2012	19 January 2013	Note ⁽²⁾	—	—	—	5,589,429	1.05
	18/01/2012	19 April 2013	Note ⁽²⁾	—	—	—	7,723,426	1.05
	18/01/2012	19 July 2013	Note ⁽²⁾	—	—	—	7,723,426	1.05
	18/01/2012	19 October 2013	Note ⁽²⁾	—	—	—	7,723,426	1.05
	18/01/2012	19 January 2014	Note ⁽²⁾	—	—	—	7,723,426	1.05
	18/01/2012	19 April 2014	Note ⁽²⁾	—	—	—	9,857,424	1.05
	18/01/2012	19 July 2014	Note ⁽²⁾	—	—	—	9,857,424	1.05
	18/01/2012	19 October 2014	Note ⁽²⁾	—	—	—	9,857,424	1.05
	18/01/2012	19 January 2015	Note ⁽²⁾	—	—	—	9,894,498	1.05
Sub-total				—	—	—	92,718,190	
TOTAL:				—	—	—	155,000,000	

Directors' Report

Notes:

- (1) The closing price of the Shares immediately before the grant date of share options, being January 18, 2012, was HK\$1.05.
- (2) Expiry date of these share options shall be the earlier of: (i) the date on which the share option lapses in accordance with the Share Option Scheme or (ii) the date falling ten (10) years from the date of acceptance by the grantee.
- (3) The total number of Shares to be issued upon exercise of the share options granted to Mr. Liao Jie would exceed 1% of the Shares in issue in the 12-month period up to and including the date of the grant. Such further grant of share options to Mr. Liao Jie was approved by shareholders of the Company in an extraordinary general meeting on February 29, 2012.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at June 30, 2012, to the best knowledge of the Directors, the records of interest or short positions, other than that of a Director or chief executive of the Company, as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

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

Name	Capacity/Nature of interest	Number of Shares ⁽⁹⁾	Approximate percentage of shareholding ⁽⁹⁾
Holdco ⁽¹⁾	Beneficiary owner	861,443,091(L)	53.41%(L)
Best Partners Development Limited ⁽²⁾	Interest of a controlled corporation	861,443,091(L)	53.41%(L)
Fino Investments Limited ⁽³⁾	Interest of a controlled corporation	861,443,091(L)	53.41%(L)
Tesco Investments Limited ⁽⁴⁾	Interest of a controlled corporation	861,443,091(L)	53.41%(L)
Gouver Investments Limited ⁽⁵⁾	Interest of a controlled corporation	861,443,091(L)	53.41%(L)
Ampio International Limited ⁽⁶⁾	Interest of a controlled corporation	861,443,091(L)	53.41%(L)
Credit Suisse Trust Limited ⁽³⁾⁽⁴⁾⁽⁶⁾⁽⁷⁾	Trustee	861,443,091(L)	53.41%(L)
Huaxin Investments Limited ⁽⁷⁾	Beneficial owner	99,278,087(L)	6.16%(L)
Binks Investments Limited ⁽⁷⁾	Interest of a controlled corporation	99,278,087(L)	6.16%(L)
Speedy Fast Investments Limited ⁽⁸⁾	Beneficial owner	98,378,462(L)	6.10%(L)

Notes:

- (1) The issued share capital of Holdco is owned as to 13.25% by Gouver Investments Limited and as to 86.75% by Best Partners Development Limited. Holdco is deemed to be controlled by Gouver Investments Limited and Best Partners Development Limited.



Directors' Report

- (2) The issued share capital of Best Partners Development Limited is held as to 83% by Fino Investments Limited and as to 17% by Tesco Investments Limited. By virtue of the Shareholder Voting Agreements, Best Partners Development Limited is deemed to be controlled by Fino Investments Limited and 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 Mr. Liao Daoxun, Ms. Wu Yurui, Mr. Liang Shiping, Mr. Jiang Hailin, Ms. Wu Chunhong, Mr. Yuan Chuang, Mr. Lv Xilin and Mr. 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 Mr. Wang Jing, Mr. Zhang Qian, Mr. Guan Xiong, Mr. Zheng Hui and Mr. Wang Li. The Tesco Trust is an irrevocable discretionary trust established under the laws and regulations of Singapore.
- (5) Gouver Investments Limited 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 Mr. Pan Jianguo and Mr. Jing Yang. The Ampio Trust is an irrevocable discretionary trust established under the laws and regulations of Singapore.
- (7) Huaxin Investments Limited 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 beneficiaries of the Binks Trust, namely Mr. Dang Kulun, Mr. Shi Li, Mr. Dang Hankun, Mr. Dang Hanwen, Mr. 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 Investments Limited is wholly owned by Mr. Lu Xiao.
- (9) (L) denotes long positions.

EMPLOYMENT AND EMOLUMENT POLICIES

As at June 30, 2012, the Group had 1,056 full-time employees. The emolument policy of the employees of the Group is set up by the Board on the basis of individual performance, the nature and responsibilities of the individual concerned and the performance of the Group and market conditions.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended June 30, 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

Subsequent to the reporting period, on July 10, 2012, the Company issued 32,790,501 Shares ("**Consideration Shares**") to United Fortune Overseas Limited at HK\$1.2229 per Consideration Share pursuant to a share purchase agreement dated June 20, 2012 entered into between China ITS Urban Traffic Holding Co., Ltd., a wholly-owned subsidiary of the Company, and United Fortune Overseas Limited. For further details, please refer to the announcements of the Company dated June 20, 2012 and June 28, 2012.



Directors' Report

CORPORATE GOVERNANCE

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

The Company had adopted the code provisions contained in the code of corporate governance practices (the “**Old CG Code**”) set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) effective since its adoption by the Company on June 18, 2010 until March 27, 2012. For the purpose of complying with the new corporate governance code as set out in the Appendix 14 of the Listing Rules, which took effect from April 1, 2012, the Company has adopted the revised code provisions contained in the new corporate governance code (“**New CG Code**”) on March 28, 2012. The Company has complied with (i) the code provisions contained in the Old CG Code from January 1, 2012 to March 27, 2012; and (ii) the code provisions contained in the New CG Code from March 28, 2012 to June, 30 2012.

DIRECTORS' SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

The audit committee of the Company was established on June 18, 2010 with effect from the Listing Date with written terms of reference in compliance with the Old CG Code. For the purpose of complying with the New CG Code adopted by the Company on March 28, 2012, the Board has adopted revised terms of reference for the audit committee on March 28, 2012.

