The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2007, 2008 and 2009, and the accompanying notes, all included in the Accountants' Report set out in Appendix I to this prospectus. We have prepared our financial information in accordance with International Financial Reporting Standards ("IFRS").

The following discussion contains forward-looking statements that involve risks and uncertainties. Factors that could cause or contribute to such differences include, without limitation, those discussed in the section entitled "Risk Factors."

OVERVIEW

We are a leading transportation infrastructure technology solutions and services provider in China. Our turnkey and specialized ITS solutions address the fundamental needs of safety, reliability, efficiency, pollution reduction and secure revenue collection in the expressway, railway and urban traffic sectors. According to the OC&C Industry Report, in 2009, we were ranked number one in market share by total contract value in the expressway, railway wired and wireless communications sectors of China's ITS market with in excess of 70% market share for communications and surveillance ITS solutions and in excess of 10% market share for tolling ITS solutions in the expressway sector, a 70% market share for ITS solutions in the wired communications segment of the railway sector and a 60% market share for ITS solutions in the wireless communications segment of the railway sector. Also according to OC&C, in 2009, with expressway projects in 29 provinces (including provincial-level cities) in China, we had more extensive geographical coverage than any of our major competitors in the expressway sector of China's ITS market and had higher gross margins than any of our major competitors in each of the expressway and railway communications sectors. In addition to our strong position in the expressway and railway sectors, we have expanded into the urban traffic sector of China's ITS market with positive initial traction as evidenced by the increasing number of contracts awarded during the Track Record Period.

Our revenue for the year ended December 31, 2007, 2008 and 2009 was RMB694.1 million, RMB1,126.9 million and RMB1,405.4 million, respectively, while Adjusted EBITDA for the same years was RMB140.2 million, RMB164.7 million and RMB261.8 million, respectively, and profit for the same years was RMB114.8 million, RMB91.9 million and RMB214.7 million, respectively.

Our operating results are primarily derived from our Turnkey Solutions, Specialized Solutions and VA Services businesses, which accounted for RMB534.5 million, RMB883.0 million and RMB18.3 million, or 37.2%, 61.5% and 1.3%, respectively, of our revenue and RMB109.0 million, RMB280.6 million and RMB11.5 million, or 27.2%, 69.9% and 2.9%, respectively, of our gross profit for the year ended December 31, 2009.

BASIS OF PRESENTATION

Our consolidated financial statements have been prepared in accordance with IFRS on a historical cost basis, except for investment properties that have been measured at fair value. Our consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of December 31 each year and for the year then ended. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognized in assets, are eliminated in full. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

Minority interests represent the portion of profit or loss and net assets not held by the Company and are presented separately in the consolidated income statements and within equity in the consolidated statements of financial position separately from the equity attributable to equity holders of the Company. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill.

The consolidated financial statements are presented in Renminbi unless otherwise indicated.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and the year on year comparability of our financial results during the Track Record Period have been materially affected by the investment in transportation infrastructure by the PRC government during the Track Record Period; the pricing of our Turnkey and Specialized Solutions and the tax treatment applied to our Group.

Investment in Transportation Infrastructure by the PRC Government

Our primary business involves the integration of information technology with the physical transportation infrastructure. As a consequence, our various business segments have benefited significantly from the PRC government's investments in transportation infrastructure, including investments in the construction and improvement of expressways, railways and urban traffic infrastructure. Given that each of our business segments contributes a different relative amount of our overall revenue and profit, the overall benefit we enjoy as a result of the PRC government's investment in transportation infrastructure varies depending on the particular industry sector in which investment is made. Spending on transportation infrastructure in China increased at a CAGR of 43.1% from RMB724.6 billion for the year ended December 31, 2007 to RMB1,483.3 billion for the year ended December 31, 2009. Meanwhile, our revenue increased at a CAGR of 42.3% from RMB694.1 million for the year ended December 31, 2007 to RMB1,405.4 million for the year ended December 31, 2009. The year-on-year growth rate of our revenue for the same periods was 62.3% and 24.7%, respectively. To meet the demands for continued and sustained economic growth, annual government investment in China's transportation infrastructure will reach as high as RMB7.02 trillion during the five-year period between 2008 and 2012. We expect that continued investment in transportation infrastructure construction by the PRC government will generate significant business opportunities for us in the next few years. However, if the PRC government reduces spending on transportation infrastructure projects in China, and we fail to open up new markets in or outside China, our revenue growth could slow down and our turnover could decrease.

Pricing of Our Turnkey and Specialized Solutions and VA Services

Contractors for Turnkey ITS projects are generally selected using a competitive tender process, pursuant to which we will calculate our expected costs plus targeted margins and submit a bid to the project owner. Providers of Specialized Solutions are selected by the Turnkey Solution providers in a process, which depending on the situation, may or may not be subject to competitive bidding. Similarly to the Turnkey Solutions, we will price projects on the basis of our expected costs plus a margin. Meanwhile, VA Services projects are often sold as an add-on service for installed Turnkey and Specialized Solutions projects.

It is important to note that the overall infrastructure project cost is subject to government pricing oversight and control. Hence, our ability to price in favorable margins is dependent on the project budgets set by relevant government bodies increasing in line with increases in equipment and other costs as well and upgrades in technical specifications. Our ability to achieve higher margins for a project also depend on various factors, including the project complexity, our market share and track record within the particular project type, for example, tunnel solutions, the competitive environment for that project, and the strategic nature of the particular project.

We typically target gross margins of 15-18% within our traditional Turnkey Solutions projects. However, for tunnel solutions, we are typically able to embed higher margins in our pricing due to the high complexity and our strong track record and market share within these types of solutions.

With respect to our Specialized Solutions, we typically target gross margins of approximately 40-45% for the expressway sector and 25-30% for the railway sector, where we have a strong position and our solutions have reached wide acceptance in the marketplace. However, for new geographic markets or new industry sectors, such as the urban traffic sector, where we are still building our presence and contract value is often high, we may price in lower gross margins in order to build market share. For example, in 2008 we made a strategic decision to undertake large Specialized Solutions projects in Liaoning and Jilin Provinces at lower than targeted gross margins to utilize the Company's then idle capacity as well as to solidify its geographic presence in the local market. These projects had contract values of RMB36.3 million and RMB13.2 million, respectively. In the case of the Liaoning project, we incurred approximately RMB2.1 million in costs in excess of the revenue generated from the project and in the case of Jilin, we enjoyed a gross margin of just under 30%, as compared to our targeted gross margins for such projects of 40-45%. With respect to the Specialized Solutions for the energy sector, the solutions we provide are generally less complicated and generate more stable margins which are typically not as high as those of the expressway business.

For VA Services, the gross margins typically remain above 60% mainly due to the fact that we have been able to target our existing customer base and also leverage existing resources within the Company to deploy these services at a lesser cost to us. Furthermore, as this is a relatively new product concept to our clients, similar to other typical services oriented business model, we managed to achieve higher margins.

The pricing of our Turnkey and Specialized Solutions and VA Services has a direct impact on our profit margin and, as our business model continues to evolve, the relative revenue contribution from our various business segments may change, leading to fluctuations in our overall margins. During the Track Record Period, we continued to grow our Specialized Solutions business segment, and in particular, our railway Specialized Solutions. As a result, there has been an increase in the percentage revenue contribution of our Specialized Solutions business from 45.9% of our total revenue for the year ended December 31, 2007 to 61.5% of our total revenue for the year ended December 31, 2009.

In addition, the continued evolvement of our business mix will also lead to an increase in our business risk profile from a competition and regulatory standpoint. For example, our continuous expansion in railway Specialized Solutions may subject us to a different set of competitors. Whereas we have historically competed only with traditional expressway ITS companies, now we will also face competition from both traditional expressway ITS companies as well as railway specialized solutions companies. This expansion will also mean that we are subject, to a greater extent, to regulations imposed by railway regulatory bodies and affecting the railway industry.

Business Mix and Working Capital

Projects in each of our segments have different project lifecycles and working capital requirements, and variations in our business mix may also lead to fluctuations in our working capital requirements. For example, due to the complexity of work as well as the generally large size of the projects, our Turnkey Solutions projects and Specialized Solutions projects in the railway sector typically have longer project lifecycles than our Specialized Solutions projects in the expressway sector. In addition, such projects require a longer period of joint design and product customization as compared to more standardized communications or surveillance solutions in the expressway and urban traffic sectors. These longer lifecycles generally lead to increases in amounts due from contract customers and trade and notes receivables because, although revenue is recognized according to IFRS under a percentage completion method, we are not yet to a stage in the project where invoicing the customer for such revenue is possible. Furthermore, our railway Specialized Solutions business usually targets state-owned enterprises customers with good credit history, who generally enjoy longer credit terms of six to nine months offered by the Company, and this will directly contribute to higher turnover days of our trade and notes receivables.

