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

2010
Annual Report

Contents

China ITS (Holdings) Co., Ltd.
2010 Annual Report

Corporate Information

Board of Directors

Executive Directors

Mr. Jiang Hailin *(Chairman and Chief Executive Officer)*
Mr. Wang Jing
Mr. Lu Xiao
Mr. Pan Jianguo

Independent Non-executive Directors

Mr. Zhou Chunsheng
Mr. Choi Onward
Mr. Sun Lu

Company Secretary

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

Authorized Representatives

Mr. Jiang Hailin
Suite 102, 1st Unit, 8th Building
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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

Nomination Committee

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

Registered Office

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

Head Office in the PRC

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

Company Website

www.its.cn

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

Corporate Information

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

Compliance Advisor
CCB International Capital Limited

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

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

Principal Bankers
Guangdong Development Bank Co., Ltd. Beijing Branch
Bank of Beijing Co. Beijing Branch Cuiweilu sub-branch
Bank of Communications Co., Ltd. Beijing Branch Zhongguancun Yuanqu sub-branch
China Construction Bank Corporation Beijing Branch Shijingshan sub-branch
China Merchants Bank Co., Ltd. Beijing Branch Beisanhuan 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 Aproud Software"	Beijing Aproud Software Co., Ltd. (北京亞邦偉業軟件有限公司)
"Beijing Jiyier Technology"	Beijing Jiyier Technology Development Co., Ltd. (北京基意爾科技發展有限公司)
"Chengdu Zhida Weilute"	Chengdu Zhida Weilute Technology Co., Ltd. (成都智達威路特科技有限公司)
"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)
"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)
"RHY Technology"	Beijing RHY Technology Development Co., Ltd. (北京瑞華贏科技發展有限公司)
"Wuhan Chenguang"	Wuhan Chenguang Transportation Technology Development Co. (武漢辰光交通科技發展有限公司)
"Xinjiang RHY"	Xinjiang RHY Technology Co., Ltd. (新疆瑞華贏機電系統技術有限公司)
"Zhixun Tiancheng"	Beijing Zhixun Tiancheng Technology Co., Ltd. (北京智訊天成技術有限公司)

Financial Highlights

- New contracts signed and orders secured increased by approximately 40.7% to approximately RMB2,371.9 million
- Backlog as at December 31, 2010 increased by approximately 42.7% to approximately RMB1,309.2 million
- Revenue increased by approximately 32.5% to approximately RMB1,862.2 million
- Gross profit increased by approximately 46.6% to approximately RMB587.9 million
- Gross profit margin increased from prior year to approximately 31.6%
- Pro-forma profit before tax[(1)] increased by approximately 57.5% to approximately RMB389.9 million
- Pro-forma profit for the year[(2)] increased by approximately 54.4% to approximately RMB337.0 million
- Profit for the year increased by approximately 37.0% to approximately RMB294.0 million
- Pro-forma earnings per share[(3)] was RMB0.24 per share

Notes:

(1) Pro-forma profit before tax refers to profit before tax *plus* expenses relating to the listing of the Company's shares *plus* share-based payment expenses *minus* fair value changes on investment properties, for the year ended December 31, 2010.

(2) Pro-forma profit refers to pro-forma profit before tax *minus* income tax expenses and tax adjustment, for the year ended December 31, 2010.

(3) Pro-forma earnings per share refers to pro-forma profit *divided by* weighted average number of shares in issue for the year ended December 31, 2010. It would be RMB0.22 if the number of common shares used is the current number of shares outstanding of 1,569,047,334.

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 four financial years, as extracted from published audited financial statements, is set out below:

1. Backlog information

RMB'000	Year ended December 31 2010	2009	2008	2007
New contract and order secured	**2,371,933**	1,686,347	1,227,704	1,066,457

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

2. Financial performance

RMB'000	Year ended December 31 2010	2009	2008	2007
Revenue	**1,862,184**	1,405,447	1,126,930	694,143
Gross profit	**587,942**	401,061	290,295	225,712
Proforma profit before tax(1)	**389,856**	247,588	146,584	134,483
Proforma profit attributable to shareholders(2)	**336,983**	218,305	149,793	114,306
Profit attributable to shareholders	**294,009**	214,672	91,286	113,190

3. Financial position

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

Notes:

(1) Pro-forma profit before tax refers to profit before tax *plus* expenses relating to the listing of the Company's shares *plus* share-based payment expenses *minus* fair value changes on investment properties.

(2) Pro-forma profit refers to pro-forma profit before tax *minus* income tax expenses and tax adjustment.

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

(4) Details of the above financial information are set out in Management Discussion and Analysis section on page 11 to page 21.

4. Financial ratios

	As at December 31			
	2010	2009	2008	2007
Sales cycle ratios:				
Trade receivables turnover Days (days)[1]	**122**	86	58	40
Net construction contract turnover days (days)[2]	**64**	120	133	149
Combined trade receivables and net construction contract turnover days (days)	**186**	206	191	189
Other ratios:				
Trade payables turnover Days (days)[3]	**156**	164	128	118
Current ratio (times)[4]	**2.1**	1.6	1.4	1.2
Gearing ratio (%)[5]	**-39.6%**	-18.5%	-17.6%	-7.9%
Return on assets (%)[6]	**9.0%**	10.8%	9.5%	10.8%
Return on equity (%)[7]	**16.0%**	22.9%	22.3%	28.5%

Notes:

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

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

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

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

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

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

(7) Return on equity refers to proforma profit attributable to shareholders *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 11 to page 21.

Chairman's Statement

Dear Shareholders,

China's intelligent transportation system (the "ITS") industry faced both opportunities and challenges in the year of 2010. Thanks to the industry consolidation, increasing market demand and confidence in long-term growth, the development prospects of the ITS industry remains highly promising.

In 2010, we continued to provide turnkey solutions, specialized solutions and VA services for three main transportation sectors, namely expressway, railway and urban traffic sectors, to maintain diversified development and healthy revenue mix with strong growth. Annual revenue and proforma profit for the year amounted to RMB1,862.2 million and RMB337.0 million, representing an increase of 32.5% and 54.4% respectively as compared with 2009. New contracts signed and order secured and backlog for the year reached to RMB2,371.9 million and RMB1,309.2 million in total, representing an increase of 40.7% and 42.7% as compared with 2009, respectively. Gross profit margin maintained the rising momentum and reached to 31.6% despite the fierce competition due to the higher revenue generated from the higher margin business models.

(i) Expressway

In the expressway sector, we recorded revenue of RMB1,051.8 million in 2010, representing an increase of 34.9% as compared with the same period of last year, and a contract backlog of approximately RMB600.0 million, which mainly reflected the turnkey solutions project of Hengyang-Shaoyang Expressway, which is a major part of the expressway network in Hunan Province, as well as the West Line Project of Xiangtan-Hengyang Expressway, which is a major reconstruction project after the snowstorm disaster in 2008 in the Hunan Province.

Hengyang-Shaoyang Expressway has over 40 tunnels, all of which have been equipped with our Specialized Solutions for tunnels. This demonstrated our core competitive advantages in tunnel solutions in the PRC. According to the planning of relevant authorities such as Ministry of Transport, over 80%[(1)] of expressway investment will be concentrated on the mountainous region of central and western China from 2005 to 2020. Leveraging on our core intellectual property of tunnel solutions, we are confident of dominating among the project competitions of the above regions and capture larger market shares.

West Line Project of Xiangtan-Hengyang Expressway is an important diversion of intersection point of the highway and waterway network in "Pan-Pearl River Delta". We provided turnkey solutions including communication systems, surveillance systems, tolling and tunnel systems for the project. Through this project, our technological advantage and expertise were fully demonstrated in the complicated environment of intersection of roads and waterways.

Note:

(1) "As at the end of 2009, total mileage of planned expressways in China was approximately 65,000 km. The geographical distribution of fixed asset investments in expressways from 2005 to 2020 is 19% in the eastern region, 26% in the central region and 55% in the western region." — Source: Planning of Ministry of Transport

(ii) Railway

In 2010, we generated revenue of RMB670.0 million from the railway sector, representing an increase of 23.8% as compared with the same period of last year. We successfully won major contracts like Beijing-Shanghai Railway, Harbin-Dalian Railway and Taiyuan-Zhongwei-Yinchuan Railway among the "Four Vertical and Four Horizontal High Speed Railways" projects. As the highest standard and milestone in China's railway development history, the Beijing-Shanghai High Speed Railway imposed strictest requirements on the safety and technology of ITS solutions. Leveraging on the leading technical advantage of communication solutions of the Company, we became the major supplier for the core communication systems of the railway.

In the coming five years, it is expected that the planned length of high speed railways and total planned mileage including rapid railway (160 km/hour) will reach 25,000 km(1) and approximately 50,000 km(2) by 2015, respectively. The Company will continue to maintain its significant market shares(3) in the railway communication sector capitalising on its leading installed base and indepth customer understanding together with excellent technical advantage.

During the year, we also carried out upgrade and improvement of the communication system of the Datong-Qinhuangdao High-Loading Railway. In the future, as the government will continue to carry out technical upgrade and improvement for existing railways to address the bottleneck problem in transportation and to enhance the transportation capacity, we will seize the opportunity and develop freight related solutions as another source of growth in our railway business.

(iii) Urban Traffic

In the urban traffic sector, we realised revenue of RMB110.0 million in 2010. Following Line 1 of Shenyang Subway in 2009, we continued to expand our coverage into Line 1 of Hangzhou Subway and Line 2 of Shenyang Subway during 2010. To seize the opportunities of new development of the subway sector, we will devote our resources and strive to explore new products, technology and markets. We will expand our market shares in the subway sector and diversify our product lines.

With respect to the urban road traffic, our self-developed high resolution video surveillance system allowed the government to carry out effective safety intelligent control and allocation of police force in the international major events such as the 2010 Guangzhou Asian Games. The Company will continue to promote the self-developed patented products in major international events to be hosted by China.

Notes:

(1) Source: Planning of Ministry of Railway, UBS Forecast

(2) Source: Planning of Ministry of Railway, UBS Forecast

(3) Source: According to industry consulting firm OC&C, CIC's specialized wired communication solutions has over 70% market share and specialized wireless communication solutions has over 60% market share in 2009.

Chairman's Statement

In 2011, we expect a healthy growth in the ITS industry. ITS will be under the spotlight according to the traffic planning in the "Twelfth Five-Year Plan" of the State, and it will become the core development trend amongst the domestic transportation bureau. Pursuant to the "Outline of National Plan for Medium to Long Term Scientific and Technological Development", business opportunities created from the ITS industry and its related sectors will have a value over RMB100 billion between 2015 and 2020, demonstrating an encouraging prospects of the ITS industry.

In the new year, leveraging on our comparative advantages, we will formulate the medium-to-long-term development plan for the Company in the next 5 years in accordance with changes in the competitive landscape. The company will also consolidate small industry players to capitalize on the substantial opportunities, so to secure and strengthen our leading position in the ITS industry.

Looking forward, the Company will continue to focus on improving its overall profitability for optimizing shareholders interest. We will continue to develop as a customer-oriented company and enhance customers' satisfaction and loyalty. The Company will also improve the satisfaction, professional competence and performance of our employee and encourage them to devote themselves in enhancing the shareholders value.

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

JIANG HAILIN
Chairman

Beijing, March 27, 2011

Revenue

The Group's revenue for the year ended December 31, 2010 increased by 32.5% to RMB1,862.2 million as compared to RMB1,405.4 million for the year ended December 31, 2009. The overall increase in revenue for the year ended December 31, 2010 was fueled by a 28.7% increase in the Turnkey Solutions' business, a 33.0% increase in the Specialized Solutions' business, and a 9.4% increase in the VA Services' business. The following table sets out the revenue breakdown by segment:

Revenue by segments	Year ended December 31	
RMB'000	2010	2009
Turnkey Solutions	**687,890**	534,462
Specialized Solutions	**1,174,655**	882,997
VA Services	**20,059**	18,328
Elimination	**(20,420)**	(30,340)
Total	**1,862,184**	1,405,447

(i) Turnkey Solutions

Revenue from the Turnkey Solutions' business for the year ended December 31, 2010 was RMB687.9 million, an increase of RMB153.4 million, or 28.7%, as compared to RMB534.5 million for the year ended December 31, 2009. The increase was attributable to the growth in both the expressway and the urban roadway sectors. The revenue growth rate for expressway projects was 29.7% for the year ended December 31, 2010, which remained a fast growth trend with implementation of large-scale projects such as Heng-Shao (Hengyang to Shaoyang) expressway, Tan-Heng (Xiangtan to Hengyang) west line expressway, etc. On the urban roadway sector, the Group has won and implemented several large-scale urban roadway Turnkey Solutions' projects such as Nongan and Hulunbuir in 2010. The Turnkey Solutions' business accounted for 36.5% of the Group's revenue for the year ended December 31, 2010, represented a slight decrease for that in 2009 due to our continuous strategy in expanding the higher margin specialized solutions business in 2010.

(ii) Specialized Solutions

Revenue from the Specialized Solutions' business for the year ended December 31, 2010 was RMB1,174.7 million, an increase of RMB291.7 million, or 33.0%, as compared to RMB883.0 million for the year ended December 31, 2009. The increase was attributable to increases in most of the Specialized Solutions' business sectors except for the less strategic-focused energy sector.

Revenue from the railway sector grew by 23.8% for the year ended December 31, 2010 to RMB665.9 million, which accounted for 56.7% of the total revenue in the Specialized Solutions' business sector for the year ended December 31, 2010. Several large projects such as the Hu-Hang (Shanghai to Hangzhou) high-speed railway, Ha-Da (Harbin to Dalian) high-speed railway, Jing-Hu (Beijing to Shanghai) high-speed railway and numerous projects including the expansion of existing railway networks such as Daqin and Tai-Zhong-Yin have achieved significant progress. All of the above projects will continue to generate revenue for next year. Meanwhile, the Group has also won several large projects such as the Xiang-Pu (Xiangtang to Putian) railway, which are attributable to the backlog as at year end of 2010.

Revenue generated from the expressway specialized solutions sector increased by RMB117.5 million, or 47.6%, to RMB364.6 million for the year ended December 31, 2010 as compared to the year ended December 31, 2009, due to continuous growth in expressway ITS investment by the government, particularly in the western region of China, as well as the continuous upgrade and expansion in the established provinces. Among the projects implemented in 2010, more than 60% were from such upgrade and expansion and most of the project owners have cooperated with the Group for several years.

With increasing resources focused on expanding the surveillance specialized solutions' market coverage in 2010, revenue from expressway surveillance specialized solutions increased by 8.7% as compared to the year ended December 31, 2009. The growth was primarily due to increased resources available in this sector as a result of internal group restructuring and increased investment from customers due to upgrade and expansion. Historically, the surveillance products were sold by Bailian Zhida. However, the Group restructured its business units and in early 2010, the expressway surveillance solutions sector became a part of Aproud Technology. The restructuring of the business units allowed the Group to leverage upon its larger and well established sales team in Aproud Technology and expand the Group's market footprint.

Revenue from the urban roadway surveillances solutions sector increased dramatically by RMB8.1 million, or 121.1% for the year ended December 31, 2010, as compared to the year ended December 31, 2009. In an effort to continue achieving significant profit for the coming years, the Group has restructured Bailian Zhida to focus primarily on urban roadway business development and has targeted large cities with demand for high resolution video surveillance system in big events such as Guangzhou Asia Games, Shanghai Expo, Shenzhen Universiade and Xi'an International Horticultural Exposition as well as the traditional large cities such as Beijing, Tianjin, Nanjing, Chengdu, where the Group has already accumulated good market penetration and will continue to generate significant revenue in the coming years.

Revenue from the rapid transit sector increased significantly by RMB41.9 million, or 136.5% to RMB72.6 million for the year ended December 31, 2010 as compared to RMB30.7 million for the year ended December 31, 2009. Despite of its relatively recent entry, the Group has demonstrated strong initial performance and has implemented new subway lines, in Xi'an, Hangzhou and Suzhou. Meanwhile, the Group has also won and implemented the expansion subway lines in Beijing, Shanghai and Shenyang.

Revenue generated from the energy business sector decreased by RMB4.0 million, or 6.7% during the year ended December 31, 2010. As the energy business is a matured sector and is not a key focus of the Company, the management has decided to direct more attention to the transportation sectors, such as expressway, railway and urban traffic, which are expected to deliver higher growth for the Company. However, it is anticipated that the energy business sector will continue to generate a stable stream of revenue and profit for the Group.

As a result of higher growth, the Specialized Solutions' business as a whole accounted for 62.4% of the Group's revenue for the year ended December 31, 2010, which is higher than 60.7% recorded for the year ended December 31, 2009. This also directly contributed to the overall higher gross margin in 2010 than 2009.

(iii) VA Services

Revenue from the VA Services' business in the year ended December 31, 2010 was RMB20.1 million, a slight increase of RMB1.8 million as compared to RMB18.3 million for the year ended December 31, 2009. The Company, which has a long-standing relationship with some of its core customers in Shaanxi, Xinjiang and Liaoning, has been promoting the benefits of VA Services within such regions. All of the VA Services' projects were expressway-related for the year ended December 31, 2010, accounted for 1.1% of the Group's total revenue for the year ended December 31, 2010, and is lower than 1.3% for the year ended December 31, 2009, due to the huge growth in the Specialized Solutions' business.