The primary duties of the audit committee are, among other things, to review and supervise our financial reporting process and internal control systems.

The audit committee comprises three independent non-executive Directors, being Mr. Choi Onward, Mr. Zhou Chunsheng and Mr. Sun Lu. The audit committee is chaired by Mr. Choi Onward.

REMUNERATION COMMITTEE

The remuneration committee of the Company was established on June 18, 2010 with effect from the Listing Date with written terms of reference in compliance with the Old CG Code. For the purpose of complying with the New CG Code adopted by the Company on March 28, 2012, the Board has adopted revised terms of reference for the remuneration committee on March 28, 2012.

The primary duties of the remuneration committee are to evaluate and make recommendations to the Board regarding the compensation of the Directors. In addition, the remuneration committee conducts review of the performance, and determines the compensation structure of senior management of the Group.

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

Directors' Report

NOMINATION COMMITTEE

The nomination committee of the Company was established on June 18, 2010 with effect from the Listing Date with written terms of reference in compliance with the Old CG Code. For the purpose of complying with the New CG Code adopted by the Company on March 28, 2012, the Board has adopted revised terms of reference for the nomination committee on March 28, 2012.

The primary duty of the nomination committee is to make recommendations to the Board regarding candidates to fill vacancies on the Board.

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

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes to information of Directors subsequent to the date of the 2011 annual report of the Company are set out as below:

Mr. Liao Jie, an executive Director, has been elected as the chairman of the Board and retired from his previous position as the chief executive officer of the Company with effect from July 9, 2012.

Mr. Jiang Hailin, an executive Director, who served as the chief executive officer of the Company since the date of its incorporation in 2008 until August 24, 2011, has been re-appointed as the chief executive officer of the Company and therefore resigned from his previous position as the chairman of the Board with effect from July 9, 2012.

For further details, please refer to the announcement of the Company dated July 9, 2012.

Save for the information disclosed above, there is no other information related to Directors of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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 June 30, 2012 was as follows:

Use for	Percentage of net proceeds	Amount of net proceeds (in HK\$ million)	Amount utilised (in HK\$ million)	Amount remaining (in HK\$ million)
Acquisitions or Investments	45%	319.7	319.7	—
Project-related working capital needs	35%	248.7	224.7	24.0
Research and development	10%	71.1	39.0	32.1
General corporate purposes	10%	71.1	68.4	2.7
Income tax expense	100%	710.6	651.8	58.8



Directors' Report

EVENTS AFTER THE REPORTING PERIOD

Please refer to note 32 to the interim condensed consolidated financial statements on page 73 for events of the Company after June 30, 2012.

On behalf of the Board of Directors
China ITS (Holdings) Co., Ltd.
Liao Jie
Chairman

Beijing, August 23, 2012

Report on Review of Interim Condensed Consolidated Financial Statements



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To the board of directors of China ITS (Holdings) Co., Ltd.

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the accompanying interim condensed consolidated financial statements of China ITS (Holdings) Co., Ltd. (the “**Company**”) and its subsidiaries (collectively the “**Group**”), which comprises the interim condensed consolidated statement of financial position as at June 30, 2012 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) issued by the International Accounting Standards Board.

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

SCOPE OF REVIEW

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

CONCLUSION

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

Ernst & Young

Certified Public Accountants
Hong Kong

August 23, 2012

Interim Condensed Consolidated Statement of Income

For the six-month period ended June 30, 2012

	Notes	For the six-month period ended June 30,	
		2012 RMB'000 Unaudited	2011 RMB'000 Unaudited
REVENUE	4	728,081	683,085
Cost of revenue	5	(522,760)	(474,996)
Gross profit		205,321	208,089
Other income and gains	4	9,434	9,231
Selling, general and administrative expenses		(144,676)	(112,074)
Equity-settled share option expenses	24	(21,972)	(3,644)
Other expenses		(100)	(156)
OPERATING PROFIT		48,007	101,446
Finance income		6,060	3,173
Finance costs		(10,578)	(6,803)
Share of profits/(losses) of jointly-controlled entities/operation		(4,774)	2,547
Share of profits of associates		802	—
PROFIT BEFORE TAX	5	39,517	100,363
Income tax expense	6	(13,571)	(25,942)
PROFIT FOR THE PERIOD		25,946	74,421
Attributable to:			
Owners of the parent		26,702	74,682
Non-controlling interests		(756)	(261)
		25,946	74,421
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic-for the profit for the period	7	RMB0.02	RMB0.05
Diluted-for the profit for the period	7	RMB0.02	RMB0.05

Interim Condensed Consolidated Statement of Comprehensive Income

For the six-month period ended June 30, 2012

	For the six-month period ended June 30,	
	2012 RMB'000 Unaudited	2011 RMB'000 Unaudited
PROFIT FOR THE PERIOD	25,946	74,421
Exchange differences on translation of foreign operations	618	(10,026)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	618	(10,026)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	26,564	64,395
Attributable to:		
Owners of the parent	27,320	64,656
Non-controlling interests	(756)	(261)
	26,564	64,395

Interim Condensed Consolidated Statement of Financial Position

As at June 30, 2012

	Notes	June 30, 2012 RMB'000 Unaudited	December 31, 2011 RMB'000 Audited
NON-CURRENT ASSETS			
Property and equipment	9	59,943	56,243
Investment properties		145,800	145,800
Goodwill	11	426,600	347,321
Other intangible assets	10	89,287	34,467
Investments in jointly-controlled entities/operation	12	26,838	31,611
Investments in associates	13	82,403	84,740
Deferred tax assets		13,023	13,350
Prepayments for acquisition of equity interests in other entities	17	22,481	105,715
Other assets		607	557
Total non-current assets		866,982	819,804
CURRENT ASSETS			
Inventories	18	38,669	31,262
Construction contracts	14	1,116,246	785,172
Trade and bills receivables	15	740,350	769,186
Prepayments, deposits and other receivables	16	909,998	869,206
Due from related companies	26	74,148	81,991
Pledged deposits	19	79,138	79,841
Cash and cash equivalents	19	142,413	435,881
Held-to-maturity investment		69,781	69,396
Other financial assets	25	3,445	—
Total current assets		3,174,188	3,121,935
CURRENT LIABILITIES			
Trade and bills payables	20	540,532	672,652
Other payables and accruals	21	258,551	166,842
Construction contracts	14	399,532	458,709
Interest-bearing bank borrowings	22	391,291	300,390
Due to related companies	26	15,092	15,409
Income tax payable		(2,487)	14,948
Deferred income		—	4,200
Total current liabilities		1,602,511	1,633,150
NET CURRENT ASSETS		1,571,677	1,488,785
TOTAL ASSETS LESS CURRENT LIABILITIES		2,438,659	2,308,589

