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

2012 ANNUAL REPORT

Contents

China ITS (Holdings) Co., Ltd.
2012 Annual Report

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

REGISTERED OFFICE

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

HEAD OFFICE IN THE PRC

Unit 1801A, 18th Floor
West Tower, World Finance Centre
No. 1 East 3rd Ring Road Middle
Chaoyang District
Beijing 100020, China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2209, 22nd Floor
Wu Chung House
213 Queen's Road East
Wanchai, Hong Kong

COMPANY WEBSITE

www.its.cn

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

Corporate Information

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

AUDITOR

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

LEGAL ADVISOR

Orrick, Herrington & Sutcliffe (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
Hang Seng Bank (China) Limited Beijing Branch
China Everbright Bank Co., Ltd. Beijing Branch Xicheng sub-branch

Corporate Information

LIST OF KEY SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES

"Aproud Technology"	Beijing Aproud Technology Co., Ltd. (北京亞邦偉業技術有限公司)
"Bailian Zhida"	Beijing Bailian Zhida Technology Development Co., Ltd. (北京百聯智達科技發展有限公司)
"Beijing Aproud Information"	Beijing Aproud Information Engineering Co., Ltd. (北京亞邦偉業信息工程有限公司)
"Beijing Huading Hengye"	Beijing Huading Hengye Technology Co., Ltd. (北京華鼎恒業技術有限公司)
"Beijing Jingwei Zhitong"	Beijing Jingwei Zhitong Technology Co., Ltd. (北京經緯智通科技有限公司)
"Beijing Lihe Datong"	Beijing Lihe Datong Technology Co., Ltd. (北京利和達通科技有限公司)
"Beijing Newcom"	Beijing Newcom Technology Co., Ltd. (北京航天智通科技有限公司)
"Beijing Newcom Traffic"	Beijing Newcom Traffic Technology Co., Ltd. (北京航天智通交通科技有限公司)
"Beijing STONE"	Beijing STONE Intelligent Transportation System Integration Co., Ltd. (北京四通智能交通系統集成有限公司)
"Beijing Wuzhouzhitong"	Beijing Wuzhouzhitong Traffic Technology Co., Ltd. (北京五洲智通交通科技有限公司)
"Beijing Xiyou"	Beijing Xiyou Communication Technology Co., Ltd. (北京西郵通信技術有限公司)
"Chengdu Zhida Weilute"	Chengdu Zhida Weilute Technology Co., Ltd. (成都智達威路特科技有限公司)
"Guangzhou Communication"	Guangzhou Communication Information Co., Ltd. (廣州交通信息化建設投資營運有限公司)
"Guangzhou Taizheng"	Guangzhou Taizheng Technology Co., Ltd. (廣州泰正科技有限公司)
"Guangdong Xincheng"	Guangdong Yabang Xincheng Communication Technology Co., Ltd. (廣東亞邦鑫程交通技術有限公司)
"Haotian Jiajie"	Beijing Haotian Jiajie Technology Co., Ltd. (北京昊天佳捷科技有限公司)
"Hexin Risheng"	Beijing Hexin Risheng Technology Co., Ltd. (北京和信日晟科技有限公司)

Corporate Information

"Intelligent Aviation System"	Intelligent Aviation System Co., Ltd. (智能航空系統有限公司)
"Intelligent Transportation"	Intelligent Transportation Co., Ltd. (智能交通有限公司)
"Jiangsu Yijie"	Jiangsu Yijie Technology Co., Ltd. (江蘇易捷科技有限公司)
"Jiangsu Zhixun Tiancheng"	Jiangsu Zhixun Tiancheng Technology Co., Ltd. (江蘇智訊天成技術有限公司)
"Jiangsu Zhongzhi Jiaye"	Jiangsu Zhongzhi Jiaye Electronic Technology Co., Ltd. (江蘇中智嘉業電子科技有限公司)
"Jiangsu Zhongzhi Transportation"	Jiangsu Zhongzhi Transportation Technology Co., Ltd. (江蘇中智交通科技有限公司)
"Nanjing Communication"	Nanjing Communication Information Co., Ltd. (南京智慧交通信息有限公司)
"RHY Technology"	Beijing RHY Technology Development Co., Ltd. (北京瑞華贏科技發展有限公司)
"Shandong Yigou"	Shandong Yigou Software Technology Co., Ltd. (山東易構軟件技術有限公司)
"Southwest Intelligent Transportation"	Southwest Intelligent Transportation Co., Ltd. (西南智能交通有限公司)
"Tianjin Communication"	Tianjin Communication Information Co., Ltd. (天津航天智通交通信息投資營運有限公司)
"Wuhan Chenguang"	Wuhan Chenguang Transportation Technology Development Co., Ltd. (武漢辰光交通科技發展有限公司)
"Xi'an Communication"	Xi'an Communication Information Co., Ltd. (西安交通信息投資營運有限公司)
"Xi'an Youke"	Xi'an Youke Information Technology Co., Ltd. (西安郵科信息技術有限公司)
"Xinjiang Delida"	Xinjiang Delida Information Technology Co., Ltd. (新疆得利達信息技術有限公司)
"Xinjiang RHY"	Xinjiang RHY Technology Co., Ltd. (新疆瑞華贏機電工程有限公司)
"Zhixun Tiancheng"	Beijing Zhixun Tiancheng Technology Co., Ltd. (北京智訊天成技術有限公司)

Note: In this annual report, if there is any inconsistency between the Chinese names of entities or enterprises established in China and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese which are marked with "*" are for identification purpose only.

Financial Highlights

- The amount of new contracts signed and orders secured for the year ended December 31, 2012 beat its record high to approximately RMB2,617.4 million, compared to approximately RMB1,900.1 million for the year ended December 31, 2011, or an approximately 37.8% increase.

- The amount of backlog as at December 31, 2012 beat its record high to approximately RMB2,019.6 million, compared to approximately RMB1,593.5 million as at December 31, 2011, or an approximately 26.7% increase.

- Revenue for the year ended December 31, 2012 beat its record high to approximately RMB2,146.0 million, compared to approximately RMB1,585.2 million for the year ended December 31, 2011, or an approximately 35.4% increase.

- Gross profit for the year ended December 31, 2012 was approximately RMB516.7 million, compared to approximately RMB392.4 million for the year ended December 31, 2011, or an approximately 31.7% increase.

- Gross profit margin slightly decreased from prior year to approximately 24.1%.

- The non-cash expenses(1) for the year ended December 31, 2012 was approximately RMB51.0 million, compared to approximately RMB9.3 million for the year ended December 31, 2011, or an approximately 448.4% increase.

- Before deducting the non-cash expenses, the ***pro forma profit attributable to owners of the parent(2)*** for the year ended December 31, 2012 was approximately ***RMB182.9 million***, compared to approximately ***RMB122.2 million*** for the year ended December 31, 2011, or an approximately ***49.7% increase***.

- Profit attributable to owners of the parent for the year ended December 31, 2012 was RMB131.9 million, compared to approximately RMB112.9 million for the year ended December 31, 2011, or an approximately 16.8% increase.

- Earnings per share(3) was RMB0.08 per share.

Notes:

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

(2) Pro forma profit attributable to owners of the parent refers to profit attributable to owners of the parent for the year plus non-cash expenses.

(3) Earnings per share refers to profit attributable to owners of the parent divided by weighted average number of shares in issue, during the year-ended December 31, 2012.

Financial Summary

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

1. BACKLOG INFORMATION

	Year ended December 31				
RMB'000	**2012**	2011	2010	2009	2008
New contracts signed and orders secured	**2,617,413**	1,900,051	2,371,933	1,686,347	1,227,704

	As at December 31				
RMB'000	**2012**	2011	2010	2009	2008
Backlog	**2,019,628**	1,593,531	1,309,194	917,486	681,858

2. FINANCIAL PERFORMANCE

	Year ended December 31				
RMB'000	**2012**	2011	2010	2009	2008
Revenue	**2,146,000**	1,585,206	1,862,184	1,405,447	1,126,930
Gross profit	**516,730**	392,392	587,942	401,061	290,295
Profit attributable to owners of parent	**131,910**	112,919	294,009	214,672	91,286

3. FINANCIAL POSITION

	As at December 31				
RMB'000	**2012**	2011	2010	2009	2008
Total assets	**5,169,898**	3,941,739	3,733,896	2,017,415	1,570,741
Net assets	**2,497,406**	2,272,700	2,111,407	953,159	670,466
Net cash position[1]	**(47,988)**	135,491	659,326	7,023	69,473

Notes:

(1) Net cash position refers to cash and cash equivalents *minus* interest-bearing bank borrowings and guaranteed bonds.

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

Financial Summary

4. FINANCIAL RATIOS

	For the year ended/As at December 31				
	2012	2011	2010	2009	2008
Sales cycle ratios:					
Trade receivables turnover Days (days)[1]	**142**	185	122	86	58
Net construction contract turnover days (days)[2]	**72**	63	64	120	133
Combined trade receivables and net construction contract turnover days (days)	**214**	248	186	206	191
Other ratios:					
Trade payables turnover Days (days)[3]	**179**	194	156	164	128
Current ratio (times)[4]	**1.7**	1.9	2.1	1.6	1.4
Gearing ratio (%)[5]	**-3.7%**	-12.4%	-39.6%	-18.5%	-17.6%
Return on assets (%)[6]	**2.6%**	2.9%	7.9%	10.6%	5.8%
Return on equity (%)[7]	**5.3%**	5.0%	13.9%	22.5%	13.6%

Notes:

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

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

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

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

(5) Gearing ratio refers to adjusted cash (interest-bearing bank borrowings plus guaranteed bonds minus pledged deposits, short term deposit and cash and bank balances plus due to related parties) *divided* by total equity.

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

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

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

Chairman's Statement

BUSINESS OVERVIEW

Over decades, a sound foundation for the development of intelligent transportation system (the "**ITS**") in China has gradually been laid. During "12th Five-Year Plan" period, the technological innovation will be the main driving force to optimize the full deployment of intelligent transportation. Despite the slowing down of macro economic growth in 2011, the Group, as a leading provider of the ITS solutions with pioneering track record and core technology competence, has successfully rebounded with considerable revenue in 2012. The revenue of the Group was RMB2,146.0 million, representing an increase of 35.4% as compared to RMB1,585.2 million in 2011. New contracts signed and orders secured in 2012 amounted to RMB2,617.4 million, representing an increase of 37.8% as compared to 2011. Backlog as at the end of 2012 was RMB2,019.6 million, representing an increase of 26.7% as compared to 2011.

In 2012, The Group adopted a series of timely reactions to meet the challenge of rapid changes in ITS market and promoted a strong growth in its business. We successfully participated in the "National Highway information and communication system networking projects of Ministry of Transport (the "**MOT**")", which is a backbone expressway network project covering various provinces and cities. Meanwhile, the Group continued to strengthen cooperation with National Development and Reform Commission, Ministry of Science and Technology, and achieved certain breakthrough in terms of support for scientific research. From business point of view, the Group's market share still retained its top position in China ITS market.

In 2012, the management team followed the principle of "front-end decentralization and mid/back-end centralization", and divided the business units into five relatively independent front-end sectors, including expressway sector (the "**Expressway sector**"), railway sector (including urban rapid transit) (the "**Railway sector**"), urban traffic sector (the "**Urban Traffic sector**"), smart city sector (the "**Smart City sector**") and new industries sector. The Group also implemented the restructuring of mid-end departments, such as marketing, research and development (the "**R&D**"), in order to centralize resources.

Merger and acquisition, which is a key strategy for expansion of the Group, has been contributing to the integration of business resources and consolidation of the Group's market position. In June 2012, the Group successfully acquired Beijing STONE to enhance the turnkey solution (the "**TS**"), specialized solution (the "**SS**") and value-added operation and services (the "**VAOS**") segments in Urban Traffic sector by leveraging the leading market presence of Beijing STONE in landmark cities like Beijing. In the future, the Group will keep on expanding into new sectors to archive overall industry coverage and comprehensive product offerings.

In July 2012, Mr. Liao Jie ("**Mr. Liao**") has been elected as the chairman (the "**Chairman**") of the board of directors (individually the "**Director**", or collectively the "**Board**") of the Company and retired from his position as the chief executive officer of the Company (the "**Chief Executive Officer**"). Mr. Liao focuses his effort in formulating and implementing direction and strategy of the Group. Mr. Jiang Hailin ("**Mr. Jiang**") has been appointed as the Chief Executive Officer with effect from July 2012. The Board believed that this change will best optimize Mr. Liao and Mr. Jiang's expertise and create excellent values for shareholders during the post-business transformation stage since mid 2011.

In 2012, three major business sectors of the Group, which are Expressway, Railway (including urban rapid transit) and Urban Traffic sectors, were revenue generators. The Group expanded the business scope to the fourth sector, Smart City sector, and has been actively preparing for the other new industry sector. The latter two are in operational investment stage and hence do not reflect revenue recognized during the year.

Chairman's Statement

BUSINESS REVIEW

In 2012, the Expressway sector recorded revenue of RMB1,158.4 million, representing 51.9% of the Group's total revenue, the Railway sector recorded revenue of RMB611.8 million, representing 28.5% of the Group's total revenue, and the Urban Traffic sector recorded revenue of RMB394.6 million, representing 18.4% of the Group's total revenue.

(i) Expressway

In 2012, the Expressway sector recorded revenue of RMB1,158.4 million, representing an increase of 31.4% as compared to RMB881.3 million in 2011. The new contracts and orders secured of the Expressway sector amounted to RMB1,465.6 million, representing an increase of 58.5% as compared with last year. As at the end of 2012, backlog of the Expressway sector was RMB887.2 million, representing an increase of 51.4% as compared with last year. The results reflected a historical high revenue for the Expressway sector with numerous milestone projects showing our Group's solid track record and new product implementation abilities.

In 2012, the major projects of the Expressway sector included Liaoning Zhuang-Gai (Zhuanghe-Gaizhou) Expressway Project, Hebei Zhang-Shi (Zhangjiakou-Shijiazhuang) Expressway Tunnel Project, and Jiangsu Expressway Network Communication Renovation Project.

In December 2012, the Group introduced strategic investor Beijing Global Holdings Limited (the "**Beijing Global**"), a wholly owned subsidiary of CSOP Growth Fund (together with Beijing Global, the "**Expressway Strategic Investor**") as a 36.75% shareholder of the Expressway sector. Under the agreement, Beijing Global will subscribe to new shares to be issued by the Group's expressway holding company, China Expressway Intelligent Transportation Technology Group Ltd. (previously known as Bestvilla Investments Limited, "**China Expressway Group**") at the amount of RMB550 million. The proceeds will be used to facilitate the reorganization of the Group's businesses in the Expressway sector, to increase company's working capital for business expansion, and to meet further capital requirement in our future innovative business model. As the Expressway Strategic Investor has extensive experience in investing in businesses in the technology sector in the PRC, it is expected that the Expressway Strategic Investor will bring strategic values including the contribution of capital and the strategic input into the Company to future business expansion and new technology implementation of the expressway business of the Company. In early 2013, the Expressway sector was awarded a contract with Yunnan Dali Expressway Construction Headquarters at the amount of RMB510.6 million, of which the contract value is a historical high in Mainland expressway ITS industry. The Board believes that this construction contract reflects our new business breakthrough in the western region after introducing the Expressway Strategic Investor as our strategic investor and reorganization in the Expressway sector.

For the further information of the Expressway Strategic Investor's investment into the Expressway sector, please refer to the circular of the Company on January 18, 2013, and the announcements of the Company dated December 11, 2012, December 12, 2012, January 4, 2013 and January 14, 2013.

(ii) Railway

In 2012, the Railway sector recorded revenue of RMB611.8 million, representing an increase of 17.7% as compared to RMB520.0 million in 2011. The new contracts signed and orders secured of the Railway sector amounted to RMB595.7 million, representing an increase of 1.6% as compared with last year. As at the end of 2012, backlog of the Railway sector was RMB686.1 million, representing a slight decrease of 2.3% as compared with last year. The MOR restructuring was well expected and the Group was strategically positioned to continue capture "12th Five-Year Plan" spending in railway construction with diversified coverage in high speed passenger train and local railway bureaus by traditional specialized communications solutions products and new SS respectively. The Group successfully launched new solutions such as video conferencing and platform screen doors automation solution in order to diversify our railway offerings, and also completed meaningful milestone projects such as passenger ticket system.

In 2012, the major projects of the Railway sector included Xiang-Gui (Hunan-Guangxi) GSM Network Project, Web Passenger Ticket System Project and Beijing Subway Line 6 Project.

(iii) Urban Traffic

The Urban Traffic sector is considered the most promising high growth generator of the group in 2013 and 2014 as the market is full of exciting opportunities without a lot of powerful players. Apparently, the Group's current setup in the Urban Traffic sector after combining the traditional urban traffic SS business units with the two newly acquired entities China Traffic Holding Limited (the "**CTH**") and Beijing STONE formed a very strong and leading player in the market, who can dominate the booming urban traffic sector in the ITS industry in any part of the PRC.

In 2012, the Urban Traffic sector recorded revenue of RMB394.5 million, representing a significant increase of 129.2% as compared to RMB172.2 million in 2011. The new contracts signed and orders secured of the Urban Traffic sector amounted to RMB527.2 million, representing an increase of 53.5% as compared with last year. As at the end of 2012, backlog of the Urban Traffic sector was RMB434.2 million, representing an increase of 46.9% as compared with last year.

In 2012, the major projects of our Urban Traffic sector included Jining ITS Project, Weifang ITS Project, and Zhongshan ITS Project.

In 2012, the Company announced a transaction with total consideration of RMB137.3 million of which RMB32.7 million was satisfied by ordinary shares of the Company (the "**Shares**") to acquire a total of 75% ownership in Beijing STONE, an urban traffic TS, SS and VAOS provider. Beijing STONE is the leading provider of integrated urban traffic system, solutions and service. After acquiring the Beijing STONE, the Company completed the urban traffic layout with solid potential from all fronts including product portfolio, geographical and customer coverage. The Urban Traffic sector is currently undergoing internal restructuring process, and the Board believes that Urban Traffic sector will become a strong and stable recurring revenue generator in addition to expressway and railway businesses.

(iv) Smart City

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

As a new business sector of the Group since 2011, the Smart City sector integrated resources of the existing Urban Traffic sector and further expanded the business scope by providing one-stop-shop solutions to municipal governments. The Group is still on experimental stage with five projects undergoing in Northeast China. The Group will carefully evaluate the feasibility, profitability, and account receivable recoverability of each project before committing to any resource in the Smart City sector. The Board believes that the Smart City sector will create much more value in 2013.

BUSINESS PROSPECTS

(i) Expressway

2013 is the third year of "12th Five-Year Plan", the government will continue to invest in and increase the capital expenditure (the "**CAPEX**") spending on enhancing coverage of the expressway network. The national expressway network will comprise of 7 radial expressways, 9 vertical expressways and 18 horizontal expressways, respectively. The expressway construction in east region of China has come into post-construction stage where new technology is required in VAOS provision. Meanwhile, west region is still at construction stage and more capital is required in new innovative business models. The Board believes that the Group's business in the Expressway sector will experience significant growth and increase in market shares, especially after the introduction of Expressway Strategic Investor at the end of 2012.

(ii) Railway

To cover cities with population of over 500,000, China's "12th Five-Year Plan" for railway targets to build 30,000 km of new railway lines by 2015. In September 2012, the National Development and Reform Commission approved the feasibility reports of 25 urban railway projects with a total contract value of around RMB800 billion as part of the new economic stimulus package. The related projects are located in Shenzhen, Chengdu, Changchun, Tianjin, Hangzhou, Suzhou, etc. High-speed railway network will also reach 45,000 km according to the "12th Five-Year Plan". The total investments in railways amount to RMB2.8 trillion during the "12th Five-Year Plan" period. The Group will continue focusing on local bureaus' product upgrading and maintaining existing lines, especially those newly built high-speed railways with over 60% market share we served before during the last three to four years.

(iii) Urban Traffic

To accommodate the needs resulted from growth of urban traffic and to resolve traffic congestion issues, RMB700 billion was planned to be invested in urban roadway traffic construction during the period of the "12th Five-Year Plan" according to the Ministry of Housing and Urban-Rural Development. According to China's Ministry of Public Security, motor vehicle ownership in the country reached 233 million by mid-2012, and the number is expected to become more than double in the next 10 years. As a side effect of this boom, urban traffic congestion has been deteriorating rapidly in almost every city in China, bringing attention to the need for more efficient traffic management systems.

After acquiring CTH in 2011 and Beijing STONE in 2012, the Urban Traffic sector has completed its full shape structuring with pioneering track record, top tier team members, extensive products and completed business model coverage amongst other competitors in the market. After finishing the ongoing restructuring, the Group will have three business units covering video surveillance, information platform and ITS integration solutions. With such diversified corporate structure, the sales network will be expanded to all types of businesses in the Urban Traffic business throughout China. The Board believes that the Urban Traffic sector performance will be the top compared with other sectors as a result of the abundance of internal resources and external policy advantages.

(iv) Smart City

The development of smart city will be prioritized and around 600-800 cities are expected to begin work on their smart city projects within the "12th Five-Year Plan" period, which could stimulate market demand of RMB2 trillion across the entire value chain. The Group will carefully evaluate the smart city business opportunities and find a proper way to maintain the quality of customers and contracts in balance with top line growth. The Group believes that the Smart City sector will be one of the most distinctive smart city solution providers in China.

In addition to the four major sectors, the Group will strategically expand our business into new traffic sectors and carry out reorganization for other traffic related businesses in 2013.

From the human resource angle, as many new teams join the Group, we are facing challenges of compatibility of corporate culture and management integrations. The new teams will be trained and integrated with the existing ones, who will learn from each other and grow together. The Board believes that new teams will not only play a role in promoting the development of business, but also bring lots of experience and business talents to improve the Group's overall management team levels.

As for marketing and R&D, the Group will continue to promote the development in order to maintain our leading position in ITS industry. Furthermore, the Group aims to be the standard maker in the PRC ITS industry, which implies our business model, products, solutions and technologies will occupy the leading position in the industry. As a result, the Group will establish marketing and R&D systems which are tailored made for long-term development planning, major cooperation developing and technology management.

Looking forward, the Group will continue offering turnkey and specialized ITS solutions and VAOS that address fundamental needs such as safety, reliability, efficiency, pollution reduction and efficiency enhancement in Expressway, Railway, Urban Traffic and Smart City sectors. We believe that ITS industry, taking advantage of the implementation of new urbanization strategy, will remain at a fast development stage. The Group will consolidate mature sectors such as the Expressway and the Railway sectors and expand business in the Urban Traffic sector, and the Board believes that this strategy can help the Group to achieve healthy development in the future.

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

LIAO JIE
Chairman

Beijing, March 28, 2013

Management Discussion and Analysis

REVENUE

By Industry Sectors

The Group's Revenue for the year ended December 31, 2012 increased by 35.4% to RMB2,146.0 million as compared to RMB1,585.2 million for the year ended December 31, 2011 due to the continuous increasing demand of intelligent transportation networks in China. The Group beat its record high in every key transportation industry sector and was composed of a 31.4% increase in the Expressway sector, a 17.7% increase in the Railway sector, a 129.2% increase in the Urban Traffic sector, and was offset by a 32.5% decrease in the less strategic energy sectors. The following table sets out the revenue breakdown by Industry sectors:

	Year ended December 31	
	2012	2011
	RMB'000	RMB'000
Revenue by Industry Sectors		
Expressway	**1,158,428**	881,306
Railway	**611,766**	519,999
Urban traffic	**394,595**	172,194
Energy	**26,527**	39,282
Elimination	**(45,316)**	(27,575)
Total	**2,146,000**	1,585,206

(i) Expressway

Revenue from the Expressway sector in the year ended December 31, 2012 was RMB1,158.4 million, representing an increase of RMB277.1 million, or 31.4% as compared to RMB881.3 million for the year ended December 31, 2011. As mentioned in annual report of 2011 and interim report in 2012, the Group had forecasted the expressway business will resume to the normal level in recent years after the challenging year 2011. The actual result reflected the strong rebound that the revenue from the Expressway sector beat its historical high to almost the double size of that in 2007. From the market aspect, local expressway bureaus all over mainland China such as northeast, center and south regions had restarted the projects which had been postponed in 2011. From the Group's perspective, management had made significant progress in developing new regions such as Henan, Shanxi and Yunnan. In early 2013, our expressway subsidiary has entered into the Contract with Dali Expressway Construction Headquarters, which is responsible for the management of the construction of the Yunnan Dali Expressway, with a contract price of approximately RMB510.6 million. We won the Contract through a competitive bidding process and will be responsible for the construction of the communication system, monitoring system, toll collection system, tunnel ventilation and lighting and power distribution infrastructure for the project. The Yunnan Dali Project is a milestone in the Expressway sector for the nature, amount and region aspects. The Group believes the Expressway sector will have a continued increment in 2013 and have the continued growth in the coming years under the ongoing contribution from government's infrastructure construction. The new contracts signed and orders secured amount in the year ended December 31, 2012 was RMB1,465.6 million and the backlog amount as at December 31, 2012 was RMB887.2 million for the Expressway sector.