(iv) Major revenue-generating projects

During this year, the Group had implemented more than 1,200 projects by various scales covering most of the regions in mainland China. The following table sets out the major projects generating revenue in each industry sector:

Industry sector	Project name
Expressway	Hengyang-shaoyang Expressway
	West Line Project of Xiangtan-Hengyang Expressway
	Hebei Main Line Upgrade
Railway	Hu-Hang (Shanghai to Hangzhou) High-speed Railway
	Ha-Da (Harbin to Dalian) High-speed Railway
	Jing-Hu (Beijing to Shanghai) High-speed Railway
Urban traffic	Beijing Subway Line 15
	Hangzhou Subway Line 1
	Guangzhou Asia Games Program
Energy	Henan Electricity Network Upgrade
	The Three Gorges Program
	Qinghai Oil Field Program

Cost of Sales

Cost of sales was incurred on a project basis for individual legal entities and was subsequently aggregated at segment and corporate level. The cost of sales was based on the equipment and other direct project costs incurred for completion of each of the relevant contracts. The cost of sales constituted 68.4% of the Group's revenue for the year ended December 31, 2010, which represented an decrease of 3.1% when compared to the corresponding period in 2009. This was due to an increase in gross profit margins for the Specialized Solutions' business, which offset the decrease in contribution from the businesses of the Turnkey Solutions. The following table sets out the cost of sales breakdown by segment:

Cost of sales by segments	Year ended December 31	
RMB'000	2010	2009
Turnkey Solutions	**553,962**	425,446
Specialized Solutions	**731,800**	602,441
VA Services	**8,900**	6,839
Elimination	**(20,420)**	(30,340)
Total	**1,274,242**	1,004,386
% of Revenue	**68.4%**	71.5%

(i) Turnkey Solutions

The cost of sales incurred for the Turnkey Solutions' business constituted 42.8% of the Group's cost of sales for the year ended December 31, 2010, which remained at a similar level when compared to the corresponding period in 2009, reflecting the stable margin of the Turnkey Solutions' business to the Group's business.

(ii) Specialized Solutions

The cost of sales incurred for the Specialized Solutions' business constituted 56.5% of the Group's cost of sales for the year ended December 31, 2010, a decrease from last year, due to the increased gross profit margin in the Specialized Solutions' business. Within the Specialized Solutions' business, the cost of sales for the railway sector grew by 7.6%, which accounted for 58.4% of the total cost of sales for the year ended December 31, 2010 for the Specialized Solutions' business.

(iii) VA Services

The cost of sales incurred for the VA Services' business constituted 0.7% of the Group's cost of sales for the year ended December 31, 2010, which is lower when compared to the corresponding period in 2009, reflecting the relatively minor contribution of the VA Services' business to the Group's sales for the year ended December 31, 2010.

Gross Profit

Overall gross profit of the Group increased RMB186.9 million, or 46.6%, from RMB401.1 million for the year ended December 31, 2009 to RMB587.9 million for the year ended December 31, 2010. Gross profit margin has increased from 28.5% for the year ended December 31, 2009 to 31.6% for the year ended December 31, 2010, due to higher profit margin in the Specialized Solutions' projects generated from the railway sector and partially offsetting the lower profit margin in the Turnkey Solutions' business. The following table sets out the gross profit breakdown and gross profit margin by segment:

Gross profit and gross profit margin by segments	**Year ended December 31**	
RMB'000	**2010**	**2009**
Turnkey Solutions	**133,928**	109,016
Margin %	***19.5%***	*20.4%*
Specialized Solutions	**442,855**	280,556
Margin %	***37.7%***	*31.8%*
VA Services	**11,159**	11,489
Margin %	***55.6%***	*62.7%*
Total	**587,942**	401,061
Overall Margin %	***31.6%***	*28.5%*

An analysis of the gross profit margin by segment is as follows:

(i) Turnkey Solutions

Gross profit margin for the Turnkey Solutions' business decreased by 0.9% to 19.5% for the year ended December 31, 2010 compared to last year. The decline in margin is in line with normal margin variations on an intra-year basis, reflecting the project nature of the Turnkey Solutions' business where margins on individual projects may range from 15% to 20%. This means that overall margins in this business segment will vary year to year, within this range and depending on the project mix.

(ii) Specialized Solutions

Gross profit margin for the Specialized Solutions' business increased by 5.9% to 37.7% in the year ended December 31, 2010 compared to last year.

The margin for the railway sector increased to 35.8% for the year ended December 31, 2010 as compared to 26.1% for the year ended December 31, 2009, due to the implementation of some large high-speed railway projects such as Jing-Hu, Ha-Da, Hu-Hang, etc.

The expressway specialized solutions' margin decreased from 43.6% for the year ended December 31, 2009 to 41.9% for the year ended December 31, 2010. The overall profit margin for this sector was stable except for some isolated projects with lower level of margin but with business strategy to some regions.

The margin for the urban roadway sector increased from 45.0% for the year ended December 31, 2009 to 49.5% for the year ended December 31, 2010, primarily due to a change in product mix as the Company shifted from traditional surveillance products to high-resolution surveillance products.

The margin for the rapid transit segment increased from 25.9% in 2009 to 35.8% in 2010 due to a marketing strategy executed earlier by the Group to enter into emerging cities. In the meantime, the Group expects that its margin will gradually stabilize towards industry level of 30% as the Group further establishes its market presence and gains an influential market share.

The margin for the energy segment decreased slightly from 35.1% for the year ended December 31, 2009 to 32.1% for the year ended December 31, 2010 due to the mature stage of this business.

(iii) VA Services

Gross profit margin for the VA Services' business decreased slightly from 62.7% for the year ended December 31, 2009 to 55.6% for the year ended December 31, 2010. The gross profit margin of VA Services follows the industry trend, which varies from 50% to 70%.

Other Income and Gains

Other income and gains arises from operating leases as well as the fair value changes on investment properties were accounted for on a straight-line basis over the lease terms and the property valuations. The decrease in other income were due to changes in the property usage as the Group moved to a new office in April 2009 and leased out the entire owned office premise, which contributed a fair value gain in the investment property for the year ended December 31, 2009 and was in line with the real estate market in mainland China.

Selling, General and Administration Expenses

For the year ended December 31, 2010, selling, general and administration expenses ("SG&A") as a percentage of sales decreased by 0.2% to 11.3% as compared to the year ended December 31, 2009 due to a result of economies of scale and successful cost control initiatives.

The staff costs remained a large component of the Group's SG&A for the year ended December 31, 2010. The staff costs increased by 39.1%, mainly due to general headcount increases for the ongoing business expansions. Staff costs accounted for 32.5% of the total SG&A for the year ended December 31, 2010, which is comparable to the 32.2% incurred for the year ended December 31, 2009, and in line with the Group's business growth and needs.

Travelling, entertainment and business expansion expenses arising from business development and implementation of projects, was at the average range of 3–7% of the total revenue for each entity in the year ended December 31, 2010. Travelling, entertainment and business expansion expenses increased from RMB45.0 million for the year ended December 31, 2009 to RMB62.9 million for the year ended December 31, 2010. As a percentage of total SG&A, these expenses increased from 27.9% to 29.8% due to the significant business growth and continuous effort in market localization.

The rental expenses increased from RMB11.8 million for the year ended December 31, 2009 to RMB16.9 million in the year ended December 31, 2010 due to higher rental cost of the Company's new centralized office in Beijing and enlarged space due to business expansion. Subsequent to the Company's relocation to its new premises in April 2009, the impact of the higher rent was reflected in rental expenses in the full year of 2010. Rental expenses accounted for 8.0% of the total SG&A for the year ended December 31, 2010, an increase of 0.7% as compared to the corresponding period in 2009.

Share-based payment expenses refer to the expenses relating to the Company's pre-IPO share incentive scheme. In the year ended December 31, 2010, share-based payment expenses recorded no change from RMB9.9 million for the year ended December 31, 2009, which accounted for 4.7% of the total SG&A in the year ended December 31, 2010, a decrease of 1.4% as compared to the corresponding period in 2009.

Expenses Relating to the Listing of the Company's Shares

The expenses relating to the listing of the Company's share of RMB35.5 million accounted for 1.9% of revenue for the year ended December 31, 2010. The major components of these listing expenses include professional fees of services rendered by legal counsel, printers and auditors who were involved in the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited. Given that the listing expenses are one-off in nature, the analysis of profit before tax and profit for the period has being performed on a normalized basis after carving out the effects of the listing expenses incurred during the year.

Finance Income and Finance Costs

Finance income comprised of mainly interest income from deposits and finance costs comprised of mainly interest costs for interest-bearing bank loan. Net financial expenses represented the total finance costs offset by finance income. The net financial expense was RMB5.9 million in the year ended December 31, 2010, which represented a decrease of 17.8% as compared to the year ended December 31, 2009. The decrease was mainly due to a general increase in average bank balances as a result of the pre-IPO financing conducted in the first half of 2010 and the proceeds from the listing of the shares of the Company in the second half of 2010.

Share of Profits of Jointly-Controlled Entity

Share of Profits of Jointly-Controlled Entities ("JCE") in the year ended December 31, 2010 was approximately RMB3.6 million, which represented an increase of RMB3.3 million from that of the year ended December 31, 2009. The jointly-controlled entity, Chengdu Zhida Weilute had contributed most of the share profits to the Group subsequent to its formal incorporation in 2010, which mainly focusing in the urban surveillance business in western areas of mainland China.

At the end of December 2010, the Group acquired 29% shares of Xinjiang RHY, a former JCE with consideration amount of RMB3.7 million. According to the share transfer agreement, the acquisition started effective since from January 1, 2011. Therefore, the Group will consolidate the result of Xinjiang RHY from January 2011.

Income Tax Expenses

The total income tax expense in the year ended December 31, 2010 was higher than that of 2009. The effective tax rate in the year ended December 31, 2010 was 15.4%, which represented an increase of 2.4% when compared to the corresponding period in 2009. The increase was due to a lower level of profit before tax resulting from deduction of RMB35.5 million listing expenses incurred in the year ended December 31, 2010, which was a non-taxable item for PRC enterprise income tax purpose.

After excluding the impact from this one-off listing expense as well as other non-taxable items, the effective tax rate was 14.0% for the year ended December 31, 2010, representing an increase of 1.1% as compared to the corresponding period in 2009.

With the implementation of the new PRC tax law on January 1, 2008, all companies are required to pay tax at the rate of 25%. However, as a foreign-invested entity, RHY Technology enjoys a preferential tax treatment which will progress from 10% to 15% over five years starting from 2009, with an applicable tax rate of 11% in the year ended December 31, 2010. The Company's other subsidiaries are mostly qualified as High and New Technology Enterprises ("HNTE") and enjoy preferential tax rates ranging from 7.5% to 15% for 2010 except for two newly setup subsidiaries (Jiangsu Zhixun Tiancheng and Jiangsu Yijie), which will also be qualified as HNTE in 2011. Due to the restricted preferential tax policy from Chinese government, these subsidiaries applied for the highest income tax rate of 25% before the formal approval from relevant authorities.

Profit for the year

Profit for the year of the Group in the year ended December 31, 2010 was RMB294.0 million after netting off the one-off listing expenses of RMB35.5 million, the share-based payment expenses of RMB9.9 million and the fair value gains on investment properties of RMB3.2 million. The pro-forma profit for the year would be RMB337.0 million or 54.4% increase compared to the year ended December 31, 2009. The following table sets out the relevant reconciliations:

Reconciliation of proforma profit before tax and proforma profit attributable to shareholders:

	Year ended December 31	
RMB'000	2010	2009
Profit before tax	**347,682**	246,732
Add/(less):		
Expenses relating to the listing of the Company's shares	**35,488**	2,078
Share-based payment expenses	**9,886**	9,886
Fair value changes on investment properties	**(3,200)**	(11,108)
Pro-forma profit before tax	**389,856**	247,588
Add/(less):		
Income tax expenses	**(53,673)**	(32,060)
Income tax adjustment (Fair value changes on investment properties)	**800**	2,777
Pro-forma profit for the period	**336,983**	218,305

Trade Receivables Turnover Days

The trade receivables turnover days for the year ended December 31, 2010 was 122 days (in the year ended December 31, 2009: 86 days). The increase in trade receivables turnover days was mainly due to the growth of the railway sector, which the customers have in general longer payment terms due to longer project cycle than other sectors. Very limited amount of the Group's trade receivables were impaired and turnover days were within the normal credit period granted to customers.

Net Construction Contract Turnover Days

The net construction contract turnover days in the year ended December 31, 2010 was 64 days (in the year ended December 31, 2009: 120 days). The decrease in net construction contract turnover days was mainly due to the enhancement of the project billing cycle in 2010.

Trade Payables Turnover Days

The trade payables turnover days for the year ended December 31, 2010 was 156 days (in the year ended December 31, 2009: 164 days). The decrease in trade payables turnover days was mainly due to some slight change in payment terms with suppliers under normal business negotiation.

Inventory Turnover Days

The inventories of the Group mainly comprised of raw materials, work-in-progress, finished goods and general merchandise for surveillances Specialized Solutions. The inventory turnover days for the year ended December 31, 2010 was 2 days (in the year ended December 31, 2009: 3 days). The decrease in inventory turnover days was due to higher sales achievement in the expressway sector for the Specialized Solutions' business in 2010 and minimal inventory policy adopted by the Group.

Liquidity and Financial Resources

The Group adopts centralized financing and treasury policies in order to ensure the Group's funding is utilized efficiently. The Group's principal sources of working capital included cash flow from operating activities, bank borrowings and the proceeds from the listing of the shares of the Company. As at December 31, 2010, the Group's current ratio (current assets divided by current liabilities) was 2.1 (as at December 31, 2009: 1.6). The Group's financial position remains healthy.

As at December 31, 2010, the Group was in a net cash position of RMB659.3 million (as at December 31, 2009: net cash of RMB7.0 million) which included cash and cash equivalent of RMB836.9 million (as at December 31, 2009: RMB177.2 million), short term deposit of RMB112.4 million (as at December 31, 2009: nil) and short term bank loans of RMB290.0 million (as at December 31, 2009: RMB170.2 million). As at December 31, 2010, the Group's gearing ratio was -39.6%, which has decreased from -18.5% as at December 31, 2009, representing the Group had deeper net cash position due to the proceeds from the listing of the shares of the Company. Gearing ratio refers to adjusted cash (interest-bearing bank borrowings minus pledged deposits, short term deposit and cash and bank balances plus due to related parties) divided total equity.

Financial Risk Management

The Group's principal financial instruments comprise interest-bearing bank borrowings, cash and cash equivalents, short term deposit and pledged deposits. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

Contingent Liabilities

As at December 31, 2010, the Group has no material contingent liability.

Charges on Group Assets

As at December 31, 2010, except for the secured deposits of approximately RMB182.5 million (as at December 31, 2009: RMB173.6 million), the Group pledged its buildings with net book values of approximately RMB83.3 million (as at December 31, 2009: RMB80.1 million) to banks to secure banking facilities granted to the Group. Save as disclosed above, as at December 31, 2010, the Group has no other asset charged to any financial institution.

Material Acquisitions or Disposals of Subsidiaries and Associated Company

Except for the acquisition of Xinjiang RHY in amount of RMB3.7 million, which had been completed by January 2011, the Group has not conducted any material acquisition or disposal of any subsidiaries, jointly-controlled entities and associated companies in the year ended December 31, 2010.

Events After The Reporting Period

On March 25, 2011, the Company entered into an equity transfer agreement (the "Agreement") with Mitsubishi Corporation ("Mitsubishi"), whereby the Company agrees to conditionally acquire 40% equity interest in Shanghai Sinorail Diamond International Trading Co., Ltd. ("Shanghai Sinorail"), a sino-foreign equity joint venture incorporated in the PRC, from Mitsubishi for a consideration of approximately USD5.5 million (the "Acquisition"). The consideration was based on the reference to the net asset value of Shanghai Sinorail. The completion of the Acquisition is subject to conditions.

The business of Shanghai Sinorail is to develop the construction of communication solutions and information systems products addressing the customers' demand in the jurisdictions managed by the Beijing Railway Bureau; maintenance of communication solutions and information systems so as to increase the efficiency, to improve quality of service and to reduce costs in the jurisdictions managed by the Beijing Railway Bureau; develop the market for the specialised power supply and specialised surveillance solutions for the railway bureaus in the PRC; develop and sell the network power and related systems for the railway bureaus in the PRC; and develop new products and projects with the Beijing Railway Bureau and to provide customized solutions and service to customers in the railway sector.

Use of Proceeds

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

The use of the net proceeds from the listing of the shares of the Company as at December 31, 2010 was as follows:

	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**	**4.3**	**315.4**
Project-related working capital needs	**35%**	**248.7**	**68.5**	**180.2**
Research and development	**10%**	**71.1**	**9.6**	**61.5**
General corporate purposes	**10%**	**71.1**	**19.2**	**51.9**
	100%	**710.6**	**101.6**	**609.0**

Human Resources

As at December 31, 2010, the Group has 655 employees (as at December 31, 2009: 562 employees). The remuneration of existing employees include basic salaries, discretionary bonuses and social security contributions and commensurate with their responsibilities, performance and contribution.

Director and Senior Management

Board of directors

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

Name	Age	Position
Jiang Hailin	42	Chairman, Executive Director
Wang Jing	52	Executive Director
Pan Jianguo	39	Executive Director
Lu Xiao	40	Executive Director
Zhou Chunsheng	44	Independent non-Executive Director
Choi Onward	40	Independent non-Executive Director
Sun Lu	37	Independent non-Executive Director

Executive Directors

Mr. Jiang Hailin (姜海林), 42, is the chairman of our Board, an executive Director and the chief executive officer of the Company. Mr. Jiang is responsible for the overall business operations and formulating strategy of the Company. Mr. Jiang was appointed as Director of the Company on February 20, 2008. He is also one of the controlling shareholders of the Company (the "Controlling Shareholders") and a director of China ITS Co., Ltd. and Best Partners Development Limited (the "Best Partners", one of our 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 and as chairman of its board of directors from May 2002 to August 2010, a director and chairman of its board of directors of Haotian Jiajie since March 2007, a director and vice chairman of its 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, Zhixun Tiancheng since March 2007 to February 2010 and Bailian Youli (Beijing) Investment Co., Ltd. (the "Bailian Youli", 百聯優力（北京）投資有限公司) since September 2004.