Interim Condensed Consolidated Statement of Financial Position

As at June 30, 2012

	Notes	June 30, 2012 RMB'000 Unaudited	December 31, 2011 RMB'000 Audited
NON-CURRENT LIABILITIES			
Deferred tax liabilities		59,839	35,889
NET ASSETS			
EQUITY			
Equity attributable to owners of the parent			
Issued capital	23	283	283
Reserves		2,345,820	2,265,529
		2,346,103	2,265,812
Non-controlling interests		32,717	6,888
TOTAL EQUITY		2,378,820	2,272,700

Liao Jie
Director

Jiang Hailin
Director

Interim Condensed Consolidated Statement of Changes in Equity

For the six-month ended June 30, 2012

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	Foreign currency translation reserve RMB'000	Retained earnings RMB'000	Non-controlling		Total equity RMB'000
									Total	interests	
As at 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 period		—	—	—	—	—	—	74,682	74,682	(261)	74,421
Other comprehensive loss		—	—	—	—	—	(10,026)	—	(10,026)	—	(10,026)
Total comprehensive income/(loss)		—	—	—	—	—	(10,026)	74,682	64,656	(261)	64,395
Non-controlling interest arising on business combinations		—	—	—	—	—	—	—	—	2,738	2,738
Share-based payment transactions		—	—	—	3,644	—	—	—	3,644	—	3,644
Capital contributions from a non-controlling shareholder		—	—	—	—	—	—	—	—	1,000	1,000
As at June 30, 2011 (Unaudited)		276	988,376	72,183	567,111	7,782	(7,030)	551,009	2,179,707	3,477	2,183,184
As at January 1, 2012		283	1,041,533	86,537	569,618	7,782	(14,833)	574,892	2,265,812	6,888	2,272,700
Profit for the period		—	—	—	—	—	—	26,702	26,702	(756)	25,946
Other comprehensive income		—	—	—	—	—	618	—	618	—	618
Total comprehensive income/(loss)		—	—	—	—	—	618	26,702	27,320	(756)	26,564
Share-based payment transactions	24	—	—	—	21,972 [#]	—	—	—	21,972	—	21,972
Shares to be issued as a consideration for acquisition of subsidiaries	25	—	—	—	30,999	—	—	—	30,999	—	30,999
Non-controlling interest arising on business combinations		—	—	—	—	—	—	—	—	26,585	26,585
As at June 30, 2012 (Unaudited)		283	1,041,533 [*]	86,537 [*]	622,589 [*]	7,782 [*]	(14,215) [*]	601,594 [*]	2,346,103	32,717	2,378,820

* These reserve accounts comprise the consolidated reserves of RMB2,345,820,000 (December 31, 2011: RMB2,265,529,000) in the interim condensed consolidated statement of financial position.

[#] The capital reserve account comprises the share option expenses of RMB20,218,000 (six-month period ended June 30, 2011: Nil), pre-IPO incentive share scheme expenses of RMB1,754,000 (six-month period ended June 30, 2011: RMB 3,644,000) and the consideration received for the grant of share options of RMB155 (six-month period ended June 30, 2011: Nil) in the interim condensed consolidated statement of financial position.

Interim Condensed Consolidated Statement of Cash Flows

For the six-month period ended June 30, 2012

	Notes	For the six-month period ended June 30,	
		2012 RMB'000 Unaudited	2011 RMB'000 Unaudited
CASH FLOWS USED IN OPERATING ACTIVITIES			
Profit for the period		25,946	74,421
Adjustments to reconcile profit for the period to net cash used in operating activities:			
Depreciation and amortisation	5	14,321	3,854
Net (gain)/loss on disposal of items of property and equipment	5	(45)	2
Equity-settled share option expenses	24	21,972	3,644
Deferred income tax charge		9,306	10,305
Share of losses/(profits) of jointly-controlled entities/operation	12	4,774	(2,547)
Share of losses of associates		2,337	—
Fair value gain on interests in a jointly-controlled entity		—	(2,512)
Finance income	5	(6,060)	(3,173)
Finance costs	5	10,578	6,803
		83,129	90,797
Changes in assets and liabilities:			
Pledged deposits		703	26,055
Trade and bills receivables		78,406	141,457
Prepayments, deposits and other receivables		22,600	(196,661)
Construction contracts		(313,988)	(336,517)
Inventories		(3,966)	(21)
Due from related companies		7,843	1,306
Due to related companies		(317)	1,428
Trade and bills payables		(151,467)	(19,759)
Other payables and accruals		(32,523)	(27,216)
Income tax payable		(17,435)	(12,180)
Deferred income		(4,200)	—
Cash used in operations		(331,215)	(331,311)
Interest paid		(10,578)	(6,803)
Interest received		827	3,524
Net cash flows used in operating activities		(340,966)	(334,590)

Interim Condensed Consolidated Statement of Cash Flows

For the six-month period ended June 30, 2012

	Notes	For the six-month period ended June 30,	
		2012 RMB'000 Unaudited	2011 RMB'000 Unaudited
Net cash flows used in operating activities		(340,966)	(334,590)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of items of property and equipment		1,083	21
Purchases of items of property and equipment	9	(4,638)	(6,972)
Purchases of items of intangible assets		—	(397)
Investment in a short term deposit		—	772
Acquisition of a jointly-controlled entity		—	(7,350)
Acquisition of subsidiaries	25	22,519	5,284
Prepayments for acquisition of equity interests in other entities		—	(240,119)
Net cash flows from/(used in) investing activities		18,964	(248,761)
CASH FLOWS FROM FINANCING ACTIVITIES			
New interest-bearing bank borrowings		200,691	150,000
Repayment of interest-bearing bank borrowings		(172,390)	(259,998)
Decrease in pledged deposits		—	80,361
Payment of listing expenses		—	(17,275)
Contribution from a non-controlling shareholder		—	1,000
Net cash flows from/(used in) financing activities		28,301	(45,912)
Net decrease in cash and cash equivalents		(293,701)	(629,263)
Effect of foreign exchange rate changes, net		233	(5,377)
Cash and cash equivalents at beginning of period		435,881	836,883
CASH AND CASH EQUIVALENTS AT END OF PERIOD		142,413	202,243

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

1. CORPORATE INFORMATION

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

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

The Group's principal business are summarised as follows:

- 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 clients' existing or planned transportation infrastructure through the design, development and implementation of hardware-based and software-based systems; and
- Value-added operation and services 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. BASIS OF PRESENTATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

Basis of presentation

The unaudited interim condensed consolidated financial statements for the six months ended June 30, 2012 have been prepared in accordance with IAS34 Interim Financial Reporting and the disclosure requirements of the Rules Governing the Listing of Security on the Stock Exchange.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2011. The interim condensed consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousands, except when otherwise indicated.