(ii) Railway

Revenue from the Railway sector in the year ended December 31, 2012 was RMB611.8 million, representing an increase of RMB91.8 million, or 17.7% as compared to RMB520.0 million for the year ended December 31, 2011. There was obvious resumption in the Railway sector business in 2012 after the slowdown of construction in 2011. In the early of 2012, central government had emphasized the "12th Five-Year Plan" construction scale will be remained, which indicated that the postponed investment in railway construction in 2011 will be resumed and completed in the coming years. Meanwhile, National Development and Reform Commission had approved the urban rapid transit construction in 25 cities, which will be involved approximate RMB800 billion investment scale. From the Group's perspective, the Railway sector had made remarkable achievement in developing and selling new solutions such as video conference solution and platform screen doors solution in order to diversify the business risk of traditional communication solutions. Besides, the Group also completed the large project of passenger ticket system and will continue to provide products and services in the area of passenger service system construction. Under the trend of continued contribution in railway construction in China, the Group believes it will bring more and more business opportunities in this sector especially in the post-construction operation period. The new contracts signed and orders secured amount in the year ended December 31, 2012 was RMB595.7 million and the backlog amount as at December 31, 2012 was RMB686.1 million for Railway sector.

(iii) Urban Traffic

Revenue from the Urban Traffic sector in the year ended December 31, 2012 beat its record high to RMB394.6 million, representing a massive increase of RMB222.4 million, or 129.2% as compared to RMB172.2 million for the year ended December 31, 2011. The increase was a result of positive business expansion carrying out by the management team. Through two acquisitions of CTH in August 2011 and Beijing STONE in June 2012, the Group completed the comprehensive business coverage for the urban traffic with established and matured business model across TS, SS and VAOS within the ever growing Urban Traffic sector. After the acquisition, the Group will have three business units covering surveillance, information platform and ITS integration solution. With such diversified corporate structure, the sales network will be expanded to all types of business in the industry throughout China. The Group believes there will be continued growth in the industry sector under the significant trend of urbanization in recent China. The new contracts signed and orders secured amount in the year ended December 31, 2012 was RMB527.2 million and the backlog amount as at December 31, 2012 was RMB434.2 million for Urban Traffic sector.

(iv) Energy

Revenue from the energy sector in the year ended December 31, 2012 was RMB26.5 million, representing a decrease of RMB12.8 million, or 32.5% as compared to RMB39.3 million for the year ended December 31, 2011. As the energy business is in a mature stage and is no longer a key focus of the Group, management have directed more attention to the transportation sectors, such as the Expressway, the Railway and the Urban Traffic and other possible new transportation sectors, which are expected to provide higher growth with better synergies for the Company. The Group had successfully reorganized such business and will not continue to operate it in the coming years. The new contracts signed and orders secured amount in the year ended December 31, 2012 was RMB29.0 million and the backlog amount as at December 31, 2012 was RMB12.1 million for energy sector.

Management Discussion and Analysis

Business Pattern and Major Projects

The Group's business is correlated with the central government's macroeconomic policies on infrastructure investment and has unique seasonal character. Most of the construction projects are in bidding stage and start implementations in first half of the year. Therefore, the new contracts are confirmed in the first half and the recognized revenue is recorded in the second half. This resulted in a higher backlog amount as at June 30 comparing with the figure at year end which is considered to be a normal pattern. The business pattern remained unchanged in 2012 for the backlog amount was approximately RMB2,019.6 million and RMB2,185.2 million as at December 31, 2012 and June 30, 2012, respectively. However, it is noteworthy that the comparison for both mid year backlog for 2012 vs 2011 and year end backlog in 2012 with their corresponding period in 2011 did register good improvement which supported the argument of business recovery of the Group as a whole.

During this year, the Group had implemented more than 2,500 projects in varied sizes, covering most of the regions in Mainland China. The following table sets out some of the major projects generating revenue in each industry sector:

Industry sector	Project name
Expressway:	Liaoning Zhuang-Gai (Zhuanghe-Gaizhou) Expressway Project
	Hebei Zhang-Shi (Zhangjiakou-Shijiazhuang) Expressway Tunnel Project
	Jiangsu Expressway Network Communication Renovation Project
Railway:	Xiang-Gui (Hunan-Guangxi) GSM Network Project
	Web passenger ticket system project
	Beijing Subway Line 6 Project
Urban Traffic:	Jining ITS Project
	Weifang ITS Project
	Zhongshan ITS Project

By Business Models

The revenue for the year ended December 31, 2012 beat the historical high in every business segment and was increased by 44.7% in the TS segment, a 29.7% increase in the SS segment, and a 41.5% increase in the VAOS segment, respectively. The following table sets out the revenue breakdown by Industry sectors:

	Year ended December 31	
	2012	2011
	RMB'000	RMB'000
Revenue by Segments		
TS	**953,226**	630,555
SS	**1,182,019**	946,349
VAOS	**56,071**	35,867
Elimination	**(45,316)**	(27,575)
Total	**2,146,000**	1,585,206

(i) TS

Revenue from the TS segment for the year ended December 31, 2012 was RMB953.2 million, an increase of RMB322.7 million, or increase 51.2%, as compared to RMB630.6 million for the year ended December 31, 2011. In 2012, the Group was benefited directly from resumed central government's investment in transportation, which originally should have been completed earlier due to postponement in 2011. From the Group's aspect, as aforementioned, management had made a remarkable breakthrough in developing new expressway business in the new areas such as Henan, Shanxi and Yunnan provinces. In addition, the acquisition of Beijing STONE in 2012 brought a brand new TS business entity in the Urban Traffic sector. Given the continued growth of government investment demand in expressway and the urbanization trend in China, the Group believes the revenue from TS segment will continue to grow in the coming years. The TS as a whole accounted for 44.4% of the Group's revenue in the year ended December 31, 2012, which is higher than 39.8% as recorded for the year ended December 31, 2011.

(ii) SS

Revenue from the SS segment in the year ended December 31, 2012 was RMB1,182.0 million, an increase of RMB235.7 million, or 24.9%, as compared with RMB946.3 million for the year ended December 31, 2011. The increment was fueled by the increment in the Expressway sector for RMB56.6 million, the increment in the Railway sector for RMB81.5 million, the increment in the Urban Traffic sector for RMB155.8 million, and was offset by the slight decline in energy sector which is less strategically focused for RMB12.8 million. Please refer to the sub-sections regarding aforesaid industry sectors for the detailed discussion and analysis. The SS segment as a whole accounted for 53.0% of the Group's revenue in the year ended December 31, 2012, which is lower than 58.0% as recorded for the year ended December 31, 2011 due to the increase in TS segment in relative terms as a result of the Beijing STONE acquisition.

(iii) VAOS

Revenue from the VAOS segment in the year ended December 31, 2012 was RMB56.1 million, an increase of RMB20.2 million, or 56.3%, as compared to RMB35.9 million for the year ended December 31, 2011. Firstly, there was a boost in Urban Traffic sector in VAOS segment due to the successful acquisition of Beijing STONE in 2012 and CTH in 2011. Secondly, both Expressway and Railway sectors had varying increments under the management's effort in developing recurring business with existing customers who had purchased our TS or SS offering before. Such remarkable business growth reflects the Group's business transformations from a single project-based model to stable recurring pattern. The VAOS segment as a whole accounted for 2.6% of the Group's revenue in the year ended December 31, 2012, which represented an increase of 0.3% compared with the 2.3% as recorded for the year ended December 31, 2011.

COST OF SALES

Cost of sales was incurred on a project-by-project basis for individual legal entities and was subsequently aggregated at sector or segment at corporate level. The cost of sales was based on the equipment and other direct relevant costs incurred for completion of each of the relevant projects. The cost of sales constituted 75.9% of the Group's revenue in the year ended December 31, 2012, which represented a slight increase of 0.7% as compared to the corresponding period in 2011, and was mainly due to the strategic development in new regions of Expressway sector which resulted in a slight decrease in margin in the Expressway sector.

By Industry Sectors

	Year ended December 31	
	2012	2011
	RMB'000	RMB'000
Cost of Sales by Sectors		
Expressway	**926,928**	681,147
Railway	**449,342**	397,838
Urban Traffic	**282,558**	112,913
Energy	**15,758**	28,491
Elimination	**(45,316)**	(27,575)
Total	**1,629,270**	1,192,814
% of Revenue	**75.9%**	75.2%

(i) Expressway

Cost of sales incurred in the Expressway sector increased by RMB245.8 million to RMB926.9 million in the year ended December 31, 2012 as compared to RMB681.1 million for the year ended December 31, 2011.

(ii) Railway

Cost of sales incurred in the Railway sector increased by RMB51.5 million to RMB449.3 million in the year ended December 31, 2012 as compared to RMB397.8 million for the year ended December 31, 2011.

(iii) Urban Traffic

Cost of sales incurred in the Urban Traffic sector increased by RMB169.6 million to RMB282.6 million in the year ended December 31, 2012 as compared to RMB112.9 million for the year ended December 31, 2011.

(iv) Energy

Cost of sales incurred in the energy sector decreased by RMB12.7 million to RMB15.8 million in the year ended December 31, 2012 as compared to RMB28.5 million for the year ended December 31, 2011.

By Business Models

	Year ended December 31	
	2012	2011
	RMB'000	RMB'000
Cost of Sales by Segments		
TS	**843,981**	531,801
SS	**797,087**	671,915
VAOS	**33,518**	16,673
Elimination	**(45,316)**	(27,575)
Total	**1,629,270**	1,192,814
% of Revenue	**75.9%**	75.2%

(i) TS

The cost of sales incurred for TS constituted 49.0% of the Group's cost of sales in the year ended December 31, 2012, which was higher than that in the prior years, and was mainly due to the strategic development in new regions of Expressway sector. Please refer to the Expressway sector in the "Revenue" and "Gross Profit" sections for the detailed discussion and analysis.

(ii) SS

The cost of sales incurred for SS constituted 48.9% of the Group's cost of sales in the year ended December 31, 2012, which is lower than that in the prior years because of the higher portion from TS segment.

(iii) VAOS

The cost of sales incurred for VAOS constituted 2.1% of the Group's cost of sales in the year ended December 31, 2012, which is higher than that in the prior years, reflecting the continued rising contribution of VAOS to the Group's business.

Management Discussion and Analysis

GROSS PROFIT

Overall gross profit of the Group significantly increased from RMB392.4 million for the year ended December 31, 2011 to RMB516.7 million in the year ended December 31, 2012, and was mainly due to the continuous increasing demand of intelligent transportation networks in China. Gross profit margin has decreased from 24.8% for the year ended December 31, 2011 to 24.1% in the year ended December 31, 2012 mainly due to the strategic development in new regions of Expressway sector. After carving out the impact of such development, the Group's normalized gross profit margin was approximately 27.2%*.

Note: * gross profit margin was calculated based on management's information and was not audited by the Company's auditor.

By Industry Sectors

	Year ended December 31	
	2012	2011
	RMB'000	RMB'000
Gross profit by industry sectors		
Expressway	**231,500**	200,159
Margin %	***20.0%***	*22.7%*
Railway	**162,424**	122,160
Margin %	***26.6%***	*23.5%*
Urban traffic	**112,037**	59,282
Margin %	***28.4%***	*34.4%*
Energy	**10,769**	10,791
Margin %	***40.6%***	*27.5%*
Total	**516,730**	392,392
Margin %	***24.1%***	*24.8%*

(i) Expressway

The Expressway sector gross profit margin decreased by 2.7% to 20.0% in the year ended December 31, 2012 as compared to 22.7% for the year ended December 31, 2011. The decline was mainly because of the marketing strategy applied in the new regions as stated in the "Revenue" section and the increased proportion of TS business with a lower gross profit margin. As management has foreseen the business opportunities in such strategic areas, the Group has offered preferential prices in some selected breakthrough projects. After removing the impact of the aforesaid projects, the normalized gross profit margin in the Expressway sector was 25.5%, which represented a healthy profit margin.

(ii) Railway

The Railway sector gross profit margin increased by 3.1% to 26.6% in the year ended December 31, 2012 as compared to 23.5% for the year ended December 31, 2011. The increase reflects a recovery of project gross profit in the Railway sector in 2012 after a series of negative industry incidents in 2011. Although the Group has experienced negative impact in 2011 in this sector, management worked extremely hard to find the new breakthrough and to diversify the revenue composition. To some extent, the recovery of gross profit margin proves that the Group can sustain a healthy growth model and successfully walked out of the economic difficulties. Under the impact of the revamped incentive policy in railway construction announced by the central government of the PRC, the Group believes the gross profit margin will remain at a sustainable level in the coming years.

(iii) Urban traffic

The Urban Traffic sector margin decreased by 6.1% from 34.4% for the year ended December 31, 2011 to 28.4% in the year ended December 31, 2012. The main reason for this change is that the acquisition of STONE brought to the Group the TS projects, which are usually having a lower gross profit margin level but higher revenue. This is the first year that the Group archieves complete coverage across all segments including TS, SS and VAOS for the Urban Traffic sector. The gross profit margin in this sector will be close to the overall blended average gross profit margin level of the Group. With the unremitting effort in developing new market opportunities, the Group believes the Urban Traffic sector will contribute more encouraging profit in the coming years.

(iv) Energy

The margin for the energy sector increased by 13.1% from 27.5% in the year ended December 31, 2011 to 40.6% for the year ended December 31, 2012. As the industry sector is in a mature stage, the Group will direct more attention to the transportation sectors and mainly focus on the quality of profit generated from the energy sector. The management is pursuing the opportunity to reorganize the business in appropriate manners.

By Business models

	Year ended December 31	
	2012	2011
	RMB'000	RMB'000
Gross profit by Segments		
TS	**109,246**	98,755
Margin	***11.5%***	*15.7%*
SS	**384,931**	274,434
Margin	***32.6%***	*29.0%*
VAOS	**22,553**	19,203
Margin	***40.2%***	*53.5%*
Total	**516,730**	392,392
Margin	***24.1%***	*24.8%*

(i) TS

Gross profit margin for TS decreased by 4.2% to 11.5% in the year ended December 31, 2012 as compared to 15.7% for the year ended December 31, 2011. As stated in the "Revenue" section, the Group had made remarkable breakthrough in the Expressway sector for some new regions such as Henan, Shanxi and Yunnan. The adjusted gross profit margin of TS was 15.5%*, which was within the average range in prior years operations, after removing the aforesaid strategic projects' effects. The Group believes TS segment will produce sustainable project profits in the coming years under the advantageous policy guidance in China's expressway industry.

Note: * gross profit margin was calculated based on management's information and was not audited by the Company's auditor.

(ii) SS

Gross profit margin for SS increased by 3.6% to 32.6% in the year ended December 31, 2012, as compared to 29.0% for the year ended December 31, 2011. The increase represented a recovery of the Group's project profit after the tough industry environment in 2011.

(iii) VAOS

Gross profit margin for VAOS decreased from 53.5% for the year ended December 31, 2011 to 40.2% in the year ended December 31, 2012. The gross profit margin for VAOS is varied from project to project and normally is within a range from 30% to 70% depending on whether it is a pure service contract or service plus components elements. With trend of the year-on-year revenue increase and the highest gross profit margin amongst other business segments, the Group believes VAOS will continue to bring higher quality of profit in the coming years.

OTHER INCOME AND GAINS

Other income and gains mainly comprised (a) the reimbursement of expenses and taxes incurred for the reorganization according to the supplemental agreement with the Expressway Strategic Investor, (b) rental income from investment properties, (c) fair value changes of investment properties, and (d) government grants and other non-operating incomes. The significant increase was mainly due to the amount of RMB20.9 million, which is primarily for the taxes incurred during the internal reorganization in 2012 and agreed to be borne by the Expressway Strategic Investor. Besides the aforesaid reimbursement, both the rental income and fair value changes in investment properties are related to the real estate price in Beijing and was in line with the market growth trend.

SELLING, GENERAL AND ADMINISTRATION EXPENSES

In the year ended December 31, 2012, selling, general and administration expenses (the "**SG&A**") as a percentage of sales decreased by 1.2% to 16.7% as compared to 17.9% for the year ended December 31, 2011, which was mainly due to the combined effect of revenue increase and strict expenses control policy applied by the Group.

The staff costs remained as a large component of the Group's SG&A while the travelling, entertainment and business expansion expenses and office supplies expenses are highly correlated with the headcount numbers. Therefore the total amount of the aforesaid expenses (headcount related cost) contributed the largest portion of the Group's SG&A. The headcount related cost increased from RMB189.3 million in year ended December 31, 2011 to RMB211.4 million in year ended December 31, 2012, representing a 11.7% increase and accounted for 58.9% of total SG&A in year ended December 31, 2012. This fluctuation was mainly due to general headcount increase for the business expansions in new industry and new products as well as the acquisitions of CTH and Beijing STONE. As mentioned in the "Revenue" section, the Group has put more and more efforts in developing the new business opportunities through the following ways: (a) hired talent people (b) adjusted salary rate in order to retain high performing employees (c) spent valuable money in business expansion especially new business sector. Management believed the expenditure in headcount related cost will bring corresponding return in the coming future.

The rental expenses increased from RMB20.2 million for the year ended December 31, 2011 to RMB25.9 million in the year ended December 31, 2012 due to the higher rental cost of the Group's centralized office in Beijing and the increase in rented office areas resulting from the acquisitions of CTH and Beijing STONE. Rental expenses accounted for 7.2% of the total SG&A in the year ended December 31, 2012, which remained the similar portion as compared to the corresponding period in 2011.

R&D expenses increased from RMB16.1 million for the year ended December 31, 2011 to RMB26.5 million for the year ended December 31, 2012. The major growth was due to increase of expenditure for the new sectors such as urban traffic industry and other traffic related business which are still in the premature developing stage.

Non-cash Expenses

Equity-settled share option expenses refer to the share options expenses related to the Company's pre-IPO share incentive scheme adopted on December 28, 2008 (the "**Pre-IPO Share Incentive Scheme**") and the share option scheme adopted by the Company on June 18, 2010 (the "**Share Option Scheme**") under which share options were granted on January 18, 2012. For year ended December 31, 2012, equity-settled share option expenses was RMB35.5 million, which was much higher than that for year ended December 31, 2011, due to the newly granted share options having significant impact in the first year according to the preset vesting periods.

Amortization expenses of intangible assets arising from acquisitions mainly represented the amortization expenses arising from the acquisition of CTH and Beijing STONE. Such expenses was RMB15.5 million for year ended December 31, 2012, which was much higher than that for year ended December 31, 2011 due to the CTH acquisition was taking place in August of 2011 that resulted in only four months of amortization charges in 2011.

FINANCE REVENUE AND FINANCE COST

Finance revenue comprised of mainly interest income and finance cost comprised of mainly interest expenses for interest-bearing bank loan and guaranteed bond. The net financial expenses represented the total finance cost minus finance revenue. The financial expense was RMB16.6 million in the year ended December 31, 2012, which represented a increase of 52.7% as compared to the year ended December 31, 2011. The increase was mainly due to the interest expenses in amount of RMB3.5 million arising from the guaranteed bond in amount of RMB210.0 million with coupon at 10% issued in November 2012.

INVESTMENT INCOME FROM JOINTLY-CONTROLLED ENTITY/OPERATION/ASSOCIATES

Investment income from investment entities in the year ended December 31, 2012 was approximately RMB9.7 million in total, which represented a decrease of 13.9% from that of the year ended December 31, 2011. The investment income was mainly from share of profit of Guangzhou Communication, which was co-founded with Guangzhou Transportation Group* (廣州交通集團) in operation of urban traffic SS and VAOS segment. The Group believes this type of income will be increased when the business model got successfully further duplicated to other cities.

INCOME TAX EXPENSES

The total income tax expense in the year ended December 31, 2012 was RMB58.9 million, which was higher than the RMB20.8 million for the year ended December 31, 2011, and was due to the combined effect of increase of profit before taxation and the taxes arising from reorganization of the Expressway sector. The taxes arising from reorganization was RMB20.9 million, which was agreed to be fully reimbursed by the Expressway Strategic Investor. After removing the effect of such taxes, the normalized income tax expenses was RMB38.0 million for the year ended December 31, 2012. Considering the non-cash expenses in amount of RMB51.0 million stated in "Selling, General and Administrative Expenses" section was non-taxable, the taxable profit before tax was RMB228.3 million by adding back such expenses. Therefore, the effective tax rate for the year ended December 31, 2012 was 16.6%, which represented an increase of 1.9% as compared to the corresponding period in 2011. The increase was due to one of the Expressway subsidiaries, had applied a preferential tax rate in 2011 at 12%. After a 5-year transition period starting from 2007, the Expressway subsidiary adopted the preferential tax rate at 15% as the High-and-New Technology Enterprise ("HNTE") starting from January 1, 2012, which most of the Group's subsidiaries are applying now.

PROFIT FOR THE YEAR

Before deducting the non-cash expenses with amount of RMB51.0 million, the pro forma profit attributable to owners of the parent for the year ended December 31, 2012 was RMB182.9 million, compared to RMB122.2 million for the year ended December 31, 2011, or a 49.7% increase. This is mainly due to (1) recovery of traditional business; (2) new business expansion resulted from merger and acquisition in new sectors; (3) breakthrough in Expressway unconventional regions.

TRADE RECEIVABLES TURNOVER DAYS

The trade receivables turnover days in the year ended December 31, 2012 was 142 days (in the year ended December 31, 2011: 185 days).

NET CONSTRUCTION TURNOVER DAYS

The net amount due from contract customer turnover days in the year ended December 31, 2012 was 72 days (in the year ended December 31, 2011: 63 days).

TRADE PAYABLES TURNOVER DAYS

The trade payables turnover days in the year ended December 31, 2012 was 179 days (in the year ended December 31, 2011: 194 days).

INVENTORY TURNOVER DAYS

The inventories of the Group mainly comprised of raw materials, work-in-progress, finished goods. The inventory turnover days in the year ended December 31, 2012 was 8 days (in the year ended December 31, 2011: 5 days).

LIQUIDITY AND FINANCIAL RESOURCES

The Group's principal sources of working capital included cash flow from operating activities, bank and other borrowings, and the proceeds from Guaranteed Bonds issued. As at December 31, 2012, the Group's current ratio (current assets divided by current liabilities) was 1.7 (as at December 31, 2011: 1.9). The Group's financial position remains healthy.

As at December 31, 2012, the Group was in a net negative cash position of RMB48.0 million (as at December 31, 2011: net cash of RMB135.5 million) which included cash and cash equivalent of RMB584.8 million (as at December 31, 2011: RMB435.9 million) and short-term bank loans of RMB431.6 million (as at December 31, 2011: RMB300.4 million) as well as Guaranteed Bonds of RMB201.2 million (as at December 31, 2011: nil). As at December 31, 2012, the Group's gearing ratio was -3.7%, which has increased from -12.4% as at December 31, 2011, due to the issuance of RMB bond in November of 2012. Gearing ratio refers to adjusted cash (interest-bearing bank borrowings plus guaranteed bonds minus pledged deposits, short-term deposit and cash and bank balances plus due to related parties) divided by total equity.

CONTINGENT LIABILITIES

As at December 31, 2012, the Group has no material contingent liability.

CHARGES ON GROUP ASSETS

As at December 31, 2012, except for the secured deposits of approximately RMB80.6 million, the Group pledged its buildings having net book values of approximately RMB154.0 million (as at December 31, 2011: RMB84.4 million) and trade receivables of approximately RMB9.9 million (as at December 31, 2011: RMB14.0 million) to banks to secure banking facilities granted to the Group. Save as disclosed above, as at December 31, 2012, the Group has no other asset charged to financial institution.

STRATEGIC INVESTMENTS, ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANY

– **Strategic Investment in China Expressway Group**

  On December 11, 2012, China Expressway Group, a wholly-owned subsidiary of the Company, entered into a share subscription agreement with Beijing Global, pursuant to which China Expressway Group has agreed to allot and issue and Beijing Global has agreed to subscribe for preferred shares of China Expressway Group and as a result, immediately after the closing of such subscription, the shareholding interest of the Company in China Expressway Group will be diluted from 100% to 51%. Such dilution of shareholding interest in China Expressway Group constituted a deemed disposal of China Expressway Group under Rule 14.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). China Expressway Group will continue to be a subsidiary of the Company after the closing. For further details, please refer to the announcements of the Company dated December 11, 2012, December 12, 2012, January 4, 2013 and January 14, 2013.