Tax

The major components of income tax expense for the Track Record Period are:

	For the year ended December 31,		
	2007	2008	2009
		RMB'000	
Current income tax:			
Current income tax charge in the PRC	12,385	4,855	22,273
Deferred income tax:			
Relating to origination and reversal of temporary differences	6,834	(8,802)	9,787
Income tax expense/(credit) reported in the consolidated income statements	19,219	(3,947)	32,060

Our Directors have confirmed that we have made all required tax filings under relevant tax laws and regulations in the jurisdictions where we have tax liability and have paid all outstanding tax liabilities with respect to the relevant tax authorities and that we are not subject to any current disputes with the tax authorities, nor do we expect any potential disputes with such authorities.

The Company's subsidiaries, China Toprise Limited and Fairstar Success Holdings Limited, are tax exempted companies incorporated in the British Virgin Islands.

The PRC subsidiaries of the Company were subject to the PRC statutory income tax rate of 33% before January 1, 2008. In accordance with Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得稅法), a foreign investment enterprise in the PRC was entitled to a preferential income tax rate of 15%.

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%. The State Council of the PRC promulgated the implementation rule ("Implementation Rule") on December 26, 2007, which set out the details of the transition of the existing tax concessions.

The implementation guidance for the enterprises designated as High and New Technology Enterprises ("HNTE") was released for implementation in April 2008. In accordance with Guohan (1988) No. 74 (國函[1988]74號) and Jingzhengfa (1988) No. 49 (京政發[1988]49號), entities qualified as advanced technology enterprises and operated in designated areas are entitled to apply for a formal designation of HNTE under the New PRC Enterprise Income Tax Law for a tax exemption or a preferential income tax rate of 15% over a certain period.

(i) Aproud Technology, as an advanced technology enterprise, was entitled to enjoy a reduced income tax rate of 15% for the year ended December 31, 2007. In addition, Aproud Technology was designated and approved as an HNTE in December 2008 for a period of three years from January 1, 2008 and therefore is entitled to a preferential rate of 15% for each of the year ended December 31, 2008, 2009 and 2010.

(ii) Beijing Aproud Information, as an advanced technology enterprise, was exempted from income tax for the year ended December 31, 2007. In addition, Beijing Aproud Information was designated and approved as an HNTE in December 2008 for a period of three years from January 1, 2008 and therefore is entitled to a preferential rate of 7.5% for each of the year ended December 31, 2008, 2009 and 2010.

(iii) Hexin Risheng, as an advanced technology enterprise, was entitled to enjoy a reduced income tax rate of 7.5% for the year ended December 31, 2007. In addition, it was designated and approved as an HNTE in December 2008 for a period of three years from January 1, 2008 and therefore is entitled to a preferential rate of 7.5% for each of the year ended December 31, 2008, 2009 and 2010.

(iv) Haotian Jiajie, as an advanced technology enterprise, was exempted from corporate income tax for the year ended December 31, 2007 and subject to the PRC statutory income tax rate of 25% for the year ended December 31, 2008 and 2009.

(v) Bailian Zhida, Zhixun Tiancheng and Beijing Aproud Software, as advanced technology enterprises, were exempted from corporate income tax for the year ended December 31, 2007. Bailian Zhida, Zhixun Tiancheng and Beijing Aproud Software were designated and approved as an HNTE in December 2008 for a period of three years from January 1, 2008 and therefore are entitled to a preferential rate of 15% for each of the year ended December 31, 2008, 2009 and 2010.

(vi) For the year ended December 31, 2007, in accordance with the approval from the state tax bureau of Beijing Economic-technological Development Area (北京經濟技術開發區國家稅務局), RHY Technology is qualified for 15% state income tax rate as a foreign investment enterprise and accordingly, its applicable tax rate, together with the local income tax rate of 3%, is 18%. Pursuant to the approval form the state tax bureau of Beijing Economic-technological Development Area, Kaiguoshuisuohan 2008 No. 55 (開國稅所函[2008]55號) dated May 26, 2008, RHY Technology was exempted from state income tax from and local income tax for the year ended December 31, 2007 under the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises. RHY Technology was exempted from income tax under the New PRC Tax Law for the year ended December 31, 2008. RHY Technology is entitled to 50% of a transitional tax rate of 10% for the year ended December 31, 2009 and 11% for the year ended December 31, 2010. Such preferential tax rate will be progressively increased to 15% over five years.

As advised by our PRC legal advisors, the authorities granting each of the aforementioned incentive tax rates and tax exemptions are the appropriate competent authorities.

No provision for Hong Kong profits tax has been made as we did not have any assessable profits in Hong Kong during the Track Record Period.

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 dividend derived from the entities in the PRC. Distributions of the pre-2008 earnings are exempted from the above-mentioned withholding tax. For the year ended December 31, 2008, we provided for PRC withholding tax of RMB6,958,000 in respect of the remittance of the 2008 earnings from certain of the PRC subsidiaries. As of December 31, 2009, 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 our subsidiaries established in the PRC. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

Seasonality

We experience seasonality in our business, particularly with respect to our Turnkey Solutions and Specialized Solutions businesses. During the Track Record Period, our revenues for the period from July to December comprised an average of 67%-70% of our revenues for the year. We attribute this seasonality to the effect on construction operations, progress on which is a necessary predecessor to our progress, of cold weather in the Northern regions of the PRC in January and February and rainy weather in the southern regions of the PRC in March and April and to the effect of Chinese New Year (which takes place each year in January or February), when our projects and construction stop for the holiday.

Volatility in Global Financial Markets

Certain recent adverse financial developments have impacted the global financial markets. These developments include a general slowing of economic growth in the U.S., China and globally, substantial volatility in equity securities markets, and volatility and tightening of liquidity in credit markets. These macroeconomic developments negatively affected our business, operating results or financial condition in a number of ways and, during the Track Record Period, we experienced delays or postponement of a number of projects and tightening of gross profit margins with respect to certain products.

In particular, two major Specialized Solution contracts were postponed in 2008 due to the global financial crisis. These projects included a RMB63.0 million contract with respect to the Datong-Qinhuangdao Railway, a cargo line designed for transportation of coal, which was postponed by the project owner, Daqin Railway Co., Ltd., in light of the reduced coal demand during the worldwide economic crisis and a RMB46.0 million contract with respect to the Wenzhou-Fuzhou Railway, which was delayed due to construction delays. In each case, we had not yet begun implementation work when the project was postponed; in the case of the Datong-Qinhuangdao Railway, in August and in the case of the Wenzhou-Fuzhou Railway, in July. The combined effect of these two projects led to approximately RMB109.0 million less revenue than was originally expected in 2008. The Company, however, was able to partially mitigate these postponements by obtaining additional Specialized Solutions contracts in the railway sector, such as a RMB43.0 million contract with respect to fixed communications for the Wuhan-Guangzhou Railway. The Datong-Qinhuangdao Railway project resumed in April 2010 and is currently expected to be completed in February 2011, while the Wenzhou-Fuzhou Railway project resumed in June 2009 and is currently expected to be completed in July 2010.

We also experienced delays in Specialized Solutions projects for the Benxi-Liaoyang-Liaozhong Expressway, Xichang-Panzhihua Expressway, Kuaidamao-Xiapai Expressway, Tianjin-Cangzhou and Tianjin-Shantou Expressway, which led to approximately RMB20.1 million less revenue than originally expected in the expressway sector in 2008. These delays were effected by the project owners in light of tightened government budgets during 2008, but in each case, the projects have resumed. We have already completed certain of these projects, and we expect to complete the remaining projects in 2010.

Due to reduced power requirements, many power plants also cancelled specialized communications projects leading to approximately RMB18.3 million less revenue than originally expected in the energy sector in 2008. Two of these contracts, with an aggregate contract value of less than RMB2.0 million, have been canceled by the power plants, and the remainder of the projects are still delayed but are expected to resume in 2010. A delay in the construction of the Shenyang Subway also led to approximately RMB6.3 million less revenue than expected in the urban traffic—rapid transit sector in 2008. The project was resumed, implemented and completed in 2009, and we are currently implementing a similar project on Line 2 of the Shenyang Subway, which is expected to be completed in 2010.

Our Directors confirmed that during the Track Record Period, none of these delays or postponements led to any penalties or liabilities to the Group nor any abnormal material delays in payments from customers for invoiced work.

The global financial crisis also impacted our pricing and strategy in certain ways. In particular, we made a strategic decision to undertake certain projects in Liaoning and Jilin Provinces at low margins during the year ended December 31, 2008 (as discussed further in this section) to utilize the Company's then-idle capacity as well as to solidify its geographic presence in the local market. Following completion of these projects, we do not anticipate undertaking further projects at similarly low margins. In addition, we launched two key technologies in 2008, namely ONU and AID, the strategy with respect to which, due to tightened customer budgets, was shifted to a bundling with other solutions at a lower price than anticipated, thereby increasing the installed base of these technologies in its various solutions and creating opportunities for future upgrades and expansion. Starting in 2009, we have returned to our original sales strategy with respect to these technologies and no longer bundle them with other solutions at low margins.

Other than as discussed above, we did not experience any significant delays on projects during the Track Record Period.