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

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

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

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011, except for the adoption of new standards and interpretations as of 1 January 2012, noted below:

➤ *IAS 12 Deferred Tax: Recovery of Underlying Assets (Amendment)*

This amendment to IAS 12 includes a rebuttable presumption that the carrying amount of investment property measured using the fair value model in IAS 40 will be recovered through sale and, accordingly, that any related deferred tax should be measured on a sale basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through sale. Specifically, IAS 12 will require that deferred tax arising from a non-depreciable asset measured using the revaluation model in IAS 16 should always reflect the tax consequences of recovering the carrying amount of the underlying asset through sale. Effective implementation date is for annual periods beginning on or after January 1, 2012.

The Group has investment properties at fair value, under IAS 16, valued under the revaluation model. The jurisdictions in which the Group operates do not have a different tax charge for sale or consumption of the assets. While the amendment is applicable, it has no impact on the financial statements of the Group.

➤ *IFRS 7 – Disclosures – Transfers of financial assets (Amendment)*

The IASB issued an amendment to IFRS 7 that enhances disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. Effective implementation date is for annual periods beginning on or after July 1, 2011 with no comparative requirements.

The amendments have no significant impact on the financial statements of the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

3. OPERATING SEGMENT INFORMATION

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

- (a) Turnkey solutions segment engages in the integration of information technology with its physical transportation infrastructure;
- (b) Specialised solutions segment provides solutions to discrete problems occurring in a client's existing or planned transportation infrastructure through the design, development and implementation of hardware-based and software-based systems; and
- (c) Value-added operation and services segment involves operation outsourcing and value-added services, via its platforms, servicing transportation operations and participants.

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

Segment assets exclude deferred tax assets, property and equipment, other intangible assets, investment properties, due from related companies, investments in jointly-controlled entities/operation, investments in associates, prepayments for acquisition of equity interests in other entities, held-to-maturity investment, other financial assets and other unallocated head office and corporate assets are managed on a group basis.

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

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

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

Revenue of approximately RMB81,700,000 for the six-month period ended June 30, 2012 was derived from a single customer in the specialised solutions business (six-month period ended June 30, 2011: RMB153,400,000).

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

3. OPERATING SEGMENT INFORMATION (continued)

Six-month period ended June 30, 2012	Turnkey solutions RMB'000	Specialised solutions RMB'000	Value-added operation and services RMB'000	Consolidated RMB'000
Segment revenue				
Sales to external customers	253,476	457,745	16,860	728,081
Intersegment sales	—	10,057	—	10,057
	253,476	467,802	16,860	738,138
<i>Reconciliation:</i>				
Elimination of intersegment sales				(10,057)
Revenue				728,081
Segment results	17,917	41,899	3,303	63,119
<i>Reconciliation:</i>				
Finance income				6,060
Share of profits/(losses) of jointly-controlled entities/operation				(4,774)
Share of profits of associates				802
Corporate and other unallocated expenses				(15,112)
Finance costs				(10,578)
Profit before tax				39,517
As at June 30, 2012				
Segment assets	973,843	2,623,934	58,242	3,656,019
<i>Reconciliation:</i>				
Elimination of intersegment assets	(291,475)	(132,681)	—	(424,156)
Corporate and other unallocated assets				809,307
Total assets				4,041,170
Segment liabilities	478,484	1,114,180	30,108	1,622,772
<i>Reconciliation:</i>				
Elimination of intersegment liabilities	(168,680)	(255,476)	—	(424,156)
Unallocated liabilities				463,734
Total liabilities				1,662,350

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

3. OPERATING SEGMENT INFORMATION (continued)

Six-month period ended June 30, 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	217,521	450,675	14,889	683,085
Intersegment sales	—	2,214	—	2,214
	217,521	452,889	14,889	685,299
<i>Reconciliation:</i>				
Elimination of intersegment sales				(2,214)
Revenue				683,085
Segment results	18,716	75,345	7,108	101,169
<i>Reconciliation:</i>				
Finance income				3,173
Fair value gain on an interest in a jointly- controlled entity				2,512
Share of profits/(losses) of jointly-controlled entities/operation				2,547
Corporate and other unallocated expenses				(2,235)
Finance costs				(6,803)
Profit before tax				100,363
As at December 31, 2011				
Segment assets	1,030,136	2,167,378	205,491	3,403,005
<i>Reconciliation:</i>				
Elimination of intersegment assets	(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
<i>Reconciliation:</i>				
Elimination of intersegment liabilities	(250,911)	(350,192)	—	(601,103)
Unallocated liabilities				370,836
Total liabilities				1,669,039

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

4. REVENUE

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

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

An analysis of revenue is as follows:

	For the six-month period ended June 30,	
	2012 RMB'000	2011 RMB'000
Revenue		
Implementation of projects	646,146	680,603
Sale of products	81,935	2,482
	728,081	683,085
Other income and gains		
Gross rental income	4,380	6,665
Government grants*	4,460	54
Fair value gain on interests in a jointly-controlled entity	—	2,512
Exchange gains	549	—
Gain on disposal of property and equipment	45	—
	9,434	9,231

* 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.