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) ("China Ocean") 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 17 years of experience in general management and over 9 years of experience in the China ITS sector.

Mr. Wang Jing (王靖), 52, is an executive Director and vice president of the Company. Mr. Wang is responsible for strategic planning and business development of the Company. Mr. Wang was appointed as Director of the Company on February 21, 2008. Mr. Wang is also one of our Controlling Shareholders, and a director of China ITS Co., Ltd. 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 its board of directors as vice chairman to the present. Mr. Wang has also served as a director and chairman of its board of directors of RAY Holdings Ltd. (the "RAY Holdings", 瑞華贏投資控股有限公司) 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 10 years of experiences in the China ITS sector.

Mr. Pan Jianguo (潘建國), 39, is an executive Director and vice president of the Company. Mr. Pan is responsible for the overall operations platform including general administration and human resources management of the Company. Mr. Pan was appointed as Director of the Company from February 2008 to June 2009 and was reappointed as Director of the Company on February 9, 2010. Mr. Pan is also one of our Controlling Shareholders, and a director of China ITS Co., Ltd. and Joy Bright Success Limited (the "Joy Bright", one of our Controlling Shareholdings). 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 our VA Services business from March 2007 to March 2009, and as vice president responsible for sales and marketing of our Specialized Solutions 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 and Zhixun Tiancheng since June 2007.

Prior to joining our Group, Mr. Pan served as a manager of the transportation department of the specialized network division at Huawei Technologies Co., Ltd. ("the 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 13 years of experiences in the China ITS sector.

Director and Senior Management

Mr. Lu Xiao (陸驍), 40, is an executive Director, vice president of the Company and president of our Specialized Solutions business unit focusing on the railway sector. Mr. Lu is responsible for the overall management of the railway Specialized Solutions business. Mr. Lu was appointed as Director of the Company on July 1, 2009. Mr. Lu is also a director of China ITS Co., Ltd.. Since he joined our Group in June 2007, Mr. Lu had been the senior vice president of the railway Specialized Solutions business until March 2009. He has served as a director and chairman of its board of directors of Zhixun Tiancheng since February 2010 and a director of Aproud Technology since February 2010.

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 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 Southwest Jiaotong University in July 1993. Mr. Lu possesses a total of approximately 18 years of experience in railway industry.

Independent non-Executive Directors

Mr. Zhou Chunsheng (周春生), 44, is an independent non-executive Director of the Company, chairman of the Nomination Committee and a member of the Audit Committee and Remuneration Committee. Mr. Zhou was appointed as Director of the Company on September 4, 2008. He is currently a professor of 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 Daqin Railway Co., Ltd., a PRC incorporated company listed on the Shanghai Stock Exchange (stock code: 601006), an independent non-executive director of Centennial Brilliance Science & Technology Co., Ltd., a PRC incorporated company listed on the Shenzhen Stock Exchange (stock code: 000703), an independent non-executive director of China Southern Fund Management Co., Ltd., an independent non-executive director of Hua Chuang Securities Brokerage Co., Ltd., an independent non-executive director of China Information Technology Development Limited, a company listed on the Stock Exchange of Hong Kong Limited (SEHK: 8178), an independent non-executive director of Zhuguang Holdings Group Company Limited, a company listed on the Stock Exchange of Hong Kong Limited (SEHK: 1176), and an independent non-executive director of Lentuo International Inc., a company listed on the New York Stock Exchange (stock symbol: LAS).

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 experience of serving as directors in other listed companies will be a significant asset to our Board.

Mr. Choi Onward (蔡安活), 40, is an independent non-executive Director of the Company, 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 is also the acting chief financial officer of NetEase.com, Inc., a PRC incorporated internet technology company listed on NASDAQ (NASDAQ: NTES), and an independent non-executive director and chairman of the audit committee of Beijing Jingkelong Company Limited, a company listed on the Stock Exchange of Hong Kong Limited (SEHK: 814).

Mr. Choi has served as the financial controller and corporate finance director of NetEase.com, Inc. Mr. Choi worked at Ernst & Young in Beijing as a senior manager of the assurance and advisory business services department. Mr. Choi received a bachelor of arts 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, the CPA Australia and the Hong Kong Institute of Certified Public Accountants and is 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), 37, 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).

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 major in accounting from Capital University of Economics and Business in July 1996, and an EMBA degree from Tsinghua University in July 2006. He possesses rich experiences in corporate management.

Director and Senior Management

Senior Management

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

Name	Age	Position
Jiang Hailin	42	Chief executive officer
Wang Jing	52	Vice president of the Company
Lu Xiao	40	Vice president of the Company, president of Specialized Solutions-railway
Pan Jianguo	39	Vice president of the Company
Leung Ming Shu	35	Chief financial officer and company secretary
Lv Xilin	38	Vice president of the Company, president of Turnkey Solutions and VA Services-expressway
Jing Yang	39	Vice president of the Company, president of Specialized Solutions-expressway
Kong Qiang	36	President of Turnkey and Specialized Solutions-urban traffic
Mou Yi	44	Group financial controller

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

Mr. Leung Ming Shu (梁銘樞), 35, is chief financial officer and company secretary of the Company responsible for overall financial and corporate finance management of the Company. Mr. Leung has 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).

Prior to joining our Group, Mr. Leung served as the chief financial officer of Beijing Lingtu Software Co., Ltd., a PRC digital mapping and navigation software company, and Beijing Xinwei Telecom Technology Co., Ltd., a subsidiary of Datang Telecom Technology & Industry Group engaged in the development of a proprietary telecommunications standard and manufacturing of telecommunications equipment. Mr. Leung served as a senior manager in the mergers and acquisitions department and chief financial officer of CDC Corporation (NASDAQ: CHINA) and its subsidiary, China.com Inc. (SEHK: 8006) respectively. As the chief financial officer of China.com Inc., Mr. Leung also supervised the corporate secretarial functions and liaised closely with the compliance advisor and legal counsel on statutory compliance matters. Mr. Leung started his professional career at PriceWaterhouseCoopers in Hong Kong in auditing, and subsequently worked at its global corporate finance department managing several crossborder corporate finance and mergers and acquisitions advisory projects. He also worked as a business consultant in Market Catalyst International (HK) Ltd., the consulting arm of Morningside Group that engages in providing management consulting and marketing advisory services, where he advised companies on issues of strategy, organization and operations. Mr. Leung graduated with a first class honors bachelor's degree in accountancy from the City University of Hong Kong in June 1998, as well as a master's degree in accountancy from the Chinese University of Hong Kong in September 2001. He is a Fellow Member of the Association of Chartered Certified Accountants (FCCA) and a Fellow Member of the Hong Kong Institute of Certified Public Accountants (FCPA). Mr. Leung possesses a total of approximately 13 years of experience in corporate financial management, including over 7 years with technology companies.

Mr. Lv Xilin (呂西林), 38, is vice president of the Company and president of our Turnkey Solutions and VA Services business units focusing on the expressway sector. Mr. Lv is responsible for the overall management of our expressway Turnkey Solutions and VA Services businesses. Mr. Lv has served as Director of the Company from October 2006 to June 2009. Mr. Lv is also one of our Controlling Shareholders, and a director of China ITS Co., Ltd. and Best Partners. 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 Turnkey Solutions responsible for the overall management of the Turnkey Solutions business. He has served as a director of RHY Technology since June 2004, and chairman of its board of directors of RHY Technology since August 2010, and a director and chairman of its 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, Beijing Jiyier since April 2007 and as executive director of Jiangsu Yijie since March 2010.

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. (SEHK: 1800), and was responsible for the management of large scale ITS projects. Mr. Lv received a bachelor's degree in industrial trade from 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 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 transportation industry. Mr. Lv possesses a total approximately 17 years of experience in ITS project management.

Director and Senior Management

Mr. Jing Yang (荊陽), 39, is vice president of the Company and president of our Specialized Solutions business unit focusing on the expressway sector. Mr. Jing is responsible for overall management of our expressway Specialized Solutions business. Mr. Jing has served as Director of the Company from October 2006 to June 2009. Mr. Jing is also one of our Controlling Shareholders, and a director of China ITS Co., Ltd. and Joy Bright. Since he joined our Group in January 2006 upon the acquisition of Aproud Technology, Mr. Jing has been responsible for management of our expressway Specialized Solutions business and held various positions within our Group. Mr. Jing has served as a director of Aproud Technology since August 2002 and chairman of its board of directors since February 2010. Mr. Jing has also served as an executive director of Beijing Aproud Information since August 2005 and an executive director of Beijing Aproud Software since February 2010.

Prior to joining Aproud Technology, Mr. Jing was the northeast district sales manager of the transportation department within the specialized network division at Huawei where he focused on the application of communication technology in the expressway ITS sector. Mr. Jing engaged in research and development at the Center for Space Science and Applied Research of the Chinese Academy of sciences from July 1995 to May 1997. He received a bachelor's degree in electronic engineering and information science from the University of Science and Technology of China in July 1995 and an EMBA by the China Europe International Business School in September 2007. Mr. Jing possesses a total approximately 15 years of experience in application of communication technology in expressway ITS sector.

Mr. Kong Qiang (孔強), 36, is president of our Turnkey and Specialized Solutions business units focusing on the urban traffic sector responsible for the overall management of the urban traffic Turnkey and Specialized Solutions business. He has held his current position since he joined our Group in January 2007 upon the acquisition of Hexin Risheng. He has served as a director and the general manager of Hexin Risheng since December 2003 and chairman of its board of directors of Hexin Risheng from December 2003 to June 2007 and again since December 2007.

Prior to joining our Group, Mr. Kong was general manager and founder of Shenzhen Golden Highway Industry Development Co., Ltd.. Mr. Kong served as deputy head of the specialized network system department at Huawei where he engaged in developing the specialized network market in China. Mr. Kong served as an engineer in the computer center of State Post Bureau of the PRC. He received a bachelor's degree in communication engineering from Changchun Institute of Posts and Telecommunications in July 1996. Mr. Kong possesses a total approximately 13 years of experience in Specialized network system in the transportation industry.

Mr. Mou Yi (牟軼), 44, is financial controller of our Group responsible for the internal financial management of the Company. Mr. Mou has served as Director of the Company from October 2008 to June 2009. He joined our Group in October 2004. He started as vice president of RHY Technology and was then promoted to Group vice president of our Turnkey Solutions responsible for the internal and daily operations such as financial control, human resources and other administrative functions of the Turnkey Solutions business unit until October 2009 when he assumed his current role. Mr. Mou has also 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 a supervisor of Beijing Jiyier Technology since April 2007.

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 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.

Corporate Social Responsibilities

In 2010, the Company donated an aggregate amount of RMB500,000 to the Foundation and education institutions in Qinghai, Tibet, Shaanxi and other regions in China respectively.

On April 14, 2010, a 7.1 magnitude earthquake struck Yushu Country of Qinghai Province. The Company had actively launched prompt response for this disaster, such as contacted the charity organizations to arrange for donations, and prepared relief materials at Xining, Qinghai for delivery to afflicted area in Yushu. The employees of the Company had contributed more than RMB250,000 to such event.

In 2010, the Company continued to subsidize, through China Foundation for Guangcai Program, the children of the poor families in the Tibet area to complete their studies, with an accumulated donation of approximately RMB180,000 in May and September 2010 respectively. As at December 31, 2010, the Company had subsidized more than 20 students in the program.

In November, 2010, RHY Technology participated in the establishment of the Technology Innovation Fund for the students of Electronic Information and Control, School of Chang'an University embarking on their bachelor degrees by donating RMB50,000 to enhance the awareness of technology innovation amongst the students and to encourage them to constantly strive for perfection and progress.

Besides the charity donations mentioned above, the Company offered care and love to the poor children in the mountainous regions of China by organizing social welfare activities. In May 2010, Aproud Technology organized a program, "Green Ribbon Re-action", in which employees gifted in art were selected to go to Yijia Primary School of Yibin City, Sichuan Province to deliver music articles and give art lessons and other learning activities for the children.

Corporate Governance Report

Corporate governance practices

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

The Company has adopted the principles set out in the "Code of Corporate Governance Practices" (the "Corporate Governance Code") as contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code to govern its corporate governance practices. During the Review Period (defined below) up to December 31, 2010, the Company continued to apply most of the code provisions (the "Code Provisions") of the Corporate Governance Code except for the deviation set out in the section headed "The Chairman and the Chief Executive Officer" in this report. The Board also reviews and monitors the practices of the Company from time to time with an aim to maintaining and improving a high standard of corporate governance practices.

Set out below is a detailed discussion of the corporate governance practices adopted and observed by the Company from the date of listing ("Listing") on July 15, 2010 (the "Listing Date") up to December 31, 2010 ("Review Period").

Directors' securities transactions

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

Board of directors (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 seven Directors, including four Executive Directors, and three Independent non-Executive Directors:

Executive Directors

Mr. Jiang Hailin *(Chairman and Chief Executive Officer)*
Mr. Wang Jing
Mr. Pan Jianguo
Mr. Lu Xiao

Independent non-Executive Directors
Mr. Zhou Chunsheng
Mr. Choi Onward
Mr. Sun Lu

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

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

Independent non-Executive Directors

More than one-third of the members of the Board are Independent non-Executive Directors, which exceeds 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

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

Board meetings

During the Review Period, there were two Board meetings held, at which the Directors approved, among other things, the audited consolidated results of the Group for the six months ended June 30, 2010.

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

Where the agenda of the Board meetings is in relation to a material matter in which a substantial shareholder or a Director is deemed to have a conflict of interest, Independent non-Executive Directors who, and whose associates have no material interest in the transaction, would be invited to attend such Board meetings. Where

Board meetings relate to financial and other information, the senior management would provide such explanation and information to the Board to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

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

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

Before the listing of the Company, the Directors had been provided with training on their duties and responsibilities as a director of a listed company and the compliance issues under the Listing Rules including ensuring that he or she can give sufficient time and attention to the affairs of the Company.

Attendance Record

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

Name	Board meetings	Board committee meetings Audit Committee	 Remuneration Committee	 Nomination Committee
	(Times of attendance/times of meeting)			
Executive Directors				
Jiang Hailin *(Chairman and Chief Executive Officer)*	2/2	N/A	N/A	N/A
Wang Jing	2/2	N/A	N/A	N/A
Pan Jianguo	2/2	N/A	N/A	N/A
Lu Xiao	2/2	N/A	N/A	N/A
Independent non-Executive Directors				
Zhou Chunsheng	2/2	1/1	Nil(Note)	Nil(Note)
Choi Onward	2/2	1/1	Nil(Note)	Nil(Note)
Sun Lu	2/2	1/1	Nil(Note)	Nil(Note)

Note:

Remuneration Committee and Nomination Committee have not convened any meetings during the Review Period. Please refer to the section "Board Committees" for details.

The Chairman and the Chief Executive Officer

At present, the positions of the chairman of the Board and the chief executive officer of the Company are held by Mr. Jiang Hailin. Although this deviates from the practice under the Code Provision A2.1 which provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual and the division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing, Mr. Jiang has considerable and extensive knowledge and experience in the ITS industry and in enterprise operation and management in general. The Board believes that it is in the best interest of the Company to continue to have an executive chairman so the Board can benefit from his knowledge of the business and his capability in leading the Board in discussing the strategy and long-term development of the industry.

From a corporate governance point of view, the decisions of the Board are made collectively by way of voting and therefore the chairman of the Board should not be able to monopolize the voting result. The Board considers that the balance of power between the Board and the senior management can still be maintained under the current structure. The Board shall review the structure from time to time to ensure appropriate move is being taken should circumstances arise.

Board committees

Remuneration Committee

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

The primary functions of the Remuneration Committee are to:

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

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

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

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

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

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

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

During the Review Period, there was no change in the policy and structure of the remuneration for Directors and senior management of the Company, and accordingly, the Remuneration Committee did not convene any meeting.

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.

There was no change in the composition of the Board during the Review Period, and accordingly, the Nomination Committee did not convene any meeting.

Audit Committee

The Audit Committee consists of three Independent non-Executive Directors, namely, Mr. Choi Onward, Mr. Zhou Chunsheng and Mr. Sun Lu. Mr. Choi Onward is the chairman of the Audit Committee. 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, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

During the year, the Audit Committee convened one meeting 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.

Major work completed by the Audit Committee during the year includes:

- Reviewing the Group's interim report;
- Reviewing accounting policies adopted by the Group and issues related to accounting practice;
- Supervising internal auditing of the Group;
- Assisting the Board to evaluate on the effectiveness of financial reporting procedure and internal control system;
- Advice on material events or draw the attention of management on related risks.

Accountability and audit

Auditor's remuneration

The remuneration paid to the Company's auditor, Ernst & Young, during the year ended December 31, 2010 in relation to audit service are RMB1.1 million,

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, 2010 is set out on pages 53.

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 to carry out internal audit works based on an internal audit plan which is reviewed and approved by the Audit Committee. The Group's Internal Audit Department, reports its findings and recommendations for any corrective action required to the Audit Committee. The Audit Committee reviews the reports submitted by the Internal Audit Department and the issues on the internal control system of the Group are then discussed and evaluated by the Board every year.

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

Communications with Shareholders and Investors

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

The 2011 Annual General Meeting ("AGM") will be held on 26 May 2011. The notice of AGM will be sent to Shareholders at least 20 clear business days before the AGM.

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

Report of the Directors

The directors of the Company (the "**Directors**") present their report together with the audited consolidated financial statements of the Group for the year ended December 31, 2010, along with any supplementary commentary on trend and conditions that impacted our business during the year.