— **Acquisition of Beijing STONE**

On June 20, 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 Beijing STONE. On the same date, Bailian Zhida, a wholly-owned subsidiary of the Company, acquired 10% of the equity interest of Beijing STONE. As a result of these acquisitions, the Company has become indirectly interested in a total of 75% of the equity interest in Beijing STONE. Beijing 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 sector by leveraging the leading market presence of Beijing STONE in landmark cities e.g. Beijing. For further details, please refer to the announcements of the Company dated June 20, 2012 and June 28, 2012.

— **Acquisition of Shandong Yigou**

On November 18, 2012, RHY Technology, an indirect wholly-owned subsidiary of the Company, acquired 10% of the equity interest of Shandong Yigou, a non-wholly owned subsidiary of the RHY Technology, from Beijing Bailian Dahe Engineering Technology Co., Ltd.* (北京百聯大和工程技術有限公司), an existing shareholder of Shandong Yigou, at a total consideration of RMB1,717,300.00, which was determined by reference to the net asset value of Shandong Yigou. Subsequent to such transfer, the equity interest in Shandong Yigou held by RHY Technology increased from 42.8% to 52.8%, and Shandong Yigou remained as a jointly-controlled entity of the Company. Shandong Yigou is primarily engaged in the business of providing SS and software development in expressway ITS industry. The acquisition of further equity interest in Shandong Yigou represented the Company's strategy in making further investment in strategic businesses in the Expressway sector, which was also a crucial step of business reorganizations in the Expressway sector. The abovementioned acquisition of 10% of the equity interest in Shandong Yigou by RHY Technology constituted an exempt connected transaction under Rule 14A.31(2)(b) of the Listing Rules and is exempt from all the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

— **Disposal of Xinjiang Delida**

On November 21, 2012, RHY Technology transferred 57% of the equity interest of Xinjiang Delida, a non-wholly owned subsidiary of the RHY Technology, to Mr. Pan Jinghui, an existing shareholder of Xinjiang Delida, at a total consideration of RMB2,688,836.92, which was determined by reference to the net asset value of Xinjiang Delida. Subsequent to such transfer, RHY Technology ceased to hold any interests in Xinjiang Delida, which has ceased to be a subsidiary of the Company. Prior to the disposal, Xinjiang Delida is primarily engaged in the business of offering logistics information solutions to the Xinjiang government. The disposal of Xinjiang Delida represented the Company's strategy to optimize the allocation of resources to core business direction. The abovementioned disposal of 57% of the equity interest in Xinjiang Delida by RHY Technology constituted an exempt connected transaction under Rule 14A.31(2)(b) of the Listing Rules and is exempt from all the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Save as disclosed above, there was no other material investments, acquisitions or disposal of subsidiaries and associated companies by the Company during the year ended December 31, 2012.

USE OF PROCEEDS

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

The use of the net proceeds from the global offering as at December 31, 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	236.5	12.2
Research and development	10%	71.1	45.8	25.3
General corporate purposes	10%	71.1	69.3	1.8
Total	100%	710.6	671.3	39.3

On November 8, 2012, the Company issued Guaranteed Bonds of a total principal amount of RMB210.0 million due in 2015 bearing interest at 10.0% per annum. The net proceeds from the issue of the Guaranteed Bonds amounted to RMB201.2 million. As at December 31, 2012, out of the net proceeds of RMB201.2 million, RMB12.0 million was utilized for acquisitions of selected targets in the ITS industry, RMB3.4 million was utilized for providing and expanding the Group's services in overseas markets, RMB4.2 million was utilized as general working capital, and RMB181.6 million remained unutilized.

EVENTS AFTER THE REPORTING PERIOD

In January 2013, Aproud Technology, an indirect wholly-owned subsidiary of the Company, entered into an equity transfer agreement with an independent third party (the "**Hexin Purchaser**") and Hexin Risheng, a wholly-owned subsidiary of Aproud Technology. Pursuant to the equity transfer agreement, Aproud Technology transferred 100% of the equity interest in Hexin Risheng to the Hexin Purchaser at a total consideration of approximately RMB34.5 million, which was determined by reference to the net asset value as recorded in Hexin Risheng's accounts as at October 31, 2012. Prior to the disposal, Hexin Risheng had been engaged in providing specialized ITS solutions in urban rapid transit and energy sectors. The Hexin Purchaser agreed that Hexin Risheng's business in rapid transit sector will be taken over by other subsidiaries of the Group, and the Hexin Purchaser will only continue to operate energy business. The disposal of Hexin Risheng is consistent with the Company's strategy to exit its businesses in the energy sector which is non core to the Group's overall business strategy. As each of the relevant percentage ratios in respect of this transaction is below 5% and the transaction did not involve any securities for which listing would be sought, the transaction did not constitute a notifiable transaction under Chapter 14 of the Listing Rules.

In January 2013, the Group disposed an investment property located in Dongzhimen Wai Avenue, Chaoyang District, Beijing, the PRC at a consideration of RMB56.0 million which was determined by reference to historical cost. As each of the relevant percentage ratios in respect of this transaction is below 5% and the transaction did not involve any securities for which listing would be sought, the transaction did not constitute a notifiable transaction under Chapter 14 of the Listing Rules.

Director and Senior Management

BOARD OF DIRECTORS

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

Name	Age	Title
Mr. Liao Jie	46	Chairman and executive Director
Mr. Jiang Hailin	44	Executive Director
Mr. Wang Jing	54	Executive Director
Mr. Lu Xiao	42	Executive Director
Mr. Pan Jianguo	41	Executive Director
Mr. Lv Xilin	40	Executive Director
Mr. Zhou Chunsheng	46	Independent non-executive Director
Mr. Choi Onward	42	Independent non-executive Director
Mr. Sun Lu	39	Independent non-executive Director

Executive Directors

Mr. Liao Jie (廖杰), 46, is the Chairman and an executive Director, responsible for formulating strategy of the Company. He was appointed as the executive Director and the Chief Executive Officer on August 24, 2011 and was responsible for the overall business operations and mergers and acquisitions of the Company. On July 9, 2012, Mr Liao has been elected as the Chairman and retired from his position as the Chief Executive Officer. Mr. Liao also serves as a managing director of China ITS Co., Ltd. (the "**Holdco**", one of the controlling shareholders of the Company (the "**Controlling Shareholders**") and Best Partners Development Limited ("**Best Partners**", one of the Controlling Shareholders), and sole director of Joyful Business Holdings Limited (one of the Controlling Shareholders) responsible for corporate finance and fund raising activities. Mr. Liao became a director of RHY Technology in May 2002, responsible for strategic planning and operational management in the Expressway sector. He subsequently joined the board of directors of two other group companies in the PRC, Wuhan Chenguang in April 2005 and Bailian Zhida in April 2007, respectively. He retired from the three above-mentioned directorships when he started serving as a senior advisor of the Board on business strategy and operational direction of the Group in January 2008.

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

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

Director and Senior Management

Mr. Jiang Hailin (姜海林), 44, is an executive Director and the Chief Executive Officer, responsible for overall business operation of the Company. Mr. Jiang was appointed as the Director on February 20, 2008, and was then elected as the Chairman. On July 9, 2012, Mr. Jiang has been re-appointed as the Chief Executive Officer and therefore resigned from his position as the Chairman. He is also one of the Controlling Shareholders, a director of Holdco and Best Partners and sole director of Sea Best Investments Limited ("**Sea Best**", one of the Controlling Shareholders). Since he joined our Group in May 2002, Mr. Jiang has held various positions within our Group, including serving as a director of RHY Technology since May 2002, a director and chairman of the board of directors of Haotian Jiajie since March 2007, a director and vice chairman of the board of directors of Aproud Technology from August 2002 to February 2010 and again since May 2010, a director of Bailian Zhida since April 2007 and the executive director of Jiangsu Zhongzhi Transportation since December 2011.

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

Mr. Jiang received a bachelor's degree in computing from Nankai University in July 1990 and an EMBA degree from Tsinghua University in July 2006. Mr. Jiang possesses a total of approximately 19 years of experience in general management and over 11 years of experience in the China ITS sector.

Mr. Wang Jing (王靖), 54, is an executive Director and senior vice president of the Company. Mr. Wang is responsible for business development of the Company. Mr. Wang was appointed as Director of the Company on February 21, 2008. Mr. Wang is also one of the Controlling Shareholders, and a director of Holdco and Best Partners. Since he founded RHY Technology in January 2001, Mr. Wang has held various positions within our Group. In addition, he served as chairman of the board of directors of RHY Technology from January 2001 to May 2002 at which point he stepped down as chairman, but remained on the board of directors as vice chairman, and quit the board of directors of RHY Technology in November 2012. Mr. Wang has also served as a director and chairman of the board of directors of RAY Holdings Ltd. since January 2000.

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

Mr. Wang received a bachelor's degree in military medicine from the First Military Medical University (now known as Southern Medical University) in July 1984. Mr. Wang possesses a total of approximately 12 years of experiences in the China ITS sector.

Director and Senior Management

Mr. Lu Xiao (陸驍), 42, is an executive Director, senior vice president of the Company and president of our SS business unit focusing on the Railway sector. Mr. Lu is responsible for the overall management of the railway SS business. Mr. Lu is also one of our Controlling Shareholders. Mr. Lu was appointed as Director of the Company on July 1, 2009. Mr. Lu is also a director of Holdco and sole director of Speedy Fast Investments Limited ("**Speedy Fast**", one of the Controlling Shareholders). Since he joined our Group in June 2007, Mr. Lu had been the senior vice president of the railway SS business until March 2009. He served as a director and chairman of the board of directors of Zhixun Tiancheng from February 2010 to December 2011.

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

Mr. Lu received a bachelor's degree in communications engineering from the Southwest Jiaotong University in 1993. Mr. Lu possesses a total of approximately 20 years of experience in railway industry.

Mr. Pan Jianguo (潘建國), 41, is an executive Director and senior vice president of the Company, responsible for the overall operations platform including general administration and human resources management of the Company. Mr. Pan was appointed as Director of the Company from February 2008 to June 2009 and was reappointed as Director of the Company on February 9, 2010. Mr. Pan is also one of the Controlling Shareholders, and a director of Holdco, Gouver Investments Limited ("**Gouver**", one of the Controlling Shareholders) and Joy Bright Success Limited ("**Joy Bright**", one of the Controlling Shareholders). Since he joined our Group in January 2006 upon the acquisition of Aproud Technology, Mr. Pan has held various positions within our Group including serving as our vice president responsible for budget planning and control of the Group as well as overall management of VAOS business from March 2007 to March 2009, and as vice president responsible for sales and marketing of our SS prior to March 2007. In addition, Mr. Pan was a co-founder of Aproud Technology and has served as a director of Aproud Technology since February 2001 and a director of RHY Technology since October 2007. Mr. Pan has also served as a director of Bailian Zhida since April 2007, Hexin Risheng since January 2008, Zhixun Tiancheng since June 2007, Guangdong Xincheng since September 2011 and as executive director of Beijing Xiyou since July 2011.

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

Mr. Pan received a bachelor's degree in communication engineering from the Xi'an Mining Institute of the Xi'an University of Science and Technology in July 1995, and an EMBA degree from Tsinghua University in July 2009. Mr. Pan possesses a total of approximately 15 years of experience in the China ITS sector.

Director and Senior Management

Mr. Lv Xilin (呂西林), 40, is an executive Director, senior vice president of the Company, general manager of marketing and strategic cooperation and general manager of fund and planning management, responsible for overseas business development, public relations management and internal financing management of the Group. Mr. Lv was appointed as Director of the Company from October 2006 to June 2009 and reappointed as Director of the Company on August 24 2011. Mr. Lv is also one of our Controlling Shareholders, a director of Holdco and Best Partners and sole director of Key Trade Holdings Limited (the "**Key Trade**", one of the Controlling Shareholders). Since he joined our Group in July 2003, Mr. Lv has held various positions within our Group. From August 2006 to March 2009, he served as Group president of TS and responsible for the overall management of TS business. From April 2009 to November 2012, he served as president of TS and VAOS business units focusing on the Expressway sector, responsible for the overall management of the Expressway TS and VAOS businesses. He has served as a director of RHY Technology since June 2004, and chairman of the board of directors of RHY Technology since August 2010, and a director and chairman of the board of directors of Xinjiang RHY since October 2005. Mr. Lv has also served as a director of Wuhan Chenguang since February 2007, Haotian Jiajie since August 2007, Shandong Yigou since December 2011, Guangdong Xincheng since September 2011, an executive director of Jiangsu Yijie since March 2010 and as a director and chairman of the board of directors of Huading Hengye since November 2012. Mr. Lv served as a director and chairman of the board of directors of Xinjiang Delida from May 2011 to November 2012.

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

Mr. Lv received a bachelor's degree in industrial trade from the Harbin University of Science and Technology in July 1994. He received a master's degree in project management from the University of Sydney in November 2004 and an EMBA degree from the Tsinghua University in January 2011. He was recognized as a Project Management Professional by the Project Management Institute in the United States in January 2003. Mr. Lv received the National Communications Industry Young Expert Award in June 2003 from the Ministry of Transport in recognition of his contribution to the transport industry. Mr. Lv possesses a total of approximately 19 years of experience in ITS project management.

Director and Senior Management

Independent non-executive Directors

Mr. Zhou Chunsheng (周春生), 46, is an independent non-executive Director of the Company, chairman of the nomination committee of the Company (the "**Nomination Committee**") and a member of the audit committee of the Company (the "**Audit Committee**") and remuneration committee of the Company (the "**Remuneration Committee**"). Mr. Zhou was appointed as Director of the Company on September 4, 2008. He is currently a professor of the Cheung Kong Graduate School of Business. He has also served as a director of Guanghua Tiancheng Investments Co., Ltd., an independent non-executive director of China Southern Fund Management Co., Ltd., an independent non-executive director of Hua Chuang Securities Brokerage Co., Ltd., an independent non-executive director of Industrial Securities Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 601377), an independent non-executive director of Jun Zheng Energy and Chemical Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 601216), an independent non-executive director of Guangdong Zhaoqing Star Lake Bioscience Co., Inc., a company listed on the Shanghai Stock Exchange (stock code: 600866), an independent non-executive director of Zhonghong Stocks Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 000979), an independent non-executive director of Heilongjiang Interchina Water Treatment Co., Ltd., a company listed on Shanghai Stock Exchange (stock code: 600187), an independent non-executive director of Beijing BSS Corrosion Protection Industry Co., Ltd., an independent non-executive director of Essence Futures Co., Ltd., an independent non-executive director of CITIC Newedge Futures Co., Ltd. and an independent non-executive director of Chang' an International Trust Co., Ltd.. Mr. Zhou had ever served as an independent non-executive director of Centennial Brilliance Science & Technology Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 000703), an independent non-executive director of China Information Technology Development Limited, a company listed on the Stock Exchange of Hong Kong Limited (SEHK: 8178) and an independent non-executive director of Lentuo International Inc., a company listed on the New York Stock Exchange (stock symbol: LAS). Mr. Zhou resigned from his positions of the three abovementioned independent non-executive directors in 2012.

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

Director and Senior Management

Mr. Choi Onward (蔡安活), 42, is an independent non-executive Director of the Company, the chairman of the Audit Committee and a member of the Remuneration Committee and Nomination Committee. Mr. Choi was appointed as Director of the Company on September 4, 2008. Mr. Choi currently serves as the acting chief financial officer of NetEase, Inc., a PRC incorporated internet technology company listed on NASDAQ (NASDAQ: NTES), and an independent non-executive director and the chairman of the audit committee of Beijing Jingkelong Company Limited, a company listed on the Stock Exchange of Hong Kong Limited (SEHK: 814).

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

Mr. Sun Lu (孫璐), 39, is an independent non-executive Director of the Company, chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee. Mr. Sun was appointed as Director of the Company on June 18, 2010. He is also the general manager and a director of CITIC Guoan Information Industry Co., Ltd. ("**CITIC Guoan**"), a PRC incorporated company listed on the Shenzhen Stock Exchange (stock code: 000839).

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

Director and Senior Management

SENIOR MANAGEMENT

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

Name	Age	Position
Mr. Jiang Hailin	44	Chief Executive Officer
Mr. Wang Jing	54	Senior vice president of the Company
Mr. Lu Xiao	42	Senior vice president of the Company, president of SS railway
Mr. Pan Jianguo	41	Senior vice president of the Company
Mr. Lv Xilin	40	Senior vice president of the Company, general manager of marketing and strategic cooperation department, general manager of fund and planning management department
Mr. Leung Ming Shu	37	Chief financial officer, company secretary, general manager of capital and investment department
Mr. Guan Jizhen	47	Chief technology officer, general manager of research and development department
Mr. Mou Yi	46	Vice president of the Company, general manager of financial management department
Mr. Zhang Yi	39	Vice president of the Company, general manager of new business development

For information on Mr. Jiang Hailin, Mr. Wang Jing, Mr. Lu Xiao, Mr. Pan Jianguo and Mr. Lv Xilin, see “Directors and Senior Management — Board of Directors” above.

Director and Senior Management

Mr. Leung Ming Shu (梁銘樞), 37, is the chief financial officer, company secretary and general manager of capital and investment department of the Company, responsible for overall financial, corporate finance and acquisitions and mergers management of the Company. Mr. Leung served as Director of the Company from August 2008 to June 2009. Since he joined our Group in January 2008, Mr. Leung has held his current position within the Group. Mr. Leung also serves as an independent non-executive director, chairman of the audit committee and member of the remuneration committee of Comtec Solar Systems Group Limited (SEHK: 0712), an independent non-executive director, chairman of the audit committee and member of the remuneration committee of Shengli Oil & Gas Pipe Holdings Limited (SEHK: 1080).

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

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

Director and Senior Management

Mr. Guan Jizhen (關積珍), 47, is the chief technology officer and general manager of research and development department of the Company, responsible for overall research and development of the Company. Mr. Guan joined our Group in July 2012 after the acquisition of Beijing STONE by the Group and has held his current position since November 2012. In addition, Mr. Guan has served as the deputy general manager of Beijing STONE since February 1999 responsible for product research and development and engineering, a director and general manager of Beijing STONE since December 2004 responsible for general operation, and the chairman of the board of directors of Beijing STONE since June 2006. Mr. Guan also served as the chairman of the board of directors of Beijing Lihe Datong since August 2011 and Beijing Jingwei Zhitong since September 2011 and a director of Newcom Traffic since November 2011.

In addition, leveraging on his outstanding academic background and expertise in research, Mr. Guan was employed by various industrial associations and research centres. He has served as deputy general secretary for China Intelligent Transportation Systems Association (the "**ITS Association**") since December 2012, a member of the first session of judging panel of science & technology awards by the ITS Association since March 2012, the head of expert committee for urban traffic of the ITS Association since December 2011, a member of expert committee of the ITS Association since December 2009, a member of the first session of academic committee of Beijing Key Laboratory of Cooperative Vehicle Infrastructure and Safety Control since April 2012, a member of expert committee for modern transportation technology of the National High Technology Research and Development Program of China (863 Program) since March 2012, a consultant of Beijing Transportation Development and Research Center since March 2011, a member of the expert committee of the Intelligent Transport System Association of Shenzhen since October 2010, a member of academic committee of Guangdong Key Laboratory of ITS since October 2010, a member of the judging panel of science and technology awards by the Public Security Ministry since October 2010, a member of academic committee of the Metropolitan Congestion Research Centre since November 2006 and deputy general secretary of the Transportation System Engineering Society of China since January 2002.

Previously, Mr. Guan served as an engineer of Industrial Management Office of Beijing Jiaotong University, responsible for the development of ITS. Mr. Guan also served as the deputy general manager of Beijing Lantong Electronic Co., Ltd., responsible for production of intelligent information system and relevant projects, and he was then promoted to general manager responsible for the overall operation of the company. Meanwhile, he was appointed as the general manager of Beijing Jiaotong Fulun Economic and Technological Development Company* (北方交大輔輪經濟技術開發公司), the vice president of Lantong Group* (藍通集團) and Beijing Jiaotong Tianyou Technology Group* (北京交大天佑科技集團). Mr. Guan served as a lecturer of the Department of Industrial Management of Beijing Jiaotong University.

Mr. Guan received a bachelor's degree in logistic management and a master's degree in engineering from Beijing Jiaotong University in July 1985 and May 1987 respectively, and obtained a doctorate degree in management science and engineering from Huazhong University of Science and Technology in December 2009. Mr. Guan was elected as the "ITS Person of the Year 2012" in January 2013 and received the first class prize of "The Expert and Scientist with Outstanding Contribution Award of 2012" from China Intelligent Transportation System Association in September 2012. Mr. Guan obtained the "Outstanding Contribution for the Development of China ITS Industry (2010)", the third and second class prizes of "Beijing Science and Technology" in February 2011 and December 2008 respectively, and the "Outstanding Individual in Olympic Research and Technology Service Award". He possesses approximately 20 years of experience in the research and development as well as business operation and management in the ITS industry.

Director and Senior Management

Mr. Mou Yi (牟軼), 46, is the vice president of the Company and general manager of financial management, responsible for the internal financial management of the Company. Mr. Mou has served as Director of the Company from October 2008 to June 2009. He joined our Group in October 2004. He started as vice president of RHY Technology and was then promoted to vice president of our TS business unit, responsible for the internal and daily operations, such as financial control, human resources and other administrative functions of the TS business unit until October 2009 when he assumed his current role. Mr. Mou has served as a director and chairman of its board of directors of Wuhan Chenguang since April 2005, a director of Xinjiang RHY since October 2005, and as a director of Shandong Yigou since December 2011. He resigned from his position of directors of the abovementioned three companies in November 2012. Mr. Mou has also served as a director of Chengdu Zhida Weilute since May 2010, Zhixun Tiancheng since November 2011, Beijing Newcom Traffic since January 2012. Mr. Mou served as a supervisor of Xinjiang Delida from May 2011 to November 2012.

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

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

Mr. Zhang Yi (張屹), 39, is a vice president of the Company and the general manager of new business development, responsible for business development in new industry sectors. Mr. Zhang joined our Group in July 2007. He started as the new product development department supervisor and was then promoted to a director and general manager of Zhixun Tiancheng responsible for the overall operation management in the Railway sector. He served as the vice president of the Company in November 2011 responsible for developing, coordinating and maintaining the relationship with the Group's strategic partners. He has held his current position since 2012. Mr. Zhang has also served as executive director of Jiangsu Zhixun Tiancheng since November 2009.

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

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

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

The Company had adopted the code provisions contained in the code of corporate governance practices (the "**Old CG Code**") set out in Appendix 14 to 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 December, 31 2012.

Set out below is a detailed discussion of the corporate governance practices adopted and observed by the Company for the year ended December 31, 2012.

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers as contained in the Model Code as the standards for the Directors' dealings in the securities of the Company on June 18, 2010. Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the required standard set out in the Model Code during the year ended December 31, 2012.

THE BOARD

Board Responsibilities

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

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

Board Members

The Board, as at the date of this report, consists of nine Directors, including six executive Directors, and three independent non-executive Directors. The composition of the Board is set out on page 50 in the paragraph headed "Report of the Directors — Directors" of this annual report.

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

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

Independent Non-executive Directors

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

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

Terms

Save as disclosed in this annual report, all of the executive Directors were appointed for a term of three years, which may be terminated according to the articles of association of the Company and any applicable laws. In accordance with the articles of association of the Company, at each annual general meeting one-third of the Directors for the time being is required to retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

Board Meetings

During the year ended December 31, 2012, there were four Board meetings held, at which the Directors approved, among other things, the audited consolidated results of the Group for the year ended December 31, 2011 and the unaudited consolidated results of the Group for the six months ended June 30, 2012.