Other Macroeconomic Factors

Various government policies also contributed to our performance during the Track Record Period. Our performance depends on public spending on transportation infrastructure, therefore government policies such as the RMB4 trillion stimulus package, 7918 Plan and revised Railway Network Plan had a positive impact on the group's revenue and gross profits during the Track Record Period by expanding our addressable market size during this period. We are also subject to business tax and government surcharges on contract revenues, and changes in business tax and government surcharges affect our gross profits, such as the increase in business tax incentives in 2009, resulting in preferential tax treatment implemented by certain local authorities for our Turnkey Solutions business. For further details on the government policies on transportation infrastructure, please refer to the section titled "Industry Overview—Overview of Transport Infrastructure in the PRC."

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following table sets forth summary consolidated financial statements and other financial information for the Company for the periods indicated, as derived from the Accountants' Report in Appendix I to this prospectus. The Company's current structure is the result of the Reorganization and has been accounted for as a reorganization under common ownership in a manner similar to a pooling of interests as if the Company had always been holding a 100% interest in RHY Technology since the first day of the periods presented. The financial information contained herein and in the Accountants' Report in Appendix I to this prospectus is prepared in accordance with IFRS.

	For the year ended December 31,		
	2007	**2008**	**2009**
		RMB'000	
Revenue	**694,143**	**1,126,930**	**1,405,447**
Cost of revenue	(468,431)	(836,635)	(1,004,386)
Gross profit	**225,712**	**290,295**	**401,061**
Other income	5,337	2,437	16,420
Selling, general and administrative expenses	(97,463)	(198,199)	(163,761)
Other expenses	(484)	(1,557)	(103)
Operating profit	**133,102**	**92,976**	**253,617**
Finance income	952	659	809
Finance costs	(3,416)	(6,370)	(7,985)
Share of profits of jointly-controlled entities	3,314	647	291
Gain on disposal of a subsidiary	39	—	—
Profit before tax	**133,991**	**87,912**	**246,732**
Income tax	(19,219)	3,947	(32,060)
PROFIT FOR THE YEAR	**114,772**	**91,859**	**214,672**
Attributable to:			
Owners of the parent	113,190	91,286	214,672
Minority interests	1,582	573	—
	114,772	**91,859**	**214,672**
Adjusted EBITDA[(1)]	140,205	164,732	261,843

Note:

(1) The following table sets forth a full quantitative reconciliation of Adjusted EBITDA to its most direct comparable IFRS measure, profit for the year, and the calculation of Adjusted EBITDA margin. Adjusted EBITDA is not a calculation based on IFRS. The amounts included in the Adjusted EBITDA calculation, however, are derived from amounts included in the consolidated income statements data. We have presented Adjusted EBITDA data in this prospectus as we believe that Adjusted EBITDA is a useful supplement to cash flow data because it enables us to measure operating performance and provides a general indicator of the ability to service and incur debt as well as to internally fund capital expenditures. However, Adjusted EBITDA should not be considered in isolation or construed as an alternative to net income or operating income, or as an indicator of our operating performance or other consolidated operations or cash flow data prepared in accordance with IFRS, or as an alternative to cash flow as a measurement of liquidity. Adjusted EBITDA does not consider any functional or legal requirements of the business that may require us to conserve and allocate funds for purposes other than debt service or funding of capital expenditures. Potential investors should be aware that the Adjusted EBITDA measure presented in this prospectus may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation. As shown below, Adjusted EBITDA refers to the profit for the year *plus* or *minus* income tax expense or credit, *minus* gain on disposal of a subsidiary, *minus* share of profits of jointly-controlled entities, *plus* finance costs, *minus* finance income, *plus* amortization of acquired intangible assets, *plus* depreciation of property, plant and equipment reflected in the selling, general and administrative expenses, *plus* share-based payment expenses related to our Pre-IPO Share Incentive Scheme, *plus* expenses related to this Global Offering and *minus* or *plus* net gain or loss from fair value adjustment on investment properties.

	For the year ended December 31,		
	2007	**2008**	**2009**
		RMB'000	
Profit for the year	114,772	91,859	214,672
Plus/(minus):			
Income tax expense/(credit)	19,219	(3,947)	32,060
Gains on disposal of interests in subsidiaries	(39)	—	—
Share of profits of jointly-controlled entities	(3,314)	(647)	(291)
Finance costs	3,416	6,370	7,985
Finance income	(952)	(659)	(809)
Amortization of acquired intangible assets	2,283	—	—
Depreciation of property, plant and equipment reflected in the Selling, general and administrative expenses	4,328	5,213	7,370
Share-based payment expenses	—	44,791	9,886
Expenses related to this offering	2,989	21,090	2,078
Net (gain)/loss from fair value adjustment on investment properties	(2,497)	662	(11,108)
Adjusted EBITDA	**140,205**	**164,732**	**261,843**

Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

Revenue. The table below sets forth the revenue, gross profit, gross profit margin, operating profit and operating profit margin for each of our three business segments as well as the revenue, gross profit, and operating profit expressed as a percentage of total revenue, gross profit and operating profit, respectively, for the years indicated.

	Revenue		Gross Profit		Gross Profit Margin		Operating Profit[1]		Operating Profit Margin	
	For the year ended December 31,		For the year ended December 31,		For the year ended December 31,		For the year ended December 31,		For the year ended December 31,	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
	RMB'000, except percentages									
Turnkey Solutions	572,592	534,462	100,657	109,017	17.6%	20.4%	71,396	84,350	12.5%	15.8%
% of total	49.6%	37.2%	34.7%	27.2%			43.1%	32.1%		
Specialized Solutions	568,486	882,997	179,699	280,555	31.6%	31.8%	85,640	167,675	15.1%	19.0%
% of total	49.3%	61.5%	61.9%	69.9%			51.7%	63.8%		
VA Services	12,240	18,328	9,939	11,489	81.2%	62.7%	8,680	10,714	70.9%	58.5%
% of total	1.1%	1.3%	3.4%	2.9%			5.2%	4.1%		
Subtotal	1,153,318	1,435,787	290,295	401,061			165,716	262,739		
Inter-segment Elimination	(26,388)	(30,340)								
Unallocated gains							—	11,108		
Corporate and other unallocated expenses							(72,740)	(20,230)		
Total	1,126,930	1,405,447	290,295	401,061	25.8%	28.5%	92,976	253,617	8.3%	18.0%

Note:

(1) Total operating profit represents the total of segment results *plus* unallocated gains and *minus* corporate and other unallocated expenses (which includes costs incurred for certain consolidated functions, such as the headquarters and centralized staff).

Revenue for the year ended December 31, 2009 was RMB1,405.4 million, an increase of RMB278.5 million, or 24.7%, compared to RMB1,126.9 million for the year ended December 31, 2008, primarily due to growth in revenue generated by our Specialized Solutions business, and, to a lesser extent, growth in revenue generated by our VA Services and offset by a slight decline in revenue generated by our Turnkey Solutions businesses.

Revenue generated by our Specialized Solutions business for the year ended December 31, 2009 was RMB883.0 million, an increase of RMB314.5 million, or 55.3%, compared to RMB568.5 million for the year ended December 31, 2008. This increase can be attributed primarily to rapid expansion of our Specialized Solutions in the railway sector, which grew to account for approximately 60% of the revenue generated by our Specialized Solutions business. In particular, we generated revenue from more railway Specialized Solutions contracts than in the prior year, including contracts related to certain large-scale projects, such as the Taiyuan-Zhongwei-Yinchuan, Beijing-Kowloon, Wenzhou-Fuzhou and Wuhan-Guangzhou Railway, which accounted for a majority of the increase in revenue generated by our Specialized Solutions business for the year ended December 31, 2009. In addition, the increase in revenue generated by our Specialized Solutions business can be attributed partially to our entry into the urban traffic—rapid transit sector and growth in the expressway sector.

Revenue generated by our VA Services business for the year ended December 31, 2009 was RMB18.3 million, an increase of RMB6.1 million, or 50.0%, compared to RMB12.2 million for the year ended December 31, 2008. This increase was due to an increase in revenue generated from certain large-scale maintenance projects, the top five of which accounted for a majority of the increase in revenue generated by our VA Services business during the year ended December 31, 2009.

Revenue generated by our Turnkey Solutions business for the year ended December 31, 2009 was RMB534.5 million, a decrease of RMB38.1 million, or 6.7%, compared to RMB572.6 million for the year ended

December 31, 2008. This limited decrease can be attributed primarily to a reduction in new contracts signed during the year ended December 31, 2008, leading to a lower starting backlog for the year ended December 31, 2009 as compared to the prior year. According to the OC&C Industry Report, overall spending for ITS in new expressway projects also decreased by RMB0.5 billion from RMB4.3 billion for the year ended December 31, 2007 to RMB3.8 billion for the year ended December 31, 2008.