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

5. PROFIT BEFORE TAX

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

	For the six-month period ended June 30,	
	2012 RMB'000	2011 RMB'000
Cost of services rendered for implementation of projects	466,222	473,758
Cost of inventories sold	56,538	1,238
	522,760	474,996
Depreciation	9,371	3,839
Amortisation of other intangible assets*	4,950	15
	14,321	3,854
Minimum lease payments under operating leases	10,051	8,128
Auditors' remuneration	1,040	1,183
Wages and salaries	39,621	27,422
Pension scheme contributions (defined contribution scheme)	4,659	3,569
Social insurance costs and staff welfare	8,722	6,839
Equity-settled share option expenses (note 24)	21,972	3,644
Directors' and senior executives' remuneration (excluding equity-settled share option expenses)	2,159	1,148
	77,133	42,622
Foreign exchange differences, net	(549)	119
Interests on bank loans	10,578	6,803
Net (gain)/loss on disposal of items of property and equipment	(45)	2
Bank interest income	(6,060)	(3,173)

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

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

6. INCOME TAX

The Group is subject to income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The determination of current and deferred income taxes was based on enacted tax rates.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

Under the relevant PRC income tax law, except for certain preferential treatment available to the Group, the PRC subsidiaries of the Group are subject to income tax at a rate of 25% (six-month ended June 30, 2011: 25%) on their respective taxable income. During the current period, 12 entities (six-month ended June 30, 2011: Nil) of the Group were designated and approved as High and New Technology Enterprises and entitled to 15% preferential corporate income tax rate.

No provision for Hong Kong profits tax has been made for the six-month periods ended June 30, 2012 and 2011, as the Group had no assessable profits arising in Hong Kong for each of the periods.

The major components of income tax expense in the interim condensed consolidated income statement are:

	For the six-month period ended June 30,	
	2012 RMB'000	2011 RMB'000
Current income tax:		
Current income tax charge in the PRC	4,265	15,637
Deferred income tax:		
Relating to origination and reversal of temporary differences	9,306	10,305
Income tax expense reported in the interim condensed consolidated statement of income	13,571	25,942

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

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

The calculation of basic earnings per share amounts are based on the profit attributable to ordinary equity holders of the parent for the six-month period ended June 30, 2012, and the weighted average number of ordinary shares of 1,612,999,929 (six-month period ended June 30, 2011: 1,569,047,334) during the six-month period ended June 30, 2012.

	For the six-month period ended June 30,	
	2012 RMB'000	2011 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	26,702	74,682

	Notes	Number of shares For the six-month period ended June 30,	
		2012	2011
Shares			
Weighted average number of shares in issue during the period used in the basic earnings per share calculation	(a)	1,612,999,929	1,569,047,334
Effect of dilution — weighted average number of ordinary shares Share options	(b)	8,407,751	—
		1,621,407,680	1,569,047,334

(a) Shares issued to acquire subsidiaries are assumed to be issued on the acquisition date of June 29, 2012 and the weighted average number of ordinary shares is 182,169 for the six-month period ended June 30, 2012.

(b) The Group had no potentially diluted ordinary shares for the six-month period ended June 30, 2011.

8. DIVIDENDS PAID AND PROPOSED

The Company did not recommend the payment of dividends for the six-month period ended June 30, 2012 (six-month period ended June 30, 2011: Nil).

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

9. PROPERTY AND EQUIPMENT

During the six-month period ended June 30, 2012, the Group purchased equipment with a cost of RMB4,638,000 (six-month period ended June 30, 2011: RMB6,972,000), excluding the equipment acquired through business combinations (see note 25).

The depreciation charged during the six-month period ended June 30, 2012 was RMB9,371,000 (for six-month period ended June 30, 2011: RMB3,839,000).

Equipment with a net book value of RMB1,038,000 was disposed of by the Group during the six-month period ended June 30, 2012 (six-month period ended June 30, 2011: RMB23,000), resulting in a net gain on disposal of RMB45,000 (six-month period ended June 30, 2011: net loss on disposal of RMB2,000).

10. OTHER INTANGIBLE ASSETS

	Technical know-how RMB'000	Customer relationship RMB'000	Contract backlog RMB'000	Others RMB'000	Total RMB'000
At January 1, 2012					
net of accumulated amortisation	20,568	13,305	594	—	34,467
Addition (see note 25)	10,000	46,298	2,682	790	59,770
Amortisation	(2,401)	(2,243)	(306)	—	(4,950)
At June 30, 2012					
net of accumulated amortisation	28,167	57,360	2,970	790	89,287
At January 1, 2012					
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
At June 30, 2012					
Cost	31,976	61,097	3,482	790	97,345
Accumulated amortisation	(3,809)	(3,737)	(512)	—	(8,058)
Net carrying amount					
	28,167	57,360	2,970	790	89,287

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

11. GOODWILL

The change in goodwill during the six-month period ended June 30, 2012 is as follows:

	RMB'000
As at January 1, 2012	347,321
Acquisition of subsidiaries (see note 25)	79,279
As at June 30, 2012	426,600

Up to the report date, the initial accounting for the business combinations is incomplete, as such, the Group reports in these financial statements the provisional amounts arising from the business combinations.

12. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES/OPERATION

	June 30, 2012 RMB'000	December 31, 2011 RMB'000
Share of net assets	26,838	31,611

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

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

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

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

The share of profits/(losses) of jointly-controlled entities/operation during the six-month period ended June 30, 2012 is as follows:

	For the six-month period ended June 30,	
	2012 RMB'000	2011 RMB'000
Share of profits/(losses) of jointly-controlled entities/operation:		
Wuhan Chenguang	(925)	703
Chengdu Weilute	(4,104)	1,734
Shandong Yigou	254	110
GTECH-CIC	1	—
	(4,774)	2,547

The Group's share of jointly-controlled entities'/operation's assets and liabilities are as follows:

	June 30, 2012 RMB'000	December 31, 2011 RMB'000
Current assets	50,568	48,587
Non-current assets	7,152	7,325
Current liabilities	(30,882)	(24,301)
Net assets	26,838	31,611

The Group's share of jointly-controlled entities'/operation's profits/(losses) are as follows:

	For the six-month period ended June 30,	
	2012 RMB'000	2011 RMB'000
Revenue and other income	6,157	12,726
Costs and expenses	(10,825)	(9,371)
Income tax	(106)	(808)
Profit/(loss) after tax	(4,774)	2,547

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

13. INVESTMENTS IN ASSOCIATES

	June 30, 2012 RMB'000	December 31, 2011 RMB'000
Share of net assets	82,403	84,740

The Group's receivables due from associates are disclosed in note 26 to the financial statements.