Principal activities

The Company is an investment holding company. The principal activities of its principal subsidiaries are to provide intelligent transport system and transportation infrastructure technology solutions and services to expressway, railway, urban traffic (including urban roadways and rapid transit) and energy sectors in China. Details of the activities of the subsidiaries of the Group are set out in note 15 to the consolidated financial statements on page 102.

Corporate Reorganization

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on February 20, 2008 under the Companies Law of the Cayman Islands. The Company became the holding company of the Group through a series of reorganization, details of which are set out in the section headed "History and Corporate Structure — Reorganization" in the Company's prospectus dated June 30, 2010 (the "**Prospectus**").

Results and Dividend

The consolidated results of the Group for the year ended December 31, 2010 are set out on page 54 of this annual report.

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

Property and equipment

Details of movements in the property and equipment of the Group are set out in note 12 to the consolidated financial statements on page 99.

Share capital

Details of the movement in the Company's share capital during the year ended December 31, 2010 are set out in note 26 to the consolidated financial statements on page 114.

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, 2010 are set out in note 27 to the consolidated financial statements on page 115.

As at December 31, 2010, the Company's distributable reserve is RMB1,464.7 million.

Directors

The Directors of the Company who held office during the year ended December 31, 2010 and up to the date of this annual report are:

Executive Directors:
Jiang Hailin *(Chairman and Chief Executive Officer)*
Wang Jing
Pan Jianguo
Lu Xiao

Independent non-Executive Directors:
Zhou Chunsheng
Choi Onward
Sun Lu

In accordance with Article 84 of the Articles of Association of the Company and the Listing Rules, Pan Jianguo, Lu Xiao and Choi Onward 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 22 to 29 of this annual report.

Independence of the Independent non-Executive Directors

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

Directors' Service Contracts

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

Remuneration of the Directors

The determination of the remuneration of the Directors and senior management of our Company is based on the individual performance, the nature and responsibilities of the individual concerned and the performance of our Group and market conditions. Proposals for increase in remuneration, payment of discretionary bonus or adjustment to any benefits scheme will be approved by the remuneration committee of the Board. The Company will also periodically review and assess its human resource requirements and the prevailing market trend and make appropriate adjustments. Details of the remuneration of the Directors are set out in note 6 to the consolidated financial statements on page 91.

Employment and Emolument Policies

As at December 31, 2010, the Group had 655 full-time employees (as at December 31, 2009: 562 full-time employees). The emolument policy of the employees of the Group is set up by the Board on the basis of merit, qualifications and competence.

In addition to basic salaries, the Company has the Pre-IPO Share Incentive Scheme and the Share Option Scheme as an incentive for directors and eligible employees. Details of the schemes are set out in note 28 to the consolidated financial statements on page 117.

Retirement Benefit Scheme

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

Particulars of the retirement benefits scheme of the Group are set out in note 5(a) to the consolidated financial statements on page 89.

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

As at December 31, 2010, the interests and short positions of the Directors and chief executive of the Company in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code, were as follows:

(i) Interest in the Company

Name of Director	Nature of interest	Number of securities	Approximate percentage of shareholding as at December 31, 2010
Jiang Hailin[1]	Beneficiary of the Fino Trust	853,744,597 (L)[4]	54.41% (L)[4]
		106,236,916 (S)[4]	6.77% (S)[4]
Wang Jing[2]	Beneficiary of the Tesco Trust	865,094,597 (L)[4]	55.14% (L)[4]
		106,236,916 (S)[4]	6.77% (S)[4]
Pan Jianguo[3]	Beneficiary of the Binks Trust	853,744,597 (L)[4]	54.41% (L)[4]
		106,236,916 (S)[4]	6.77% (S)[4]
Lu Xiao	Beneficiary Owner	4,662,105 (L)[4]	0.30% (L)[4]

Notes:

(1) The shares of the Company (the "Shares") are held by Best Partners, the issued share capital of which is owned as to 83% by Fino Investments Limited, as nominee and trustee for Credit Suisse Trust Limited, which is the trustee holding such interests on trust for the beneficiaries of the Fino Trust, namely Liao Daoxun, Wu Yurui, Liang Shiping, Jiang Hailin, Wu Chunhong, Yuan Chuang, Lv Xilin and Zhao Lisen. The Fino Trust is an irrevocable discretionary trust established under the laws and regulations of Singapore. Jiang Hailin is a beneficiary of the Fino Trust, which is indirectly interested in China ITS Co., Ltd., which in turn is interested in 853,744,597 Shares.

(2) The Shares are held by Best Partners, the issued share capital of which is owned as to 17% by Tesco Investments Limited, as nominees and trustee for Credit Suisse Trust Limited, which is the trustee holding such interests on trust for the beneficiaries of the Tesco Trust, namely Wang Jing, Zhang Qian, Guan Xiong, Zheng Hui and Wang Li. The Tesco Trust is an irrevocable discretionary trust established under the laws and regulations of Singapore. Wang Jing is a beneficiary of the Tesco Trust, which is indirectly interested in China ITS Co., Ltd., which in turn is interested in 853,744,597 Shares.

(3) The Shares are held by Joy Bright, the issued share capital of which is owned as to 60.3960% by Gouver Investments Limited and as to 39.6040% by Rockyjing Investment Limited, which in turn is wholly-owned by Binks Investments Limited (formerly known as Sinatra Investments Limited), as nominee and trustee for Credit Suisse Trust Limited, which is the trustee holding such interests on trust for the beneficiaries of the Binks Trust, namely Dang Kulun, Pan Jianguo and Jing Yang. The Binks Trust is an irrevocable discretionary trust established under the laws and regulations of Singapore. Pan Jianguo is a beneficiary of the Binks Trust, which is indirectly interested in China ITS Co., Ltd., which in turn is interested in 853,744,597 Shares.

(4) (L) denotes long positions, (S) denotes short positions.

(ii) Interest in underlying Shares of the Company

Name of Director	Nature of Interest	Number of Shares in the Company subject to options granted under the Pre-IPO Share Incentive Scheme	Approximate percentage of shareholding upon the exercise of the options granted under the Pre-IPO Share Incentive Scheme as at December 31, 2010
Wang Jing	Beneficial owner	11,350,000	0.72%
Lu Xiao	Beneficial owner	4,662,105	0.30%

Directors' Rights to Acquire Shares

Save as otherwise disclosed in this annual report, at no time during the year ended December 31, 2010, was the Company or any of its subsidiaries or its holding company or any of the subsidiaries of the Company's holding company a party to any arrangement to enable the Directors or the chief executive of the Company or their respective associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors and chief executive, or their spouse and children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during such period.

Pre-IPO Share Incentive Scheme/Share Option Scheme

The terms of the Pre-IPO Share Incentive Scheme and the Share Option Scheme were disclosed in the section headed "Other information – Pre-IPO Share Incentive Scheme" and "Other information – Share Option Scheme" respectively, in Appendix VI to the Prospectus.

1. Pre-IPO Share Incentive Scheme

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

Below is a list of the Directors, senior management and other personnel of the Company who have been granted options under the Pre-IPO Share Incentive Scheme:

Grantee and position	Number of Shares under the options granted under the Pre-IPO Share Incentive Scheme	% of shareholding base on share capital as at Listing	% of shareholding base on share capital as at December 31, 2010 (Note)	Number of options that become exercisable on December 31, 2008	Number of options that become exercisable on December 31, 2010	Number of options that become exercisable on June 30, 2011	Number of options that become exercisable on December 31, 2011	Number of options that become exercisable on June 30, 2012	Number of options that become exercisable on December 31, 2012	Number of options that become exercisable on June 30, 2013
Wang Jing (王靖) (Executive Director)	11,350,000	0.73%	0.72%	3,518,500	1,305,250	1,305,250	1,305,250	1,305,250	1,305,250	1,305,250
Lu Xiao (陸驍) (Executive Director)	4,662,105	0.30%	0.30%	1,445,253	536,142	536,142	536,142	536,142	536,142	536,142
Leung Ming Shu (梁銘樞) (Chief financial officer and company secretary)	9,332,000	0.60%	0.59%	2,892,920	1,073,180	1,073,180	1,073,180	1,073,180	1,073,180	1,073,180
Lv Xilin (呂西林) (Vice President of the Company, president of Turnkey Solutions and VA Services – expressway)	1,773,000	0.11%	0.11%	549,630	203,895	203,895	203,895	203,895	203,895	203,895
Kong Qiang (孔強) (President of Turnkey and Specialized Solutions – urban traffic)	6,400,000	0.41%	0.41%	1,984,000	736,000	736,000	736,000	736,000	736,000	736,000
Mou Yi (牟軼) (Group financial controller)	1,300,000	0.08%	0.08%	637,000	110,500	110,500	110,500	110,500	110,500	110,500
Others	81,836,000	5.28%	5.22%	47,143,090	5,782,152	5,782,152	5,782,152	5,782,152	5,782,152	5,782,152
	116,653,105	7.43%	7.43%	58,170,393	9,747,119	9,747,119	9,747,119	9,747,119	9,747,119	9,747,117

Note:

The share capital of the Company as at December 31, 2010 is 1,569,047,334 shares, which reflects the total share capital of the Company as at Listing and partial exercise of the over-allotment option on August 2, 2010.

All of the outstanding options granted under the Pre-IPO Share Incentive Scheme were granted on December 28, 2008.

The exercise period and subscription price of a Share payable by a grantee in respect of the outstanding options granted under the Pre-IPO Share Incentive Scheme are as follows:

Tranche	Exercise Period	Subscription Price Payable per Share
1	December 31, 2008 to December 30, 2013	RMB0.60
2A	December 31, 2010 to December 30, 2015	RMB2.00
2B	June 30, 2011 to June 29, 2016	RMB2.00
3A	December 31, 2011 to December 30, 2016	RMB3.00
3B	June 30, 2012 to June 29, 2017	RMB3.00
4A	December 31, 2012 to December 30, 2017	RMB4.00
4B	June 30, 2013 to June 29, 2018	RMB4.00

None of the outstanding options granted under the Pre-IPO Share Incentive Scheme have been exercised, cancelled or lapsed in the year ended December 31, 2010. China ITS Co., Ltd. did not transfer any shares of the Company under the Pre-IPO Share Incentive Scheme to the grantees within the six months from the date of Listing between July 15, 2010 to January 14, 2011.

The options issued under the Pre-IPO Share Incentive Scheme represent approximately 7.43% of the Company's enlarged share capital as at December 31, 2010. Upon exercise of such options, China ITS Co., Ltd., the controlling shareholder of the Company, shall transfer the relevant number of shares of the Company to the grantee of the options. There is therefore no dilutive effect on the shareholders of the Company resulting from the exercise of the options under the Pre-IPO Share Incentive Scheme.

2. Share Option Scheme

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

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

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

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

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

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

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

As at December 31, 2010, no option has been granted under the Share Option Scheme.

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

As at December 31, 2010, to the best knowledge of the directors of the Company, the records of interest (being 5% or more of the issued share capital of the Company) as registered in the register kept by the Company under section 336 of the SFO were as follows:

Long positions and short positions in the Shares and underlying Shares of the Company

Name	Capacity/Nature of Interest	Number of Shares	Approximate percentage of shareholding[1]
China ITS Co., Ltd.[1]	Beneficial owner	853,744,597 (L)[9]	54.41% (L)[9]
		106,236,916 (S)[9]	6.77% (S)[9]
Joy Bright[2]	Interest of a controlled corporation	853,744,597 (L)[9]	54.41% (L)[9]
		106,236,916 (S)[9]	6.77% (S)[9]
Gouver Investments Limited[2][4]	Interest of a controlled corporation	853,744,597 (L)[9]	54.41% (L)[9]
		106,236,916 (S)[9]	6.77% (S)[9]
Rockyjing Investment Limited[2][4]	Interest of a controlled corporation	853,744,597 (L)[9]	54.41% (L)[9]
		106,236,916 (S)[9]	6.77% (S)[9]

Name	Capacity/Nature of Interest	Number of Shares	Approximate percentage of shareholding[1]
Best Partners[3]	Interest of a controlled corporation	853,744,597 (L)[9]	54.41% (L)[9]
		106,236,916 (S)[9]	6.77% (S)[9]
Fino Investments Limited[5]	Interest of a controlled corporation	853,744,597 (L)[9]	54.41% (L)[9]
		106,236,916 (S)[9]	6.77% (S)[9]
Tesco Investments Limited[6]	Interest of a controlled corporation	853,744,597 (L)[9]	54.41% (L)[9]
		106,236,916 (S)[9]	6.77% (S)[9]
Binks Investments Limited[4]	Interest of a controlled corporation	853,744,597 (L)[9]	54.41% (L)[9]
		106,236,916 (S)[9]	6.77% (S)[9]
Credit Suisse Trust Limited[4][5][6]	Trustee	853,744,597 (L)[9]	54.41% (L)[9]
		106,236,916 (S)[9]	6.77% (S)[9]
Huaxin Investments Limited[4]	Beneficial owner	227,457,995 (L)[9]	14.50% (L)[9]
Temasek Holdings (Private) Limited[7]	Interest of a controlled corporation	144,226,748 (L)[9]	9.20% (L)[9]
		93,520,747 (S)[9]	5.96% (S)[9]
Central Huijin Investment Ltd[8]	Interest of a controlled corporation	405,490,232 (L)[9]	25.84% (L)[9]

Notes:

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

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

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

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

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

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

(7) These 144,226,748 Shares held by Baytree Investments (Mauritius) Pte Ltd ("Baytree") include Shares owned by China ITS Co., Ltd which have been automatically exchanged with Baytree upon the Listing (but the registration of the these Shares completed on February 10, 2011). Baytree is wholly owned by Dunearn Investments (Mauritius) Pte Ltd. Dunearn Investments (Mauritius) Pte Ltd is wholly owned by Seletar Investments Pte Ltd, which is wholly owned by Temasek Capital (Private) Limited. Temasek Capital (Private) Limited is in turn wholly owned by Temasek Holdings (Private) Limited.

(8) These 405,490,232 Shares held by CCB International Asset Management Limited ("CCBIAM") include Shares charged to CCBIAM and Shares owned by China ITS Co., Ltd which have been automatically exchanged with CCBIAM upon the Listing (but the registration of the these Shares completed on January 17, 2011). CCBIAM is wholly owned by CCB International Assets Management (Cayman) Limited. CCB International Assets Management (Cayman) Limited is wholly owned by CCB International (Holdings) Limited, which is wholly owned by CCB Financial Holdings Limited. CCB Financial Holdings Limited is wholly owned by CCB International Group Holdings Limited, which is wholly owned by China Construction Bank Corporation. China Construction Bank Corporation is owned as to 57.09% by Central Huijin Investment Ltd.

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

Purchase, Sale or Redemption of Listed Securities

During the year ended December 31, 2010, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

Exchangeable Bonds

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

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

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

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

Changes to Information in respect of Directors

Save as disclosed herein, in the year ended December 31, 2010, there were no changes to information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules since the publication of the Prospectus.

Use of proceeds from Listing

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

The use of the net proceeds from the Listing of the Shares of the Company as at December 31, 2010 was as follows:

	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**	**4.3**	**315.4**
Project-related working capital needs	**35%**	**248.7**	**68.5**	**180.2**
Research and development	**10%**	**71.1**	**9.6**	**61.5**
General corporate purposes	**10%**	**71.1**	**19.2**	**51.9**
	100%	**710.6**	**101.6**	**609.0**

Major customers and suppliers

For the year ended December 31, 2010, the aggregate sales to the Group's five largest customers, in aggregate represented approximately 35.6% of the Group's total revenue and sales to the Group's largest customer amounted to approximately 14.9% of the Group's total revenue.

For the year ended December 31, 2010, the aggregate purchases attributable to the Group's five largest suppliers, in aggregate represented approximately 38.5% of the Group's total purchases and purchases attributable to the Group's largest supplier amounted to approximately 29.9% of the Group's total purchases.

For the year ended December 31, 2010, 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 2010 are set out in note 24 to the consolidated financial statements on page 113.

Corporate governance

The Company is committed to maintaining a high standard of corporate governance practice. Information on the corporate governance practice adopted by the Company is set out in the Corporate Governance Report on pages 31 to 39.

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. 2010, the Company has maintained sufficient public float as required under the Listing Rules.

Connected Transactions

The only connected transactions of the Company for the period from the Listing Date up to December 31, 2010 are the exempted continuing connected transactions in relation to (1) the lease of office premises by Li Tianbing to Wuhan Chenguang, of which Li Tianbing is a director; and (2) the lease of office premises by Chengdu Weilute Software Technology Co., Ltd. ("**Weilute Software**"), a connected person of the Company by virtue of its 49% interest in Chengdu Zhida Weilute, to RHY Technology. Details of these continuing connected transactions are set out in the section headed "Connected Transactions" in the Prospectus. As both transactions constitute exempted continuing connected transactions under Rule 14A.33(3) of the Listing Rules, the Company is not required to disclose such transactions in this annual report. There was no other connected transaction and/or continuing connected transactions which are not exempted from reporting under the Listing Rules during the year ended December 31, 2010.

Related parties transactions

The Group is also involved in a number of related party transactions during the year ended December 31, 2010, which have been disclosed in note 29 to the consolidated financial statements on pages 119.

Contracts of Significance

No contracts of significance in relation to the business of the Group, to which the Company, its holding companies, its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended December 31, 2010.

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, 2010 or any time during the year ended December 31, 2010.

Directors' Interests in Competing Business

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

Non-competition Deed

As disclosed in the Prospectus, the Independent non-Executive Directors will review, on an annual basis, the compliance by the controlling shareholders of the Company with the non-competition undertakings under the Non-competition Agreement (as defined in the Prospectus). The Independent non-Executive Directors have conducted such review for the year ended December 31, 2010 and found that the Non-competition Agreement has been fully complied with.