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

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

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

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

Attendance Record

Code Provision A1.1 of the Corporate Governance Code stipulates that the board should meet regularly and meetings should be held at least four times a year at approximately quarterly intervals. Code Provision C.3.3(e)(i) of the Corporate Governance Code states that the audit committee must meet, at least twice a year, with the issuer's auditors. In addition, Code Provision A.6.7 of the Corporate Governance Code stipulates that independent non-executive directors should also attend general meetings. During the year ended December 31, 2012, the Board convened a total of four Board meetings and there were two meetings for the Audit Committee, one meeting for the Remuneration Committee and one meeting for the Nomination Committee based on the need of the operation and business development of the Company. Details of attendance are as follows:

	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings	General meetings
Executive Directors					
Mr. Liao Jie *(Chairman)*	4/4	n/a	n/a	n/a	0/2
Mr. Jiang Hailin *(Chief Executive Officer)*	4/4	n/a	n/a	n/a	2/2
Mr. Wang Jing	4/4	n/a	n/a	n/a	0/2
Mr. Lu Xiao	4/4	n/a	n/a	n/a	2/2
Mr. Pan Jianguo	4/4	n/a	n/a	n/a	2/2
Mr. Lv Xilin	4/4	n/a	n/a	n/a	0/2
Independent Non-executive Directors					
Mr. Zhou Chunsheng	4/4	2/2	1/1	1/1	1/2
Mr. Choi Onward *(FCCA, HKICPA)*	4/4	2/2	1/1	1/1	1/2
Mr. Sun Lu	4/4	2/2	1/1	1/1	1/2

The Chairman and the Chief Executive Officer

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

During the period between January 1, 2012 and July 8, 2012, Mr. Jiang Hailin acted as the Chairman and Mr. Liao Jie acted as the Chief Executive Officer. On July 9, 2012, Mr. Liao Jie has been elected as the Chairman and retired from his position as the Chief Executive Officer. On the same day, Mr. Jiang Hailin has been re-appointed as the Chief Executive Officer and therefore resigned from his position as the Chairman. Accordingly, since July 9, 2012, Mr. Liao Jie has been the Chairman and Mr. Jiang Hailin has been the Chief Executive Officer.

Accordingly, the Company complied with Code Provision A2.1 at all times during the year ended December 31, 2012.

BOARD COMMITTEES

Remuneration Committee

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

The primary functions of the Remuneration Committee are to:

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

(b) make recommendations to the Board on the remuneration packages of individual executive Directors and senior management;

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

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

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

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

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

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

A summary of the work performed by the Remuneration Committee during the year ended December 31, 2012 is set out as follows:

- reviewed the Directors' fees; and
- reviewed and made recommendations to the Board on the remuneration structure/package of executive Directors and senior management.

Nomination Committee

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

The primary functions of the Nomination Committee are to:

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

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

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

A summary of the work performed by the Nomination Committee during the year ended December 31, 2012 is set out as follows:

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

Audit Committee

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

The primary functions of the Audit Committee are to:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A summary of the work performed by the Audit Committee during the year ended December 31, 2012 is set out as follows:

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

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance functions set out in the code provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

CONTINUOUS PROFESSIONAL DEVELOPMENT

According to the Code A.6.5, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. The Company should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of the directors.

All Directors have participated in appropriate continuous professional development and refresh their knowledge and skills during the year. According to the records maintained by the Company, the current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the new requirement of the CG Code on continuous professional development for the year ended December 31, 2012:

Name of Director	Attend training sessions organized by professional firms	Read articles and journals on the economy, general business and regulatory matters
Executive Directors		
Mr. Liao Jie	√	√
Mr. Jiang Hailin	√	√
Mr. Wang Jing	√	√
Mr. Lu Xiao	√	√
Mr. Pan Jianguo	√	√
Mr. Lv Xilin	√	√
Independent Non-executive Directors		
Mr. Zhou Chunsheng	√	√
Mr. Choi Onward	√	√
Mr. Sun Lu	√	√

ACCOUNTABILITY AND AUDIT

Auditor's Remuneration

The remuneration paid to the Company's auditor, Ernst & Young, during the year ended December 31, 2012 in relation to audit service are RMB2,380,000.

Directors' Responsibilities for Financial Statements

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

Auditor's Statement

The statement of the Company's auditor, Ernst & Young, on its reporting responsibilities in respect of the consolidated financial statements of the Group for the year ended December 31, 2012 is set out on page 65.

Internal Control and Risk Management

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

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

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

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

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

COMPANY SECRETARY

Mr. Leung Ming Shu, the company secretary of the Company, is a full-time employee of the Group. During the year ended 31 December, 2012, Mr. Leung has complied with Rule 3.29 of the Listing Rules in relation to taking of relevant professional training.

Corporate Governance Report

SHAREHOLDER RIGHTS

Constitutional Documents

There has been no significant change in the Company's constitutional documents during the year ended 31 December, 2012.

Procedures for Shareholders to Convene an Extraordinary General Meeting

Pursuant to the Article 58 of the Articles of Associations of the Company, any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for proposing a person for Election as a Director

Pursuant to the Article 85 of the Articles of Associations of the Company, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice (as defined therein) signed by a Member (as defined therein) (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that (if the Notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such Notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

Communications with Shareholders and Investors

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

The 2012 Annual General Meeting (the "**AGM**") will be held on May 23, 2013. The notice of AGM will be sent to Shareholders at least 20 clear business days before the AGM.

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

Report of the Directors

The Board presents its report together with the audited consolidated results of the Company and its subsidiaries for the year ended December 31, 2012.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the principal subsidiaries of the Company are to provide ITS and transportation infrastructure technology solutions and services to expressway, railway (including rapid transit) and urban traffic sectors of the transportation industry in China. The Group had conducted business in the energy sector, but ceased to operate in that sector since the disposal of Hexin Risheng in January 2013. Please refer to the section headed "Management Discussion and Analysis — EVENTS AFTER THE REPORTING PERIOD" in this annual report for further details of the disposal. Details of the activities of the subsidiaries of the Company are set out in note 19 to the consolidated financial statements on page 124.

RESULTS AND DIVIDEND

The consolidated results of the Group for the year ended December 31, 2012 are set out on page 66 of this annual report.

The Board recommended that since the Company is expanding business rapidly that requires cash for capital expenditures and working capital, no dividend will be declared for the year ended 31 December 2012. The Company may consider its dividend policy in the future according to the financial results and performance of the Company, and the general industry and economic environment.

PROPERTY AND EQUIPMENT

Details of movements in the property and equipment of the Group are set out in note 14 to the consolidated financial statements on page 118.

SHARE CAPITAL

Details of the movement in the Company's share capital during the year ended December 31, 2012 are set out in note 38 to the consolidated financial statements on page 143.

PRE-EMPTIVE RIGHTS

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

RESERVES

Details of movements in the reserves of the Company and the Group for the year ended December 31, 2012 are set out in note 39 to the consolidated financial statements on page 144. As at December 31, 2012, the Group's distributable reserve is RMB1,748.5 million.

CHARITABLE DONATIONS

The Company made several charitable donations at an aggregate amount of RMB0.8 million during the year ended December 31, 2012.

Report of the Directors

DIRECTORS

The Directors who held office during the year ended December 31, 2012 and up to the date of this annual report are:

	Last Re-election Date
Executive Directors	
Mr. Liao Jie *(Chairman)*	May 29, 2012
Mr. Jiang Hailin *(Chief Executive Officer)*	–
Mr. Wang Jing	May 29, 2012
Mr. Lu Xiao	May 26, 2011
Mr. Pan Jianguo	May 26, 2011
Mr. Lv Xilin	May 29, 2012
Independent Non-executive Directors	
Mr. Zhou Chunsheng	May 29, 2012
Mr. Choi Onward *(FCCA, HKICPA)*	May 26, 2011
Mr. Sun Lu	May 29, 2012

In accordance with Article 84 of the Articles of Association of the Company and the Listing Rules, Mr. Liao Jie, Mr. Jiang Hailin and Mr. Lv Xilin shall retire by rotation, and being eligible, have offered themselves for re-election as Directors at the forthcoming annual general meeting.

Biographies of Directors and senior management of the Company are set out on pages 28 to 37 of this annual report.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

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

Mr. Liao Jie, an executive Director, has been elected as the Chairman and retired from his 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 since the date of its incorporation in 2008 until August 24, 2011, has been re-appointed as the Chief Executive Officer and therefore resigned from his position as the Chairman with effect from 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.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' 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.

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

Save as disclosed below, as at December 31, 2012, none of the Directors and chief executive of the Company had any interests or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange:

Name of Director	Nature of interest	Securities as at December 31, 2012[11]	Approximate percentage of shareholdings as at December 31, 2012[11]
Mr. Liao Jie[2]	Beneficial owner/Interest of a controlled corporation	113,235,297 (L)	6.88% (L)
Mr. Jiang Hailin[1][3]	Beneficial owner/Beneficiary of the Fino Trust	930,853,137 (L)	56.57% (L)
Mr. Wang Jing[1][4]	Beneficial owner/Beneficiary of the Tesco Trust	934,803,137 (L)	56.81% (L)
Mr. Lu Xiao[1][5]	Beneficiary owner/Interest of a controlled corporation	109,999,999 (L)	6.68% (L)
Mr. Pan Jianguo[1][6]	Beneficial owner/Beneficiary of the Ampio Trust	152,961,292 (L)	9.30% (L)
Mr. Lv Xilin[1][7]	Beneficial owner/Beneficiary of the Fino Trust	937,172,966 (L)	56.95% (L)
Mr. Zhou Chunsheng[8]	Beneficial owner	98,824 (L)	0.01% (L)
Mr. Choi Onward[9]	Beneficial owner	98,824 (L)	0.01% (L)
Mr. Sun Lu[10]	Beneficial owner	98,824 (L)	0.01% (L)

Notes:

(1) To facilitate the management and operation of the Company and as a result of previous restructuring exercises of the Group, Holdco, Pride Spirit Company Limited, Sea Best, Joy Bright, Gouver, Kang Yang Holdings Limited, Huaxin Investments Limited, Rockyjing Investment Limited, Key Trade, Speedy Fast, Best Partners, Joyful Business Holdings Limited, Mr. Liao Jie, 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, Ms. 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 928,997,289 Shares, representing the aggregate number of Shares held by all of the parties to the Shareholder Voting Agreements.

(2) 40,735,874 of 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. Mr. Liao Jie is also deemed to be interested in the 72,499,423 Shares held by Joyful Business Holdings Limited, which is wholly-owned by Mr. Liao Jie.

(3) 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. Mr. Jiang Hailin beneficially and directly owns 18,702,440 Shares, which are part of the 928,997,289 Shares in which Fino Trust is deemed to be interested.

(4) 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.

(5) 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, which is wholly-owned by Mr. Lu Xiao.

(6) 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.

(7) 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 928,997,289 Shares in which Fino Trust is deemed to be interested.

(8) 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.

(9) 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.

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

(11) (L) denotes long positions.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the business of the Group, to which the Company, its holding companies, its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended December 31, 2012.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended December 31, 2012.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

DIRECTORS' SERVICE CONTRACTS

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

REMUNERATION OF THE DIRECTORS AND SENIOR MANAGEMENT

The determination of the remuneration of the Directors and senior management of the Company is based on the individual performance, the nature and responsibilities of the individual concerned and the performance of our Group and market conditions. The Remuneration Committee will make recommendations on proposals for increase in remuneration, payment of discretionary bonus or adjustment to any benefits scheme which will be approved by the Board.

The Company will also periodically review and assess its human resource requirements and the prevailing market trend and make appropriate adjustments. Details of the remuneration of the Directors and the Group's senior management are set out in note 8 to the consolidated financial statements on page 110.

EMPLOYMENT AND EMOLUMENT POLICIES

As at December 31, 2012, the Group had 1,026 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. The Company also distributes performance-based year-end bonuses to certain eligible employees.

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.

RETIREMENT BENEFIT SCHEME

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

PRE-IPO SHARE INCENTIVE SCHEME AND 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

Holdco adopted the Pre-IPO Share Incentive Scheme on December 28, 2008. 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.

Movement of the options granted under the Pre-IPO Share Incentive Scheme during the year ended December 31, 2012 is as follows:

Grantee	Grant date	Vesting start date	Expiry date	Outstanding as at January 1, 2012	Exercised during the year ended December 31, 2012[1]	Lapsed or cancelled during the year ended December 31, 2012	Outstanding as at December 31, 2012	Exercise price per share (RMB)
Mr. Wang Jing	31/12/2008	31/12/2008	31/12/2013	0	–	–	0	0.6
(Executive Director)	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	–	3,950,000	
Mr. Lu Xiao	31/12/2008	31/12/2008	31/12/2013	1,445,253	–	–	1,445,253	0.6
(Executive Director)	31/12/2008	31/12/2010	31/12/2015	536,142	–	–	536,142	2
	31/12/2008	30/06/2011	30/06/2016	536,142	–	–	536,142	2
	31/12/2008	31/12/2011	31/12/2016	536,142	–	–	536,142	3
	31/12/2008	30/06/2012	30/06/2017	536,142	–	–	536,142	3
	31/12/2008	31/12/2012	31/12/2017	536,142	–	–	536,142	4
	31/12/2008	30/06/2013	30/06/2018	536,142	–	–	536,142	4
Sub-total				4,662,105	–	–	4,662,105	
Mr. Lv Xilin	31/12/2008	31/12/2008	31/12/2013	549,630	–	–	549,630	0.6
(Executive Director)	31/12/2008	31/12/2010	31/12/2015	203,895	–	–	203,895	2
	31/12/2008	30/06/2011	30/06/2016	203,895	–	–	203,895	2
	31/12/2008	31/12/2011	31/12/2016	203,895	–	–	203,895	3
	31/12/2008	30/06/2012	30/06/2017	203,895	–	–	203,895	3
	31/12/2008	31/12/2012	31/12/2017	203,895	–	–	203,895	4
	31/12/2008	30/06/2013	30/06/2018	203,895	–	–	203,895	4
Sub-total				1,773,000	–	–	1,773,000	
Others	31/12/2008	31/12/2008	31/12/2013	46,123,990	3,907,920	–	42,216,070	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	7,178,460	–	76,642,915	
TOTAL:				**97,606,480**	**10,578,460**	**0**	**87,028,020**	

Notes:

(1) The weighted average closing price of Share immediately before the exercise dates of the share options was HK$1.26.

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. 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 10% refreshed Share Option Scheme Limit.

Movement of the options granted under the Share Option Scheme during the year ended December 31, 2012 is as follows:

Grantee	Grant date[1]	Vesting start date	Expiry date	Outstanding as at January 1, 2012	Exercised during the year ended December 31, 2012	Lapsed or cancelled during the year ended December 31, 2012	Outstanding as at December 31, 2012	Exercise price per share (HK$)
Mr. Liao Jie[3]	18/01/2012	19/04/2012	Note (2)	–	–	–	1,694,612	1.05
(Executive Director,	18/01/2012	19/07/2012	Note (2)	–	–	–	1,694,612	1.05
Chairman)	18/01/2012	19/10/2012	Note (2)	–	–	–	1,694,612	1.05
	18/01/2012	19/01/2013	Note (2)	–	–	–	1,694,612	1.05
	18/01/2012	19/04/2013	Note (2)	–	–	–	3,393,298	1.05
	18/01/2012	19/07/2013	Note (2)	–	–	–	3,393,298	1.05
	18/01/2012	19/10/2013	Note (2)	–	–	–	3,393,298	1.05
	18/01/2012	19/01/2014	Note (2)	–	–	–	3,393,298	1.05
	18/01/2012	19/04/2014	Note (2)	–	–	–	5,091,984	1.05
	18/01/2012	19/07/2014	Note (2)	–	–	–	5,091,984	1.05
	18/01/2012	19/10/2014	Note (2)	–	–	–	5,091,984	1.05
	18/01/2012	19/01/2015	Note (2)	–	–	–	5,108,282	1.05
Sub-total				–	–	–	40,735,874	
Mr. Jiang Hailin	18/01/2012	19/04/2012	Note (2)	–	–	–	77,203	1.05
(Executive Director,	18/01/2012	19/07/2012	Note (2)	–	–	–	77,203	1.05
Chief Executive Officer)	18/01/2012	19/10/2012	Note (2)	–	–	–	77,203	1.05
	18/01/2012	19/01/2013	Note (2)	–	–	–	77,203	1.05
	18/01/2012	19/04/2013	Note (2)	–	–	–	154,592	1.05
	18/01/2012	19/07/2013	Note (2)	–	–	–	154,592	1.05
	18/01/2012	19/10/2013	Note (2)	–	–	–	154,592	1.05
	18/01/2012	19/01/2014	Note (2)	–	–	–	154,592	1.05
	18/01/2012	19/04/2014	Note (2)	–	–	–	231,981	1.05
	18/01/2012	19/07/2014	Note (2)	–	–	–	231,981	1.05
	18/01/2012	19/10/2014	Note (2)	–	–	–	231,981	1.05
	18/01/2012	19/10/2015	Note (2)	–	–	–	232,725	1.05
Sub-total				–	–	–	1,855,848	
Mr. Pan Jianguo	18/01/2012	19/04/2012	Note (2)	–	–	–	173,707	1.05
(Executive Director)	18/01/2012	19/07/2012	Note (2)	–	–	–	173,707	1.05
	18/01/2012	19/10/2012	Note (2)	–	–	–	173,707	1.05
	18/01/2012	19/01/2013	Note (2)	–	–	–	173,707	1.05
	18/01/2012	19/04/2013	Note (2)	–	–	–	347,832	1.05
	18/01/2012	19/07/2013	Note (2)	–	–	–	347,832	1.05
	18/01/2012	19/10/2013	Note (2)	–	–	–	347,832	1.05
	18/01/2012	19/01/2014	Note (2)	–	–	–	347,832	1.05
	18/01/2012	19/04/2014	Note (2)	–	–	–	521,957	1.05
	18/01/2012	19/07/2014	Note (2)	–	–	–	521,957	1.05
	18/01/2012	19/10/2014	Note (2)	–	–	–	521,957	1.05
	18/01/2012	19/01/2015	Note (2)	–	–	–	523,632	1.05
Sub-total				–	–	–	4,175,659	

Grantee	Grant date[1]	Vesting start date	Expiry date	Outstanding as at January 1, 2012	Exercised during the year ended December 31, 2012	Lapsed or cancelled during the year ended December 31, 2012	Outstanding as at December 31, 2012	Exercise price per share (HK$)
Mr. Wang Jing	18/01/2012	19/04/2012	Note (2)	–	–	–	77,203	1.05
(Executive Director)	18/01/2012	19/07/2012	Note (2)	–	–	–	77,203	1.05
	18/01/2012	19/10/2012	Note (2)	–	–	–	77,203	1.05
	18/01/2012	19/01/2013	Note (2)	–	–	–	77,203	1.05
	18/01/2012	19/04/2013	Note (2)	–	–	–	154,592	1.05
	18/01/2012	19/07/2013	Note (2)	–	–	–	154,592	1.05
	18/01/2012	19/10/2013	Note (2)	–	–	–	154,592	1.05
	18/01/2012	19/01/2014	Note (2)	–	–	–	154,592	1.05
	18/01/2012	19/04/2014	Note (2)	–	–	–	231,981	1.05
	18/01/2012	19/07/2014	Note (2)	–	–	–	231,981	1.05
	18/01/2012	19/10/2014	Note (2)	–	–	–	231,981	1.05
	18/01/2012	19/01/2015	Note (2)	–	–	–	232,725	1.05
Sub-total				–	–	–	1,855,848	
Mr. Lu Xiao	18/01/2012	19/04/2012	Note (2)	–	–	–	289,512	1.05
(Executive Director)	18/01/2012	19/07/2012	Note (2)	–	–	–	289,512	1.05
	18/01/2012	19/10/2012	Note (2)	–	–	–	289,512	1.05
	18/01/2012	19/01/2013	Note (2)	–	–	–	289,512	1.05
	18/01/2012	19/04/2013	Note (2)	–	–	–	579,721	1.05
	18/01/2012	19/07/2013	Note (2)	–	–	–	579,721	1.05
	18/01/2012	19/10/2013	Note (2)	–	–	–	579,721	1.05
	18/01/2012	19/01/2014	Note (2)	–	–	–	579,721	1.05
	18/01/2012	19/04/2014	Note (2)	–	–	–	869,929	1.05
	18/01/2012	19/07/2014	Note (2)	–	–	–	869,929	1.05
	18/01/2012	19/10/2014	Note (2)	–	–	–	869,929	1.05
	18/01/2012	19/01/2015	Note (2)	–	–	–	872,713	1.05
Sub-total				–	–	–	6,959,432	
Mr. Lv Xilin	18/01/2012	19/04/2012	Note (2)	–	–	–	266,351	1.05
(Executive Director)	18/01/2012	19/07/2012	Note (2)	–	–	–	266,351	1.05
	18/01/2012	19/10/2012	Note (2)	–	–	–	266,351	1.05
	18/01/2012	19/01/2013	Note (2)	–	–	–	266,351	1.05
	18/01/2012	19/04/2013	Note (2)	–	–	–	533,343	1.05
	18/01/2012	19/07/2013	Note (2)	–	–	–	533,343	1.05
	18/01/2012	19/10/2013	Note (2)	–	–	–	533,343	1.05
	18/01/2012	19/01/2014	Note (2)	–	–	–	533,343	1.05
	18/01/2012	19/04/2014	Note (2)	–	–	–	800,335	1.05
	18/01/2012	19/07/2014	Note (2)	–	–	–	800,335	1.05
	18/01/2012	19/10/2014	Note (2)	–	–	–	800,335	1.05
	18/01/2012	19/01/2015	Note (2)	–	–	–	802,896	1.05
Sub-total				–	–	–	6,402,677	

Grantee	Grant date[1]	Vesting start date	Expiry date	Outstanding as at January 1, 2012	Exercised during the year ended December 31, 2012	Lapsed or cancelled during the year ended December 31, 2012	Outstanding as at December 31, 2012	Exercise price per share (HK$)
Mr. Choi Onward	18/01/2012	19/04/2012	Note (2)	–	–	–	8,232	1.05
(Independent	18/01/2012	19/07/2012	Note (2)	–	–	–	8,232	1.05
Non-Executive	18/01/2012	19/10/2012	Note (2)	–	–	–	8,232	1.05
Director)	18/01/2012	19/01/2013	Note (2)	–	–	–	8,232	1.05
	18/01/2012	19/04/2013	Note (2)	–	–	–	8,232	1.05
	18/01/2012	19/07/2013	Note (2)	–	–	–	8,232	1.05
	18/01/2012	19/10/2013	Note (2)	–	–	–	8,232	1.05
	18/01/2012	19/01/2014	Note (2)	–	–	–	8,232	1.05
	18/01/2012	19/04/2014	Note (2)	–	–	–	8,232	1.05
	18/01/2012	19/07/2014	Note (2)	–	–	–	8,232	1.05
	18/01/2012	19/10/2014	Note (2)	–	–	–	8,232	1.05
	18/01/2012	19/01/2015	Note (2)	–	–	–	8,272	1.05
Sub-total				–	–	–	98,824	
Mr. Zhou Chunsheng	18/01/2012	19/04/2012	Note (2)	–	–	–	8,232	1.05
(Independent	18/01/2012	19/07/2012	Note (2)	–	–	–	8,232	1.05
Non-Executive Director)	18/01/2012	19/10/2012	Note (2)	–	–	–	8,232	1.05
	18/01/2012	19/01/2013	Note (2)	–	–	–	8,232	1.05
	18/01/2012	19/04/2013	Note (2)	–	–	–	8,232	1.05
	18/01/2012	19/07/2013	Note (2)	–	–	–	8,232	1.05
	18/01/2012	19/10/2013	Note (2)	–	–	–	8,232	1.05
	18/01/2012	19/01/2014	Note (2)	–	–	–	8,232	1.05
	18/01/2012	19/04/2014	Note (2)	–	–	–	8,232	1.05
	18/01/2012	19/07/2014	Note (2)	–	–	–	8,232	1.05
	18/01/2012	19/10/2014	Note (2)	–	–	–	8,232	1.05
	18/01/2012	19/01/2015	Note (2)	–	–	–	8,272	1.05
Sub-total				–	–	–	98,824	
Mr. Sun Lu	18/01/2012	19/04/2012	Note (2)	–	–	–	8,232	1.05
(Independent	18/01/2012	19/07/2012	Note (2)	–	–	–	8,232	1.05
Non-Executive Director)	18/01/2012	19/10/2012	Note (2)	–	–	–	8,232	1.05
	18/01/2012	19/01/2013	Note (2)	–	–	–	8,232	1.05
	18/01/2012	19/04/2013	Note (2)	–	–	–	8,232	1.05
	18/01/2012	19/07/2013	Note (2)	–	–	–	8,232	1.05
	18/01/2012	19/10/2013	Note (2)	–	–	–	8,232	1.05
	18/01/2012	19/01/2014	Note (2)	–	–	–	8,232	1.05
	18/01/2012	19/04/2014	Note (2)	–	–	–	8,232	1.05
	18/01/2012	19/07/2014	Note (2)	–	–	–	8,232	1.05
	18/01/2012	19/10/2014	Note (2)	–	–	–	8,232	1.05
	18/01/2012	19/01/2015	Note (2)	–	–	–	8,272	1.05
Sub-total				–	–	–	98,824	

Grantee	Grant date[1]	Vesting start date	Expiry date	Outstanding as at January 1, 2012	Exercised during the year ended December 31, 2012	Lapsed or cancelled during the year ended December 31, 2012	Outstanding as at December 31, 2012	Exercise price per share (HK$)
Others	18/01/2012	19/04/2012	Note (2)	–	–	–	5,589,429	1.05
	18/01/2012	19/07/2012	Note (2)	–	–	–	5,589,429	1.05
	18/01/2012	19/10/2012	Note (2)	–	–	–	5,589,429	1.05
	18/01/2012	19/01/2013	Note (2)	–	–	–	5,589,429	1.05
	18/01/2012	19/04/2013	Note (2)	–	–	–	7,723,426	1.05
	18/01/2012	19/07/2013	Note (2)	–	–	–	7,723,426	1.05
	18/01/2012	19/10/2013	Note (2)	–	–	–	7,723,426	1.05
	18/01/2012	19/01/2014	Note (2)	–	–	–	7,723,426	1.05
	18/01/2012	19/04/2014	Note (2)	–	–	–	9,857,424	1.05
	18/01/2012	19/07/2014	Note (2)	–	–	–	9,857,424	1.05
	18/01/2012	19/10/2014	Note (2)	–	–	–	9,857,424	1.05
	18/01/2012	19/01/2015	Note (2)	–	–	–	9,894,498	1.05
Sub-total				–	–	–	92,718,190	
TOTAL:				**–**	**–**	**–**	**155,000,000**	

Notes:

(1) The closing price of the Shares immediately before the grant date of share options 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 the December 31, 2012, so far as is known to any Director or chief executive of the Company, other than a Director or chief executive of the Company, the following persons had interests or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the issuer under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in five per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the group.