Cost of Revenue. Cost of revenue for the year ended December 31, 2009 was RMB1,004.4 million, an increase of RMB167.8 million, or 20.1%, compared to RMB836.6 million for the year ended December 31, 2008, primarily due to growth in our Specialized Solutions business, and to a lesser extent, growth in our VA Services business and partially offset by a reduction in cost of revenue attributable to our Turnkey Solutions business. Our cost of revenue consists primarily of equipment costs, and, to a lesser extent, service and sub-contracting costs. The following table sets forth a breakdown of the cost of revenue for each of our business segments for the years indicated:

	For the year ended December 31,			
	2008		2009	
	Cost of Revenue	Percent of Total	Cost of Revenue	Percent of Total
	RMB'000		RMB'000	
Turnkey Solutions	471,938	56.4%	425,446	42.3%
Specialized Solutions	388,784	46.5%	602,441	60.0%
VA Services	2,301	0.3%	6,839	0.7%
Elimination	(26,388)	(3.2)%	(30,340)	(3.0)%
Total	836,635	100.0%	1,004,386	100.0%

The cost of revenue for our Specialized Solutions business increased by RMB213.6 million, or 54.9% from RMB388.8 million for the year ended December 31, 2008 to RMB602.4 million for the year ended December 31, 2009, primarily due to rapid expansion of our Specialized Solutions in the railway sector, and to a lesser extent, due to our entry into the urban traffic—rapid transit sector and partially offset by a decrease in cost of revenue as a percentage of revenue in our Specialized Solutions in the expressway sector.

Cost of revenue for our VA Services business increased by RMB4.5 million, or 195.7% from RMB2.3 million for the year ended December 31, 2008 to RMB6.8 million for the year ended December 31, 2009, primarily due to an increase in the number of large-scale maintenance projects into which we entered.

Meanwhile, the cost of revenue for our Turnkey Solutions business decreased by RMB46.5 million, or 9.9% from RMB471.9 million for the year ended December 31, 2008 to RMB425.4 million for the year ended December 31, 2009, primarily due to a decrease in the revenue generated by our Turnkey Solutions business.

Gross Profit. Gross profit for the year ended December 31, 2009 was RMB401.1 million, an increase of RMB110.8 million, or 38.2%, from RMB290.3 million for the year ended December 31, 2008. While our revenue increased at the rate of 24.7% from the year ended December 31, 2008 to the year ended December 31, 2009, our cost of revenue increased at the lower rate of 20.1% over the same period of time, resulting in our gross profit margin increasing from 25.8% to 28.5%. This increase was primarily due to growth in our higher margin Specialized Solutions business which accounted for 61.5% of our revenue for the year ended December 31, 2009 as compared to 49.3% for the year ended December 31, 2008 and, to a lesser extent, an improvement in the gross profit margin for our Turnkey Solutions business. These increases were partially offset by decreasing gross profit margins in our VA Services businesses.

The gross profit margin for our Specialized Solutions business increased slightly from 31.6% for the year ended December 31, 2008 to 31.8% for the year ended December 31, 2009, primarily due to an increase in the gross profit margins for our Specialized Solutions in the expressway sector and offset by a slight reduction in the gross profit margins for our Specialized Solutions in the railway sector. The increase in gross profit margins related to our expressway projects was primarily driven by a rebound in gross profit margin from lower levels for the year ended December 31, 2008 when we undertook a large project in Liaoning Province with particularly low gross profit margins in order to solidify our presence in the region. Conversely, the decrease in gross profit margins related to our railway projects was primarily driven by the fact that we undertook the landmark Beijing-Kowloon railway project during the year ended December 31, 2009 at a relatively low gross profit margin for strategic reasons.

The gross profit margin for our Turnkey Solutions business increased from 17.6% for the year ended December 31, 2008 to 20.4% for the year ended December 31, 2009, primarily due to an increase in business tax incentives in 2009 resulting from preferential tax treatment implemented by certain local authorities and the positive effect of a project in Hubei Province with high gross margin. This project involved the extension of a previous project and we were thus able to minimize customization and implementation costs.

In contrast, the gross profit margins for our VA Services business decreased from 81.2% for the year ended December 31, 2008 to 62.7% for the year ended December 31, 2009, primarily due to an increase in the contribution of VA Services contracts involving component repairs and replacements in 2009.

Operating Profit. Our operating profit for the year ended December 31, 2009 was RMB253.6 million, an increase of RMB160.6 million, or 172.7%, from RMB93.0 million for the year ended December 31, 2008. While our gross profits increased at a rate of 38.2%, our operating expenses decreased by RMB49.9 million, or 25.3%, resulting in an increase in both our operating profits and our operating profit margin.

Our operating expenses for the year ended December 31, 2008 and 2009, however, contain expenses and income with respect to our Pre-IPO Share Incentive Scheme, net gain or loss from fair value adjustment on investment properties and certain expenses related to the Global Offering. In particular, our operating expenses for the year ended December 31, 2008 contain RMB44.8 million in share-based compensation expenses related to our Pre-IPO Share Incentive Scheme, RMB0.7 million in net loss from fair value adjustment on investment properties as well as RMB21.1 million in expenses related to the Global Offering. Our operating expenses for the year ended December 31, 2009 contained RMB9.9 million in share-based payment expenses related to our Pre-IPO Share Incentive Scheme and RMB11.1 million in net gain from fair value adjustments on certain investment property. Adjusting for these items, our adjusted operating profit for the year ended December 31, 2008 and 2009 was RMB159.5 million and RMB254.5 million, respectively, and the corresponding operating profit margin increased from 14.2% to 18.1%. The increase in adjusted operating profits and adjusted operating profit margin was primarily due to cost controls in our selling, general and administrative expenses as well as RMB3.2 million in government grants that we obtained in 2009 and was partially offset by increased rental costs associated with our centralized office. Such government grants were provided in various amounts by local finance bureaus and tax bureaus in connection with certain subsidy programs such as subsidies for interest expenses, software development cost, refund of city construction levy, and small medium enterprise development fund, and there remain no unfulfilled conditions or contingencies attaching to these grants. These grants were awarded on a one-time basis, but we may apply for similar grants in the future.

The major components of our selling, general and administrative expenses are staff costs, business expansion and travel expenses, expenses related to this offering (particularly in 2008), share-based compensation expenses related to our Pre-IPO Share Incentive Scheme, low value consumption, office supplies and research and development. Our selling, general and administrative expenses also include depreciation, rental expenses, consulting fees, meeting expenses, audit fees, bank charges, amortization, exchange losses or gains, certain expenses incurred in connection with the bidding process and expenses incurred at the project site during the implementation of our projects.

The table below sets forth a breakdown of our selling, general and administrative expenses for the periods indicated.

	For the year ended December 31,	
	2008	2009
	RMB'000	
Staff costs (excluding share-based compensation)	32,740	42,225
Business development (including business expansion and traveling expenses)	39,149	45,054
Office administrative (including low value consumption, office supplies, meeting expenses and communication expenses)	22,126	24,568
Project related administrative expenses (including site expenses and bidding expenses)	8,129	6,418
Depreciation	5,213	7,370
Rental	4,151	11,788
R&D	10,999	7,401
Professional fees (including consulting fee and audit fee)	5,809	2,731
Bank charges	1,484	2,797
Bad debt provision	580	—
Exchange loss and gains	613	248
Other tax	1,325	1,197
Share-based compensation expense	44,791	9,886
Expenses related to this offering	21,090	2,078
Total	198,199	163,761

Adjusted for the share-based compensation expenses and expenses related to this offering as discussed above, our selling, general and administrative expenses increased by RMB19.5 million, or 14.7%, from RMB132.3 million for the year ended December 31, 2008 to RMB151.8 million for the year ended December 31, 2009. This increase was primarily due to increases in business expansion, travel and staff costs. Business expansion and travel expenses increased by RMB5.9 million, or 15.0%, from RMB39.1 million to RMB45.1 million primarily due to business expansion in the railway, rapid transit and roadway sectors in 2009. Staff costs, adjusted for the share-based compensation expenses as discussed above, increased by RMB9.5 million, or 29.0%, from RMB32.7 million for the year ended December 31, 2008 to RMB42.2 million for the year ended December 31, 2009, primarily due to the rapid expansion of our railway specialized solutions team, rapid transit specialized solutions team, as well as urban roadway turnkey solutions team during 2009.

A significant portion of the increase in operating profits was attributable to a RMB82.1 million increase in the segmental results of our Specialized Solutions business from RMB85.6 million, for the year ended December 31, 2008, to RMB167.7 million, for the year ended December 31, 2009. This increase was due to the combination of the significant revenue increase for the Specialized Solutions segment as well as an increase in the related margin. In particular, during the same period, the margin with respect to our segmental results for our Specialized Solutions business increased from 15.1% to 19.0%. Although our gross profit margin for Specialized Solutions only increased slightly from 31.6% to 31.8%, our operating expenses (prior to inter-segment elimination, unallocated gains and corporate and other unallocated expenses) as a percentage of revenue declined from 16.5% to 12.8%, in large part due to cost control and economies of scale realized with respect to staff, travel and business expansion expenses, resulting in a stronger increase in our operating profit margin.