Audit Committee

The Group's annual report for the year ended December 31, 2010 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 35.

Auditor

The consolidated financial statements of the Group for the year ended December 31, 2010 have been audited by Ernst & Young. A resolution for the re-appointment of Ernst & Young as the Company's auditor will be proposed at the forthcoming annual general meeting.

Events after the Reporting Period

Please refer to note 39 to the consolidated financial statements on page 137 for events of the Company after December 31, 2010.

On behalf of the board
CHINA ITS (HOLDINGS) CO., LTD.
JIANG HAILIN
Chairman

Beijing, March 27, 2011

Independent Auditors' Report

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安 永

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

We have audited the consolidated financial statements of China ITS (Holdings) Co., Ltd. (the "Company") and its subsidiaries (collectively the "Group") set out on pages 54 to 137, which comprise the consolidated and company statements of financial position as at December 31, 2010, 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 ended December 31, 2010, 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, 2010, and of the Group's profit and cash flows for the year ended December 31, 2010 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 27, 2011

Consolidated Income Statement

Year ended December 31, 2010

	Notes	2010 RMB'000	2009 RMB'000
REVENUE	4	**1,862,184**	1,405,447
Cost of revenue	5	**(1,274,242)**	(1,004,386)
Gross profit		**587,942**	401,061
Other income and gains	5(c)	**8,870**	16,420
Expenses relating to the listing of the Company's shares	5	**(35,488)**	(2,078)
Selling, general and administrative expenses		**(211,051)**	(161,683)
Other expenses	5(f)	**(247)**	(103)
OPERATING PROFIT		**350,026**	253,617
Finance income	5(d)	**5,605**	809
Finance costs	5(e)	**(11,505)**	(7,985)
Share of profits of jointly-controlled entities	16	**3,556**	291
PROFIT BEFORE TAX	5	**347,682**	246,732
Income tax expense	8	**(53,673)**	(32,060)
PROFIT FOR THE YEAR		**294,009**	214,672
Attributable to:			
Owners of the parent	9	**294,009**	214,672
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		**RMB**	RMB
Basic-for the profit for the year	11	**0.21**	0.18

Details of the dividends payable and proposed for the year ended December 31, 2010 are disclosed in note 10 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended December 31, 2010

	Notes	2010 RMB'000	2009 RMB'000
PROFIT FOR THE YEAR		**294,009**	214,672
Gain on property revaluation upon transfer to investment properties	13	**–**	10,376
Income tax effect	8	**–**	(2,594)
		–	7,782
Exchange differences on translation of foreign operations	31(c)	**(13,893)**	1,653
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(13,893)**	9,435
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**280,116**	224,107
Attributable to:			
Owners of the parent		**280,116**	224,107

Consolidated Statement of Financial Position

December 31, 2010

	Notes	2010 RMB'000	December 31, 2009 RMB'000
NON-CURRENT ASSETS			
Property and equipment	12	**27,074**	26,223
Investment properties	13	**141,037**	80,100
Goodwill	14	**230,664**	230,664
Investments in jointly-controlled entities	16	**19,750**	8,544
Deferred tax assets	8	**5,350**	5,946
Other assets		**566**	540
Total Non-current assets		**424,441**	352,017
CURRENT ASSETS			
Inventories	20	**4,467**	6,432
Construction contracts	17	**777,875**	679,579
Trade and bills receivables	18	**834,436**	411,394
Prepayments, deposits and other receivables	19	**555,280**	213,313
Due from related companies	29	**5,571**	3,900
Pledged deposits	21	**182,502**	173,607
Short term deposit	21	**112,441**	—
Cash and cash equivalents	21	**836,883**	177,173
Total current assets		**3,309,455**	1,665,398
CURRENT LIABILITIES			
Trade and bills payables	22	**597,838**	488,590
Other payables and accruals	23	**122,130**	118,214
Construction contracts	17	**559,531**	248,155
Interest-bearing bank borrowings	24	**289,998**	170,150
Due to related companies	29	**6,537**	4,567
Income tax payable		**10,174**	12,792
Total current liabilities		**1,586,208**	1,042,468
NET CURRENT ASSETS		**1,723,247**	622,930
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,147,688**	974,947

Consolidated Statement of Financial Position

December 31, 2010

	Notes	2010 RMB'000	December 31, 2009 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	8	**36,281**	21,788
NET ASSETS		**2,111,407**	953,159
EQUITY			
Equity attributable to owners of the parent			
Issued capital	26	**276**	216
Reserves	27(a), 31	**2,111,131**	952,943
Total equity		**2,111,407**	953,159

Jiang Hailin
Director

Pan Jianguo
Director

Consolidated Statement of Changes in Equity

Years ended December 31, 2010

		Attributable to owners of the parent and total equity							
	Notes	Issued capital RMB'000 Note 26	Share premium RMB'000 Note 31(b)	Statutory reserve RMB'000 Note 27(a)	Capital reserve RMB'000 Note 27(a)	Asset revaluation Reserve# RMB'000 Note 31(a)	Exchange fluctuation reserve RMB'000 Note 31(c)	Retained earnings RMB'000	Total RMB'000
At January 1, 2009		205	–	20,263	391,695	–	15,236	243,067	670,466
Profit for the year		–	–	–	–	–	–	214,672	214,672
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations		–	–	–	–	–	1,653	–	1,653
Gain on property revaluation transfer to investment properties		–	–	–	–	7,782	–	–	7,782
Total comprehensive income for the year		–	–	–	–	7,782	1,653	214,672	224,107
Issue of shares		11	120,190	–	–	–	–	–	120,201
Share-based payment transactions		–	–	–	9,886	–	–	–	9,886
Transfer from retained earnings		–	–	34,806	152,000	–	–	(186,806)	–
Dividend declared		–	–	–	–	–	–	(71,501)	(71,501)
At December 31, 2009 and January 1, 2010		**216**	**120,190**	**55,069**	**553,581**	**7,782**	**16,889**	**199,432**	**953,159**
Profit for year		**–**	**–**	**–**	**–**	**–**	**–**	**294,009**	**294,009**
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations		**–**	**–**	**–**	**–**	**–**	**(13,893)**	**–**	**(13,893)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**(13,893)**	**294,009**	**280,116**
Issue of shares		**60**	**918,186**	**–**	**–**	**–**	**–**	**–**	**918,246**
Share-based payment transactions	28	**–**	**–**	**–**	**9,886**	**–**	**–**	**–**	**9,886**
Transfer from retained earnings		**–**	**–**	**17,114**	**–**	**–**	**–**	**(17,114)**	**–**
Dividend declared	10	**–**	**(50,000)**	**–**	**–**	**–**	**–**	**–**	**(50,000)**
At December 31, 2010		**276**	**988,376***	**72,183***	**563,467***	**7,782***	**2,996***	**476,327***	**2,111,407**

* These reserve accounts comprise the consolidated reserve of RMB2,111,131,000 (2009: RMB952,943,000) in the consolidated statement of financial position.

The asset revaluation reserve arose from a change in use from an owner-occupied property to an investment property carried at fair value during the year ended December 31, 2009.

Consolidated Statement of Cash Flows

Year ended December 31, 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**294,009**	214,672
Adjustments to reconcile net profit to net cash from/(used in) operating activities:			
Depreciation	5(b)	**7,502**	7,370
Net (gain)/loss on disposal of items of property and equipment		**(9)**	27
Share-based payment expense	28	**9,886**	9,886
Expenses related to the listing of the Company's shares	5	**35,488**	2,078
Write-back of impairment of trade receivables	5	**(1,882)**	—
Deferred income tax charge	8	**15,089**	9,787
Share of profits of jointly-controlled entities	16	**(3,556)**	(291)
Net gain from fair value adjustment on investment properties	13	**(3,200)**	(11,108)
Interest income	5(d)	**(5,605)**	(809)
Finance costs	5(e)	**11,505**	7,985
		359,227	239,597
Changes in assets and liabilities:			
Pledged deposits		**19,143**	(70,882)
Trade and bills receivables		**(421,160)**	(163,967)
Prepayments, deposits and other receivables		**(354,383)**	(47,794)
Construction contracts	17	**213,080**	61,091
Inventories	20	**1,965**	1,902
Balances with related parties		**(890)**	(351)
Trade and bills payables	22	**109,248**	77,321
Other payables and accruals		**11,021**	(141,786)
Income tax payable		**(2,618)**	1,011
Cash generated from operations		**(65,367)**	(43,858)
Interest paid		**(11,505)**	(7,985)
Interest received		**3,921**	809
Net cash flows used in operating activities		**(72,951)**	(51,034)

Consolidated Statement of Cash Flows

Year ended December 31, 2010

	Notes	2010 RMB'000	2009 RMB'000
Net cash flows used in operating activities		**(72,951)**	(51,034)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of items of property and equipment		**2,815**	871
Purchases of items of property and equipment	12	**(11,159)**	(13,365)
Purchase of an investment property	13	**(57,737)**	—
Dividend received from a jointly-controlled entity		**1,189**	—
Investment in short term deposit		**(112,441)**	—
Capital injection in a jointly-controlled entity	16	**(7,650)**	—
Acquisition of a minority interest		**—**	(1,200)
Net cash flows used in investing activities		**(184,983)**	(13,694)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**379,926**	170,150
Repayment of bank loans		**(260,078)**	(100,000)
Increase in pledged deposits for bank loans		**(30,133)**	(50,228)
Dividends paid		**(65,297)**	(56,204)
Proceeds from issue of shares		**927,964**	120,201
Prepayment of loan to related parties		**—**	(4,248)
Payment of listing expenses		**(25,117)**	(8,896)
Net cash flows from financing activities		**927,265**	70,775
Net increase in cash and cash equivalents		**669,331**	6,047
Effect of foreign exchange rate changes, net		**(9,621)**	1,653
Cash and cash equivalents at beginning of year		**177,173**	169,473
CASH AND CASH EQUIVALENTS AT END OF YEAR		**836,883**	177,173

Statement of Financial Position

December 31, 2010

	Notes	2010 RMB'000	December 31, 2009 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	15	**571,471**	591,330
		571,471	591,330
CURRENT ASSETS			
Prepayments, deposits and other receivables	19	**8,760**	71,115
Due from subsidiaries	25	**455,027**	—
Pledged deposits	21	**—**	50,228
Short term deposit	21	**112,441**	—
Cash and cash equivalents	21	**363,184**	747
		939,412	122,090
CURRENT LIABILITIES			
Other payables and accruals	23	**18,860**	24,064
Due to a subsidiary	25	**18,339**	5,041
		37,199	29,105
NET CURRENT ASSETS		**902,213**	92,985
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,473,684**	684,315
EQUITY			
Issued capital	26	**276**	216
Reserves	27(b)	**1,473,408**	684,099
Total equity		**1,473,684**	684,315

Jiang Hailin
Director

Pan Jianguo
Director

1. CORPORATE INFORMATION AND GROUP REORGANIZATION

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

Pursuant to a group reorganization (the "Reorganization") for the purpose of listing of the Company's ordinary shares on the Stock Exchange, on June 18, 2008, the Company acquired the entire issued capital of China Toprise Limited and Fairstar Success Holdings Limited, the then intermediate holding companies of the Group, from China ITS Co., Ltd., and became the holding company of the Group. Further details of the Reorganization are set out in the Company's prospectus dated June 30, 2010 (the "Prospectus").

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

The Group's principal businesses are summarized as follows:

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

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

- Value-added services business — involving post-construction maintenance services for turnkey and specialized solutions.

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 equity investments, 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.

2.1 BASIS OF PRESENTATION (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended December 31, 2010. Except for the Reorganization which has been accounted for as a reorganization under common control in a manner similar to a pooling-of-interest, the purchase method of accounting is used to account for the acquisition of subsidiaries of the Group. 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, unrealized gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

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

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

The pooling-of-interests method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs in the periods as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognized in respect of goodwill or any excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the financial statements for the year ended December 31, 2010.

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*
IFRS 1 Amendments	*Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards — Additional Exemptions for First-time Adopters*
IFRS 2 Amendments	*Amendments to IFRS 2 Share-based Payment — Group Cash-settled Share-based Payment Transactions*
IFRS 3 (Revised)	*Business Combinations*
Amendments to IFRS 5	*Amendments to IFRS 5: Non-current Assets Held for Sale and Discontinued Operations — Plan to Sell the Controlling Interest in a Subsidiary*
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*
IAS 39 Amendment	*Amendment to IAS 39 Financial Instruments: Recognition and Measurement — Eligible Hedged Items*
IFRIC 17	*Distribution of Non-cash Assets to Owners*
IFRS 5 Amendments included in Improvements to IFRSs issued in October 2008	*Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary*
Improvements to IFRSs 2009	*Amendments to a number of IFRSs issued in May 2009*
IAS 39 Amendment	*Amendment to IAS 39 Financial Instruments: Recognition and Measurement — Eligible Hedged Items*

Other than as further explained below regarding the impact of IFRS 3 (Revised), IAS 27 (Revised), amendments to IAS 7, IAS 8 and IAS 17 included in Improvements to IFRSs 2009, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised IFRSs are as follows:

(a) IFRS 3 (Revised) *Business Combinations* and IAS 27 (Revised) *Consolidated and Separate Financial Statements*

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) IFRS 3 (Revised) *Business Combinations* and IAS 27 (Revised) *Consolidated and Separate Financial Statements* (continued)

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after January 1, 2010.

(b) Improvements to IFRSs 2009 issued in May 2009 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- IAS 7 Statement of Cash Flows: Requires that only expenditures that result in a recognized asset in the statement of financial position can be classified as a cash flow from investing activities.

- IAS 8 Operating Segments: Clarifies that segment assets and liabilities need only to be reported when those assets and liabilities are included in measures those are used by the chief operating decision maker.

- IAS 17 Leases: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in IAS 17.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS1 Amendment	*Amendment to IFRS1 First-time Adoption of International Financial Reporting Standards — Limited Exemption from Comparative IFRS7 Disclosures for First-time Adopters*[2]
IFRS 7 Amendments	*Amendments to IFRS 7 Financial Instruments: Disclosures — Transfers of Financial Assets*[4]
IFRS 9	*Financial Instruments*[5]
IAS 24 (Revised)	*Related Party Disclosures*[3]
IAS 32 Amendment	Amendment to IAS 32: *Financial Instruments: Presentation — Classification of Rights Issues*[1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayment of a Minimum Funding Requirement*[3]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]
Improvement to IFRSs*	Improvements to IFRS issued in May 2010[3]

* Apart from the above, the IASB has issued improvements IFRSs 2010 which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3 and IAS 27 are effective for annual periods beginning on or after July 1, 2010, whereas the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC-Int 13 are effective for annual periods beginning on or after January 1, 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after February 1, 2010
2 Effective for annual periods beginning on or after July 1, 2010
3 Effective for annual periods beginning on or after January 1, 2011
4 Effective for annual periods beginning on or after July 1, 2011
5 Effective for annual periods beginning on or after January 1, 2013

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that except for the adoption of Improvements to IFRSs 2010 as further explained below, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

Improvements to IFRSs 2010 issued in May 2010 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from January 1, 2011. 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 Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

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

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

(a) (continued)

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign currencies

Since the Company conducts its primary business operations through its subsidiaries established in the PRC, the Company adopts RMB as the presentation currency of the Group. The Company's functional currency is Hong Kong dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of the reporting period. All differences are taken to the income statement. All differences are taken to the income statement with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognized in other comprehensive income until the disposal of the net investment, at which time they are recognized in the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

For the purpose of the consolidated statements of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

Business combinations and goodwill

Business combinations from January 1, 2010

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 acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition 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 acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combinations from January 1, 2010 (continued)
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 recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to January 1, 2010 but after January 1, 2005
In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to January 1, 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries those are not classified as held for sales in accordance with IFRS5 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 realized upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

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

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

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities (continued)

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. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statements and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on agreed profit sharing ratio. Unrealized gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investment in the jointly-controlled entities, except where unrealized 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.

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a jointly-controlled entity;

(c) the party is a member of the key management personnel of the Group or its parent;

(d) the party is a close member of the family of any individual referred to in (a) or (c); or

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d);

(f) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property and equipment and depreciation

Property and equipment, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost may also include transfers from equity of any gains or losses on qualified cash flow hedges of foreign currency purchases of property and equipment. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized 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 recognizes such parts as individual assets with specific useful lives and depreciation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment and depreciation (continued)

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realized in respect of previous valuations is transferred to retained profits as a movement in reserves.

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

Buildings	20 years
Computers and electronic equipment	5 years
Office equipment	5 years
Motor vehicles	5 years
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. 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 and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on disposal or retirement recognized in the income statement in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "property and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "property and equipment and depreciation".

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 capitalized as part of the cost of those assets. The capitalization 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 capitalized. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recognized in the income statement in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property and equipment and depreciation" above.

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 recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognized 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 market place.

The Group's financial assets include cash and bank balances, trade and bills receivables, due from related parties, and other receivables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured carried at amortized cost using the effective interest rate method less any allowance for impairment. Amortized 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 amortization is included in finance income in the income statement. The loss arising from impairment is recognized in the income statement.

Trade and other receivables
Trade receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. A provision for impairment is made when there is objective evidence that the Group will not be able to collect the debts. Significant financial difficulties of the debtor, the probability that the debtor will go bankrupt, and default or delinquency in payments are considered indicators that the trade receivable is impaired. In subsequent periods, when a trade receivable is ascertained to be uncollectible, it is written off against the allowance account.

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 derecognized when:

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Impairment of non-financial assets

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

An impairment loss is recognized 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, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized 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/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has 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 reorganization 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 amortized cost

For financial assets carried at amortized 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, recognized are not included in a collective assessment of impairment.