Name	Capacity	Long position/ Short position	Number of Shares	Percentage to Company's issued share capital
Holdco[1]	Beneficiary owner	Long position	928,997,289	56.45%
Best Partners[2]	Interest of controlled corporation	Long position	928,997,289	56.45%
Fino[3]	Interest of controlled corporation	Long position	928,997,289	56.45%
Tesco[4]	Interest of controlled corporation	Long position	928,997,289	56.45%
Credit Suisse Trust Limited[3][4][5][6]	Trustee	Long position	928,997,289	56.45%
Ampio International Limited[5]	Interest of controlled corporation	Long position	148,785,633	9.04%
Huaxin Investments Limited[6]	Beneficial owner	Long position	99,278,087	6.03%
Binks Investments Limited[6]	Interest of controlled corporation	Long position	99,278,087	6.03%
Speedy Fast[7]	Beneficial owner	Long position	98,378,462	5.98%
Gouver[8]	Interest of controlled corporation	Long position	95,900,234	5.83%
Joy Bright[8]	Beneficial owner	Long position	95,900,234	5.83%

Notes:

(1) Holdco is wholly-owned by Best Partners. Six of our Directors Mr. Jiang Hailin, Mr. Liao Jie, Mr. Wang Jing, Mr. Lv Xilin, Mr. Lu Xiao and Mr. Pan Jianguo are also directors of Holdco.

(2) The issued share capital of Best Partners 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. Four of our Directors Mr. Jiang Hailin, Mr. Liao Jie, Mr. Wang Jing and Mr. Lv Xilin are also directors of Best Partners Development 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 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 Tesco Trust, namely Mr. Wang Jing, Mr. Zhang Qian, Mr. Guan Xiong, Mr. Zheng Hui and Ms. Wang Li. The Tesco Trust is an irrevocable discretionary trust established under the laws and regulations of Singapore.

(5) 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 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.

Each of Rockyjing Investment Limited and Gouver, the sole shareholder of Joy Bright, is wholly-owned by Ampio International Limited. Accordingly, Ampio International Limited is deemed to be interested in the 52,885,399 Shares and 95,900,234 Shares in which Rockyjing Investment Limited and Joy Bright are interested, respectively.

(6) 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 Binks Trust, namely Mr. Dang Kulun, Ms. 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.

(7) Speedy Fast is wholly owned by Mr. Lu Xiao. Our Director Lu Xiao is also the director of Speedy Fast.

(8) Joy Bright is wholly-owned by Gouver and accordingly Gouver is deemed to be interested in all the Shares in which Joy Bright is interested. Our Director Mr. Pan Jianguo is also the director of Gouver and Joy Bright.

Save as disclosed in the paragraphs headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" and "Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares" above, no Director or proposed director is a director or employee of a company which has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

On July 10, 2012, the Company issued 32,790,501 Shares ("**STONE Consideration Shares**") to United Fortune Overseas Limited at HK$1.2229 per STONE 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.

On November 8, 2012, the Company issued guaranteed bonds (the "**Guaranteed Bonds**") of a total principal amount of RMB210.0 million due in 2015 bearing interest at 10.0% per annum. The Guaranteed Bonds are listed on the Stock Exchange. The net proceeds from the issue of the Guaranteed Bonds amounted to approximately RMB201.2 million and are intended to be used by the Company to fund its acquisitions of selected targets in the ITS industry, the expenses and capital required for providing and growing its services in overseas markets and its general working capital requirements. Please refer to the announcement of the Company dated November 1, 2012 for further details.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the year ended December 31, 2012.

STRATEGIC INVESTMENTS, ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Details of the strategic investments, acquisitions or disposals of subsidiaries and associated companies for the year ended December 31, 2012 are set out with the same subtitle in the section headed "Management Discussion and Analysis" in the annual report.

USE OF PROCEEDS

Details of the use of proceeds of the Company for the year ended December 31, 2012 are set out with the same subtitle in the section headed "Management Discussion and Analysis" in this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2012, the aggregate sales to the Group's five largest customers, in aggregate represented approximately 14.8% of the Group's total revenue and sales to the Group's largest customer amounted to approximately 4.7% of the Group's total revenue.

For the year ended December 31, 2012, the aggregate purchases attributable to the Group's five largest suppliers, in aggregate represented approximately 26.3% of the Group's total purchases and purchases attributable to the Group's largest supplier amounted to approximately 16.8% of the Group's total purchases.

For the year ended December 31, 2012, none of the Directors nor any of their associates or any shareholders who, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital, had any interest in the five largest suppliers or customers.

BANKING FACILITIES AND OTHER BORROWINGS

Details of the bank facilities and other borrowings of the Company as at December 31, 2012 are set out in note 33 to the consolidated financial statements on page 140.

SUFFICIENCY OF PUBLIC FLOAT

According to information that is publicly available to the Company and within the knowledge of the Board, as at December 31, 2012, the Company has maintained sufficient public float as required under the Listing Rules.

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

For the year ended December 31, 2012, the Group was involved in two connected transactions, i.e. the acquisition of Shandong Yigou and the disposal of Xinjiang Delida, both of which are exempt connected transactions under Rule 14A.31(2)(b) of the Listing Rules. For further details, please refer to the section headed "Management Discussion and Analysis — Strategic Investments, Acquisitions or Disposal of Subsidiaries and Associated Company" in this annual report. Save for the above disclosed, there were no other connected transactions of the Company for the year ended December 31, 2012. The Group was involved in a number of related party transactions during the year ended December 31, 2012, which have been disclosed in note 48 to the consolidated financial statements on pages 156. None of these related party transactions are connected transactions.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

No contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries subsisted at December 31, 2012 or any time during the year ended December 31, 2012.

Report of the Directors

NON-COMPETITION DEED

As disclosed in the Prospectus, the independent non-executive Directors will review, on an annual basis, the compliance by the Controlling Shareholders with the non-competition undertakings under the Non-competition Agreement (as defined in the Prospectus). The independent non-executive Directors have conducted such review for the year ended December 31, 2012 and found that the Non-competition Agreement has been fully complied with.

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 of Hong Kong Limited (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 December, 31 2012.

Detailed information on the corporate governance practice adopted by the Company is set out in the Corporate Governance Report on pages 38 to 48.

AUDIT COMMITTEE

The Group's annual report for the year ended December 31, 2012 has been reviewed by the Audit Committee. Information on the work of the Audit Committee and its composition are set out in the Corporate Governance Report on page 42.

AUDITOR

The consolidated financial statements of the Group for the year ended December 31, 2012 have been audited by Ernst & Young. A resolution for the re-appointment of Ernst & Young as the Company's auditor will be proposed at the forthcoming annual general meeting.

EVENTS AFTER THE REPORTING PERIOD

Details of the events after the reporting period are set out with the same subtitle in the section headed "Management Discussion and Analysis" in this annual report.

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

Beijing, March 28, 2013

Independent Auditors' Report

ERNST & YOUNG
安 永

Ernst & Young
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

Tel: +852 2846 9888
Fax: +852 2868 4432
www.ey.com

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

We have audited the consolidated financial statements of China ITS (Holdings) Co., Ltd. (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 66 to 169, which comprise the consolidated and company statements of financial position as at December 31, 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2012, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong

March 28, 2013

Consolidated Income Statement

Year ended December 31, 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	5	**2,146,000**	1,585,206
Cost of sales	6	**(1,629,270)**	(1,192,814)
Gross profit		**516,730**	392,392
Other income and gains	5	**47,131**	23,636
Selling, general and administrative expenses		**(359,109)**	(283,365)
Other expenses		**(2,130)**	(1,364)
OPERATING PROFIT		**202,622**	131,299
Finance income	6	**12,850**	4,037
Finance costs	7	**(29,427)**	(14,894)
Share of profits of:			
Jointly-controlled entities/operation	20	**9**	5,947
Associates		**9,726**	5,358
Gain on disposal of a subsidiary	42	**2,462**	–
PROFIT BEFORE TAX	6	**198,242**	131,747
Income tax expense	10	**(58,913)**	(20,779)
PROFIT FOR THE YEAR		**139,329**	110,968
Attributable to:			
Owners of the parent	11	**131,910**	112,919
Non-controlling interests		**7,419**	(1,951)
		139,329	110,968
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
		RMB	RMB
Basic			
— For profit for the year	13	**0.08**	0.07
Diluted			
— For profit for the year	13	**0.08**	0.07

Consolidated Statement of Comprehensive Income

Year ended December 31, 2012

	Note	2012 RMB'000	2011 RMB'000
PROFIT FOR THE YEAR		**139,329**	110,968
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**413**	(17,829)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**413**	(17,829)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**139,742**	93,139
Attributable to:			
Owners of the parent	11	**132,323**	95,090
Non-controlling interests		**7,419**	(1,951)
		139,742	93,139

Consolidated Statement of Financial Position

December 31, 2012

	Notes	December 31, 2012 RMB'000	December 31, 2011 RMB'000
NON-CURRENT ASSETS			
Property and equipment	14	**55,915**	56,243
Investment properties	15	**154,000**	145,800
Prepaid land premium	16	**14,149**	–
Goodwill	17	**406,135**	347,321
Other intangible assets	18	**78,717**	34,467
Investments in jointly-controlled entities/operation	20	**33,350**	31,611
Investments in associates	21	**94,043**	84,740
Available-for-sale investment	22	**25,307**	–
Deferred tax assets	36	**12,202**	13,350
Prepayment for acquisition of equity interests in other companies	23	**111,710**	105,715
Other long-term assets	24	**19,944**	557
Total non-current assets		**1,005,472**	819,804
CURRENT ASSETS			
Inventories	25	**37,853**	31,262
Construction contracts	26	**1,255,393**	785,172
Trade and bills receivables	27	**903,794**	769,186
Prepayments, deposits and other receivables	28	**1,146,390**	869,406
Due from related parties	48	**74,656**	81,791
Deferred cost		**8,071**	–
Held-to-maturity investment	29	**69,405**	69,396
Pledged deposits	30	**80,636**	79,841
Cash and cash equivalents	30	**584,783**	435,881
Other financial assets	41	**3,445**	–
Total current assets		**4,164,426**	3,121,935
CURRENT LIABILITIES			
Trade and bills payables	31	**923,666**	672,652
Other payables and accruals	32	**327,558**	170,557
Construction contracts	26	**679,378**	458,709
Interest-bearing bank borrowings	33	**431,577**	300,390
Due to related parties	48	**13,847**	11,694
Income tax payable		**42,072**	14,948
Deferred income	35	**1,344**	4,200
Total current liabilities		**2,419,442**	1,633,150
NET CURRENT ASSETS		**1,744,984**	1,488,785
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,750,456**	2,308,589

Consolidated Statement of Financial Position

December 31, 2012

	Notes	December 31, 2012 RMB'000	December 31, 2011 RMB'000
NON-CURRENT LIABILITIES			
Guaranteed bonds	37	**201,194**	–
Long-term payable		**8,537**	–
Deferred tax liabilities	36	**43,319**	35,889
Total non-current liabilities		**253,050**	35,889
Net assets		**2,497,406**	2,272,700
EQUITY			
Equity attributable to owners of the parent			
Issued capital	38	**289**	283
Reserves	39(a)	**2,462,400**	2,265,529
		2,462,689	2,265,812
Non-controlling interests		**34,717**	6,888
Total equity		**2,497,406**	2,272,700

Liao Jie
Director

Jiang Hailin
Director

Consolidated Statement of Changes in Equity

Year ended December 31, 2012

	Notes	Attributable to owners of the parent									
		Issued capital RMB'000 note 38	Share premium RMB'000 note 38	Statutory reserve RMB'000 note 39(a)	Capital reserve RMB'000 note 39(a)	Asset revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
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 year		–	–	–	–	–	–	112,919	112,919	(1,951)	110,968
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations		–	–	–	–	–	(17,829)	–	(17,829)	–	(17,829)
Total comprehensive income for the year		–	–	–	–	–	(17,829)	112,919	95,090	(1,951)	93,139
Issue of shares	38	7	53,157	–	–	–	–	–	53,164	–	53,164
Share-based payment transactions	40	–	–	–	6,151	–	–	–	6,151	–	6,151
Transfer from retained earnings		–	–	14,354	–	–	–	(14,354)	–	–	–
Acquisition of non-controlling interests	41(a)	–	–	–	–	–	–	–	–	2,738	2,738
Contribution from non-controlling interests		–	–	–	–	–	–	–	–	6,101	6,101
At December 31, 2011 and 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 year		**–**	**–**	**–**	**–**	**–**	**–**	**131,910**	**131,910**	**7,419**	**139,329**
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations		**–**	**–**	**–**	**–**	**–**	**413**	**–**	**413**	**–**	**413**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**413**	**131,910**	**132,323**	**7,419**	**139,742**
Issue of shares	38	**6**	**29,006**	**–**	**–**	**–**	**–**	**–**	**29,012**	**–**	**29,012**
Share-based payment transactions	40	**–**	**–**	**–**	**35,542**	**–**	**–**	**–**	**35,542**	**–**	**35,542**
Disposal of a subsidiary	42	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**412**	**412**
Transfer from retained earnings		**–**	**–**	**28,875**	**–**	**–**	**–**	**(28,875)**	**–**	**–**	**–**
Acquisition of non-controlling interests	41(b)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**19,998**	**19,998**
At December 31, 2012		**289**	**1,070,539***	**115,412***	**605,160***	**7,782***	**(14,420)***	**677,927***	**2,462,689**	**34,717**	**2,497,406**

* These reserve accounts comprise the consolidated reserves of RMB2,462,400,000 (2011: RMB2,265,529,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended December 31, 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**198,242**	131,747
Adjustments for:			
Depreciation	6	**19,790**	9,998
Amortisation	6	**15,520**	3,108
Net loss on disposal of items of property and equipment	6	**80**	51
Gain on disposal of a subsidiary	42	**(2,462)**	–
Equity settled share option expense	40	**35,542**	6,151
Impairment of trade receivables	27	**–**	395
Impairment of other receivables	28	**–**	3,678
Impairment of items of property and equipment	14	**–**	248
Share of profits of jointly-controlled entities/operation		**(9)**	(5,947)
Fair value gain on an interest in a jointly-controlled entity	5	**–**	(2,512)
Share of profit of associates		**(6,243)**	(5,358)
Changes in fair value of investment properties	15	**(8,200)**	(4,763)
Impairment of goodwill	17	**–**	427
Finance income	6	**(12,850)**	(4,037)
Finance costs	7	**29,427**	14,894
		268,837	148,080
Changes in assets and liabilities:			
Increase in inventories		**(3,172)**	(16,663)
Increase in construction contracts		**(197,337)**	(113,883)
Decrease/(increase) in trade and bills receivables		**(62,348)**	166,157
Increase in prepayments, deposits and other receivables		**(230,241)**	(288,934)
Decrease/(increase) in amounts due from related parties		**7,135**	(76,420)
Increase in deferred cost		**(2,443)**	–
Decrease/(increase) in pledged deposits		**(795)**	22,301
Increase in trade and bills payables		**231,673**	14,037
Increase/(decrease) in other payables and accruals		**97,639**	(44,192)
Increase/(decrease) in amounts due to related parties		**2,153**	8,872
Cash generated from operations		**111,101**	(180,645)
Interest paid		**(23,749)**	(14,894)
Interest received		**2,107**	5,721
Income tax paid		**(38,149)**	(24,376)
Net cash flows from/(used in) operating activities		**51,310**	(214,194)

Consolidated Statement of Cash Flows

Year ended December 31, 2012

	Notes	2012 RMB'000	2011 RMB'000
Net cash flows from/(used in) operating activities		**51,310**	(214,194)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of items of property and equipment		**982**	–
Purchases of items of property and equipment		**(16,680)**	(9,758)
Purchase of land use right		**(14,149)**	–
Purchases of a held-to-maturity investment		**–**	(69,396)
Dividend received from a jointly-controlled entity		**–**	1,221
Decrease in short term deposit		**–**	112,441
Acquisition of subsidiaries	41	**(459)**	(173,164)
Disposal of a subsidiary	42	**2,678**	–
Acquisition of jointly-controlled entities		**(1,730)**	(11,929)
Acquisition of associates		**(3,060)**	–
Prepayment for acquisition of equity interests in other companies	23	**(111,710)**	(105,715)
Net cash flows used in investing activities		**(144,128)**	(256,300)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of guaranteed bonds	37	**201,194**	–
New bank loans		**484,036**	420,390
Repayment of bank loans		**(443,912)**	(409,998)
Decrease in pledged deposits for bank loans		**–**	80,360
Payment of listing expenses		**–**	(10,823)
Capital contribution from non-controlling interests		**–**	6,101
Net cash flows from financing activities		**241,318**	86,030
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**148,500**	(384,464)
Effect of foreign exchange rate changes, net		**402**	(16,538)
Cash and cash equivalents at beginning of year		**435,881**	836,883
CASH AND CASH EQUIVALENTS AT END OF YEAR	30	**584,783**	435,881

Statement of Financial Position

December 31, 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	19	**755,837**	557,055
Investments in a jointly-controlled operation	20	**2,067**	2,067
Available-for-sale investment	22	**25,307**	–
Prepayment for acquisition of equity interests in other companies	23	**–**	56,115
Other long-term assets	24	**19,944**	–
Total non-current assets		**803,155**	615,237
CURRENT ASSETS			
Prepayments, deposits and other receivables	28	**43,367**	2,531
Due from subsidiaries	34	**708,143**	727,670
Held-to-maturity investment	29	**69,405**	69,396
Cash and cash equivalents	30	**97,437**	47,543
Total current assets		**918,352**	847,140
CURRENT LIABILITIES			
Other payables and accruals	32	**8,153**	1,564
Due to a subsidiary	34	**–**	962
Total current liabilities		**8,153**	2,526
NET CURRENT ASSETS		**910,199**	844,614
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,713,354**	1,459,851
NON-CURRENT LIABILITIES			
Guaranteed bonds	37	**201,194**	–
Long-term payable		**8,537**	–
Total non-current liabilities		**209,731**	–
Net assets		**1,503,623**	1,459,851
EQUITY			
Issued capital	38	**289**	283
Reserves	39(b)	**1,503,334**	1,459,568
Total equity		**1,503,623**	1,459,851

Liao Jie
Director

Jiang Hailin
Director

1. CORPORATE INFORMATION

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

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

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

(b) Specialised Solution 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

(c) Value-Added operation and services — engaging in provision of operation outsourcing and value-added services, via intelligent transport system platforms, servicing transportation operators and participants.

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

2.1 BASIS OF PRESENTATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended December 31, 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, recognised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

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

2.1 BASIS OF PRESENTATION (continued)

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

IAS 12 Amendment	Amendments to IAS 12 *Income taxes*: *Deferred tax — Recovery of Underlying Assets*
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*

Other than as further explained below regarding the impact of Amendments to IAS 12, the adoption of revised IFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these IFRSs are as follows:

(a) IAS 12 Amendment to *Income taxes — Deferred tax: Recovery of Underlying Assets*

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after January 1, 2012.

The Group has investment properties at fair value, under IAS 40, 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.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 1 Amendments	Amendments to IFRS 1 *Government Loans*[2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[2]
IFRS 9	*Financial Instruments*[4]
IFRS 10	*Consolidated Financial Statements*[2]
IFRS 11	*Joint Arrangements*[2]
IFRS 12	*Disclosure of Interests in Other Entities*[2]
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 — *Transition Guidance*[2]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) — *Investment Entities*[3]
IFRS 13	*Fair Value Measurement*[2]
IAS 1 Amendments	Amendments to IFRS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[1]
IAS 19 Amendments	*Employee Benefits*[2]
IAS 27 Revised	*Separate Financial Statements*[2]
IAS 28 Revised	*Investments in Associates and Joint Ventures*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[3]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of IFRSs issued in May 2012

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

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

The IFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognise financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The Group expects to adopt the amendments from January 1, 2013.

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

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

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

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from January 1, 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in IAS 27 and SIC 12 *Consolidation — Special Purpose Entities*. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC 12. Based on the preliminary analysis performed, IFRS 10 is not expected to have any impact on the current held investments of the Group.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. Based on the preliminary analysis performed, IFRS 11 is not expected to have significant impact to the Group.

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

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

In June 2012, the IASB issued amendments to IFRS 10, IFRS 11 and IFRS 12 which clarify the transition guidance in IFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between IFRS 10 and IAS 27 or SIC 12 at the beginning of the annual period in which IFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

The amendments to IFRS 10 issued in October 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 rather than consolidate them. Consequential amendments were made to IFRS 12 and IAS 27. The amendments to IFRS 12 also set out the disclosure requirements for investment entities.

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

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

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

IAS 19 Amendments include a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised amendments introduce significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The amendment has no impact on the Group.

The amendments to IAS 32 clarify the meaning of “currently has a legally enforceable right to setoff” for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in IAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on January 1, 2014.

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

The *Annual Improvements to IFRSs* issued in May 2012 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from January 1, 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the follows:

(a) IAS 1 *Presentation of Financial Statements:* Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) IAS 32 *Financial Instruments: Presentation:* Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

A joint venture is treated as:

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

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

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

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

Jointly-controlled entities

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

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

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in a jointly-controlled entity is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

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

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

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRSs. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

Impairment of non-financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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

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

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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

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

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

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

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

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

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

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

Property and equipment and depreciation

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment and depreciation (continued)

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

Buildings	20 years
Computers and electronic equipment	3 to 5 years
Office equipment	3 to 5 years
Motor vehicles	5 years
Software	5 years
Leasehold improvements	Over the shorter of the expected life of the leasehold improvements and the lease terms

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Investment properties

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

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

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

Intangible assets (other than goodwill)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Technology know-how

Technology know-how arising from business combination is stated at fair value and is amortised on the straight-line basis over its estimated useful life of 5 years.

Customer relationships

Customer relationships arising from business combination are stated at fair value and are amortised on the straight-line basis over their estimated useful lives of 3.3 years and 7 years.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings in property and equipment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Loans and receivables

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

Held-to-maturity investments

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

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement in other income. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement as other income.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and managements intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition of financial assets

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

(a) the rights to receive cash flows from the asset have expired; or

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Derecognition of financial assets (continued)

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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

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

Assets carried at cost

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

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period is which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement — is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Fair value of financial instruments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (a) the amount that would be recognised in accordance with the general guidance for provisions above; and (b) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Income taxes

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

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

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

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

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

Revenue recognition

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction contracts

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

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

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

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

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

Contracts for services

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Share option plan
Holdco and the Company operate share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including Directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 40 to the financial statements.