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. ("GCI")	PRC	RMB50,000,000	45%	Intelligent traffic system
Xi'an Communication Information Co., Ltd. ("XCI")	PRC	RMB20,000,000	50%	Intelligent traffic system
Nanjing Communication Information Co., Ltd. ("NCI")	PRC	RMB10,000,000	50%	Intelligent traffic system

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

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

13. INVESTMENTS IN ASSOCIATES (continued)

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

	June 30, 2012	December 31, 2011
	RMB'000	RMB'000
Current assets	61,379	73,017
Non-current assets	187,734	177,413
Current liabilities	(103,216)	(123,888)
Non-current liabilities	(36,358)	(15,894)
Net assets	109,539	110,648

	For the six-month period ended June 30,	
	2012	2011
	RMB'000	RMB'000
Income	46,227	—
Costs and expenses	(47,269)	—
Tax	(71)	—
Loss after tax	(1,113)	—

14. CONSTRUCTION CONTRACTS

	June 30, 2012	December 31, 2011
	RMB'000	RMB'000
Gross amount due from contract customers	1,116,246	785,172
Gross amount due to contract customers	(399,532)	(458,709)
	716,714	326,463
Contract costs incurred plus recognised profits less recognised losses to date	3,409,007	4,234,784
Less: progress billings	(2,692,293)	(3,908,321)
	716,714	326,463

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

15. TRADE AND BILLS RECEIVABLES

	June 30, 2012 RMB'000	December 31, 2011 RMB'000
Trade receivables	698,489	736,655
Provision for impairment	(2,576)	(1,829)
	695,913	734,826
Bills receivables	44,437	34,360
	740,350	769,186

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

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

	June 30, 2012 RMB'000	December 31, 2011 RMB'000
Less than 6 months	258,988	440,299
6 months to 1 year	224,659	125,714
1 to 2 years	129,194	159,750
2 to 3 years	124,178	39,141
Over 3 years	3,331	4,282
	740,350	769,186

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

15. TRADE AND BILLS RECEIVABLES (continued)

Trade and bills receivables generally have credit terms ranging from 30 to 90 days. An aging analysis of the trade and bills receivables that are neither individually nor collectively considered to be impaired is as follows:

	June 30, 2012 RMB'000	December 31, 2011 RMB'000
Neither past due nor impaired	241,051	299,004
Past due but not impaired:		
Less than 6 months past due	239,787	188,054
6 months to 1 year past due	141,320	87,740
1 to 2 years past due	111,966	156,511
2 to 3 years past due	4,678	35,407
Over 3 years past due	1,548	2,470
	740,350	769,186

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

The Group did not pledge any of its trade receivables to be received from certain of its projects (December 31, 2011: RMB400,000) for the banking facility granted to the Group.

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	June 30, 2012 RMB'000	December 31, 2011 RMB'000
Prepayments to suppliers for purchases of goods		592,503	691,317
Loan to other companies	(a)	101,117	41,141
Tender deposits		83,309	25,278
Advances to staff	(b)	31,345	19,233
Contract deposits		73,444	89,833
Other receivables		31,958	6,082
		913,676	872,884
Impairment of other receivables		(3,678)	(3,678)
		909,998	869,206

(a) Balance represents unsecured loans to other third party companies which were due within one year. Among which a balance of RMB89,478,000 was interest-free, a balance of RMB10,622,000 borne interest rate of 8% per annum and a balance of RMB1,017,000 borne interest rate of 6.6% per annum.

(b) Included in advances to staff, an amount of RMB2,855,000 (December 31, 2011: Nil) was advanced to certain directors/key management for the Group's daily business purpose, which is unsecured, interest-free and repayable on demand.

17. PREPAYMENTS FOR ACQUISITION OF EQUITY INTERESTS IN OTHER ENTITIES

	June 30, 2012 RMB'000	December 31, 2011 RMB'000
Prepayments for acquisition of equity interests in other entities		
eSOON Holdings Corp. [#]	22,481	27,426
北京四通智能交通系统集成有限公司	—	78,289
	22,481	105,715

[#] The Group, together with other parties, entered into a sale and purchase agreement (the "SPA") in relation to the acquisition of the 100% equity in eSOON Holdings Corp., on August 22, 2011. According to the SPA, payment will be made in four installments. By June 30, 2012, RMB22,481,000 was made by the Group to the 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.

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

18. INVENTORIES

	June 30, 2012 RMB'000	December 31, 2011 RMB'000
Raw materials	8,883	2,436
Work in progress	619	283
Finished goods	30,356	28,543
Impairment of finished goods	(1,189)	—
	38,669	31,262

19. PLEDGED DEPOSITS, CASH AND CASH EQUIVALENTS

	June 30, 2012 RMB'000	December 31, 2011 RMB'000
Cash and cash equivalents balances	142,413	435,881
Pledged deposits	79,138	79,841
	221,551	515,722
Less: Pledged deposits for		
— Letter of guarantee for projects	(63,996)	(69,352)
— Bills payables	(15,142)	(10,489)
	(79,138)	(79,841)
Cash and cash equivalents balances	142,413	435,881

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

The cash and cash equivalents balances and pledged deposits of the Group denominated in RMB amounted to RMB213,400,000 (December 31, 2011: RMB463,900,000) as at June 30, 2012. 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.

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

20. TRADE AND BILLS PAYABLES

	June 30, 2012 RMB'000	December 31, 2011 RMB'000
Trade payables	482,779	624,084
Bills payables	57,753	48,568
	540,532	672,652

The Group's bills payables were secured by pledged deposits of the Group of RMB15,142,000 (December 31, 2011: RMB10,500,000) as at June 30, 2012.

Trade payables are non-interest-bearing and generally have credit terms ranging from 1 to 360 days. An aging analysis of the Group's trade payables and bills payables at the end of reporting period, based on invoice date, is as follows:

	June 30, 2012 RMB'000	December 31, 2011 RMB'000
Current or less than 1 year	423,583	620,096
1 to 2 years	74,334	24,488
Over 2 years	42,615	28,068
	540,532	672,652

21. OTHER PAYABLES AND ACCRUALS

	June 30, 2012 RMB'000	December 31, 2011 RMB'000
Advances from customers	55,449	25,692
Deposits received	66,206	42,806
Staff costs and welfare accruals	26,891	23,480
Payables related to the acquisition of Stone Group (note 25)	35,109	—
Other taxes payable	64,116	61,514
Other payables	10,780	13,350
	258,551	166,842

The above balances are non-interest-bearing and have no fixed terms of repayment.