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized 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 realized 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 recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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

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

Revenue from fixed price construction contracts is recognized 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 recognized 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 recognized profits less recognized 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 recognized profits less recognized 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 amount. 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 recognized 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 recognized only to the extent that the expenses incurred are eligible to be recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contracts for services (continued)
Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognized profits less recognized 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 recognized profits less recognized losses, the surplus is treated as an amount due to contract customers.

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

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

Financial liabilities

Initial recognition and measurement
Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

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

Subsequent measurement
The 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 amortized 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 recognized in the income statement when the liabilities are derecognized as well as through the effective interest rate method amortization process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

Loans and borrowings (continued)
Amortized 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 amortization is included in finance costs in the income statement.

Trade and other payables
Liabilities for trade bills and other payables are carried at cost which is considered as the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Derecognition of financial liabilities
A financial liability is derecognized 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 recognized in the income statement.

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

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

Provisions
A provision is recognized 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

When the effect of discounting is material, the amount recognized 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.

Employee benefits

Share option plan

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

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

Equity-settled transactions

The cost of equity-settled transactions with employees, for awards granted after November 7, 2002, is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using a Hull-White Binomial option pricing model, further details of which are given in note 28 below.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized 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. All cancellations of equity-settled transaction awards are treated equally.

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

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

Leases
Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalized at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalized finance leases, including prepaid land lease payments under finance lease, are included in property and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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

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

Revenue recognition

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized 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.

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 recognized for all taxable temporary differences, except:

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

- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where 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 recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

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 asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized 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 income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized 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 income taxes relate to the same taxable entity and the same taxation authority.

Dividends

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Government grants

Government grants are recognized 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 recognized as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Government grants (continued)

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.

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 recognized in the financial statements:

Operating lease commitments — Group as lessor

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

Classification between investment properties and owner-occupied properties

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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.

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, 2010 was RMB230,664,000 (2009: RMB230,664,000). Further details are given in note 14.

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, 2010 was RMB141,037,000 (2009: RMB80,100,000).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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.

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

The receivables that were past due but not impaired relate to a number of debtors that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no additional provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality, and the balances are still considered fully recoverable. No impairment loss was recognized for receivables for the year ended December 31, 2010 (December 31, 2009: Nil).

Percentage of completion of construction work
The Group recognizes 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Current income tax and deferred income tax

The Group is subject to income taxes in numerous jurisdictions. Judgement is required in determining 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 recognized 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 utilized. The realization 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 recognized in the income statement for the period in which such a reversal takes place. The carrying value of deferred tax assets at December 31, 2010 were approximately RMB5,350,000 (December 31, 2009: RMB5,946,000).

4. REVENUE

Revenue, which is also the Group's turnover, represents: (i) an appropriate proportion of contract revenue of construction contracts, net of business tax and government surcharges; and (ii) the invoiced value of goods sold, net of value-added tax and government surcharges, and after allowances for goods returns and trade discounts.

An analysis of revenue is as follows:

	2010 RMB'000	**2009 RMB'000**
Revenue from:		
Implementation of projects	**1,830,136**	1,386,375
Sale of products	**32,048**	19,072
	1,862,184	1,405,447

5. PROFIT BEFORE TAX

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

	Notes	2010 RMB'000	2009 RMB'000
Cost of services rendered for implementation of projects		**1,257,397**	993,111
Cost of inventories sold for sale of products		**16,845**	11,275
		1,274,242	1,004,386
Employee benefit expense (including directors' and senior executives' remuneration (note(6))	(a)	**66,804**	52,111
Minimum lease payments under operating leases:			
Land and buildings		**16,936**	11,788
Expenses related to the listing of the Company's shares		**35,488**	2,078
Depreciation	(b)	**7,502**	7,370
Write-back of impairment of trade receivables, net		**(1,882)**	—
Foreign exchange differences, net		**1,504**	248
Other income	(c)	**(8,870)**	(16,420)
Finance income	(d)	**(5,605)**	(809)
Finance costs	(e)	**11,505**	7,985
Other expenses	(f)	**247**	103

(a) Employee benefit expense

	2010 RMB'000	2009 RMB'000
Employee benefit expense (including directors' and senior executives' remuneration (note (6))		
Wages and salaries	**42,180**	31,055
Social insurance costs and staff welfare	**8,084**	7,322
Pension plan contributions	**6,654**	3,848
Share-based payment expenses (note 28)	**9,886**	9,886
	66,804	52,111

(b) Depreciation

	2010 RMB'000	2009 RMB'000
Included in selling, general and administrative expenses	**7,502**	7,370

5. PROFIT BEFORE TAX (continued)

(c) Other income and gains

	Notes	2010 RMB'000	2009 RMB'000
Fair value gain on investment properties		**3,200**	11,108
Government grants	(i)	**2,000**	3,203
Gross rental income	(ii)	**3,662**	2,104
Gain on disposal of items of property and equipment		**8**	5
		8,870	16,420

Notes:

(i) There was no unfulfilled conditions or contingencies attaching to these grants.

(ii) Included in the Group's rental income for the year ended December 31, 2009 was rental income of RMB813,000 from related parties. Further details are contained in note 29 to the financial statements.

(d) Finance income

	2010 RMB'000	2009 RMB'000
Bank interest income	**5,605**	809

(e) Finance costs

	2010 RMB'000	2009 RMB'000
Interest on bank loans, wholly repayable within one year	**11,505**	7,985

(f) Other expenses

	2010 RMB'000	2009 RMB'000
Loss on disposal of items of property and equipment	**17**	27
Charitable donation	**203**	67
Others	**27**	9
	247	103

6. DIRECTORS' REMUNERATION

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

	2010 RMB'000	2009 RMB'000
Fees	–	–
Other emoluments:		
Salaries, allowances and benefits in kind	**746**	1,387
Share-based payment option expense	**2,251**	2,225
Pension scheme contributions	**91**	60
	3,088	3,672

(a) Independent non-executive directors

There were no fees or other remunerations paid to independent non-executive directors for the year ended December 31, 2010 (year ended December 31, 2009: Nil).

(b) Executive directors

Year ended December 31, 2010	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Mr. Jiang Hailin	–	237	–	–	30	267
Mr. Wang Jing	–	101	–	1,595	–	1,696
Mr. Dang Kulun	–	29	–	–	3	32
Mr. Pan Jianguo	–	237	–	–	30	267
Mr. Lu Xiao	–	142	–	656	28	826
	–	746	–	2,251	91	3,088

6. DIRECTORS' REMUNERATION (continued)

(b) Executive directors (continued)

Year ended December 31, 2009	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Mr. Jiang Hailin	—	230	—	—	10	240
Mr. Wang Jing	—	102	—	1,328	—	1,430
Mr. Zhao Lisen	—	70	—	—	4	74
Mr. Lv Xilin	—	45	—	92	4	141
Mr. Dang Kulun	—	269	—	—	26	295
Mr. Pan Jianguo	—	102	—	—	4	106
Mr. Jing Yang	—	109	—	—	4	113
Mr. Mou Yi	—	42	—	50	3	95
Mr. Lu Xiao		67	—	273	5	345
Mr. Leung Ming Shu	—	351	—	482	—	833
	—	1,387	—	2,225	60	3,672

On December 31, 2008, certain directors were granted share options, in respect of their services to the Group, under the share option plan of China ITS Co., Ltd., further details of which are set out in note 28 below. The fair value of these options, has been recognized 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 ended December 31, 2010 is included in the above directors' remuneration disclosures.

Mr. Dang Kulun ceased to be a director of the Company on February 9, 2010. Mr. Pan Jianguo, Mr. Jing Yang, Mr. Leung Ming Shu, Mr. Lv Xilin, Mr. Mou Yi and Mr. Zhao Lisen ceased to be the directors of the Company on June 10, 2009 pursuant to a resolution passed on that day. Mr. Pan Jianguo was reappointed as a director of the Company on February 9, 2010. Mr. Lu Xiao was appointed as a director of the Company on July 1, 2009. The directors' remuneration disclosed above only covers the periods during which the abovementioned individuals were directors of the Company.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended December 31, 2010.

During the year ended December 31, 2010, no payments were made by the Group to directors of the Company in respect of inducement to join the Group or compensation for loss of office (year ended December 31, 2009: Nil).

7. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year ended December 31, 2010 included two (year ended December 31, 2009: two) directors, details of whose remuneration are set out in note 6 above. Details of the remuneration of the remaining three (year ended December 31, 2009: three) non-directors, highest paid employees for the year ended December 31, 2010 are as follows:

	2010 RMB'000	2009 RMB'000
Salaries, allowances and benefits in kind	**1,284**	737
Share-based payment expense	**1,311**	1,703
Pension scheme contributions	**61**	19
	2,656	2,459

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

	Number of employees 2010	2009
Nil to RMB1,000,000	**3**	2
RMB1,000,001 to RMB1,500,000	**–**	1
	3	3

During the year ended December 31, 2008, share options were granted to three non-directors, highest paid employees in respect of their services to the Group, further details of the share option plan are set out in note 28 below. The fair value of these options, which has been recognized 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 ended December 31, 2010 is included in the above non-director, highest paid employees remuneration disclosures.

During the year ended December 31, 2010, no payments were made by the Group to directors or the highest paid individuals in respect of inducement to join the Group, or as compensation for loss of office, and no director or the highest paid individuals waived any of the emoluments.

8. INCOME TAX

The Group was not subject to Hong Kong profit tax for the year ended December 31, 2010 as the Group did not have any taxable profits derived in Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

During the 5th Session of the 10th National People's Congress, which was concluded on March 16, 2007, the PRC Enterprise Income Tax Law ("New PRC Enterprise Income Tax Law") was approved and became effective on January 1, 2008. The New PRC Enterprise Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. In accordance with the New PRC Enterprise Income Tax Law, enterprises that are designated as High and New Technology Enterprises ("HNTE") are entitled to apply a preferential income tax rate of 15% for certain periods. The implementation guidance for enterprises designated as HNTE was released for implementation in April 2008.

On December 26, 2007, the State Council of the PRC promulgated the implementation rule ("Implementation Rule") regarding the details of the transitional provisions of the existing tax concessions. Details of the tax benefits enjoyed by the Group's PRC subsidiaries are as follows:

(i) Aproud Technology, Bailian Zhida, Zhixun Tiancheng and Beijing Aproud Software were designated and approved as HNTEs in December 2008 for a period of three years from January 1, 2008 and therefore were entitled to a preferential tax rate of 15% for the three years ended December 31, 2010.

(ii) Beijing Aproud Information and Hexin Risheng, which had been designated and approved as advanced technology enterprises, were designated and approved as HNTEs in December 2008 for a period of three years from January 1, 2008. In accordance with the Implementation Rule, Beijing Aproud Information was entitled to a preferential tax rate of 7.5% for the year ended December 31, 2009 and December 31, 2010. Hexin Risheng was entitled to a preferential tax rate of 7.5% and 15% for the year ended December 31, 2009 and December 31, 2010 as HNTEs, respectively.

(iii) In accordance with the Implementation Rule and pursuant to the approval from the state tax bureau of the Beijing Economic-technological Development Area, Kaiguoshuisuohan 2008 No.55 (開國稅所函[2008]55號) dated May 26, 2008, RHY Technology was entitled to 50% of a transitional tax rate of 10% from January 1, 2009. This preferential tax rate will be progressively increased to 15% over five years. The preferential income tax rate applicable to RHY Technology is 11% for the year ended December 31, 2010.

8. INCOME TAX (continued)

Under the Implementation Rule, from January 1, 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or 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. At December 31, 2010, no deferred tax liabilities have been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC (December 31, 2009: Nil). In the opinion of the directors of the Company, it is not probable that the Group's PRC subsidiaries will distribute profits earned during the year ended December 31, 2010 in the foreseeable future. The aggregate amount of temporary differences associated with investment in subsidiaries in mainland China for which deferred tax liabilities have not been recognized totalled approximately RMB653,898,000 (2009: RMB304,246,000).

The major components of income tax expense are:

	2010 RMB'000	2009 RMB'000
Current income tax:		
Current income tax charge in the PRC	**38,584**	22,273
Deferred income tax:		
Relating to origination and reversal of temporary differences	**15,089**	9,787
Income tax expense reported in the consolidated income statement	**53,673**	32,060

8. INCOME TAX (continued)

A reconciliation of the income tax expense applicable to profit before tax at the statutory income tax rates to the income tax expense at the effective tax rates is as follows:

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

	Hong Kong RMB'000	Cayman and British Virgin Islands RMB'000	Mainland China RMB'000	Total RMB'000
2009				
Profit/(loss) before tax	—	(9,715)	256,447	246,732
At statutory income tax rate	—	—	64,112	64,112
Tax holiday or lower tax rates	—	—	(36,659)	(36,659)
Non-deductible expenses	—	—	3,302	3,302
Non-taxable income	—	—	—	—
Tax losses not recognized	—	—	1,405	1,405
Profit attributable to jointly-controlled entities	—	—	(100)	(100)
Income tax expense reported in the consolidated income statement	—	—	32,060	32,060

8. INCOME TAX (continued)

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

Deferred tax assets

	Impairment of trade receivables RMB'000	Accrued expenses RMB'000	Total RMB'000
2010			
At January 1, 2010	**1,119**	**4,827**	**5,946**
Deferred tax charged to the income statement	**(760)**	**164**	**(596)**
At December 31, 2010	**359**	**4,991**	**5,350**
2009			
At January 1, 2009	1,119	7,203	8,322
Deferred tax charged to the income statement	—	(2,376)	(2,376)
At December 31, 2009	1,119	4,827	5,946

Deferred tax liabilities

	Fair value adjustment on investment properties RMB'000	Unrealized profits RMB'000	Recognition of revenue on construction contracts* RMB'000	Withholding tax of the PRC RMB'000	Total RMB'000
2010					
At January 1, 2010	**6,356**	**763**	**14,669**	**–**	**21,788**
Deferred tax charged to the consolidated income statement	**930**	**(763)**	**14,326**	**–**	**14,493**
At December 31, 2010	**7,286**	**–**	**28,995**	**–**	**36,281**
2009					
At January 1, 2009	786	468	3,571	6,958	11,783
Deferred tax charged to the consolidated statement of the comprehensive income	2,594	–	–	–	2,594
Deferred tax charged to the consolidated income statement	2,976	295	11,098	(6,958)	7,411
At December 31, 2009	6,356	763	14,669	–	21,788

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

8. INCOME TAX (continued)

Deferred tax liabilities (continued)

The Group has tax losses arising in Hong Kong of Nil (2009: Nil) that are available indefinitely for offsetting against future taxable profits of the companies in which losses arose. The Group has tax losses arising in mainland China of RMB3,440,000 (2009: RMB2,135,000) that will expire in five years for offsetting against future taxable profits.

Deferred tax assets have not been recognized in respect of the losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilized.

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

9. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended December 31, 2010 includes a loss of RMB35,298,000 (profit of year ended December 31, 2009: RMB69,478,000) which has been dealt with in the financial statements of the Company (note 27(b)).

10. DIVIDENDS

Pursuant to the resolutions of the board of directors and the shareholders dated March 19, 2010, the Company declared a dividend of RMB50 million payable to shareholders registered at the close of business on December 31, 2008. The dividend was subsequently paid out from the share premium account of the Company in July 2010.

The Company did not recommend the payment of final dividend for 2010.

11. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit attributable to ordinary equity holders of the parent for the year ended December 31, 2010, and the weighted average number of ordinary shares of 1,427,287,836 (year ended December 31, 2009: 1,207,816,541) during the year ended December 31, 2010.

	2010 **RMB'000**	**2009** **RMB'000**
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**294,009**	214,672

11. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY (continued)

	Number of shares 2010	2009
Shares		
Weighted average number of shares in issue during the period used in the basic earnings per share calculation	**1,427,287,836**	1,207,816,541

No diluted earnings per share amounts have been presented as the Company did not have any potentially dilutive ordinary shares during the year. The share option scheme as disclosed in note 28 will not give rise to any additional ordinary shares of the Company upon their exercise because the underlying ordinary shares of the Company were in issue and owned by China ITS Co., Ltd. which will be transferred to the relevant employees upon the exercise of relevant options.

12. PROPERTY AND EQUIPMENT

Group

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

12. PROPERTY AND EQUIPMENT (continued)

Group (continued)

December 31, 2009	Buildings RMB'000	Computers and electronic equipment RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
At January 1, 2009						
Cost	34,683	5,144	2,764	12,883	2,939	58,413
Accumulated depreciation	(3,838)	(1,353)	(952)	(3,227)	(1,304)	(10,674)
Net carrying amount	30,845	3,791	1,812	9,656	1,635	47,739
At January 1, 2009, net of accumulated depreciation	30,845	3,791	1,812	9,656	1,635	47,739
Additions	—	1,963	2,711	2,647	6,044	13,365
Disposals	(858)	(37)	(3)	—	—	(898)
Revaluation upon transfer to investment properties (note 13)	10,376	—	—	—	—	10,376
Transfer to investment properties (note 13)	(36,989)	—	—	—	—	(36,989)
Depreciation charge for the year	(475)	(2,170)	(1,039)	(2,481)	(1,205)	(7,370)
At December 31, 2009, net of accumulated depreciation	2,899	3,547	3,481	9,822	6,474	26,223
At December 31, 2009						
Cost	3,059	6,783	5,461	15,530	8,983	39,816
Accumulated depreciation	(160)	(3,236)	(1,980)	(5,708)	(2,509)	(13,593)
Net carrying amount	2,899	3,547	3,481	9,822	6,474	26,223

12. PROPERTY AND EQUIPMENT (continued)

Group (continued)

The Group's buildings, included above at cost, were valued at RMB3,500,000 as at December 31, 2009 in the Company's prospectus dated June 30, 2010 in connection with the listing of the Company's shares on July 15, 2010. Had the Group's buildings been included in these financial statements at the same valuation amount throughout the year ended December 31, 2010, an additional depreciation charge of RMB150,000 would have been recognized in the consolidated income statement for the year ended December 31, 2010.