The segmental results of our Turnkey Solutions business increased by RMB13.0 million from RMB71.4 million for the year ended December 31, 2008 to RMB84.4 million for the year ended December 31, 2009. Despite the revenue contraction experienced in the year ended December 31, 2009, we were able to grow our segmental results of our Turnkey Solutions business as the margin with respect to the segmental results for our Turnkey Solutions business also increased from 12.5% to 15.8%. This increase was primarily due to the increase in gross margin of our Turnkey Solutions business from 17.6% for the year ended December 31, 2008 to 20.4%

for the year ended December 31, 2009 and, to a lesser extent, cost efficiencies realized with respect to office and administrative expenses, bidding related expenses and R&D expenses.

The segmental results of our VA Services business increased by RMB2.0 million from RMB8.7 million for the year ended December 31, 2008 to RMB10.7 million for the year ended December 31, 2009, due to significant revenue growth and reduction of business expansion and travel expenses, partially offset by a decrease in the related gross margins.

For the year ended December 31, 2009, corporate and other unallocated expenses amounted to RMB20.2 million, and unallocated gains amounted to RMB11.1 million.

Profit Before Income Tax. Our profit before income tax for the year ended December 31, 2009 were RMB246.7 million, an increase of RMB158.8 million, or 180.7%, from RMB87.9 million for the year ended December 31, 2008. This increase was primarily due to an increase in operating profits for the year ended December 31, 2009, and, to a lesser degree, due to an increase of RMB0.2 million, or 22.8%, in finance income and was partially offset by an increase of RMB1.6 million, or 25.4%, in finance costs, due to increasing interest bearing loans to fund our business growth and a decrease of RMB0.4 million, or 55.0%, in share of profits of jointly-controlled entities.

Income Tax. Our income tax expense for the year ended December 31, 2009 was RMB32.1 million, an increase of RMB36.0 million from a tax credit of RMB3.9 million for the year ended December 31, 2008. Our effective tax rate for the year ended December 31, 2009 was 13.0%, as compared to a credit amounting to 4.5% for the year ended December 31, 2008. This increase is primarily due to the expiration at the end of 2008 of certain tax benefits applicable to entities in our Turnkey Solutions business leading to an increase to a 10% tax rate for the year ended December 31, 2009 whereas tax had been exempted in 2008. In addition, we had previously paid certain amounts of excess tax while awaiting confirmation of special tax benefits from local government authorities. Upon confirmation of treatment of certain of our subsidiaries as HNTEs, we recorded an aggregate of RMB16.8 million tax reversal for the year ended December 31, 2008.

Profit For the Year. Our profit for the year ended December 31, 2009 was RMB214.7 million, an increase of RMB122.8 million, or 133.6%, from RMB91.9 million for the year ended December 31, 2008. Our net profit margin for the year ended December 31, 2009 was 15.3%, an increase of 7.1% from 8.2% for the year ended December 31, 2008. This increase was due to an increase in our operating profit margin for the year ended December 31, 2009 and partially offset by increased effective tax rate.

Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

Revenue. The table below sets forth the revenue, gross profit, gross profit margin, operating profit and operating profit margin for each of our three business segments as well as the revenue, gross profit, and operating profit expressed as a percentage of total revenue, gross profit and operating profit respectively for the years indicated.

	Revenue		Gross Profit		Gross Profit Margin		Operating Profit[(1)]		Operating Profit Margin	
	For the year ended December 31,		For the year ended December 31,		For the year ended December 31,		For the year ended December 31,		For the year ended December 31,	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
	RMB'000, except percentages									
Turnkey Solutions	375,054	572,592	68,524	100,657	18.3%	17.6%	43,913	71,396	11.7%	12.5%
% of total	52.9%	49.6%	30.4%	34.7%			31.8%	43.1%		
Specialized Solutions	325,210	568,486	151,725	179,699	46.7%	31.6%	89,946	85,640	27.7%	15.1%
% of total	45.9%	49.3%	67.2%	61.9%			65.2%	51.7%		
VA Services	8,136	12,240	5,463	9,939	67.1%	81.2%	4,063	8,680	49.9%	70.9%
% of total	1.2%	1.1%	2.4%	3.4%			3.0%	5.2%		
Subtotal	708,400	1,153,318	225,712	290,295			137,922	165,716		
Inter-segment Elimination	(14,257)	(26,388)								
Unallocated gains							2,497	—		
Corporate and other unallocated expenses							(7,317)	(72,740)		
Total	694,143	1,126,930	225,712	290,295	32.5%	25.8%	133,102	92,976	19.2%	8.3%

Note:

(1) Total operating profit represents the total of segment results *plus* unallocated gains and *minus* corporate and other unallocated expenses (which includes costs incurred for certain consolidated functions, such as the headquarters and centralized staff).

Revenue for the year ended December 31, 2008 was RMB1,126.9 million, an increase of RMB432.8 million or 62.4%, compared to RMB694.1 million for the year ended December 31, 2007. This increase was due primarily to growth in revenue generated by our Specialized Solutions and Turnkey Solutions businesses, and, to a lesser extent, due to growth in revenue generated by our VA Services business.

Revenue generated by our Specialized Solutions business for the year ended December 31, 2008 was RMB568.5 million, an increase of RMB243.3 million, or 74.8%, compared to RMB325.2 million for the year ended December 31, 2007. This increase was due primarily to rapid expansion of our Specialized Solutions in the railway sector, a sector that we entered in mid-2007 and which grew to account for nearly 50% of our revenue generated from our Specialized Solutions business for 2008 as compared with less than 15% in 2007. In particular, we were awarded contracts for certain large-scale projects, such as the Wuhan-Guangzhou and Ningbo-Taizhou-Wenzhou Railways, which accounted for an aggregate of over RMB80.0 million in revenue generated by our Specialized Solutions business for the year ended December 31, 2008. In addition, the increase in revenue generated by our Specialized Solutions business was partially due to moderate growth in the expressway sector.

Revenue generated by our Turnkey Solutions business for the year ended December 31, 2008 was RMB572.6 million, an increase of RMB197.5 million, or 52.7%, compared to RMB375.1 million for the year ended December 31, 2007. This increase was primarily due to the significant increase in new contracts signed in 2007, as spending in the ITS market in China increased, which led to the buildup of a high backlog of contracts by the end of December 31, 2007 that we implemented in 2008.

Revenue generated by our VA Services business for the year ended December 31, 2008 was RMB12.2 million, an increase of RMB4.1 million, or 50.4%, compared to RMB8.1 million for the year ended

December 31, 2007. This increase was due to an increase in the number of VA Services contracts into which we entered during the year ended December 31, 2008 as compared to the prior year.

Cost of Revenue. Cost of revenue for the year ended December 31, 2008 was RMB836.6 million, an increase of RMB368.2 million, or 78.6%, compared to RMB468.4 million for the year ended December 31, 2007, primarily due to increases in cost of revenue attributable to our Specialized Solutions business, and to a lesser extent, our Turnkey Solutions business and partially offset by a reduction in cost of revenue attributable to our VA Services business. The following table sets forth a breakdown of the cost of revenue for each of our business segments for the years indicated:

	2007		2008	
	Cost of Revenue	Percent of Total	Cost of Revenue	Percent of Total
	RMB'000		RMB'000	
Turnkey Solutions	306,530	65.4%	471,938	56.4%
Specialized Solutions	173,485	37.0%	388,784	46.5%
VA Services	2,673	0.6%	2,301	0.3%
Elimination	(14,257)	(3.0)%	(26,388)	(3.2)%
Total	468,431	100.0%	836,635	100.0%

The cost of revenue for our Specialized Solutions business increased by RMB215.3 million, or 124.1% from RMB173.5 million for the year ended December 31, 2007 to RMB388.8 million for the year ended December 31, 2008, due to the rapid expansion of our Specialized Solutions business in the railway sector and an increase in cost of revenue as a percentage of revenue for projects undertaken in the expressway sector, in particular a large project in Liaoning Province.

The cost of revenue for our Turnkey Solutions business increased by RMB165.4 million, or 54.0%, from RMB306.5 million for the year ended December 31, 2007 to RMB471.9 million for the year ended December 31, 2008, primarily due to an increase in the number of Turnkey Solutions projects which we implemented during the year ended December 31, 2008.

Meanwhile, the cost of revenue for our VA Services business decreased slightly by RMB0.4 million, or 14.8%, from RMB2.7 million for the year ended December 31, 2007 to RMB2.3 million for the year ended December 31, 2008, due to the increased software related VA Services business in 2008, resulting in less cost incurred for components.

Gross Profit. Gross profit for the year ended December 31, 2008 was RMB290.3 million, an increase of RMB64.6 million, or 28.6%, to RMB225.7 million for the year ended December 31, 2007. While our revenue increased at the rate of 62.3% from the year ended December 31, 2007 to the year ended December 31, 2008, our cost of revenue increased at the higher rate of 78.6% over the same period of time, resulting in our gross profit margin decreasing from 32.5% to 25.8%. This decline was primarily due to significant growth in our railway Specialized Solutions business which has comparatively lower margins than our Specialized Solutions in other industry sectors and which accounted for an increasing amount of our Specialized Solutions revenue for the year ended December 31, 2008 as compared to the year ended December 31, 2007 as well as a decline in our gross profit margin in our expressway Specialized Solutions for the year ended December 31, 2008. These decreases were partially offset by increasing gross profit margins in our VA Services business.