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

22. INTEREST-BEARING BANK BORROWINGS

	Contractual interest rate %	June 30, 2012 RMB'000	December 31, 2011 RMB'000
Current			
Bank loans — secured and repayable within one year	7.22–8.20	175,000	110,390
Bank loans — guaranteed and repayable within one year	6.56–7.80	186,122	190,000
Bills receivables discounted	5.29–7.20	30,169	—
		391,291	300,390

Bank loans of RMB175,000,000 were secured by investment properties of RMB145,800,000 at June 30, 2012 (December 31, 2011: RMB88,000,000).

As at June 30, 2012, the Group had unutilised available bank borrowing facilities amounting to RMB340,200,000 (December 31, 2011: RMB184,000,000).

The Group's bank loans are all denominated in RMB. Bank loans of RMB2,600,000 have fixed interest rates. The carrying amounts of the Group's current borrowings approximate to their fair values as at June 30, 2012.

23. ISSUED CAPITAL

Shares

	June 30, 2012 RMB'000	December 31, 2011 RMB'000
Authorised:		
1,900,000,000 ordinary shares of HKD0.0002 each	335	335
Issued and fully paid:		
1,612,817,760 ordinary shares of HKD0.0002 each	283	283

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

24. SHARE OPTION SCHEME

Pre-IPO Share Incentive Scheme

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

The share option expense recognised during the six-month period ended June 30, 2012 is as follows:

	For the six-month period ended June 30,	
	2012 RMB'000	2011 RMB'000
Equity-settled share option expenses	1,754	3,644

The following table illustrates the numbers and weighted average exercise prices (WAEP) of Incentive Share Options for the six-month period ended June 30, 2012:

	Number '000	WAEP RMB
Outstanding as at January 1, 2012	97,606	1.82
Share option grant in current period	—	—
Exercised in the current period	(9,958)	1.97
Outstanding as at June 30, 2012	87,648	1.80
Exercisable as at January 1, 2012	72,601	1.18
Vested in the current period	8,475	3.00
Exercised in the current period	(9,958)	1.97
Exercisable as at June 30, 2012	71,118	1.29

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

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

24. SHARE OPTION SCHEME (continued)

Share Option Scheme

On January 18, 2012 (the "Grant Date Two"), 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 ordinary shares ("Share Options"). The total 155,000,000 Share Options would be vested over twelve quarterly installments starting from three months past from the Grant Date Two provided these grantees remain in service at the respective vesting dates. The expiration dates for the Share Options are (i) when the Company cancel any outstanding Share Options in whole or in part in certain events or (ii) the date falling ten years from the date of acceptance by the 191 grantees. Exercise prices are HKD1.05 per share. There are no cash settlement alternatives.

The share option expense recognised during the six-month period ended June 30, 2012 is as follows:

	For the six-month period ended June 30,	
	2012 RMB'000	2011 RMB'000
Equity-settled share option expenses	20,218	—

The following table illustrates the numbers of Share Options for the six-month period ended June 30, 2012:

	Number '000
Outstanding as at January 1, 2012	—
Share options granted in the current period	155,000
Outstanding as at June 30, 2012	155,000
Exercisable as at January 1, 2012	—
Vested in the current period	8,193
Exercisable as at June 30, 2012	8,193

The fair value of the Share Options at the Grant Date Two was estimated by an independent firm of professional valuers, American Appraisal China Limited, using the Binomial Model, taking into account the terms and conditions upon which the share options were granted.

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For the six-month period ended June 30, 2012

25. BUSINESS COMBINATIONS

On June 29, 2012, the Group acquired 100% equity interests of Hugecom Limited and its subsidiaries (collectively "Stone Group"), including 65% effective equity interests in Beijing Stone Intelligent Transportation System Integration Co., Ltd. ("Beijing Stone") from United Fortune Overseas Limited and 10% equity interests in Beijing Stone from Beijing MTY Information Technology Co., Ltd., for a total consideration of RMB135,600,000.

Beijing Stone, the main operating company of Stone Group, primarily engages in providing urban traffic specialised and turnkey solutions.

The provisional amount of fair value of the identifiable assets and liabilities of Stone Group as at the date of acquisition is set out below:

	Fair value recognised on the date of acquisition RMB'000
Property and equipment	9,470
Cash and cash equivalents	22,519
Trade and bills receivables	49,570
Construction contracts	91,259
Inventories	3,441
Prepayments, deposits and other receivables	44,466
Other intangible assets	59,770
Interest-bearing bank borrowings	(62,600)
Trade and bills payables	(19,347)
Construction contracts	(14,996)
Other payables and accruals	(89,150)
Deferred tax liabilities	(14,942)
Non-controlling interests	(26,585)
Share of total identifiable net assets at fair value	52,876
Goodwill arising on acquisition	79,279
Cash consideration paid in the prior year and included in prepayments for acquisition of equity interests in other entities	(69,492)
Call option over non-controlling interests arising on acquisition	3,445
Consideration shares to be issued	(30,999)
Cash to be paid	(35,109)

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

25. BUSINESS COMBINATIONS (continued)

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

	RMB'000
Cash and bank balances acquired with the subsidiaries	22,519
Cash consideration paid in the current period	—
Net cash and cash equivalents included in cash flows from investing activities	22,519

As the acquisition was completed at June 29, 2012, there was no profit contributing from Stone Group to the Group.

Had the combination taken place at the beginning of the period, the revenue and the profit after tax of the Group for the current period would have been RMB809,987,000 and RMB32,576,000 respectively.

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

Up to the report date, the initial accounting for the business combinations is incomplete, as such, the Group reports in these financial statements the provisional amounts arising from the business combinations.

26. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following major transactions with related parties during the six-month period ended June 30, 2012:

	For the six-month period ended June 30,	
	2012 RMB'000	2011 RMB'000
Advanced to a jointly-controlled entity		
Wuhan Chenguang	—	413
	—	413
Dividend from a jointly-controlled entity		
Wuhan Chenguang	—	1,220
	—	1,220

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

26. RELATED PARTY TRANSACTIONS (continued)

Notes	June 30, 2012 RMB'000	December 31, 2011 RMB'000
Due from related companies:		
<i>Trade related</i>		
GCI	45,949	45,918
XCI	8,542	8,489
NCI	490	460
Chengdu Weilute	217	217
Wuhan Chenguang	122	122
	55,320	55,206
<i>Non-trade related</i>		
Wuhan Chenguang	10,360	1,289
Chengdu Weilute	2,561	2,076
RAY Holdings Ltd.* (a)	1,694	1,532
北京百聯優力科技有限公司 (b)	1,250	—
百聯優力(北京)投資有限公司 (c)	986	986
XCI	473	695
GCI	—	20,003
	17,324	26,581

Notes:

- (a) RAY Holdings Ltd. is 59% owned by a director of the Company.
- (b) 北京百聯優力科技有限公司 is 50% owned by 百聯優力(北京)投資有限公司.
- (c) 百聯優力(北京)投資有限公司 is 100% owned by a director of the Company.