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

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

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

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

PRC contribution plans

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

Borrowing costs

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

Dividends

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

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

Foreign currencies

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

The functional currencies of certain non-PRC subsidiaries and the jointly-controlled operation are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of foreign operations are translated into the presentation currency of the Company at the rates of exchange prevailing at the end of the reporting period and their income statements are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Operating lease commitments — Group as lessor

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

Classification between investment properties and owner-occupied properties

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

Tax provisions

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

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

Estimation uncertainty

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2012 was RMB406,135,000 (2011: RMB347,321,000). Further details are given in note 17.

Estimation of fair value of investment properties

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

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

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

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

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs. The carrying amount of investment properties at December 31, 2012 was RMB154,000,000 (2011: RMB145,800,000).

Impairment of non-financial assets (other than goodwill)

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of receivables

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

The receivables that were past due but not impaired relate to a number of debtors that have a good track record with the Group. Based on past experience, the Directors are of the opinion that the provision balance for impairment is sufficient in respect of these balances, and the remaining balances are still considered fully recoverable. Impairment loss recognised for receivables for the year ended December 31, 2012 was Nil (2011: RMB4,073,000).

Percentage of completion of construction work

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

Current income tax and deferred income tax

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

Deferred tax assets relating to certain deductible temporary differences and unused tax losses are recognised as management considers it is probable that future taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised. The realisation of the deferred tax assets mainly depends on whether sufficient profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in the income statement for the period in which such a reversal takes place. The carrying value of deferred tax assets at December 31, 2012 was approximately RMB12,202,000 (2011: RMB13,350,000).

4. OPERATING SEGMENT INFORMATION

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

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

(b) SS segment provides 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

(c) VAOS segment involves operation outsourcing and value-added services, via intelligent transport system platforms, servicing transportation operators and participants.

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

Segment assets exclude deferred tax assets, property and equipment, investment properties, investments in jointly-controlled entities/operation and associates, prepayment for acquisition of equity interests in other companies, goodwill, other intangible assets, held-to-maturity investment, available-for-sale investment and other unallocated head office and corporate assets as these assets are managed on a group basis.

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

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

4. OPERATING SEGMENT INFORMATION (continued)

Year ended December 31, 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	953,226	1,136,703	56,071	2,146,000
Intersegment sales	–	45,316	–	45,316
	953,226	1,182,019	56,071	2,191,316
Reconciliation:				
Elimination of intersegment sales				(45,316)
Revenue				2,146,000
Segment results	63,807	126,747	11,121	201,675
Reconciliation:				
Finance income				12,850
Finance costs				(29,427)
Share of profits of jointly-controlled entities/operation				9
Share of profits of associates				9,726
Gain on disposal of a subsidiary				2,462
Exchange loss				(330)
Other income				20,944
Changes in fair value of investment properties				8,200
Corporate and other unallocated expenses				(27,867)
Profit before tax				198,242

4. OPERATING SEGMENT INFORMATION (continued)

December 31, 2012	Turnkey solutions RMB'000	Specialised solutions RMB'000	Value-added operation and services RMB'000	Consolidated RMB'000
Segment assets	830,642	2,632,384	63,217	3,526,243
Reconciliation:				
Elimination of intersegment receivables	(66,223)	(163,059)	–	(229,282)
Corporate and other unallocated assets				1,872,937
Total assets				5,169,898
Segment liabilities	520,698	1,563,043	36,988	2,120,729
Reconciliation:				
Elimination of intersegment payables	(108,836)	(120,446)	–	(229,282)
Corporate and other unallocated liabilities				781,045
Total liabilities				2,672,492

4. OPERATING SEGMENT INFORMATION (continued)

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

4. OPERATING SEGMENT INFORMATION (continued)

December 31, 2011	Turnkey solutions RMB'000	Specialised solutions RMB'000	Value-added operation and services RMB'000	Consolidated RMB'000
Segment assets	1,030,136	2,167,378	205,491	3,403,005
Reconciliation:				
Elimination of intersegment receivables	(334,955)	(266,148)	–	(601,103)
Corporate and other unallocated assets				1,139,837
Total assets				3,941,739
Segment liabilities	701,787	1,095,792	101,727	1,899,306
Reconciliation:				
Elimination of intersegment payables	(250,911)	(350,192)	–	(601,103)
Corporate and other unallocated liabilities				370,836
Total liabilities				1,669,039

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2012 RMB'000	2011 RMB'000
Mainland China	**2,146,000**	1,585,206

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

(b) Non-current assets

	2012 RMB'000	2011 RMB'000
Mainland China	**948,019**	805,897

The non-current asset information above is based on the location of assets and excludes deferred tax assets, available-for-sale investment and other long-term assets.

Information about a major customer

Revenue of approximately RMB100,611,000 for the year ended December 31, 2012 (2011: RMB152,629,000) was derived from a single customer.

5. REVENUE, OTHER INCOME AND GAINS

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

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

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

	2012	2011
	RMB'000	RMB'000
Revenue		
Implementation of projects	**1,926,159**	1,478,679
Sale of products	**219,841**	106,527
	2,146,000	1,585,206
Other income		
Gross rental income	**9,778**	8,591
Government grants*	**8,195**	3,112
Exchange gains	**–**	4,112
Others**	**20,958**	546
	38,931	16,361
Gains		
Changes in fair value of investment properties (note 15)	**8,200**	4,763
Fair value gain on an interest in a jointly-controlled entity	**–**	2,512
	8,200	7,275
	47,131	23,636

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

** Others included RMB20,944,000 compensation income from Beijing Global Holdings Limited, a third party which is a potential strategic investor of a subsidiary of the Company.

6. PROFIT BEFORE TAX

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

	2012 RMB'000	2011 RMB'000
Cost of services rendered for implementation of projects	**1,490,737**	1,118,001
Cost of inventories sold	**138,533**	74,813
	1,629,270	1,192,814
Depreciation (note 14)	**19,790**	9,998
Amortisation of intangible assets* (note 18)	**15,520**	3,108
Minimum lease payments under operating leases	**25,891**	20,243
Auditors' remuneration	**2,902**	3,406
Wages and salaries	**80,036**	59,441
Pension scheme contributions (defined contribution scheme)	**9,012**	8,245
Social insurance costs and staff welfare	**14,547**	13,392
Equity-settled share option expenses (note 40)	**35,542**	6,151
	139,137	87,229
Impairment of other receivables	**–**	3,678
Impairment of trade receivables	**–**	395
Impairment of items of property and equipment	**–**	248
Impairment of goodwill** (note 17)	**–**	427
Interest on bank loans, wholly repayable within one year (note 7)	**23,749**	14,894
Changes in fair value of investment properties (note 15)	**(8,200)**	(4,763)
Net loss on disposal of items of property and equipment	**80**	51
Charitable donation	**820**	121
Finance income	**(12,850)**	(4,037)
Exchange loss/(gain)	**330**	(4,112)

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

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2012 RMB'000	2011 RMB'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	**23,749**	14,894
Interest on guaranteed bonds	**3,494**	–
Total interest expense on financial liabilities not at fair value through profit or loss	**27,243**	14,894
Other finance cost:		
Increase in discounted amounts of long-term payable arising from the passage of time	**2,184**	–
	29,427	14,894

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2012 RMB'000	2011 RMB'000
Fees	**2,435**	30
Other emoluments:		
Salaries, allowances and benefits in kind	**1,905**	1,296
Equity-settled share option expense	**17,218**	1,210
Pension scheme contributions	**129**	111
	19,252	2,617
	21,687	2,647

During the year, no payments were made by the Group to the Directors in respect of inducement to join the Group or compensation for loss of office (2011: Nil).

8. DIRECTORS' REMUNERATION (continued)

In the year of 2008 and 2012, certain Directors were granted share options, in respect of their services to the Group, under the pre-IPO Share Incentive Scheme and the Share Option Scheme, further details of which are set out in note 40 to the financial statements. The fair value of these options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above Directors' remuneration disclosures.

(a) Independent Non-executive Directors

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

	2012 RMB'000	2011 RMB'000
Mr. Zhou Chunsheng	**136**	10
Mr. Choi Onward	**136**	10
Mr. Sun Lu	**136**	10
	408	30

There were no other emoluments payable to the independent non-executive Directors during the year (2011: Nil).

(b) Executive Directors

2012	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Mr. Lv Xilin	–	359	–	1,776	31	2,166
Mr. Jiang Hailin	811	339	–	497	33	1,680
Mr. Liao Jie	–	300	–	10,908	–	11,208
Mr. Wang Jing	–	220	–	893	–	1,113
Mr. Lu Xiao	405	347	–	2,026	32	2,810
Mr. Pan Jianguo	811	340	–	1,118	33	2,302
	2,027	1,905	–	17,218	129	21,279

8. DIRECTORS' REMUNERATION (continued)

(b) Executive Directors (continued)

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

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year ended December 31, 2012.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four Directors (2011: Nil), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2011: five) non-director highest paid employee are as follows:

	2012 RMB'000	2011 RMB'000
Salaries, allowances and benefits in kind	**1,327**	2,911
Equity-settled share option expense	**1,767**	1,026
Pension scheme contributions	**–**	94
	3,094	4,031

9. FIVE HIGHEST PAID EMPLOYEES (continued)

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

	Number of employees	
	2012	2011
Nil to HK$1,000,000 (Nil to RMB810,800)	**–**	4
HK$1,500,001 to HK$2,000,000 (RMB1,216,201 to RMB1,621,000)	**–**	1
HK$3,500,001 to HK$4,000,000 (RMB2,835,001 to RMB3,240,000)	**1**	–
	1	5

In the year of 2008 and 2012, share options were granted to certain non-directors in respect of their services to the Group, further details of the share option plan are set out in note 40. The fair value of these options, which has been recognised in the consolidated income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the year is included in the above non-director highest paid employees' remuneration disclosures.

10. INCOME TAX

The Group was not subject to Hong Kong profits tax for the year ended December 31, 2012 as the Group did not have any taxable profits derived in Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

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

(i) Beijing Newcom Traffic Technology Co., Ltd. was designated and approved as a High and New Technology Enterprises ("HNTE") in December 2010 for a period of three years from January 1, 2010 and was entitled to a preferential tax rate of 15% for the year ended December 31, 2012.

(ii) Jiangsu Yijie Technology Co., Ltd. was designated and approved as a HNTE in August 2011, for a period of three years from January 1, 2011 and was entitled to a preferential tax rate of 15% for the year ended December 31, 2012.

(iii) Beijing Aproud Information Engineering Co., Ltd., Beijing Bailian Zhida Technology Development Co., Ltd., Beijing Zhixun Tiancheng Technology Co., Ltd. and Beijing STONE Intelligent Transportation System Integration Co., Ltd. ("**Beijing STONE**") were designated and approved as HNTE in September 2011 for a period of three years from January 1, 2011 and were entitled to a preferential tax rate of 15% for the year ended December 31, 2012.

10. INCOME TAX (continued)

(iv) Beijing Aproud Technology Co., Ltd., Beijing Hexin Risheng Technology Co., Ltd., Beijing Huading Hengye Technology Co., Ltd. and Beijing RHY Technology Development Co., Ltd. were designated and approved as HNTEs in October 2011 for a period of three years from January 1, 2011 and were entitled to a preferential tax rate of 15% for the year ended December 31, 2012.

(v) Beijing Haotian Jiajie Technology Co., Ltd., Jiangsu Zhongzhi Transportation Technology Co., Ltd. and Jiangsu Zhixun Tiancheng Technology Co., Ltd. were designated and approved as HNTEs in November 2011, for a period of three years from January 1, 2011 and were entitled to a preferential tax rate of 15% for the year ended December 31, 2012.

According to PRC tax regulations, January 1, 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, are subject to withholding tax at the rate of 10% on various types of passive income such as dividends derived from entities in the PRC. Distributions of the pre-2008 earnings are exempted from the above-mentioned withholding tax. In 2012, Beijing RHY Technology Development Co., Ltd, a PRC subsidiary, has distributed earnings to China Toprise Limited which is registered in the British Virgin Islands and RMB14,959,000 of withholding tax has been paid. At December 31, 2012, no deferred tax liabilities have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC (2011: Nil). In the opinion of the Directors, it is not probable that the Group's PRC subsidiaries will distribute profits in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totaled approximately RMB863,570,000 (2011: RMB589,247,000).

The major components of income tax expense are:

	2012 RMB'000	2011 RMB'000
Current income tax:		
Current income tax charge in the PRC	**65,277**	29,150
Deferred income tax:		
Relating to origination and reversal of temporary differences	**(6,364)**	(8,371)
Income tax expense reported in the consolidated income statement	**58,913**	20,779

10. INCOME TAX (continued)

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

Group — 2012	Hong Kong RMB'000	Cayman Islands and British Virgin Islands RMB'000	Mainland China RMB'000	Total RMB'000
Profit/(loss) before tax	(3,741)	(46)	202,029	198,242
Tax at statutory tax rate	–	–	50,903	50,903
Tax holiday or lower tax rates enacted by local authorities	–	–	(19,557)	(19,557)
Expenses not deductible for tax	–	–	6,576	6,576
Income not subject to tax	–	–	(662)	(662)
Adjustments in respect of current income tax of previous period	–	–	387	387
Investment gain from reorganisation*	–	–	6,162	6,162
10% withholding tax on profit distribution from a PRC subsidiary	–	14,959	–	14,959
Profit attributable to jointly-controlled entities/operation and associates	–	–	(1,982)	(1,982)
Tax losses not recognised	–	–	2,127	2,127
Income tax expense reported in the consolidated income statement	–	14,959	43,954	58,913

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

10. INCOME TAX (continued)

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

The share of tax attributable to jointly-controlled entities/operation and associates amounting to RMB1,982,000 (2011: RMB622,000) is included in "Share of profits of jointly-controlled entities/operation" and "Share of profits of associates" in the consolidated income statement.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended December 31, 2012 includes a profit of RMB186,000 (2011: RMB239,000) which has been dealt with in the financial statements of the Company (note 39(b)).

12. DIVIDENDS

The Company did not recommend the payment of a final dividend for 2012.

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of Shares of 1,628,539,233 (2011: 1,582,838,016) during the year.

	2012	2011
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**131,910**	112,919

	Number of shares	
	2012	2011
Shares		
Weighted average number of Shares in issue during the year used in the basic earnings per share calculation	**1,628,539,233**	1,582,838,016
Effect of dilution — weighted average number of Shares:		
Share options	**4,240,980**	–
	1,632,780,213	1,582,838,016

The Group had no potentially dilutive Shares for the year ended December 31, 2011.

14. PROPERTY AND EQUIPMENT

Group

December 31, 2012	Buildings RMB'000	Computers and electronic equipment RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Software RMB'000	Leasehold improvements RMB'000	Total RMB'000
At January 1, 2012							
Cost	3,678	14,859	6,341	22,469	36,323	9,390	93,060
Accumulated depreciation	(390)	(9,368)	(3,541)	(10,682)	(10,263)	(2,325)	(36,569)
Impairment	–	–	(248)	–	–	–	(248)
Net carrying amount	3,288	5,491	2,552	11,787	26,060	7,065	56,243
At January 1, 2012, net of accumulated depreciation and impairment	3,288	5,491	2,552	11,787	26,060	7,065	56,243
Additions	–	1,580	201	3,005	9,449	2,445	16,680
Acquisition of subsidiaries (note 41(b))	–	–	367	3,476	–	–	3,843
Disposals	–	(278)	(321)	(462)	–	–	(1,061)
Depreciation charge for the year	(265)	(2,369)	(1,431)	(4,399)	(7,393)	(3,933)	(19,790)
At December 31, 2012, net of accumulated depreciation and impairment	3,023	4,424	1,368	13,407	28,116	5,577	55,915
At December 31, 2012							
Cost	3,645	15,111	5,300	29,087	45,751	11,061	109,955
Accumulated depreciation	(622)	(10,687)	(3,932)	(15,680)	(17,635)	(5,484)	(54,040)
Impairment	–	–	–	–	–	–	–
Net carrying amount	3,023	4,424	1,368	13,407	28,116	5,577	55,915

14. PROPERTY AND EQUIPMENT (continued)

Group (continued)

December 31, 2011	Buildings RMB'000	Computers and electronic equipment RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Software RMB'000	Leasehold improvements RMB'000	Total RMB'000
At January 1, 2011							
Cost	3,164	8,858	5,893	16,086	–	8,974	42,975
Accumulated depreciation	(300)	(4,871)	(2,857)	(7,382)	–	(491)	(15,901)
Net carrying amount	2,864	3,987	3,036	8,704	–	8,483	27,074
At January 1, 2011, net of accumulated depreciation	2,864	3,987	3,036	8,704	–	8,483	27,074
Additions	514	2,881	54	5,315	579	415	9,758
Acquisition of subsidiaries (note 41(a))	–	1,126	47	617	27,907	–	29, 697
Impairment	–	–	(248)	–	–	–	(248)
Disposals	–	(29)	–	(11)	–	–	(40)
Depreciation charge for the year	(90)	(2,474)	(337)	(2,838)	(2,426)	(1,833)	(9,998)
At December 31, 2011, net of accumulated depreciation and impairment	3,288	5,491	2,552	11,787	26,060	7,065	56,243
At December 31, 2011							
Cost	3,678	14,859	6,341	22,469	36,323	9,390	93,060
Accumulated depreciation	(390)	(9,368)	(3,541)	(10,682)	(10,263)	(2,325)	(36,569)
Impairment	–	–	(248)	–	–	–	(248)
Net carrying amount	3,288	5,491	2,552	11,787	26,060	7,065	56,243

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

	December 31, 2012 RMB'000	December 31, 2011 RMB'000
Lease over 50 years	**3,023**	3,288

15. INVESTMENT PROPERTIES

Group

	2012 RMB'000	2011 RMB'000
Carrying amount at January 1	**145,800**	141,037
Changes in fair value	**8,200**	4,763
Carrying amount at December 31	**154,000**	145,800

The Group's investment properties were revalued by Savills Valuation and Professional Services Limited ("**Savills**") on December 31, 2012, an independent firm of professional valuers, at RMB154.0 million, by reference to the comparable market transactions as available and where appropriate, on the basis of capitalisation on of net rental incomes (2011: RMB145.8 million). The investment properties are leased to certain related parties and third parties under operating leases, further summary details of which are included in note 45 to the financial statements.

The Group's investment properties of RMB154.0 million were pledged to secure bank loans granted to the Group at December 31, 2012 (note 33).

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

16. PREPAID LAND PREMIUM

The movement in prepaid land premium during the year is as follows:

Group

	RMB'000
Carrying amount at January 1, 2012	–
Addition	14,149
Amortisation during the year	–
Carrying amount at December 31, 2012	14,149

The land premium was prepaid for a land use right situated in the PRC and is amortised over the lease period of 47.4 years.

17. GOODWILL

Group

	RMB'000
At January 1, 2011	
Cost and net carrying amount	230,664
Acquisition of subsidiaries (note 41(a))	117,084
Impairment during the year	(427)
At December 31, 2011	347,321
At December 31, 2011	
Cost	347,748
Accumulated impairment	(427)
Net carrying amount	347,321
At January 1, 2012	
Cost and net carrying amount	347,321
Acquisition of subsidiaries (note 41(b))	58,814
Disposal of a subsidiary	–
At December 31, 2012	406,135
At December 31, 2012	
Cost	406,135
Accumulated impairment	–
Net carrying amount	406,135

17. GOODWILL (continued)

Impairment testing of goodwill

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

- Beijing Aproud Technology Co., Ltd. and its subsidiaries (collectively "**Aproud Subgroup**");
- China Traffic Holding Ltd. and its subsidiaries (collectively "**CTH Subgroup**");
- Hugecom Limited and its subsidiaries (collectively "**STONE Subgroup**"); and
- Xinjiang RHY Technology Co., Ltd. ("**Xinjiang RHY**").

The recoverable amount of the Aproud Subgroup, CTH Subgroup, STONE Subgroup and Xinjiang RHY cash-generating units have been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The discount rate applied to the cash flow projections is approximately 20% (2011: approximately 20%). The growth rate used to extrapolate the cash flows of the industrial products unit beyond the five-year period is 5% (2011: 5%).

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

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

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

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

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

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

18. OTHER INTANGIBLE ASSETS

Group

	Technical know-how RMB'000	Customer relationships RMB'000	Contract backlog RMB'000	Total RMB'000
December 31, 2012				
Cost at January 1, 2012 net of accumulated amortisation	**20,568**	**13,305**	**594**	**34,467**
Acquisition of subsidiaries (note 41(b))	**10,000**	**46,299**	**3,471**	**59,770**
Amortisation provided during the year	**(5,709)**	**(7,791)**	**(2,020)**	**(15,520)**
At December 31, 2012	**24,859**	**51,813**	**2,045**	**78,717**
At December 31, 2012				
Cost	**31,875**	**61,099**	**4,272**	**97,246**
Accumulated amortisation	**(7,016)**	**(9,286)**	**(2,227)**	**(18,529)**
Net carrying amount	**24,859**	**51,813**	**2,045**	**78,717**

	Technical know-how RMB'000	Customer relationships RMB'000	Contract backlog RMB'000	Total RMB'000
December 31, 2011				
Cost at January 1, 2011, net of accumulated amortisation	–	–	–	–
Acquisition of subsidiaries (note 41(a))	21,975	14,800	800	37,575
Amortisation provided during the year	(1,407)	(1,495)	(206)	(3,108)
At December 31, 2011	20,568	13,305	594	34,467
At December 31, 2011				
Cost	21,975	14,800	800	37,575
Accumulated amortisation	(1,407)	(1,495)	(206)	(3,108)
Net carrying amount	20,568	13,305	594	34,467

19. INVESTMENTS IN SUBSIDIARIES

	2012 RMB'000	2011 RMB'000
Unlisted shares, at cost	**755,837**	557,055

Particulars of the subsidiaries of the Company are as follows:

Name	Place and date of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
China ITS Urban Traffic Holding Limited	British Virgin Islands May 16, 2011	–	100	–	Investment holding
China ITS VA Holding Limited	British Virgin Islands July 8, 2011	–	100	–	Investment holding
Leria Investments Limited	British Virgin Islands July 15, 2011	–	100	–	Investment holding
China Aviation Communication Technology Company Limited	Hong Kong April 23, 2012	HK$1	–	100	Investment holding
Bestvilla Investments Limited	British Virgin Islands September 6, 2012	–	100	–	Investment holding
Winitop Investments Limited	British Virgin Islands February 18, 2009	–	100	–	Investment holding
Well Score International Limited	Hong Kong March 27, 2009	HK$1	–	100	Investment holding
China Toprise Limited	British Virgin Islands June 16, 2006	US$1,001	–	100	Investment holding
Fairstar Success Holdings Limited	British Virgin Islands June 13, 2006	US$50,001	100	–	Investment holding
China ITS (Holdings) Co., Ltd.	British Virgin Islands January 10, 2011	–	100	–	Investment holding
Beijing RHY Technology Development Co., Ltd. ("**RHY Technology**")	PRC February 16, 2001	RMB500 million	–	100	ITS, TS and VAOS

19. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place and date of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity interests attributable to the Company Direct/Indirect		Principal activities
Beijing Aproud Technology Co., Ltd. ("**Aproud Technology**")	PRC February 15, 2001	RMB280 million	–	100	Communications and surveillance specialised solutions and value-added operation and services
Beijing Hexin Risheng Technology Co., Ltd.	PRC December 26, 2003	RMB30 million	–	100	Communications and surveillance specialised solutions
Beijing Aproud Information Engineering Co., Ltd.	PRC September 3, 2004	RMB15 million	–	100	Value-added operation and services and specialised solutions
Beijing Bailian Zhida Technology Development Co., Ltd.	PRC April 18, 2007	RMB5.5 million	–	100	Surveillance specialised solutions
Beijing Haotian Jiajie Technology Co., Ltd. ("**Haotian Jiajie**")	PRC March 30, 2007	RMB125 million	–	100	Communications specialised solutions and value-added operation and services
Beijing Zhixun Tiancheng Technology Co., Ltd.	PRC June 25, 2007	RMB50 million	–	100	Communications specialised solutions
Beijing Huading Hengye Technology Co., Ltd.	PRC July 11, 2007	RMB5 million	–	100	Development of Intelligent transportation system related software
Jiangsu Zhixun Tiancheng Technology Co., Ltd.	PRC November 19, 2009	RMB10 million	–	100	Communications specialised solutions
Elegant Cape Limited	British Virgin Islands January 11, 2011	–	100	–	Investment holding
China Traffic Holdings Ltd.	Cayman Islands November 20, 2007	–	–	100	Investment holding
Beijing Newcom Traffic Technology Co., Ltd.	PRC June 14, 2002	RMB30 million	–	100	Intelligent communications service
Beijing Newcom Technology Co., Ltd. ("**Beijing Newcom**") (Note)	PRC December 9, 1999	RMB30 million	–	100	Intelligent communications service

19. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place and date of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity interests attributable to the Company Direct/Indirect		Principal activities
Beijing Wuzhouzhitong Traffic Technology Co., Ltd. ("**Beijing Wuzhouzhitong**") (Note)	PRC August 28, 2008	US$4.5 million	–	100	Computer system and software service
Guangzhou Taizheng Technology Co., Ltd.	PRC May 30, 2003	RMB6 million	–	100	Computer system and software service
Tianjin Communication Information Co., Ltd.	PRC February 2, 2010	RMB5 million	–	100	Communications system and computer related service
Jiangsu Zhongzhi Transportation Technology Co., Ltd.	PRC December 15, 2011	US$30 million	–	100	ITS service
Beijing Xiyou Communication Technology Co., Ltd.	PRC July 20, 2011	RMB15 million	–	100	Computer system and software service
Xi'an Youke Information Technology Co., Ltd.	PRC November 14, 2011	RMB2 million	–	100	Communications system service
Guangdong Yabang Xincheng Communication Technology Co., Ltd.	PRC September 19, 2011	RMB2 million	–	70	Communications system service
Xinjiang RHY Technology Co., Ltd. ("**Xinjiang RHY**")	PRC October 24, 2005	RMB10 million	–	80	Computer system service
Beijing Jingwei Zhitong Technology Co., Ltd.	PRC March 16, 2011	RMB20 million	–	90.28	Computer communication and software service
Beijing STONE intelligent Transportation System Integration Co., Ltd.	PRC February 10, 1999	RMB50 million	–	75	Computer communication and software service
Beijing Lihe Datong Technology Co., Ltd.*	PRC April 20, 2011	RMB20 million	–	100	Computer communication and software service
Hugecom Limited*	British Virgin Islands January 11, 2011	–	–	100	Computer communication and software service

19. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place and date of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity interests attributable to the Company Direct/Indirect		Principal activities
Jiangsu Zhongzhi Jiaye Electronic Technology Co., Ltd.	PRC April 20, 2012	RMB160 million	–	100	Computer communication and software service
Southwest Intelligent Transportation Co., Ltd.	PRC November 6, 2012	RMB50 million	–	100	ITS, TS and VAOS
Jiangsu Yijie Technology Co., Ltd.	PRC March 16, 2010	RMB10 million	–	100	ITS service
Intelligent Transportation Co., Ltd.	PRC July 13, 2012	US$30 million	–	100	ITS, TS and VAOS
Intelligent Aviation System Co., Ltd.	PRC November 23, 2012	RMB50 million	–	100	Civil aviation technology and surveillance SS and VAOS

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

* Those entities are companies comprising STONE Subgroup.