The gross profit for our Turnkey Solutions business increased by RMB32.2 million, or 47.0%, from RMB68.5 million for the year ended December 31, 2007 to RMB100.7 million for the year ended December 31, 2008. The corresponding margin for our Turnkey Solutions business decreased slightly from 18.3% to 17.6%. Due to the project-based nature of our business, the gross profit margins for our Turnkey Solutions business may vary slightly from year to year based upon the mix of projects undertaken.

The gross profit for our Specialized Solutions business increased by RMB28.0 million, or 18.5%, from RMB151.7 million for the year ended December 31, 2007 to RMB179.7 million for the year ended December 31, 2008. The corresponding margin for our Specialized Solutions business decreased from 46.7% to 31.6%. This was primarily due to lower margins in our expressway Specialized Solutions business due to the fact that we undertook a large project in Liaoning Province during the year ended December 31, 2008 with particularly low gross profit margins in order to solidify our presence in the region. The decrease in gross profit margins was also due to the rapid expansion of our Specialized Solutions business in the railway sector, resulting in the generation of a larger portion of our Specialized Solutions revenue for the year ended December 31, 2008 by our railway Specialized Solutions which typically have a lower gross profit margin than our expressway Specialized Solutions.

Meanwhile, the gross profit for our VA Services amounted to RMB9.9 million for the year ended December 31, 2008, an increase of RMB4.4 million, or 80.0%, to RMB5.5 million for the year ended December 31, 2007. The gross profit margin for our VA Services increased from 67.1% for the year ended December 31, 2007 to 81.2% for the year ended December 31, 2008 primarily due to increasing proportion of software-related VA Services contracts undertaken.

Operating Profit. Our operating profit for the year ended December 31, 2008 was RMB93.0 million, a decrease of RMB40.1 million, or 30.1%, from RMB133.1 million for the year ended December 31, 2007. Although our gross profits increased at a rate of 28.6%, our operating expenses increased by RMB104.7 million, or 113.1%, resulting in a decrease in our operating profits and operating profit margin.

As discussed above, our operating expenses for the year ended December 31, 2007 and 2008 contain expenses and income with respect to our Pre-IPO Share Incentive Scheme, fair value adjustment on investment properties and certain expenses related to this offering. In particular, our operating expenses for the year ended December 31, 2008 contain RMB44.8 million in share-based compensation expenses related to our Pre-IPO Share Incentive Scheme, RMB0.7 million in losses on fair value adjustment on investment properties and RMB21.1 million in expenses related to the Global Offering. Our operating expenses for the year ended December 31, 2007 contain RMB2.5 million in income due to the fair value gain on certain investment property and RMB3.0 million in expenses related to the Global Offering. Adjusting for these items, our adjusted operating profit for the year ended December 31, 2007 and 2008 was RMB133.6 million and RMB159.5 million, respectively, and the corresponding operating profit margins decreased from 19.2% to 14.2%, respectively. The decrease in adjusted operating profit margin was primarily due to a decrease in our gross profit margin, partially offset by a reduction in our selling, general and administrative expenses as a percentage of revenue. Our operating expenses also included a RMB670,000 charitable donation that we made to the victims of the earthquake in Wenchuan, Sichuan Province in 2008.

The table below sets forth a breakdown of our selling, general and administrative expenses for the periods indicated.

	For the year ended December 31,	
	2007	2008
	RMB'000	
Staff costs (excluding share-based compensation)	33,422	32,740
Business development (including business expansion and traveling expenses)	22,335	39,149
Office administrative (including low value consumption, office supplies, meeting expenses and communication expenses)	13,224	22,126
Project related administrative expenses (including site expenses and bidding expenses)	4,878	8,129
Depreciation	4,328	5,213
Rental	2,868	4,151
R&D	6,969	10,999
Professional fees (including consulting fee and audit fee)	2,797	5,809
Bank charges	512	1,484
Bad debt provision	(36)	580
Exchange loss and gains	(2)	613
Other tax	896	1,325
Share-based compensation expense	—	44,791
Expenses related to this offering	2,989	21,090
Amortization of intangible assets	2,283	—
Total	97,463	198,199

Adjusted for the share-based compensation expenses and the expenses related to the Global Offering as discussed above, our selling, general and administrative expenses increased by RMB37.8 million, or 40.0%, from RMB94.5 million for the year ended December 31, 2007 to RMB132.3 million for the year ended December 31, 2008. This increase was primarily due to increases in business expansion and travel, research and development and administrative expenses and partially offset by a decrease in staff costs. Business expansion and travel expenses increased by RMB16.8 million, or 75.0%, from RMB22.3 million to RMB39.1 million primarily due to business expansion in the railway and rapid transit sectors in 2008. Research and development expenses also increased by RMB4.0 million, or 57.0%, from RMB7.0 million for the year ended December 31, 2007 to RMB11.0 million for the year ended December 31, 2008 primarily due to the redevelopment and large scale upgrade of certain surveillance products undertaken in 2008. Administrative expenses, such as office supplies, low value consumption, depreciation, bidding expenses, meeting expenses and communications expenses increased by RMB12.2 million, or 67.4%, from RMB18.1 million for the year ended December 31, 2007 to RMB30.3 million for the year ended December 31, 2008, primarily due to an increase in overall business volume and business mix diversification. On the other hand, staff costs, adjusted for the share-based compensation expenses as discussed above, decreased by RMB0.7 million, or 2.0%, from RMB33.4 million for the year ended December 31, 2007 to RMB32.7 for the year ended December 31, 2008 primarily due to a RMB2.0 million reversal of a provision made in a previous period on social welfare insurance and much higher bonus payments in 2007 than in 2008 due to the implementation of Pre-IPO Share Incentive Scheme in late 2008.

The margin with respect to our segmental results for our Specialized Solutions business decreased from 27.7% to 15.1%. This decrease was primarily due to a decline in the gross profit margin for our Specialized Solutions business as we expanded rapidly in the railway sector, partially offset by a reduction in selling, general and administrative expenses as a percentage of revenue.

The segmental results of our Turnkey Solutions business increased by RMB27.5 million from RMB43.9 million, for the year ended December 31, 2007, to RMB71.4 million, for the year ended December 31, 2008. During the same period, the margin with respect to the segmental results for our Turnkey Solutions increased from 11.7%

to 12.5%. This increase was primarily due to cost control and economies of scale realized with respect to staff expenses.

The segmental results of our VA Services business increased by RMB4.6 million from RMB4.1 million, for the year ended December 31, 2007 to RMB8.7 million, for the year ended December 31, 2008 and the margin with respect to the segmental results for our VA Services was 70.9% as compared with 49.9% in the prior year. This increase was primarily due to significant revenue growth, an increase in gross margins and economies of scale realized with respect to business expansion and travel expenses.

Corporate and other unallocated expenses amounted to RMB72.7 million for the year ended December 31, 2008 primarily due to the aforementioned RMB44.8 million in expenses related to share options and RMB21.1 million related to the Global Offering.

Profit Before Income Tax. Our profit before income tax for the year ended December 31, 2008 was RMB87.9 million, a decrease of RMB46.1 million, or 34.4%, from RMB134.0 million for the year ended December 31, 2007. This decrease was primarily due to a decrease in operating profits for the year ended December 31, 2008, and, to a lesser degree, due to an increase of RMB3.0 million, or 86.5%, in finance costs and a decrease of RMB2.7 million, or 80.5%, in share of profits of jointly-controlled entities.

Income Tax. Our income tax expense for the year ended December 31, 2008 was a credit of RMB3.9 million. This credit resulted in a decrease in our income tax expense of RMB23.1 million from RMB19.2 million for the year ended December 31, 2007. Our effective tax rate for the year ended December 31, 2008 was a credit amounting to 4.5%, as compared to a tax rate of 14.3% for the year ended December 31, 2007. This decrease was primarily due to the confirmation of beneficial tax status for certain of our subsidiaries obtained during the year ended December 31, 2008 leading to an aggregate RMB16.8 million tax reversal for the year ended December 31, 2008.

Profit For the Year. Our profit for the year ended December 31, 2008 was RMB91.9 million, a decrease of RMB22.9 million, or 19.9%, from RMB114.8 million for the year ended December 31, 2007. Our net profit margin for the year ended December 31, 2008 was 8.2%, a decrease of 8.3% from 16.5% for the year ended December 31, 2007. This decrease was due primarily to lower gross profit margin and the expenses incurred related to Pre-IPO Share Incentive Scheme and this offering during the year ended December 31, 2008.

Backlog

Backlog is defined as the aggregate value of contracts signed or secured with third-party customers as of the indicated date, *less* revenues recognized in connection with such contracts up to and including the same date. It is our estimate of the contract value of work that remains to be completed as of a certain date. The contract value of a project represents the amount that we expect to receive under the terms of the contract if the contract is performed in accordance with its terms. Backlog is not a measure defined by generally accepted accounting principles, and our methodology for determining backlog may not be comparable to the methodology used by other companies in determining their backlog. Backlog may not be indicative of future operating results. Not all of our revenue is recorded in backlog for a variety of reasons, including the fact that some projects begin and end within a short-term period. Many contracts do not provide for a fixed amount of work to be performed and are subject to modification or termination by the customer. The termination or modification of any one or more sizeable contracts or the addition of other contracts may have a substantial and immediate effect on backlog.