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

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

26. 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.

	June 30, 2012	December 31, 2011
	RMB'000	RMB'000
Due to related companies:		
<i>Trade related</i>		
Shandong Yigou	1,615	1,615
Chengdu Weilute	1,316	1,316
Wuhan Chenguang	45	3,520
GCI	18	18
	2,994	6,469
<i>Non-trade related</i>		
Chengdu Weilute	3,113	3,113
北京百聯優力科技有限公司	2,490	183
Shandong Yigou	1,926	1,926
GCI	167	3
北京百聯大和工程技術有限公司	69	—
	7,765	5,225

Terms and conditions of transactions with related parties

The above balances as at June 30, 2012 and December 31, 2011 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.

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

26. RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel of the Group

	For the six-month period ended June 30,	
	2012 RMB'000	2011 RMB'000
Equity-settled share option expenses	9,620	1,166
Salaries, bonuses, allowances and benefits in kind	2,097	1,022
Pension plan contributions	62	70
Total compensation paid to key management personnel	11,779	2,258

27. PLEDGE OF ASSETS

Details of pledged assets are included in notes 19 and 22 to the interim condensed consolidated financial statements.

28. OPERATING LEASE COMMITMENTS

Group as lessee

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

	June 30, 2012 RMB'000	December 31, 2011 RMB'000
Within one year	16,828	22,131
In the second to fifth years, inclusive	25,184	46,140
	42,012	68,271

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

28. OPERATING LEASE COMMITMENTS (continued)

Group as lessor

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

	June 30, 2012 RMB'000	December 31, 2011 RMB'000
Within one year	6,135	8,039
In the second to fifth years, inclusive	2,952	4,235
	9,087	12,274

29. CAPITAL COMMITMENTS

	June 30, 2012 RMB'000	December 31, 2011 RMB'000
Within one year	22,869	—
In the second to fifth years, inclusive	—	—
	22,869	—

Notes to the Interim Condensed Consolidated Financial Statements

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30. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

	June 30, 2012			December 31, 2011,		
	Financial asset at fair value through profit or loss RMB'000	Held-to-maturity investment RMB'000	Loans and receivables RMB'000	Financial asset at fair value through profit or loss RMB'000	Held-to-maturity investment RMB'000	Loans and receivables RMB'000
Trade and bills receivables	—	—	740,350	—	—	769,186
Due from related companies	—	—	74,148	—	—	81,991
Financial assets included in prepayments, deposits and other receivables	—	—	303,577	—	—	47,224
Pledged deposits	—	—	79,138	—	—	79,841
Held-to-maturity investment	—	69,781	—	—	69,396	—
Other financial assets	3,445	—	—	—	—	—
Cash and cash equivalents	—	—	142,413	—	—	435,881
	3,445	69,781	1,339,626	—	69,396	1,414,123

Financial liabilities

	June 30, 2012 Financial liabilities at amortised cost RMB'000	December 31, 2011 Financial liabilities at amortised cost RMB'000
Trade and bills payables	540,532	672,652
Due to related companies	15,092	15,409
Interest-bearing bank borrowings	391,291	300,390
Financial liabilities included in other payables and accruals	72,228	13,350
	1,019,143	1,001,801

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

31. FAIR VALUE AND FAIR VALUE HIERARCHY

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

	Carrying amounts		Fair values	
	June 30, 2012 RMB'000	December 31, 2011 RMB'000	June 30, 2012 RMB'000	December 31, 2011 RMB'000
Financial assets				
Trade and bills receivables	740,350	769,186	740,350	769,186
Due from related companies	74,148	81,991	74,148	81,991
Financial assets included in prepayments, deposits and other receivables	303,577	47,224	303,577	47,224
Pledged deposits	79,138	79,841	79,138	79,841
Held-to-maturity investment	69,781	69,396	69,781	69,396
Other financial assets	3,445	—	3,445	—
Cash and cash equivalents	142,413	435,881	142,413	435,881
	1,412,852	1,483,519	1,412,852	1,483,519
Financial liabilities				
Trade and bills payables	540,532	672,652	540,532	672,652
Due to related companies	15,092	15,409	15,092	15,409
Interest-bearing bank borrowings	391,291	300,390	391,291	300,390
Financial liabilities included in other payables and accruals	72,228	13,350	72,228	13,350
	1,019,143	1,001,801	1,019,143	1,001,801

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, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, other financial assets, financial liabilities included in other payables and accruals, due from/to related companies, interest-bearing bank borrowings, held-to-maturity investment approximate to their carrying amounts largely due to the short term maturities of these instruments.

Fair value hierarchy

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

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

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

31. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Fair value hierarchy (continued)

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)

As at June 30, 2012, the Group held the following financial instruments measured at fair value (December 31, 2011: Nil).

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Other financial assets	—	—	3,445	3,445
Total	—	—	3,445	3,445

32. EVENTS AFTER THE REPORTING PERIOD

Issuance of Consideration Share

On July 10, 2012, the Company issued 32,790,501 ordinary shares of the Company ("Consideration Share") to United Fortune Overseas Limited at HKD1.2229 per Consideration Share pursuant to a share purchase agreement dated June 20, 2012 entered into between China ITS Urban Traffic Holding Co., Ltd., a wholly-owned subsidiary of the Company, and United Fortune Overseas Limited. For further details. Please refer to the announcement of the Company dated June 20, 2012 and June 28, 2012.

Change of chairman of the board of directors and chief executive officer

With effect from July 9, 2012, Mr. Liao Jie was appointed as chairman of the board of directors of the Company to succeed Mr. Jiang Hailin who was appointed as chief executive officer of the Company. Mr. Liao Jie and Mr. Jiang Hailin both remain as executive director of the Company.



Notes to the Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2012

33. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current period's presentation.

34. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on August 23, 2012.