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

Beijing Newcom, Aproud Technology and Haotian Jiajie are registered as Sino-foreign equity joint ventures, Beijing Wuzhouzhitong, Jiangsu Zhongzhi Transportation Technology Co., Ltd. and Beijing Lihe Datong Technology Co., Ltd. are wholly-foreign-owned enterprises under PRC law. The other subsidiaries registered in the PRC are domestic companies with limited liability under PRC law. As at December 31, 2012, the capital of Intelligent Transportation Co., Ltd. and Intelligent Aviation System Co., Ltd. were not injected yet and the registered capital of the Group's other PRC subsidiaries has been fully paid as at December 31, 2012.

During the year, the Group acquired STONE Subgroup. Further details of this acquisition are included in note 41(b) to the financial statement.

20. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES/OPERATION

Group

	2012 **RMB'000**	2011 RMB'000
Share of net assets	**33,350**	31,611

The Group's trade receivables due from the jointly-controlled entities are disclosed in note 48 to the financial statements.

Company

	2012 **RMB'000**	2011 RMB'000
Share of net assets	**2,067**	2,067

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

Name	**Place of registration/ incorporation**	**Percentage of** Ownership interest	Voting power	Profit sharing	**Principal activities**
Wuhan Chenguang Transportation Technology Development Co., Ltd. ("**Wuhan Chenguang**") (note i)	PRC	51%	60%	51%	Intelligent traffic system specialised solutions
Chengdu Zhida Weilute Technology Co., Ltd. ("**Chengdu Zhida Weilute**") (note ii)	PRC	51%	60%	51%	Intelligent traffic system specialised solutions
Shandong Yigou Software Technology Co., Ltd. ("**Shandong Yigou**") (note iii)	PRC	52.8%	60%	52.8%	Intelligent traffic system specialised solutions
GTECH-CIC Joint Venture ("**GTECH-CIC**") (note iv)	Hong Kong	60%	60%	60%	Intelligent traffic system specialised solutions

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

Notes:

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

(ii) The board of directors of Chengdu Weilute has five persons and the Group has three representatives. In accordance with the articles of association of Chengdu Weilute, the board of directors' meeting requires at least four-fifth of votes of directors for approval. Based on the above, in the opinion of the directors, the Group is unable to exercise unilateral control over the financial and operating policies of Chengdu Weilute and accordingly, Chengdu Weilute is accounted for as a jointly-controlled entity of the Group.

(iii) In 2012, the Group entered into an equity transfer agreement with 北京百聯大和工程技術有限公司, a joint venture partner of Shandong Yigou, to acquire another 10% share in Shandong Yigou and therefore, the ownership interest owned by the Group increased to 52.8%. The equity holders' meeting of Shandong Yigou requires 100% of votes for approval of essential decisions and four-fifths of votes for all other matters. The board of directors of Shandong Yigou has five persons and the Group has three representatives. In accordance with the articles of association of Shandong Yigou, the board of directors' meeting requires four-fifths of votes of directors for approval. Based on the above, in the opinion of the Directors, the Group is unable to exercise unilateral control over the financial and operating policies of Shandong Yigou and accordingly, Shandong Yigou is accounted for as a jointly-controlled entity of the Group.

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

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

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

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

Share of the jointly-controlled entities'/operation's assets and liabilities	2012 RMB'000	2011 RMB'000
Current assets	**89,477**	48,587
Non-current assets	**9,376**	7,325
Current liabilities	**(65,414)**	(24,301)
Non-current liabilities	**(89)**	–
Net assets	**33,350**	31,611

Share of the jointly-controlled entities'/operation's results	2012 RMB'000	2011 RMB'000
Income	**27,588**	32,188
Costs and expenses	**(27,942)**	(24,303)
Income tax	**363**	(1,938)
Profit after tax	**9**	5,947

21. INVESTMENTS IN ASSOCIATES

Group

	2012 RMB'000	2011 RMB'000
Share of net assets	**94,043**	84,740

The Group's receivables due from associates are disclosed in note 48 to the financial statements.

21. INVESTMENTS IN ASSOCIATES (continued)

Particulars of the associates are as follows:

Name	Place of registration	Particulars of paid-up capital held	Percentage of ownership interest	Principal activities
Guangzhou Communication Information Co., Ltd. ("**Guangzhou Communication**")	PRC	RMB50 million	45%	ITS
Xi'an Communication Information Co., Ltd. ("**Xi'an Communication**")	PRC	RMB20 million	50%	ITS
Nanjing Communication Information Co., Ltd. ("**Nanjing Communication**")	PRC	RMB10 million	50%	ITS
Beijing Zhineng Shixun Information Technology Co., Ltd.*	PRC	RMB3 million	24.98%	ITS, TS and VAOS
武漢光谷智能交通科技有限公司 ("**Wuhan Communication**") **	PRC	RMB30 million	25%	ITS

* Beijing Zhineng Shixun Information Technology Co., Ltd. is an associate of Beijing STONE and is acquired through the acquisition STONE Subgroup.

** Wuhan Communication is a newly established company in July 2012 with ITS, TS as principal activities. The Group held a 25% equity interest in Wuhan Communication.

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

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

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

	2012 **RMB'000**	2011 RMB'000
Current assets	**32,380**	73,017
Non-current assets	**136,720**	177,413
Current liabilities	**(45,724)**	(123,888)
Non-current liabilities	**(17,242)**	(15,894)
Net assets	**106,134**	110,648

21. INVESTMENTS IN ASSOCIATES (continued)

	2012 **RMB'000**	2011 RMB'000
Income	**59,143**	70,085
Costs and expenses	**(48,571)**	(58,182)
Income tax	**(1,469)**	(204)
Profit after tax	**9,103**	11,699

22. AVAILABLE-FOR-SALE INVESTMENT

Group and Company

	2012 **RMB'000**	2011 RMB'000
Unlisted equity investment, at cost	**25,307**	–

On August 22, 2011, the Group, together with other parties entered into the sale and purchase agreement in relation to the acquisition of eSoon Holdings Corp. ("**eSoon**"), one of the leading intelligent call center solutions and services providers with emphasis on the financial institutions industry in Greater China. Upon the close of the deal dated on November 30, 2012, RMB25,307,000 was made by the Company to the existing shareholders of eSoon and the Company owned a 12.38% indirect equity interest in eSoon.

23. PREPAYMENT FOR ACQUISITION OF EQUITY INTERESTS IN OTHER COMPANIES

Group

	2012 RMB'000	2011 RMB'000
Prepayment for acquisition of equity interests in other companies	**111,710**	105,715

Company

	2012 RMB'000	2011 RMB'000
Prepayment for acquisition of equity interests in other companies	**–**	56,115

During the year, the Group acquired STONE Subgroup (note 41(b)) and the consideration was partly settled by prepayment amounting to RMB69,492,000. In addition, the Group acquired 12.38% indirect equity interest in eSoon (note 22) and the consideration was settled by prepayment amounting to RMB25,307,000, and the remaining prepayment for acquisition of eSoon brought forward from 2011 amounting to RMB10,916,000 was transferred to other receivables since the actual acquired equity interest in eSoon was lower than the originally planned percentage.

In 2012, the Group entered into an agreement in relation to an acquisition of the equity interest in a company which is specialised in the provision of technology services in the civil aviation industry. By December 31, 2012, RMB111,710,000 prepayment for acquisition was made by the Group.

24. OTHER LONG-TERM ASSETS

The balance of other long-term assets as at December 31, 2012 represented a borrowing to a third party, which is due in December 2015, with annual interest rate of 10%.

25. INVENTORIES

Group

	2012 RMB'000	2011 RMB'000
Raw materials	**1,643**	2,436
Work in progress	**716**	283
Finished goods	**35,494**	28,543
	37,853	31,262

26. CONSTRUCTION CONTRACTS

Group

	2012 RMB'000	2011 RMB'000
Gross amount due from contract customers	**1,255,393**	785,172
Gross amount due to contract customers	**(679,378)**	(458,709)
	576,015	326,463
Contract costs incurred plus recognised profits less recognised losses to date	**4,725,123**	4,234,784
Less: Progress billings	**(4,149,108)**	(3,908,321)
	576,015	326,463

27. TRADE AND BILLS RECEIVABLES

Group

	2012 RMB'000	2011 RMB'000
Trade receivables	**869,933**	736,655
Impairment	**(1,690)**	(1,829)
	868,243	734,826
Bills receivables	**35,551**	34,360
	903,794	769,186

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

27. TRADE AND BILLS RECEIVABLES (continued)

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

	2012 RMB'000	2011 RMB'000
At January 1	**1,829**	1,434
Impairment loss recognised	**–**	395
Written off	**(139)**	–
At December 31	**1,690**	1,829

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

	2012 RMB'000	2011 RMB'000
Less than 6 months	**415,459**	440,299
6 months to 1 year	**159,230**	125,714
1 year to 2 years	**251,745**	159,750
2 years to 3 years	**56,389**	39,141
Over 3 years	**20,971**	4,282
	903,794	769,186

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

	2012 RMB'000	2011 RMB'000
Neither past due nor impaired	**422,551**	299,004
Past due but not impaired:		
Less than 6 months past due	**110,063**	188,054
6 months to 1 year past due	**136,717**	87,740
1 year to 2 years past due	**175,756**	156,511
2 years to 3 years past due	**44,723**	35,407
Over 3 years past due	**13,984**	2,470
	903,794	769,186

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

27. TRADE AND BILLS RECEIVABLES (continued)

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as they are still considered fully recoverable.

The Group has pledged proceeds to be received from settlement of trade receivables of approximately RMB9.9 million (2011: RMB14.0 million) from the sales contract with 北京國鐵華晨通信信息技術有限公司 for a banking facility granted to the Group.

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	Note	**2012** **RMB'000**	2011 RMB'000
Prepayments to suppliers for purchases of goods		**760,255**	691,317
Loans to other companies	(a)	**121,742**	41,141
Tender deposits		**83,498**	25,278
Contract deposits		**87,588**	89,833
Advances to staff		**23,798**	19,233
Interest receivable		**10,743**	–
Others		**60,482**	6,282
		1,148,106	873,084
Impairment		**(1,716)**	(3,678)
		1,146,390	869,406

(a) The balance represents unsecured loans to other third party companies which were due within one year. Among which a balance of RMB117,084,000 was interest-free, a balance of RMB3,000,000 bore 115% of the 1-year benchmark interest rate announced by the People's Bank of China, and a balance of RMB1,658,000 bore an interest rate of 8% per annum.

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

The movements in the impairment of other receivables are as follows:

	2012 RMB'000
At January 1	**3,678**
Impairment written-off	**(1,962)**
Impairment loss recognised	**–**
At December 31	**1,716**

Included in the above provision for impairment of other receivables is a provision for individually impaired other receivables of RMB1,716,000 (2011: RMB3,678,000) with a carrying amount before provision of RMB1,716,000 (2011: RMB4,547,000).

Company

	2012 RMB'000	2011 RMB'000
Interest receivable	**10,743**	–
Compensation income receivable	**20,944**	–
Others	**11,680**	2,531
	43,367	2,531

29. HELD-TO-MATURITY INVESTMENT

The Company subscribed for a bond with a principal amount of US10.0 million in December 2011 issued by Trooper Group Limited, a company incorporated with limited liability in the British Virgin Islands. The bond was issued on December 13, 2011 and bears interest at 15% per annum, payable monthly in arrears commencing in January 2012. The bond will mature in December 2013 according to the renewal agreement and is secured by a parcel of land located in Qingdao, China.

30. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

Group

	2012 RMB'000	2011 RMB'000
Cash and bank balances	**584,783**	435,881
Pledged deposits	**80,636**	79,841
	665,419	515,722
Less: Pledged deposits for		
— Project bonds	**(54,815)**	(69,352)
— Bills payables	**(25,821)**	(10,489)
	(80,636)	(79,841)
Cash and bank balances	**584,783**	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 bank balances and pledged deposits of the Group denominated in RMB totaled RMB631.4 million (RMB559.2 million is located in Mainland China and RMB72.2 million is located in overseas) as at December 31, 2012 (2011: RMB463.9 million in total). In Mainland China, the RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Company

	2012 RMB'000	2011 RMB'000
Cash and bank balances	**97,437**	47,543

31. TRADE AND BILLS PAYABLES

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

Group

	2012 RMB'000	2011 RMB'000
Current or less than 1 year past due	**836,418**	620,096
1 to 2 years past due	**87,248**	24,488
Over 2 years past due	**–**	28,068
	923,666	672,652

The Group's bills payables were secured by pledged deposits of the Group of RMB25.8 million as at December 31, 2012 (2011: RMB10.5 million).

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

32. OTHER PAYABLES AND ACCRUALS

Group

	2012 RMB'000	2011 RMB'000
Advances from customers	**33,568**	25,692
Business advance deposits	**52,474**	42,806
Staff costs and welfare accruals	**19,984**	23,480
Other taxes payable	**180,548**	61,514
Interest payables	**3,494**	–
Payables related to the acquisition of STONE Subgroup	**1,600**	–
Research and development funds	**15,494**	–
Others	**20,396**	17,065
	327,558	170,557

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

Company

	2012 RMB'000	2011 RMB'000
Others	**8,153**	1,564

33. INTEREST-BEARING BANK BORROWINGS

Group

	Contractual interest rate %	2012 RMB'000	2011 RMB'000
Current			
Bank loans — secured and repayable within one year	6.16–7.92	**224,140**	110,390
Bank loans — guaranteed and repayable within one year	6.14–7.80	**158,974**	190,000
Bank loans — unsecured and repayable within one year	8.20	**20,000**	–
Bills receivables discounted	–	**28,463**	–
		431,577	300,390

(i) Bank loans of RMB219.6 million as at December 31, 2012 (2011: RMB88.0 million) were secured by investment properties of RMB154.0 million (2011: RMB84.4 million) (note 15).

(ii) Bank loans of RMB4.5 million as at December 31, 2012 (2011: RMB8 million) were secured by trade receivables of RMB9.9 million (2011: RMB14.0 million) of the sales contract with 北京國鐵華晨通信信息技術有限公司 (note 27).

(iii) Bank loans of RMB72.9 million as at December 31, 2012 were guaranteed by Aproud Technology and RHY Technology, subsidiaries of the Company (2011: RMB160.0 million).

(iv) Bank loans of RMB20.0 million as at December 31, 2012 were guaranteed by Mr. Guan Jizhen, who is a non-controlling shareholder of Beijing STONE (2011: Nil).

(v) Bank loans of RMB20.0 million as at December 31, 2012 were guaranteed by 中國投資擔保有限公司 (2011: Nil).

(vi) Bank loans of RMB46.1 million as at December 31, 2012 were guaranteed by the Company (2011: RMB30.0 million).

As at December 31, 2012, the Group had unutilised available bank borrowing facilities amounting to RMB222.3 million (2011: RMB184.0 million).

The Group's bank loans are all denominated in RMB. Bank loans of RMB101.0 million bore fixed interest rates. Bank loans of RMB302.1 million bore floating interest rates based on the benchmark interest rates announced by the People's Bank of China. The carrying amounts of the Group's current borrowings approximate to their fair values.

34. AMOUNTS DUE FROM/DUE TO SUBSIDIARIES

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

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

35. DEFERRED INCOME

Deferred income represents government grant received.

36. DEFERRED TAX

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

Group

Deferred tax assets

	Impairment of trade receivables RMB'000	Accrued expenses RMB'000	Intangible assets RMB'000	Total RMB'000
2012				
At January 1, 2012	**6,577**	**5,769**	**1,004**	**13,350**
Deferred tax credit/(charged) to the income statement during the year	**503**	**(1,461)**	**(190)**	**(1,148)**
At December 31, 2012	**7,080**	**4,308**	**814**	**12,202**
2011				
At January 1, 2011	359	4,991	–	5,350
Arising from acquisition of subsidiaries (note 41(a))	6,323	2,258	922	9,503
Deferred tax credit/(charged) to the income statement during the year	(105)	(1,480)	82	(1,503)
At December 31, 2011	6,577	5,769	1,004	13,350

36. DEFERRED TAX (continued)

Deferred tax liabilities

	Note	Fair value adjustment on investment properties RMB'000	Fair value adjustment of intangible assets RMB'000	Recognition of revenue on construction contracts* RMB'000	Total RMB'000
2012					
At January 1, 2012		**8,000**	**9,080**	**18,809**	**35,889**
Arising from acquisition of subsidiaries	41(b)	**–**	**14,942**	**–**	**14,942**
Deferred tax charged/(credited) to the income statement during the year		**1,230**	**(3,967)**	**(4,775)**	**(7,512)**
At December 31, 2012		**9,230**	**20,055**	**14,034**	**43,319**
2011					
At January 1, 2011		7,286	–	28,995	36,281
Arising from acquisition of subsidiaries	41(a)	—	9,482	–	9,482
Deferred tax charged/(credited) to the income statement during the year		714	(402)	(10,186)	(9,874)
At December 31, 2011		8,000	9,080	18,809	35,889

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

The Group has tax losses of RMB11,672,000 arising in Mainland China (2011: Nil) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries and it is not considered probable that taxable profits will available against which the tax losses can be utilised.

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

37. GUARANTEED BONDS

In November 2012, the Company issued RMB210.0 million guaranteed bonds with an interest rate per annum of 10%, due 2015. The net proceeds of the bonds were RMB201.2 million after deduction of commission and expenses.

38. SHARE CAPITAL

Shares

	2012 RMB'000	2011 RMB'000
Authorised:		
1,900,000,000 Shares of HK$0.0002 each	**335**	335
Issued and fully paid:		
1,645,608,261 (2011: 1,612,817,760) Shares of HK$0.0002 each	**289**	283

During the year, the movements in share capital were as follows:

		Number of Shares in issue '000	**Issued Share capital** RMB'000	**Share premium** RMB'000	**Total** RMB'000
At January 1, 2011		1,569,047	276	988,376	988,652
Issue of Shares	(a)	43,770	7	53,157	53,164
At December 31, 2011 and January 1, 2012		1,612,817	283	1,041,533	1,041,816
Issue of Shares	(b)	**32,791**	**6**	**29,006**	**29,012**
At December 31, 2012		**1,645,608**	**289**	**1,070,539**	**1,070,828**

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

(b) On June 29, 2012, China ITS Urban Traffic Holding Co., Ltd, being a wholly-owned subsidiary of the Company, acquired from United Fortune Overseas Limited its share holding in STONE Subgroup at a total consideration consisting of RMB129,347,000 in cash and 32,790,501 STONE Consideration Shares. The STONE Consideration Shares were issued on July 10, 2012 and RMB6,000 and RMB29,006,000 were credited to share capital and share premium, respectively, based on the market price of HK$1.19.

39. RESERVES

(a) Group

The amounts of the Group's statutory reserve and capital reserve and movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 70 of the financial statements.

Statutory reserve

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

Capital reserve

The capital reserve of the Group consisted of (i) reserves arising from the reorganisation before IPO; (ii) reserves arising from the share option granted by Holdco. and the Company to the employees of the Group as set out in note 40; and (iii) capitalised retained earnings to the capital of certain subsidiaries.

39. RESERVES (continued)

(b) Company

	Note	Share premium RMB'000	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At January 1, 2011		988,376	586,802	(39,392)	(62,378)	1,473,408
Profit for the year		–	–	–	239	239
Exchange difference on translation		–	–	(67,236)	–	(67,236)
Total comprehensive income/(loss) for the year		–	–	(67,236)	239	(66,997)
Issues of Shares	38	53,157	–	–	–	53,157
At December 31, 2011 and January 1, 2012		1,041,533	586,802	(106,628)	(62,139)	1,459,568
Profit for the year		–	–	–	186	186
Exchange difference on translation		–	–	240	–	240
Total comprehensive income for the year		–	–	240	186	426
Share-based payment transactions		–	14,334	–	–	14,334
Issues of Shares	38	29,006	–	–	–	29,006
At December 31, 2012		**1,070,539**	**601,136**	**(106,388)**	**(61,953)**	**1,503,334**

40. SHARE OPTION SCHEME

Pre-IPO Share Incentive Scheme

On December 28, 2008, Holdco and the Company adopted the Pre-IPO Share Incentive Scheme, pursuant to which, Holdco granted 116,653,105 options to the eligible employees of the Group and Directors, of which 58,170,393 share options were vested on the grant date and the remaining 58,482,712 share options would be vested over six equal semi-annual instalments starting from the second anniversary of the grant date provided that these employees remain in service at the respective vesting dates. The expiration dates for the share options are five years after their respective vesting dates. Exercise prices are RMB0.60 per share for the first batch, RMB2.00 for the second and third batches, RMB3.00 for the fourth and fifth batches and RMB4.00 for the last two batches. There are no cash settlement alternatives.

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

	2012		2011	
	Weighted average exercise price RMB per share	**Number of options '000**	Weighted average exercise price RMB per share	Number of options '000
At January 1	**1.82**	**97,606**	1.80	116,653
Exercised during the year	**1.89**	**(10,578)**	0.93	(13,118)
Cancelled during the year	**–**	**–**	3.50	(5,929)
At December 31	**1.80**	**87,028**	1.82	97,606

40. SHARE OPTION SCHEME (continued)

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

2012

Batches	Numbers of options '000	Exercise price RMB	Exercise period
Batch 1	44,211	0.60	December 31, 2008 to December 30, 2013
Batch 2	4,319	2.00	December 31, 2010 to December 30, 2015
Batch 3	9,747	2.00	June 30, 2011 to June 29, 2016
Batch 4	3,746	3.00	December 31, 2011 to December 30, 2016
Batch 5	8,475	3.00	June 30, 2012 to June 29, 2016
Batch 6	8,055	4.00	December 31, 2012 to December 30, 2017
Batch 7	8,475	4.00	June 30, 2013 to June 29, 2018
	87,028		

The weighted average share price at the date of exercise for share options exercised during the year was RMB1.89 per share (2011: RMB0.93 per share).