The following table sets forth the aggregate value of projects in our backlog as of the dates specified. We expect that the majority of the projects outstanding as of December 31, 2009 will be completed within the next 18 to 24 months.

	As of December 31,		
	2007	2008	2009
		RMB'000	
Turnkey Solutions	531,722	320,652	312,011
Specialized Solutions	87,134	359,057	604,215
VA Services	2,553	2,149	1,260
Total	621,409	681,858	917,486

New Contract Value

New contract value represents the aggregate value of the contracts we signed or secured with third-party customers during a specified period. The value of a contract is the amount that we expect to receive under the terms of the contract if the contract is performed in accordance with its terms. New contract value is not a measure defined by generally accepted accounting principles, and or methodology for determining new contract value may not be comparable to the methodology used by other companies in determining their new contract value.

The following table sets forth the aggregate value of new contracts entered into for the years specified. We expect that the majority of the projects entered into during the year ended December 31, 2009 will be completed within the next 18 to 24 months.

	For the year ended December 31,		
	2007	2008	2009
		RMB'000	
Turnkey Solutions	690,927	373,715	530,567
Specialized Solutions	365,594	841,843	1,137,933
VA Services	9,936	12,146	17,847
Total	1,066,457	1,227,704	1,686,347

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to pay for purchases of equipment from our suppliers and services for our Specialized Solutions business and our Turnkey Solutions business and as working capital to fund various operating expenses. To date, we have financed our liquidity requirements primarily through cash flows from our operating activities, bank loans and financing activities, as described in "—Indebtedness," share equity as described in "History and Corporate Structure," and project bonds, as described in "Business—Project Operation Process." Going forward, we believe our liquidity requirements will be satisfied using a combination of cash provided by operating activities, short-term or long-term indebtedness and the proceeds from this Global Offering.

Cash Flow Data

The following table presents selected cash flow data from our consolidated statements of cash flow for the years indicated:

	For the year ended December 31,		
	2007	2008	2009
		RMB'000	
Cash and cash equivalents at the end of years	101,596	169,473	177,173
Net cash flow generated from/(used in) operating activities	7,447	68,930	(51,034)
Net cash flow (used in) investing activities	(4,143)	(11,119)	(13,694)
Net cash flow generated from/(used in) financing activities	(16,690)	2,249	70,775
Net increase/(decrease) in cash and cash equivalents	(13,386)	60,060	6,047

Our net decrease of RMB13.4 million in cash and cash equivalents for the year ended December 31, 2007 was primarily due to outflows of RMB16.7 million cash used in financing activities as well as RMB4.1 million used in investing activities which were only partially offset by an inflow of RMB7.4 million from operating activities. Our net increase of RMB60.1 million in cash and cash equivalents for the year ended December 31, 2008 was primarily due an inflow of RMB68.9 million from operating activities that was only partially offset by an outflow of RMB11.1 million used in investing activities. Our net increase of RMB6.0 million in cash and cash equivalents for the year ended December 31, 2009 was primarily due to an inflow of RMB70.8 million from financing activities that was only partially offset by RMB51.0 million and RMB13.7 million, used in operating expenses and investing activities, respectively.

Cash flow from/(used in) operating activities

Our net cash flow from operating activities, prior to working capital changes, for the year ended December 31, 2007, 2008 and 2009, amounted to an inflow of RMB127.9 million, RMB152.7 million and RMB239.6 million, respectively.

For the year ended December 31, 2007, our increased net cash flow prior to working capital changes of RMB127.9 million was offset by a total amount of RMB120.5 million needed to fund working capital needs, after taking into consideration net interest paid of RMB2.5 million, leading to a positive year end net cash flow from operating activities of RMB7.4 million. This amount needed to fund working capital was due primarily to an increase of RMB171.1 million required to fund work in progress, reflected as amounts due from contract customers, which refers to amounts from contracts with revenue recognized, but not yet invoiced and, to a lesser degree, by an increase of RMB59.4 million in trade and notes receivables, which was due to a significant increase in receivables from the acquisition of Hexin Risheng and the establishment of operations of Zhixun Tiancheng. These increased working capital needs were offset by (i) an increase of RMB49.6 million in trade and notes payable, primarily due to the establishment of Zhixun Tiancheng and Bailian Zhida as well as the acquisition of Hexin Risheng, (ii) a RMB53.0 million increase in amounts due to contract customers as a result of business volume growth and (iii) a RMB46.3 million increase in accrued expenses and other payables stemming mainly from increasing advances from customers and other taxes payable due to rapid business volume growth.

For the year ended December 31, 2008, our increased net cash flow prior to working capital changes of RMB152.7 million was offset by a total amount of RMB83.8 million needed to fund working capital needs, after taking into consideration net interest paid of RMB5.7 million, leading to a positive year end net cash flow from operating activities of RMB68.9 million. This decrease in amounts needed to fund working capital was due primarily to increases in trade and notes payable of RMB233.9 million as a result of an increase in our Turnkey Solutions and railway Specialized Solutions business and in accrued expenses and other payables of RMB81.4 million primarily as a result of an increase in advances from customers of our Turnkey Solutions business. These decreases in working capital needs were partially offset by increases in prepayments and other receivables of RMB71.0 million as a result of rapid business volume expansion in the railway Specialized Solutions business, in trade and notes receivable of RMB139.3 million as a result of an increase in our Turnkey Solutions and railway Specialized Solutions businesses and in amounts to fund work in progress, reflected as amounts due from contract customers of RMB208.8 million due to our growth in Turnkey Solutions and railway Specialized Solutions.

For the year ended December 31, 2009, our increased net cash flow prior to working capital changes of RMB239.6 million was offset by a total amount of RMB290.6 million needed to fund working capital needs, after taking into consideration net interest paid of RMB7.2 million, leading to a negative net cash flow for the year from operating activities of RMB51.0 million. This increase in amounts needed to fund working capital was due primarily to lower growth in trade and notes payable of RMB77.3 million and a reduction in accrued expenses and other payables, in each case, as a result of the decrease in business volume in our Turnkey Solutions business and the rigid payment terms with our major supplier in our growing railway Specialized Solutions business. In contrast to our Turnkey Solutions business, where we are able to leverage our market position and role as project manager to arrange back-to-back payment of suppliers upon payment from our customers, as a Specialized Solutions provider, we may not be in the same position to negotiate for such an arrangement. Furthermore, based on our agreed terms with Huawei, our largest supplier, we are less flexible in arranging back-to-back payment upon collection form our customers and generally we are required to pay Huawei earlier than we collect payment from our Specialized Solutions customers. In addition, our accrued expenses and other payables were affected by a decrease in other payables and accruals primarily due to a decrease in advances from customers in the Turnkey Solutions and expressway Specialized Solutions businesses as a result of decreased business volume in these segments. The increase in amounts needed to fund working capital was also due to an increase in pledged deposits due to an increase in project bonds as a result of higher contract values signed in 2009 and an increase in the use of notes payable to settle payments to suppliers. This increase in notes payable as a means of settling payments to suppliers, and in particular, Huawei, was a means of extending the payment terms with certain suppliers while preserving cash on hand and was necessitated by the rigid payment terms as discussed above. These increases in working capital needs were partially offset by lower amounts needed to fund work in progress, reflected as amounts due from contract customers, as a result of the decrease in business volume in our Turnkey Solutions business.

Cash flow used in investing activities

Our net cash flow used in investing activities for the year ended December 31, 2007, 2008 and 2009 amounted to outflows of RMB4.1 million, RMB11.1 million and RMB13.7 million, respectively.

For the year ended December 31, 2007, our net cash outflow used in investing activities was primarily due to RMB31.3 million in loans extended to related parties and RMB7.8 million in purchases of property, plant and equipment, the majority of which were spent on additional office equipment and vehicles for the Company. These outflows were partially offset by receipt of repayment of RMB31.2 million in loans made to related parties.

For the year ended December 31, 2008, our net cash outflow used in investing activities was primarily due to RMB8.1 million in purchases of property, plant and equipment, the majority of which were spent on staff quarters in project sites in our core region of Hunan Province, new vehicles and computers and electronic equipment for the Company.

For the year ended December 31, 2009, our net cash outflow from investing activities was primarily due to RMB13.4 million in relation to the purchase of property, plant and equipment, the majority of which were spent on renovations to office space related to centralizing our operations, new vehicles and office equipment for the Company.

Cash flow from/(used in) financing activities

Our net cash flow from financing activities for the year ended December 31, 2007, 2008 and 2009 amounted to an outflow of RMB16.7 million, and inflows of RMB2.2 million and RMB70.8 million, respectively.

For the year ended December 31, 2007, our net cash outflow from financing activities was due primarily to repayment of RMB45.0 million in bank loans and RMB102.0 million in loans from related parties made to the Company in the previous year and offset by new bank loans of RMB65.0 million.