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

	2010 RMB'000	2009 RMB'000
Lease over 50 years	**2,864**	2,899

13. INVESTMENT PROPERTIES

Group

	2010 RMB'000	2009 RMB'000
At beginning of the year	**80,100**	32,003
Purchase	**57,737**	—
Transfer from owner-occupied property	**—**	36,989
Net gain/(loss) from fair value adjustment	**3,200**	11,108
At end of the year	**141,037**	80,100

Certain of the Group's investment properties were revalued by Savills Valuation and Professional Services Limited ("Savills") on December 31, 2010, an independent firm of professional valuers, at RMB83.3 million, by reference to the comparable market transactions as available and where appropriate, on the basis of capitalization of net rental incomes. The Group acquired an investment property in December 2010 from an independent third party through open market offer for a total consideration of RMB57,740,000. In the opinion of the directors, the fair value of this investment property at December 31, 2010 approximated to the consideration paid by the Group.

The Group's investment properties were pledged to secure bank loans granted to the Group at December 31, 2009, as disclosed in note 24 below.

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

Further particulars of the Group's investment properties are included on page 138.

14. GOODWILL

The goodwill of RMB230,664,000 as at December 31, 2010 arose from the acquisition of Aproud Technology and its subsidiaries (collectively "Aproud Group") in January 1, 2006, which is considered by the directors of the Company as a separate cash-generating unit. The recoverable amount of the cash-generating unit has been determined based on a value in use calculation. To calculate this, cash flow projections are based on financial budgets approved by senior management covering a five-year period and extrapolated cash flows for the following five years based on an estimated growth rate of 5%. The pre-tax discount rate applied to cash flow projections is approximately 20%. No residual value was built in.

Key assumptions used in value in use calculations

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

- Gross margins;
- Discount rates; 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 rates — The discount rates used are before tax and reflect specific risks relating to the relevant entity. In determining appropriate discount rates, 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.

Sensitivity to changes in assumptions

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

15. INVESTMENTS IN SUBSIDIARIES

	2010 RMB'000	2009 RMB'000
Unlisted shares, at cost	**571,471**	591,330

15. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries of the Company are as follows:

Name	Place and date of incorporation or registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
Winitop Investments Limited	British Virgin Islands February 18, 2009	—	100		Investment holding
Well Score International Limited	Hong Kong March 27, 2009	HK$1.0		100	Investment holding
China Toprise Limited	British Virgin Islands June 16, 2006	US$1,000	100		Investment holding
Fairstar Success Holdings Limited	British Virgin Islands June 13, 2006	US$50,000	100		Investment holding
RHY Technology	PRC February 16, 2001	RMB300 million		100	ITS turnkey solutions and value-added services
Aproud Technology	PRC February 15, 2001	RMB180 million		100	Communication and surveillance specialized solutions and value-added services
Beijing Aproud Information	PRC September 3, 2004	RMB2 million		100	Value-added services and specialized solutions
Hexin Risheng	PRC December 26, 2003	RMB30 million		100	Communication and surveillance specialized solutions
Bailian Zhida	PRC April 18, 2007	RMB5.5 million		100	Surveillance specialized solutions
Haotian Jiajie	PRC March 30, 2007	RMB125 million		100	Communication specialized solutions and value-added services

15. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place and date of incorporation or registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity interests attributable to the Company Direct/Indirect	Principal activities
Zhixun Tiancheng	PRC June 25, 2007	RMB50 million	100	Communication specialized solutions
Beijing Aproud Software	PRC July 11, 2007	RMB5 million	100	ITS related software development
Jiangsu Zhixun Tiancheng	PRC November 19, 2009	RMB10 million	100	Communication specialized solutions
Jiangsu Yijie	PRC March 16, 2010	RMB10 million	100	Communication specialized solutions

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

RHY Technology, Aproud Technology and Haotian Jiajie are registered as sino-foreign equity joint ventures under the PRC laws. The other subsidiaries registered in the PRC are domestic companies with limited liabilities under the PRC laws. The registered capital of the Group's PRC subsidiaries has been fully paid as at December 31, 2010.

16. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

Group

	2010 RMB'000	2009 RMB'000
Share of net assets	**19,750**	8,544

16. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Particulars of the jointly-controlled entities are as follows:

Name of jointly-controlled entities	Place of registration	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Wuhan Chenguang[(1)]	PRC	51%	60%	51%	ITS turnkey solutions
Xinjiang RHY[(2)]	PRC	51%	60%	51%	Value-added services
Beijing Jiyier Technology[(2)]	PRC	51%	60%	51%	Value-added services
Chengdu Zhida Weilute[(3)]	PRC	51%	60%	51%	ITS specialized solutions

Notes:

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

(2) The equity holders' meeting of Xinjiang RHY requires two-thirds of voters for approval. The board of directors of Xinjiang RHY has five persons and the Group has three representatives. In accordance with the articles of association of Xinjiang RHY, the board of directors' meetings requires two-thirds of votes of directors for approval. Based on the above, in the opinion of the directors, the Group is unable to exercise unilateral control over the financial and operating policies of Xinjiang RHY and accordingly, it is accounted for as a jointly-controlled entity of the Group. In December 2010, the Group entered into an agreement with other equity holder of Xinjiang RHY to acquire an additional 29% equity interest in Xinjiang RHY for consideration of RMB3.68 million. Pursuant to a supplementary agreement dated December 18, 2010, the 29% equity interest would be transferred to the Group in January 2011. In addition, the composition of the board of directors of Xinjiang RHY would be changed to have three persons and the Group would have two representatives from January 2011. Due to the change of the composition of the board of directors, effective from January 2011, the Group is able to exercise unilateral control over the financial and operating policies of Xinjiang RHY and accordingly, Xinjiang RHY has become a 80% owned subsidiary of the Group in 2011. Beijing Jiyier Technology is a 100% owned-subsidiary of Xinjiang RHY at December 31, 2010.

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

16. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

The share of profits of jointly-controlled entities during the year ended December 31, 2010 is as follows:

Group

	2010 RMB'000	2009 RMB'000
Share of profits/(losses) of jointly-controlled entities:		
Wuhan Chenguang	**414**	363
Xinjiang RHY	**(29)**	(72)
Chengdu Zhida Weilute	**3,171**	—
	3,556	291

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

	2010 RMB'000	2009 RMB'000
Current assets	**54,623**	24,405
Non-current assets	**11,146**	1,678
Current liabilities	**(27,044)**	(9,021)
Net assets	**38,725**	17,062

	2010 RMB'000	2009 RMB'000
Income	**38,939**	20,596
Costs and expenses	**(29,544)**	(19,899)
Tax	**(2,423)**	(126)
Profit after tax	**6,972**	571

17. CONSTRUCTION CONTRACTS

Group

	2010 RMB'000	2009 RMB'000
Gross amount due from contract customers	**777,875**	679,579
Gross amount due to contract customers	**(559,531)**	(248,155)
	218,344	431,424
Contract costs incurred plus recognized profits less recognized losses to date	**2,626,221**	2,383,674
Less: Progress billings	**(2,407,877)**	(1,952,250)
	218,344	431,424

18. TRADE AND BILLS RECEIVABLES

Group

	2010 RMB'000	2009 RMB'000
Trade and bills receivables	**819,366**	414,138
Provision for impairment	**(1,434)**	(3,316)
	817,932	410,822
Bills receivables	**16,504**	572
	834,436	411,394

Trade and bills receivables, which are non-interest-bearing, are recognized and carried at original invoiced amount less any impairment loss. An estimate for doubtful debts is made when there is objective evidence that an impairment loss on receivables has been incurred. The Group generally does not require collateral from its customers.

18. TRADE AND BILLS RECEIVABLES (continued)

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

	2010 RMB'000
January 1, 2010	**3,316**
Impairment losses reversed	**(1,882)**
At December 31. 2010	**1,434**

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

	2010 RMB'000	2009 RMB'000
Less than 6 months	**707,932**	280,578
6 months to 1 year	**51,462**	97,745
1 year to 2 years	**62,976**	32,905
2 years to 3 years	**11,900**	166
Over 3 years	**166**	—
	834,436	411,394

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

	2010 RMB'000	2009 RMB'000
Neither past due nor impaired	**307,731**	160,291
Past due but not impaired:		
Less than 6 months past due	**395,384**	122,584
6 months to 1 year past due	**54,936**	95,447
1 year to 2 years past due	**64,319**	32,906
2 years to 3 years past due	**11,900**	166
Over 3 years past due	**166**	—
	834,436	411,394

18. TRADE AND BILLS RECEIVABLES (continued)

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

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

The Group has pledged proceeds to be received from settlement of trade receivables of approximate RMB300.8 million (2009: Nil) from the "Jing-hu Railway" project for a banking facility granted to the Group. At December 31, 2010, the related pledged trade receivables amounted to RMB211.9 million.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	2010 RMB'000	**2009 RMB'000**
Prepayments to suppliers for purchases of goods	**474,754**	133,908
Tender deposits	**27,325**	27,625
Advances to staff	**12,034**	6,838
Contract deposits	**29,855**	31,019
Prepayments related to the listing of the Company's shares	**—**	2,709
Others	**11,312**	11,214
	555,280	213,313

Company

	2010 RMB'000	**2009 RMB'000**
Prepayments related to the listing of the Company's shares	**—**	2,709
Dividends receivable from subsidiaries	**—**	66,880
Prepayment to suppliers	**7,076**	—
Others	**1,684**	1,526
	8,760	71,115

20. INVENTORIES

Group

	2010 RMB'000	2009 RMB'000
Raw materials	**841**	2,831
Work in progress	**123**	191
Finished goods	**3,503**	3,410
	4,467	6,432

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

Group

	2010 RMB'000	2009 RMB'000
Cash and bank balances	**836,883**	177,173
Non-pledged short term deposit with original maturity of more than three months when acquired	**112,441**	—
Pledged deposits	**182,502**	173,607
	1,131,826	350,780
Less: Non-pledged short term deposit with original maturity of more than three months when acquired	**(112,441)**	—
Less: Pledged deposits for		
— Bank loans (note 24)	**(80,361)**	(50,228)
— Project bonds	**(73,795)**	(74,660)
— Bills payables	**(28,346)**	(48,719)
	(182,502)	(173,607)
Cash and bank balances	**836,883**	177,173

Cash at banks earns interest at floating rates based on daily bank deposit rates. The short term deposit is made for a period of 12 months when acquired and earns a bank deposit rate of 2.7% per annum.

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

Group (continued)

The cash and bank balances, short term deposit and pledged deposits of the Group denominated in RMB amounted to RMB547.8 million (December 31, 2009: RMB298.7 million) as at December 31, 2010. 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 authorized to conduct foreign exchange business.

Company

	2010 RMB'000	2009 RMB'000
Cash and bank balances	**363,184**	747
Non-pledged short term deposit with original maturity of more than three months when acquired	**112,441**	—
Pledged deposits	**—**	50,228
	475,625	50,975
Less: Non-pledged short term deposit with original maturity of more than three months when acquired	**(112,441)**	—
Less: Pledged deposits for bank loans	**—**	(50,228)
Cash and bank balances	**363,184**	747

22. TRADE AND BILLS PAYABLES

Group

	2010 RMB'000	2009 RMB'000
Trade payables	**506,545**	351,925
Bills payables	**91,293**	136,665
	597,838	488,590

The Group's bills payables were secured by pledged deposits of the Group of RMB28.3 million (December 31, 2009: RMB48.7 million) as at December 31, 2010.

22. TRADE AND BILLS PAYABLES (continued)

Trade payables are non-interest-bearing and generally have credit terms ranging from 1 to 90 days. An aged analysis of the Group's trade payables are as follows:

	2010 RMB'000	2009 RMB'000
Current or less than 1 year past due	**463,254**	332,428
1 to 2 years past due	**26,767**	11,951
Over 2 years past due	**16,524**	7,546
	506,545	351,925

23. OTHER PAYABLES AND ACCRUALS

Group

	2010 RMB'000	2009 RMB'000
Deposits received	**1,728**	4,670
Staff costs and welfare accruals	**16,862**	17,614
Accruals related to the listing of the Company's shares	**17,380**	8,322
Other taxes payable	**75,852**	70,079
Dividend payables	**—**	15,297
Others	**10,308**	2,232
	122,130	118,214

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

Company

	2010 RMB'000	2009 RMB'000
Dividend payables	**—**	15,297
Accruals related to the listing of the Company's shares	**17,380**	8,322
Others	**1,480**	445
	18,860	24,064

24. INTEREST-BEARING BANK BORROWINGS

Group

	Contractual interest rate %	2010 RMB'000	2009 RMB'000
Current			
Bank loans — secured and repayable within one year:	4.78–6.11	**169,998**	95,150
Bank loans — guaranteed and repayable within one year:	4.37–6.34	**120,000**	75,000
		289,998	170,150

Bank loans of approximately RMB50.0 million as at December 31, 2009 were secured by investment properties of the Group of RMB80.1 million (note 13 above). Bank loans of RMB55.0 million were secured by investment properties of RMB83.3 million at December 31, 2010 (note 13 above). Bank loans of approximately RMB45.0 million were pledged by contract receivables of RMB300.8 million of the project "Jing-Hu Railway" as at December 31, 2010. As at December 31, 2010, the Group had related trade receivables under the project "Jing-hu Railway" of RMB211.9 million.

Bank loans of approximately RMB70 million as at December 31, 2010 were secured by an irrevocable standby letter of credit amounting to HK$26.7 million, US$4.3 million and HK$34.5 million issued by the Off-Shore Banking Department of China Merchants Bank. The letters of credit mentioned above were secured by deposits amounting to HK$26.7 million, US$4.3 million and HK$34.5 million placed with the Off-Shore Banking Department of China Merchants Bank. Bank loans of RMB45.2 million as at December 31, 2009 were secured by pledged deposits of the Group of approximately RMB50.2 million.

Bank loans of approximately RMB120 million as at December 31, 2010 were guaranteed by Aproud Technology and RHY Technology, subsidiaries of the Company. Bank loans of approximately RMB75 million as at December 31, 2009 were guaranteed by RHY Technology.

As at December 31, 2010, the Group had unutilized available bank borrowing facilities amounting to RMB263.9 million (December 31, 2009: RMB24.0 million).

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

25. DUE FROM/DUE TO THE SUBSIDIARIES

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

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

26. SHARE CAPITAL

Shares

	2010 RMB'000	2009 RMB'000
Authorized:		
1,900,000,000 ordinary shares of HK$0.0002 each	**335**	335
Issued and fully paid:		
1,569,047,334 (December 31, 2009: 1,226,329,477) ordinary shares of HK$0.0002 each	**276**	216

During the year ended December 31, 2009, the movement in share capital was as follows:

The Company had 1,166,531,054 ordinary shares issued at January 1, 2009. In April 2009, the Company issued 59,798,423 ordinary shares of HK$0.0002 each to a corporate investor at a cash consideration of RMB120,201,000.

During the year ended December 31, 2010, the movement in share capital was as follows:

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

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

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

27. RESERVES

(a) Group

The amounts of the Group's statutory reserve and capital reserve and movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 58 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 utilized, 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 Reorganization, further details of which are included in the accountants' report as set out in Appendix I to the Prospectus dated June 30, 2010; ii) reserves arising from the share options granted by China ITS Co., Ltd. to the employees of the Group as set out in note 28 below; and iii) capitalized retained earnings to the capital of certain subsidiaries.

27. 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, 2009		–	586,966	5,127	(25,057)	567,036
Profit for the year	9	–	–	–	69,478	69,478
Other comprehensive income for the year: Exchange difference on translation of foreign operation		–	(164)	(940)	–	(1,104)
Total comprehensive income for the year		–	(164)	(940)	69,478	68,374
Issues of ordinary shares		120,190	–	–	–	120,190
Dividend declared		–	–	–	(71,501)	(71,501)
At December 31, 2009 and January 1, 2010		120,190	586,802	4,187	(27,080)	684,099
Loss for the year	9	–	–	–	(35,298)	(35,298)
Other comprehensive income for the year: Exchange difference on translation of foreign operation		–	–	(43,579)	–	(43,579)
Total comprehensive income for the year		–	–	(43,579)	(35,298)	(78,877)
Issues of ordinary shares	31(b)	918,186	–	–	–	918,186
Dividend declared	10	(50,000)	–	–	–	(50,000)
At December 31, 2010		**988,376**	**586,802**	**(39,392)**	**(62,378)**	**1,473,408**

28. SHARE OPTION SCHEME

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

The share option expense recognized during the year ended December 31, 2010 is as follows:

	2010 **RMB'000**	**2009** **RMB'000**
Share-based payment expense	**9,886**	9,886

The following table illustrates the numbers and weighted average exercise prices (WAEP) of and movements in, Share Options for the year ended December 31, 2010:

	Numbers **'000**	**WAEP** **RMB**
Outstanding at January 1, and December 31, 2010	**116,653**	**1.80**
Exercisable at January 1, 2010	**58,170**	**0.60**
Exercisable at December 31, 2010	**67,918**	**0.80**

28. SHARE OPTION SCHEME (continued)

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

	Batch 1	Batch 2	Batch 3	Batch 4	Batch 5	Batch 6	Batch 7
Grant date	31-12-2008	31-12-2008	31-12-2008	31-12-2008	31-12-2008	31-12-2008	31-12-2008
Vesting start date	31-12-2008	31-12-2010	30-06-2011	31-12-2011	30-06-2012	31-12-2012	30-06-2013
Expiration date	31-12-2013	31-12-2015	30-06-2016	31-12-2016	30-06-2017	31-12-2017	30-06-2018
Share price (RMB)	1.37	1.37	1.37	1.37	1.37	1.37	1.37
Exercise price (RMB)	0.60	2.00	2.00	3.00	3.00	4.00	4.00
Risk-free rate (%)	1.80	2.13	2.21	2.28	2.40	2.52	2.67
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Contractual life (year)	5.00	7.00	7.50	8.01	8.50	9.01	9.50
Vesting period (year)	–	2.00	2.50	3.00	3.50	4.00	4.50
Expected volatility (%)	58.9	55.3	54.8	54.1	53.5	53.0	53.0
Early exercise multiple	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Post vesting forfeiture rate (%)	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Option fair value per share	0.77	0.54	0.57	0.48	0.50	0.45	0.47

Since the Share Options were granted by China ITS Co., Ltd., the Company did not have any outstanding Share Options as at December 31, 2010 (December 31, 2009: Nil)

29. RELATED PARTY DISCLOSURES

	Notes	2010 RMB'000	2009 RMB'000
Advances to related companies:			
新疆盛恒天信息技術有限公司	(a)	**3,680**	—
Bailian Youli	(b)	**2,001**	—
RAY Holdings	(c)	**5**	—
Total		**5,686**	—
Purchases from a related company:			
Wuhan Chenguang*	(d)	**–**	4,800
Total purchases of the Group		**605,748**	476,274
		–	1%
Rental income from related companies:			
RAY Holdings	(c)	**–**	212
Bailian Youli	(b)	**–**	601
Total		**–**	813
Dividend from a jointly-controlled entity		**1,189**	—

Notes:

(a) 新疆盛恒天信息技術有限公司 is 49% shareholder of Xinjiang RHY, which is a joint venture of RHY Technology.