Share Option Scheme

On January 18, 2012, the Board resolved to grant share options under the Share Option Scheme to 191 grantees, which includes Directors, independent non-executive directors and certain employees of the Group to subscribe for an aggregate of 155,000,000 Shares. The total 155,000,000 share options would be vested over twelve quarterly instalments starting from three months past from the grant date provided these grantees remain in service at the respective vesting dates. Exercise prices are HK$1.05 per share. There are no cash settlement alternatives.

40. SHARE OPTION SCHEME (continued)

Post-IPO Scheme

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

	2012 Weighted average exercise price HK$ per share	2012 Number of options '000
At January 1	–	–
Granted during the year	1.05	155,000
Exercised during the year	–	–
At December 31	1.05	155,000

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

2012

Batches	Numbers of options '000	Exercise price HK$	Exercise period*
Batch 1	8,193	1.05	April 19, 2012 to January 18, 2022
Batch 2	8,193	1.05	July 19, 2012 to January 18, 2022
Batch 3	8,193	1.05	October 19, 2012 to January 18, 2022
Batch 4	8,193	1.05	January 19, 2013 to January 18, 2022
Batch 5	12,912	1.05	April 19, 2013 to January 18, 2022
Batch 6	12,912	1.05	July 19, 2013 to January 18, 2022
Batch 7	12,912	1.05	October 19, 2013 to January 18, 2022
Batch 8	12,912	1.05	January 19, 2014 to January 18, 2022
Batch 9	17,630	1.05	April 19, 2014 to January 18, 2022
Batch 10	17,630	1.05	July 19, 2014 to January 18, 2022
Batch 11	17,630	1.05	October 19, 2014 to January 18, 2022
Batch 12	17,690	1.05	January 19, 2015 to January 18, 2022
	155,000		

* Expiry date of these share options shall be the earlier of: (a) the date on which the share option lapses in accordance with the Share Option Scheme or (b) the date falling ten years from the date of acceptance by the grantee.

40. SHARE OPTION SCHEME (continued)

Post-IPO Scheme (continued)

The share option expense recognised during the year is as follows:

	2012 RMB'000	2011 RMB'000
Share-based payment expense	**35,542**	6,151

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms upon which the options were granted. The following table lists the inputs to the model used:

Strike price	HK$0.105
Expected file of options (year)	10 years
Risk free interest rate (%)	1.45%
Volatility (%)	44.00%
Dividend yield (%)	0.00%
Exercise multiple	2.00
Number of steps	200

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

As at December 31, 2012 and the date of approval of these financial statements, the Company had 155,000,000 share options outstanding under the scheme, which represented approximately 9.42% of Shares in issue at that date (2011: Nil).

41. BUSINESS COMBINATIONS

(a) Acquisition of Xinjiang RHY, Xinjiang Delida and CTH Subgroup in 2011

In January 2011, the Group acquired additional 29% equity interest of Xinjiang RHY, which specialises in providing communications and surveillance specialised solutions and value-added operation and services. Before the acquisition, Xinjiang RHY was a jointly-controlled entity of the Group. Upon completion of the acquisition, Xinjiang RHY became a subsidiary and is owned as to 80% by the Group. The purchase consideration for the acquisition was in the form of cash of RMB3,680,000 and was paid on the acquisition date.

In April 2011, the Group acquired a 57% equity interest in Xinjiang Delida Information Technology Co., Ltd. ("Xinjiang Delida"), which specialises in logistics information solutions. The purchase consideration for the acquisition was in the form of cash, with RMB2,689,000 paid in April 2011.

41. BUSINESS COMBINATIONS (continued)

(a) Acquisition of Xinjiang RHY, Xinjiang Delida and CTH Subgroup in 2011 (continued)

In September, 2011, the Group acquired a 100% interest of CTH Subgroup which specialises in the same business as the Group's. The acquisition was made as part of the Group's strategy to expand its market share in Mainland China. The acquisition was in the form of cash and the Shares. Cash of US$29,822,000 was paid in June 2011 and the Shares was issued to the original shareholders of CTH Subgroup on September 6, 2011.

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

	Notes	**Fair value recognised 2011 on acquisition** RMB'000
Property and equipment	14	29,697
Intangible assets	18	37,575
Investments in associates		79,382
Deferred tax assets	36	9,503
Long-term prepayment		1,155
Inventories		10,132
Trade receivables		101,302
Prepayments, deposits and other receivables		31,702
Cash and bank balances		21,703
Trade payables		(60,777)
Other payables and accruals		(101,203)
Construction contracts		(5,764)
Deferred income		(4,243)
Deferred tax liabilities	36	(9,482)
Non-controlling interests		(2,738)
Total identifiable net assets at fair value		137,944
Goodwill arising on acquisition	17	117,084
		255,028
Satisfied by:		
Prepayments		3,680
Cash		193,391
Interest in a jointly-controlled entity		4,801
Shares issued		53,156
		255,028

41. BUSINESS COMBINATIONS (continued)

(a) Acquisition of Xinjiang RHY, Xinjiang Delida and CTH Subgroup in 2011 (continued)

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

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

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

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

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

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

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

(b) Acquisition of Stone Subgroup in 2012

On June 29, 2012, the Group acquired a 100% equity interest in Hugecom Limited and its subsidiaries (collectively "STONE Subgroup"), including a 65% effective equity interest in Beijing STONE from United Fortune Overseas Limited and a 10% equity interest in Beijing STONE from Beijing MTY Information Technology Co., Ltd., for a total consideration of RMB129,347,000.

Beijing STONE, the main operating company of STONE Subgroup, is an urban traffic specialised and turnkey solutions provider.

41. BUSINESS COMBINATIONS (continued)

(b) Acquisition of Stone Subgroup in 2012 (continued)

The amount of fair value of the identifiable assets and liabilities of STONE Subgroup as at the date of acquisition is set out below:

	Notes	Fair value 2012 RMB'000
Property and equipment	14	3,843
Intangible assets	18	59,770
Inventories		3,441
Construction contracts		49,907
Trade receivables		49,570
Prepayments, deposits and other receivables		44,466
Deferred cost		5,628
Cash and bank balances		22,519
Trade payables		(19,347)
Other payables and accruals		(55,169)
Interest-bearing loan — current		(62,600)
Deferred tax liabilities	36	(14,942)
Non-controlling interests		(19,998)
Total identifiable net assets at fair value		67,088
Goodwill arising on acquisition	17	58,814
Call option arising on acquisition*		3,445
		129,347
Satisfied by prepayment	23	69,492
Satisfied by cash		22,890
Cash consideration recorded in liability		7,953
Shares issued	38	29,012
		129,347

* Pursuant to the Share Purchase Agreement, the Group has the right to acquire 25% non-controlling interest of Beijing STONE before December 31, 2013.

The fair values of the trade receivables and prepayments, deposits and other receivables as at the date of acquisition amounted to RMB49,570,000 and RMB44,466,000, respectively. The gross contractual amounts of trade receivables and prepayments, deposits and other receivables were RMB49,570,000 and RMB44,466,000, respectively.

41. BUSINESS COMBINATIONS (continued)

(b) Acquisition of Stone Subgroup in 2012 (continued)

The fair value of the intangible assets which represented the technical know-how, customer relationships and contract backlog amounted to RMB59,770,000.

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

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

	2012 RMB'000
Cash consideration	(22,890)
Cash and bank balances acquired	22,519
	(371)
Transaction costs of the acquisition included in cash flows from operating activities	(88)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(459)

Since the acquisition, the acquired subsidiaries have contributed RMB184,782,000 to the Group's turnover and RMB15,300,000 to the consolidated profit for the year ended December 31, 2012.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB2,252,637,000 and RMB143,237,000, respectively.

42. DISPOSAL OF A SUBSIDIARY

	2012 RMB'000
Net assets of disposed of:	
Cash and bank balances	11
Trade receivables	461
Inventories	23
Other payables and accruals	(673)
Trade payables	(7)
Non-controlling interests	412
Total identifiable net assets at fair value	227
Gain on disposal of a subsidiary	2,462
Satisfied by cash	2,689

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2012 RMB'000
Cash consideration	2,689
Cash and bank balances disposed of	(11)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	2,678

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) On June 29, 2012, the Group acquired STONE Subgroup, in addition to the cash consideration, the consideration was partly settled by the Shares and partly settled by prepayment for acquisition of equity interest in other companies amounting to RMB69,492,000, which did not result in any cash flow.

(b) On August 22, 2012, the Group purchased 12.38% indirect equity interest in eSoon and the consideration was settled by prepayment for acquisition of equity interest in other companies amounting to RMB25,307,000, which did not result in any cash flow.

44. PLEDGE OF ASSETS

Details of the Group's bank borrowings, which are secured by the assets of the Group, are included in note 33, to the financial statements.

45. OPERATING LEASE COMMITMENTS

As lessor

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

At December 31, 2012, the Group had total future minimum lease receivables under non-cancellable operating lease with its tenants falling due as follows:

	2012 **RMB'000**	2011 RMB'000
Within one year	**5,903**	8,039
In the second to fifth years, inclusive	**6,810**	4,235
	12,713	12,274

The Company did not have any operating lease commitments as at December 31, 2012 (2011: Nil).

As lessee

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

At December 31, 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2012 **RMB'000**	2011 RMB'000
Within one year	**18,956**	22,131
In the second to fifth years, inclusive	**25,823**	46,140
	44,779	68,271

The Company did not have any operating lease commitments as at December 31, 2012 (2011: Nil).

46. CAPITAL COMMITMENTS

As at December 31, 2012, neither the Group nor the Company had any significant commitments save as disclosed in note 45 (2011: Nil).

47. CONTINGENT LIABILITIES

The Company executed a corporate guarantee to the extent of RMB70.0 million for the bank loan facilities granted to a subsidiary. As at December 31, 2012, the bank loans granted to the subsidiary amounted to RMB46.1 million.

48. RELATED PARTY TRANSACTIONS

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

	Notes	**2012 RMB'000**	2011 RMB'000
Sales to related parties:			
Guangzhou Communication	(a)	**17,478**	2,382
Chengdu Zhida Weilute	(b)	**7,020**	–
Xi'an Communication	(a)	**2,926**	356
Nanjing Communication	(a)	**1,429**	–
Total		**28,853**	2,738
Advances to related parties:			
Xi'an Communication	(a)	**4,778**	512
Wuhan Chenguang	(b)	**1,863**	13,594
Chengdu Zhida Weilute	(b)	**1,199**	1,922
Bailian Youli (Beijing) Investment Co., Ltd.	(c)	**–**	1,972
RAY Holdings Ltd.	(d)	**–**	2,494
Total		**7,840**	20,494
Purchases from related parties:			
Wuhan Chenguang	(b)	**–**	6,845
Chengdu Zhida Weilute	(b)	**–**	1,880
Shandong Yigou	(b)	**–**	1,615
Total		**–**	10,340

48. RELATED PARTY TRANSACTIONS (continued)

Notes:

(a) The entity is an associate of the Group.

(b) The entity is a jointly-controlled entity of the Group.

(c) Bailian Youli (Beijing) Investment Co., Ltd. is controlled by certain Directors.

(d) RAY Holdings Ltd. is 59% owned by a Director.

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

As disclosed in the consolidated statement of the financial statements, the Group had below outstanding balances with related parties:

Group

	Notes	**December 31, 2012 RMB'000**	December 31, 2011 RMB'000
Due from related parties:			
Trade related			
Guangzhou Communication	(a)	**41,703**	45,918
Xi'an Communication	(a)	**8,376**	8,489
Wuhan Chenguang	(b)	**1,985**	122
Chengdu Zhida Weilute	(b)	**7,557**	217
Shandong Yigou	(b)	**194**	–
Nanjing Communication	(a)	**92**	460
		59,907	55,206
Non-trade related			
Xi'an Communication	(a)	**5,473**	695
Chengdu Zhida Weilute	(b)	**2,955**	2,076
RAY Holdings Ltd.	(d)	**1,694**	1,532
Mr. Pan Jianguo	(e)	**1,253**	–
Bailian Youli (Beijing) Investment Co., Ltd.	(c)	**986**	986
Mr. Jiang Hailin	(e)	**945**	–
Wuhan Chenguang	(b)	**654**	1,289
Mr. Liao Jie	(e)	**493**	–
Beijing Bailian Youli Information Technology Co., Ltd.	(f)	**231**	–
Shandong Yigou	(b)	**61**	–
Bailian Heli Investment Co., Ltd.	(g)	**4**	4
Guangzhou Communication	(a)	**–**	20,003
		14,749	26,585
		74,656	81,791

48. RELATED PARTY TRANSACTIONS (continued)

Notes:

(a) The entity is an associate of the Group.

(b) The entity is a jointly-controlled entity of the Group.

(c) Bailian Youli (Beijing) Investment Co., Ltd. is controlled by certain Directors.

(d) RAY Holdings Ltd. is 59% owned by a Director.

(e) The person is an executive director of the Company.

(f) The entity is 100% owned by Bailian Youli (Beijing) Investment Co., Ltd..

(g) The entity is 51% owned by Bailian Youli (Beijing) Investment Co., Ltd..

	Notes	**2012** **RMB'000**	2011 RMB'000
Due to related parties:			
Trade related			
Guangzhou Communication	(a)	**5,000**	18
Shandong Yigou	(b)	**1,435**	1,615
Chengdu Zhida Weilute	(b)	**1,228**	1,316
Wuhan Chenguang	(b)	**–**	3,520
		7,663	6,469
Non-trade related			
Chengdu Zhida Weilute	(b)	**4,912**	3,113
Shandong Yigou	(b)	**926**	1,926
Wuhan Chenguang	(b)	**339**	–
Mr. Lu Xiao	(c)	**7**	
Bailian Youli (Beijing) Investment Co., Ltd.	(d)	**–**	183
Guangzhou Communication	(a)	**–**	3
		6,814	5,225
Total		**13,847**	11,694

Notes:

(a) The entity is an associate of the Group.

(b) The entity is a jointly-controlled entity of the Group.

(c) The person is an executive Director.

(d) Bailian Youli (Beijing) Investment Co., Ltd. is controlled by certain Directors.

48. RELATED PARTY TRANSACTIONS (continued)

Terms and conditions of transactions with related parties

Outstanding balances as at December 31, 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.

Compensation of key management personnel of the Group

	2012 RMB'000	2011 RMB'000
Salaries, bonuses, allowances and benefits in kind	**5,931**	3,529
Equity-settled share option expense	**21,255**	2,175
Pension scheme contributions	**173**	130
Total compensation paid to key management personnel	**27,359**	5,834

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

49. FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

Financial assets

2012

	Financial assets at fair value through profit or loss RMB'000	Held-to-maturity investment RMB'000	Loans and receivables RMB'000	Available-for-sale investment RMB'000	Total RMB'000
Available-for-sale investment	–	–	–	25,307	25,307
Other long-term assets	–	–	19,944	–	19,944
Trade and bills receivables	–	–	903,794	–	903,794
Financial assets included in prepayments, deposits and other receivables	–	–	362,337	–	362,337
Due from related parties	–	–	74,656	–	74,656
Held-to-maturity investment	–	69,405	–	–	69,405
Pledged deposits	–	–	80,636	–	80,636
Cash and cash equivalents	–	–	584,783	–	584,783
Other financial assets	3,445	–	–	–	3,445
	3,445	69,405	2,026,150	25,307	2,124,307

49. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Group (continued)

Financial assets (continued)

2011

	Financial assets at fair value through profit or loss RMB'000	Held-to-maturity investment RMB'000	Loans and receivables RMB'000	Available-for-sale investment RMB'000	Total RMB'000
Other long-term assets	–	–	557	–	557
Trade and bills receivables	–	–	769,186	–	769,186
Financial assets included in prepayments, deposits and other receivables	–	–	47,424	–	47,424
Due from related parties	–	–	81,791	–	81,791
Held-to-maturity investment	–	69,396	–	–	69,396
Pledged deposits	–	–	79,841	–	79,841
Cash and cash equivalents	–	–	435,881	–	435,881
	—	69,396	1,414,680	–	1,484,076

Financial liabilities

	2012 Financial liabilities at amortised cost RMB'000	2011 Financial liabilities at amortised cost RMB'000
Trade and bills payables	**923,666**	672,652
Financial liabilities included in other payables and accruals	**66,040**	17,065
Interest-bearing bank borrowings	**431,577**	300,390
Due to related parties	**13,847**	11,694
Guaranteed bonds	**201,194**	–
Long-term payable	**8,537**	–
	1,644,861	1,001,801

49. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

Financial assets

	2012			
	Held-to-maturity investment RMB'000	**Loans and receivables RMB'000**	**Available-for-sale investment RMB'000**	**Total RMB'000**
Available-for-sale investment	**–**	**–**	**25,307**	**25,307**
Other long-term assets	**–**	**19,944**	**–**	**19,944**
Financial assets included in prepayments, deposits and other receivables	**–**	**43,362**	**–**	**43,362**
Due from subsidiaries	**–**	**708,143**	**–**	**708,143**
Held-to-maturity investment	**69,405**	**–**	**–**	**69,405**
Cash and cash equivalents	**–**	**97,437**	**–**	**97,437**
	69,405	**868,886**	**25,307**	**963,598**

	2011			
	Held-to-maturity investment RMB'000	Loans and receivables RMB'000	Available-for-sale investment RMB'000	Total RMB'000
Other long-term assets	–	557	–	557
Due from subsidiaries	–	727,670	–	727,670
Held-to-maturity investment	69,396	–	–	69,396
Cash and cash equivalents	–	47,543	–	47,543
	69,396	775,770	–	845,166

49. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company (continued)

Financial liabilities

	2012 Financial liabilities at amortised cost RMB'000	2011 Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables and accruals	**3,536**	75
Due to a subsidiary	**–**	962
Guaranteed bonds	**201,194**	–
Long-term payable	**8,537**	–
	213,267	1,037

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

Group

	Carrying amounts		Fair values	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Financial assets				
Available-for-sale investment	**25,307**	–	**25,307**	–
Other long-term assets	**19,944**	557	**19,944**	557
Trade and bills receivables	**903,794**	769,186	**903,794**	769,186
Financial assets included in prepayments, deposits and other receivables	**362,337**	47,424	**362,337**	47,424
Due from related parties	**74,656**	81,791	**74,656**	81,791
Held-to-maturity investment	**69,405**	69,396	**69,405**	69,396
Pledged deposits	**80,636**	79,841	**80,636**	79,841
Cash and cash equivalents	**584,783**	435,881	**584,783**	435,881
Other financial assets	**3,445**	–	**3,445**	–
	2,124,307	1,484,076	**2,124,307**	1,484,076
Financial liabilities				
Trade and bills payables	**923,666**	672,652	**923,666**	672,652
Financial liabilities included in other payables and accruals	**66,040**	17,065	**66,040**	17,065
Interest-bearing bank borrowings	**431,577**	300,390	**431,577**	300,390
Due to related parties	**13,847**	11,694	**13,847**	11,694
Guaranteed bonds	**201,194**	–	**201,194**	–
Long-term payable	**8,537**	–	**8,537**	–
	1,644,861	1,001,801	**1,644,861**	1,001,801

49. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

	Carrying amounts		Fair values	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Available-for-sale investment	**25,307**	–	**25,307**	–
Other long-term assets	**19,944**	557	**19,944**	557
Financial assets included in prepayments, deposits and other receivables	**43,362**	–	**43,362**	–
Due from subsidiaries	**708,143**	727,670	**708,143**	727,670
Held-to-maturity investment	**69,405**	69,396	**69,405**	69,396
Cash and cash equivalents	**97,437**	47,543	**97,437**	47,543
	963,598	845,166	**963,598**	845,166
Financial liabilities				
Financial liabilities included in other payables and accruals	**3,536**	75	**3,536**	75
Due to a subsidiary	**–**	962	**–**	962
Guaranteed bonds	**201,194**	–	**201,194**	–
Long-term payable	**8,537**	–	**8,537**	–
	213,267	1,037	**213,267**	1,037

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

The fair values of other long-term assets, guaranteed bonds and long-term payable have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

The fair values of other financial assets have been estimated using a valuation technique based on assumptions. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position are reasonable and that they were the most appropriate values at the end of the reporting period.

49. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

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

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

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

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

(a) Interest rate risk

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

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

If there would be a general increase/decrease in the interest rates of bank loans with floating interest rates by one percentage point, with all other variables held constant, the consolidated pre-tax profit would have decreased/increased by approximately RMB1.8 million for the year ended December 31, 2012 (2011: RMB3.0 million).

(b) Foreign currency risk

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

The following table demonstrates the sensitivity as at December 31, 2012 and 2011 to a reasonably possible change in US$ and HK$ exchange rates, with all other variables held constant, of the Group's profit before tax and the Group's equity.

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Foreign currency risk (continued)

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
December 31, 2012			
If RMB weakens against US$	**5**	**(180)**	**(180)**
If RMB strengthens against US$	**(5)**	**180**	**180**
If RMB weakens against HK$	**5**	**(3,034)**	**76,523**
If RMB strengthens against HK$	**(5)**	**3,034**	**(76,523)**
December 31, 2011			
If RMB weakens against US$	5	2,368	2,368
If RMB strengthens against US$	(5)	(2,368)	(2,368)
If RMB weakens against HK$	5	–	72,059
If RMB strengthens against HK$	(5)	–	(72,059)

* Excluding retained earnings

(c) Credit risk

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

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

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

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(d) Liquidity risk

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

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

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

As at December 31, 2012

Group

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade and bills payables	548,045	375,621	–	–	923,666
Financial liabilities included in other payables and accruals	60,904	–	5,136	–	66,040
Interest-bearing bank borrowings	–	38,130	393,447	–	431,577
Due to related parties	13,847	–	–	–	13,847
Guaranteed bonds	–	–	–	201,194	201,194
Long-term payable	–	–	–	8,537	8,537
	622,796	413,751	398,583	209,731	1,644,861

Company

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Financial liabilities included in other payables and accruals	–	–	3,536	–	3,536
Guaranteed bonds	–	–	–	201,194	201,194
Long-term payable	–	–	–	8,537	8,537
	–	–	3,536	209,731	213,267

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(d) Liquidity risk (continued)

As at December 31, 2011

Group

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Trade and bills payables	318,751	353,901	–	672,652
Financial liabilities included in other payables and accruals	17,065	–	–	17,065
Interest-bearing bank borrowings	–	–	300,390	300,390
Due to related parties	11,694	–	–	11,694
	347,510	353,901	300,390	1,001,801

Company

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

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

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) Capital management

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

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2012 and December 31, 2011.

The Group monitors capital using net debt to capital ratio, which is net debt divided by the capital. The Group's policy is to maintain the net debt to capital ratio between (20%) and 20%. Net debt includes interest-bearing bank borrowings, guaranteed bonds, amounts due to related parties, less cash and cash equivalents. Capital includes equity attributable to owners of the parent. The net debt to capital ratios as at the end of the reporting periods were as follows:

Group

	2012 **RMB'000**	2011 RMB'000
Interest-bearing bank and borrowings	**431,577**	300,390
Guaranteed bonds	**201,194**	–
Due to related parties (note 48)	**13,847**	11,694
Less: cash and cash equivalents	**(584,783)**	(435,881)
Net debt	**61,835**	(123,797)
Equity attributable to owners of the parent	**2,462,689**	2,265,812
Net debt to capital ratio	**2.5%**	(5.5%)

51. EVENTS AFTER THE REPORTING PERIOD

(a) In January 2013, Aproud Technology, an indirect wholly-owned subsidiary of the Company, entered into an equity transfer agreement with an independent third party ("**Hexin Purchaser**") and Beijing Hexin Risheng Technology Co., Ltd. ("**Hexin Risheng**"), a wholly-owned subsidiary of Aproud Technology. Pursuant to the equity transfer agreement, Aproud Technology transferred its 100% equity interest in Hexin Risheng to Hexin Purchaser at a total consideration of RMB34.5 million.

(b) In January 2013, the Group disposed an investment property located in Dongzhimen Wai Avenue, Chaoyang District, Beijing, the PRC at a consideration of RMB56.0 million.

52. COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified to conform with the current year's presentation.

53. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on March 28, 2013.

Particulars of Properties

December 31, 2012

INVESTMENT PROPERTIES

Location	Use	Tenure	Attributable interest of the Group
No. 8 Dongdaqiao Road, Chaoyang District, Beijing, the PRC	Office	Long term lease	100%
No. 36 Dongzhimen Wai Avenue, Chaoyang District, Beijing, the PRC	Office	Long term lease	100%
No.1 Zhong Guan Cun Dong Road, Haidian District, Beijing, the PRC	Office	Long term lease	100%