(b) Bailian Youli is 100% owned by a director of the Company.

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

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

* The purchases were made in relation to the turnkey solutions and communication and surveillance specialized solutions businesses and these involved various types of equipment such as telecommunication equipment, testing equipment, cables, display systems and closed-circuit monitors for project implementation and purchase of specialized solutions.

29. RELATED PARTY DISCLOSURES (continued)

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

The purchases from the related company will continue but this related party transaction is exempted from the reporting, announcement and independent shareholders' approval requirements as defined in Chapter 14A.31 of the Main Board Listing Rules.

	Note	December 31, 2010 RMB'000	Maximum amount outstanding during the year 2010 RMB'000	January 1, 2010 RMB'000
Due from related companies:				
Trade related				
Chengdu Zhida Weilute		762	962	—
Non-trade related				
Bailian Youli*		231	231	—
百聯和力投資有限公司*	(a)	4	4	—
RAY Holdings*		894	894	2,711
新疆盛恒天信息技術有限公司		3,680	3,680	—
Wuhan Chenguang		—	—	1,189
		4,809	4,809	3,900
Total		5,571	5,771	3,900

(a) 百聯和力投資有限公司 is 51% owned by Bailian Youli.

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

29. RELATED PARTY DISCLOSURES (continued)

	2010 RMB'000	2009 RMB'000
Due to related companies:		
Trade related		
Chengdu Zhida Weilute	**2,150**	—
Wuhan Chenguang	**22**	2,435
Xinjiang RHY	**—**	625
	2,172	3,060
Non-trade related		
Bailian Youli	**—**	287
Wuhan Chenguang	**4,365**	1,220
	4,365	1,507
Total	**6,537**	4,567

Terms and conditions of transactions with related parties

Outstanding balances as at December 31, 2010 and December 31, 2009 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

	2010 RMB'000	2009 RMB'000
Salaries, bonuses, allowances and benefits in kind	**1,158**	2,026
Share-based payment expenses	**1,561**	2,951
Pension plan contributions	**62**	70
Total compensation paid to key management personnel	**2,781**	5,047

Further details of the directors' remuneration are included in note 6 above.

30. OPERATING SEGMENT INFORMATION

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

(a) the turnkey solutions segment involves the integration of information technology with the physical transportation infrastructure;

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

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

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

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

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

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

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

30. OPERATING SEGMENT INFORMATION (continued)

Revenue of approximately RMB122.1 million (year ended December 31, 2009: RMB151.2 million) for the year ended December 31, 2010 was derived from a single customer in the specialized solution business.

	Turnkey solutions RMB'000	Specialized solutions RMB'000	Value-added services RMB'000	Consolidated RMB'000
Year ended December 31, 2010				
Segment revenue				
Sales to external customers	687,890	1,154,235	20,059	1,862,184
Intersegment sales	—	20,420	—	20,420
	687,890	1,174,655	20,059	1,882,604
Reconciliation:				
Elimination of intersegment sales				(20,420)
Revenue				1,862,184
Segment results	120,765	271,616	9,375	401,756
Reconciliation:				
Interest income				5,605
Share of profits of jointly-controlled entities				3,556
Fair value gains on investment properties				3,200
Corporate and other unallocated expenses				(54,930)
Finance costs				(11,505)
Profit before tax				347,682
December 31, 2010				
Segment assets	724,294	1,969,795	22,874	2,716,963
Reconciliation:				
Elimination of intersegment receivables				(323,001)
Corporate and other unallocated assets				1,339,934
Total assets				3,733,896
Segment liabilities	571,714	995,324	16,592	1,583,630
Reconciliation:				
Elimination of intersegment payables				(323,001)
Unallocated liabilities				361,860
Total liabilities				1,622,489
Other segment information				
Share of profits of:				
Jointly-controlled entities				3,556
Impairment losses reversed in the income statement				1,882
Depreciation and amortization				7,502
Investment in jointly-controlled entities				19,750
Capital expenditure *				76,546

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

30. OPERATING SEGMENT INFORMATION (continued)

	Turnkey solutions RMB'000	Specialized solutions RMB'000	Value-added services RMB'000	Consolidated RMB'000
Year ended December 31, 2009				
Segment revenue				
Sales to external customers	534,462	852,657	18,328	1,405,447
Intersegment sales	—	30,340	—	30,340
	534,462	882,997	18,328	1,435,787
Reconciliation:				
Elimination of intersegment sales				(30,340)
Revenue				1,405,447
Segment results	84,350	167,675	10,714	262,739
Reconciliation:				
Interest income				809
Share of profits of jointly-controlled entities				291
Unallocated gains				11,108
Corporate and other unallocated expenses				(20,230)
Finance costs				(7,985)
Profit before tax				246,732
December 31, 2009				
Segment assets	542,109	1,056,816	12,854	1,611,779
Reconciliation:				
Elimination of intersegment receivables				(73,877)
Corporate and other unallocated assets				479,513
Total assets				2,017,415
Segment liabilities	283,133	629,743	663	913,539
Reconciliation:				
Elimination of intersegment payables				(73,877)
Unallocated liabilities				224,594
Total liabilities				1,064,256
Other segment information				
Share of profits and losses of jointly-controlled entities				291
Depreciation and amortization				7,370
Other non-cash expenses				9,886
Investments in jointly-controlled entities				8,544
Capital expenditure *				13,365

* Capital expenditure consists of addition of property and equipment, investment properties.

30. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2010 RMB'000	2009 RMB'000
The PRC	**1,862,184**	1,405,447

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

(b) Non-current assets

	2010 RMB'000	2009 RMB'000
The PRC	**168,111**	106,323

The non-current asset information above is based on the location of assets and excludes deferred tax assets, goodwill, investment in jointly-controlled entities and other assets.

31. NOTES TO THE STATEMENTS OF COMPREHENSIVE INCOME

(a) Asset revaluation reserve

The balance of asset revaluation reserve at December 31, 2010 represented the asset revaluation reserve of the Group's building included in property and equipment upon the transfer to investment properties on March 31, 2009.

(b) Share premium

Movement in Share premium during the year ended December 31, 2009 was as follows:

i) In April 2009, the Company issued 59,798,423 ordinary shares of HK$0.0002 each for a cash consideration of RMB120,201,000. The excess of the total consideration over the nominal value of ordinary shares issued of RMB120,190,000 was credited to the share premium account.

31. NOTES TO THE STATEMENTS OF COMPREHENSIVE INCOME (continued)

(b) Share premium (continued)

Movement in Share premium during the year ended December 31, 2010 was as follows:

i) On February 26, 2010, the Co-investors subscribed for an aggregate 123,964,076 ordinary shares of HK$0.0002 each of the Company for a subscription price of HK$2.88 each for an aggregate consideration of US$46.0 million (equivalent to RMB312.4 million) on March 5, 2010, resulting in a share premium of RMB309,586,000, representing the difference between the subscription price and nominal value of the Company's ordinary shares.

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

(c) Exchange fluctuation reserve

The functional currencies of overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the reporting currency of the Group at the exchange rates ruling at the end of the reporting period and their income statements are translated at the weighted average exchange rates for the year. The resulting exchange differences are included in the foreign currency translation reserve.

32. SUPPLEMENTAL CASH FLOW INFORMATION

	2010 RMB'000	2009 RMB'000
Cash paid for income tax	**12,428**	21,262

33. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in notes 13 and 24, respectively, to the financial statements.

34. OPERATING LEASE COMMITMENTS

Group as lessee

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

	2010 RMB'000	2009 RMB'000
Within one year	**15,348**	13,538
In the second to fifth years, inclusive	**36,781**	21,046
	52,129	34,584

Group as lessor

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

	2010 RMB'000	2009 RMB'000
Within one year	**2,999**	4,097
In the second to fifth years, inclusive	**3,060**	2,805
	6,059	6,902

The Company did not have any operating lease commitments as at December 31, 2010 (December 31, 2009: Nil).

35. COMMITMENTS

As at December 31, 2010, neither the Group nor the Company had any significant commitments save as disclosed in note 33 above (December 31, 2009: Nil).

36. 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

	2010 Loans and receivables RMB'000	2009 Loans and receivables RMB'000
Trade and bills receivables	**834,436**	411,394
Due from related companies	**5,571**	3,900
Financial assets included in prepayments, deposits and other receivables	**11,312**	11,214
Pledged deposits	**182,502**	173,607
Short term deposit	**112,441**	—
Cash and cash equivalents	**836,883**	177,173
	1,983,145	777,288

Group

Financial liabilities

	2010 Financial liabilities at amortized cost RMB'000	2009 Financial liabilities at amortized cost RMB'000
Trade and bills payables	**597,838**	488,590
Due to related companies	**6,537**	4,567
Interest-bearing bank borrowings	**289,998**	170,150
Financial liabilities included in other payables and accruals	**10,308**	2,232
	904,681	665,539

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

Financial assets

	2010 Loans and receivables RMB'000	2009 Loans and receivables RMB'000
Investment in subsidiaries	**571,471**	591,330
Financial assets included in prepayments, deposits and other receivables	**—**	66,880
Due from subsidiaries	**455,027**	—
Pledged deposits	**—**	50,228
Short term deposit	**112,441**	—
Cash and cash equivalents	**363,184**	747
	1,502,123	709,185

Company

Financial liabilities

	2010 Financial liabilities at amortized cost RMB'000	2009 Financial liabilities at amortized cost RMB'000
Due to a subsidiary	**18,339**	5,041
Financial liabilities included in other payables and accruals	**305**	369
	18,644	5,410

37. FAIR VALUE AND FAIR VALUE HIERARCHY

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

Group

	Carrying amounts		Fair values	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Trade and bills receivables	**834,436**	411,394	**834,436**	411,394
Due from related companies	**5,571**	3,900	**5,571**	3,900
Financial assets included in prepayments, deposits and other receivables	**11,312**	11,214	**11,312**	11,214
Pledged deposits	**182,502**	173,607	**182,502**	173,607
Short term deposit	**112,441**	—	**112,441**	—
Cash and cash equivalents	**836,883**	177,173	**836,883**	177,173
	1,983,145	777,288	**1,983,145**	777,288
Financial liabilities				
Trade and bills payables	**597,838**	488,590	**597,838**	488,590
Due to related companies	**6,537**	4,567	**6,537**	4,567
Interest-bearing bank borrowings	**289,998**	170,150	**289,998**	170,150
Financial liabilities included in other payables and accruals	**10,308**	2,232	**10,308**	2,232
	904,681	665,539	**904,681**	665,539

Company

	Carrying amounts		Fair values	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Investment in subsidiaries	**571,471**	591,330	**571,471**	591,330
Financial assets included in prepayments, deposits and other receivables	**—**	66,880	**—**	66,880
Due from subsidiaries	**455,027**	—	**455,027**	—
Pledged deposits	**—**	50,228	**—**	50,228
Short term deposit	**112,441**	—	**112,441**	—
Cash and cash equivalents	**363,184**	747	**363,184**	747
	1,502,123	709,185	**1,502,123**	709,185

37. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Company

	Carrying amounts		Fair values	
	2010	**2009**	**2010**	**2009**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Financial liabilities				
Due to subsidiaries	**18,339**	5,041	**18,339**	5,041
Financial liabilities included in other payables and accruals	**305**	369	**305**	369
	18,644	5,410	**18,644**	5,410

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:

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

Fair value hierarchy

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

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

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)

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, cash and cash equivalents, short term deposit and pledged deposits. 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, due from related parties, other receivables, trade and bills payables, due to related parties and other payables, which arise directly from its operations. It is and has been throughout the year under review, the Group policy that no trading in finance instrument shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. Generally, senior management of the Group analyses and formulates measures to manage the Group's exposure to these risks. In addition, the board of directors of the Company analyses and approves the proposals made by the senior management. The Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

(i) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to its interest-bearing borrowings with floating interest rates. The Group does not use any derivative financial instruments to hedge its interest rate risk.

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 RMB2.6 million for the year ended December 31, 2010. The Group did not have any floating interest rate bank loans during the year ended December 31, 2009.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Foreign currency risk

Substantially all of the Group's businesses are denominated in RMB, which is the Group's functional currency. RMB is not freely convertible into foreign currencies and conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

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, 2010 and 2009 to a reasonable possible change in US$ exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
December 31, 2010			
If RMB weakens against US$	**5**	**7,465**	**7,465**
If RMB strengthens against US$	**(5)**	**(7,465)**	**(7,465)**
If RMB weakens against HK$	**5**	**—**	**69,625**
If RMB strengthens against HK$	**(5)**	**—**	**(69,625)**
December 31, 2009			
If RMB weakens against US$	5	—	2,958
If RMB strengthens against US$	(5)	—	(2,958)

* Excluding retained earnings

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iii) Credit risk

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

The carrying amounts of cash and cash equivalents, short term deposit, pledged bank balances, trade and bill receivables, other receivables, and amount due from related parties, represent the Group's maximum exposure to credit risk in relation to the Group's other financial assets. Substantially all of the Group's cash and cash equivalents are held in major financial institutions located in the PRC, which management believes are of high credit quality. The Group has policies to control the size of the deposits to be placed with various reputable financial institutions according to their market reputation, operating scale and financial background with a view to limiting the amount of credit exposure to any single financial institution.

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

(iv) Liquidity risk

The Group's objective is to ensure continuity of sufficient funding and flexibility by utilizing a variety of bank and other borrowings with debt maturities spreading over a range of periods, thereby ensuring that the Group's outstanding borrowing obligation is not exposed to excessive repayment risk in any particular period. The Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements.

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations to meet its debt obligations as they fall due, and its ability to obtain external financing to meet its committed future capital expenditure.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iv) Liquidity risk (continued)

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, 2010

Group

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

Company

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

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iv) Liquidity risk (continued)

As at December 31, 2009

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	49,571	439,019	—	488,590
Due to related companies	4,567	—	—	4,567
Interest-bearing bank borrowings	—	—	170,150	170,150
Financial liabilities included in other payables and accruals	2,232	—	—	2,232
	56,370	439,019	170,150	665,539

Company

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Due to a subsidiary	5,041	—	—	5,041
Financial liabilities included in other payables and accruals	369	—	—	369
	5,410	—	—	5,410

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 loans 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 realized.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(v) Capital management

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

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.

39. EVENTS AFTER THE REPORTING PERIOD

On March 25, 2011, the Company entered into an equity transfer agreement (the "Agreement") with Mitsubishi Corporation ("Mitsubishi"), whereby the Company agrees to conditionally acquire 40% equity interest in Shanghai Sinorail Diamond International Trading Co., Ltd. ("Shanghai Sinorail"), a sino-foreign equity joint venture incorporated in the PRC, from Mitsubishi for a consideration of approximately USD5.5 million (the "Acquisition"). The consideration was based on the reference to the net asset value of Shanghai Sinorail. The completion of the Acquisition is subject to conditions.

The business of Shanghai Sinorail is to develop the construction of communication solutions and information systems products addressing the customers' demand in the jurisdictions managed by the Beijing Railway Bureau; maintenance of communication solutions and information systems so as to increase the efficiency, to improve quality of service and to reduce costs in the jurisdictions managed by the Beijing Railway Bureau; develop the market for the specialized power supply and specialized surveillance solutions for the railway bureaus in the PRC; develop and sell the network power and related systems for the railway bureaus in the PRC; and develop new products and projects with the Beijing Railway Bureau and to provide customized solutions and service to customers in the railway sector.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on March 27, 2011.

Particulars of Properties

December 31, 2010

INVESTMENT PROPERTIES

Location	Use	Tenure	Attributable interest of the Group
1st Floor, No. 8 Dongdaqiao Road, Chaoyang District, Beijing, PRC	Office	Long term lease	100%
Building 23, Court 36, Dongzhimen Wai Avenue, Chaoyang District, Beijing, PRC	Office	Long term lease	100%
Block 8 No. 1 Zhong Guan Cun Dong Road, Haidian District, Beijing, PRC	Office	Long term lease	100%