For the year ended December 31, 2008, our net cash inflow from financing activities was due primarily to new bank loans of RMB100.0 million and offset by repayment of RMB65.0 million in bank loans and RMB36.0 million in loans from related parties made to the Company.

For the year ended December 31, 2009, our net cash inflow from financing activities was primarily due to new bank loans of RMB170.2 million and proceeds from the issue of new shares of RMB120.2 million and offset by repayment of RMB100.0 million in bank loans, payment of RMB56.2 million in dividends to our shareholders, and RMB50.2 million in increased pledged deposits for bank loans.

Capital Expenditures

During the Track Record Period, we incurred capital expenditures for the purchase of buildings, computers and electronic equipment, office equipment, motor vehicles, and leasehold improvements. Due to the nature of our business, other than as noted above we incur limited capital expenditures in connection with expansion. For the year ended December 31, 2008, we spent RMB4.1 million to purchase staff quarters in project sites in our core region of Hunan Province and RMB6.0 million for the year ended December 31, 2009 in renovations for office space related to centralizing our operations of our head office in Beijing.

	For the year ended December 31,		
	2007	2008	2009
		RMB'000	
Buildings	—	4,076	—
Computers and electronic equipment	2,309	1,123	1,963
Office equipment	1,205	473	2,711
Motor vehicles	3,353	2,256	2,647
Leasehold improvements	930	129	6,044
Total	7,797	8,057	13,365

We do not expect to incur material capital expenditures in the near term and expect to fund our capital expenditures through cash flow from operations, working capital facilities and the net proceeds of the Global Offering. We are of the opinion that our cash generated from our operations and the net proceeds of the Global Offering will be sufficient to finance our capital expenditure needs for the next 12 months.

Working Capital

In determining the appropriate working capital level in each of the relevant financial years during the Track Record Period, our Directors undertook an annual business plan and budget review and followed-up on a regular basis thereafter to determine our working capital requirements based on certain major factors, such as cash flow requirements, debt repayment schedules, expected return on investments and our ability to raise additional working capital.

During the Track Record Period, we made capital investments that could be used as collateral for the securing of bank loans, such as the purchase of buildings in the PRC in a property market that was, in the judgment of our Directors, a long-term favorable outlook. In addition, we secured additional banking facilities in light of the rapid growth of our business scale and raised an additional RMB120.2 million in new capital through the issuance of new shares in April 2009 to CMTF. Such capital was used in funding daily operations and pledged as deposit for additional bank facilities.

Taking into account the net proceeds available to us from the Global Offering, trade and revolving credit facilities and our operating cash flows, we confirm that we have sufficient working capital to meet our requirements for at least the next 12 months from the date of this prospectus.

Net Current Assets

The table below sets out our current assets, current liabilities and net current assets as of the dates indicated:

	As of December 31,			As of April 30,
	2007	2008	2009	2010
		RMB '000		RMB '000
Current assets				
Amount due from contract customers	387,604	596,419	679,579	723,561
Trade and notes receivables	109,618	247,427	411,394	340,654
Prepayments, deposits and other receivables	87,897	165,196	213,313	346,409
Inventories	4,625	8,334	6,432	8,691
Due from related parties	1,848	2,670	3,900	4,989
Pledged deposits	43,840	52,497	173,607	214,726
Cash and cash equivalents	101,596	169,473	177,173	305,958
Total current assets	737,028	1,242,016	1,665,398	1,944,988
Current liabilities				
Amount due to contract customers	56,406	103,904	138,956	121,090
Trade and notes payable	177,363	411,269	488,590	476,153
Other payables and accruals	154,933	252,413	227,413	204,460
Interest-bearing loans	65,201	100,000	170,150	241,920
Due to related parties	173,625	9,125	4,567	4,542
Income tax payable	11,052	11,781	12,792	2,901
Total current liabilities	638,580	888,492	1,042,468	1,051,066
Net current assets	98,448	353,524	622,930	893,922

Our net current assets were RMB98.4 million, RMB353.5 million and RMB622.9 million as of December 31, 2007, 2008, and 2009, respectively. As of April 30, 2010, our net current assets totaled RMB893.9 million. In March 2010, we issued 123,964,076 Shares to Baytree, GE Capital, Intel Capital, Greater China and Future Choice for a total of US$46.0 million (approximately HK$357,079,600).

Amounts due from/(due to) contract customers

The following table sets out amounts due from or to contract customers as of the dates indicated:

	As of December 31,		
	2007	2008	2009
		RMB'000	
Amount due from contract customers	387,604	596,419	679,579
Amount due to contract customers	(56,406)	(103,904)	(138,956)
	331,198	492,515	540,623
Contract costs incurred plus recognized profits less recognized losses to date	1,132,773	1,562,499	2,492,873
Less: Progress billing	(801,575)	(1,069,984)	(1,952,250)
	331,198	492,515	540,623

As noted above, amounts due from contract customers represent amounts from contracts with revenue recognized, but not yet invoiced. At end of each of the reporting periods, the amounts due from/(due to) contract customers arise from the following circumstances:

- Where contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is recognized by the Group 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 recognized as an amount due to customers.

The net amount due from contract customers increased at a rate of 48.7% from RMB331.2 million as of December 31, 2007 to RMB492.5 million as of December 31, 2008, primarily due to the build-up of work in progress as a result of the increase in Turnkey Solutions business. For further details on the timing of the contract process, please refer to the section entitled "Business—Project Operation Process."

The net amount due from contract customers increased at a rate of 9.8% from RMB492.5 million as of December 31, 2008 to RMB540.6 million as of December 31, 2009, primarily due to the build-up of work in progress for expressway and railway Specialized Solutions businesses.

The turnover days of our net amounts due from contract customers decreased from 149 days for the year ended December 31, 2007 to 133 days for the year ended December 31, 2008 and increased slightly from 133 days for the year ended December 31, 2008 to 134 days for the year ended December 31, 2009. For purpose of this calculation, turnover days of our net amounts due from contract customers for the relevant year is calculated by dividing the average of the opening and closing balances of net amounts due from contract customers for the relevant year by revenue and then multiplying this figure by 365.

Trade and notes receivables

	As of December 31,		
	2007	**2008**	**2009**
		RMB'000	
Trade receivables	111,451	249,743	414,138
Notes receivables	—	1,000	572
Provision for impairment	(1,833)	(3,316)	(3,316)
Total trade and notes receivables, net of provision	109,618	247,427	411,394
Turnover days of trade and notes receivables (in days)(1)	40	58	86

Note:

(1) Turnover days of trade and notes receivables for the relevant year is calculated by dividing the average of the opening and closing balances of trade and notes receivables for the relevant year by revenue and then multiplying this figure by 365.

Our trade and notes receivables include amounts invoiced, but uncollected, from our customers and should be distinguished from amounts due from contract customers, which refers to amounts from contracts with revenue recognized, but not yet invoiced. Our trade and notes receivable increased from RMB109.6 million as of December 31, 2007 to RMB247.4 million as of December 31, 2008, primarily due to the increase in our Turnkey Solutions business volume. Our trade and notes receivables increased from RMB247.4 million as of December 31, 2008 to RMB411.4 million as of December 31, 2009, primarily due to a large increase in railway Specialized Solutions business volume in connection with its growth during the year ended December 31, 2009. Our railway Specialized Solutions business usually targets state-owned enterprises customers with good credit history, who generally enjoy longer credit terms of six to nine months offered by the Company, and this will directly contribute to higher turnover days of our trade and notes receivables.

Most of our Turnkey Solutions contracts provide for prepayment and monthly or periodic progress payments. Specifically, most of our contracts require prepayment by the client of 10%-15% of the contract price when the project commences. This advance payment, together with additional working capital is used by the Company to purchase required equipment or solutions from suppliers. We will typically be entitled to issue invoice and collect an additional 70% of the contract price in several installments during the implementation of the project. Such installments are tied to performance milestones including delivery of the equipment, installation and testing. Generally, our clients pay up to an additional 15% upon project completion. Hence, by project completion, we are entitled to receive an aggregate of up to 95% of the contract price and these progress-based billings are typically settled by our customers with a period of six months to one year after billing. Following project completion, there is normally a 12 to 24 month warranty period and the remaining 5% of the contract price will be paid after the expiration of the warranty period.

Most Specialized Solutions contracts require an advance payment by the client of 10-30% of the contract price within a week of the signing of contract. This advance payment, together with additional working capital is used by the Company to purchase equipment from suppliers. Equipment is normally delivered within six weeks of order. Clients are required to pay us 50-65% of the contract price after delivery of equipment. After the installation and testing period and by the time of successful inspection, we are entitled to issue invoice and receive from the client an aggregate amount of 95% of the contract price and these progress-based billings are typically settled by our customers within a period of six months to one year after billing. Following project inspection, there is normally a 12 to 24 month warranty period and the remaining 5% of the contract price is to be paid after the expiration of the warranty period.

During the implementation of the project, we recognize revenue and amount due from contract customers on the percentage of completion basis as described under section entitled "—Critical Accounting Policies" and the above sub-section entitled "—Amount due from/(due to) contract customers."

Although our trade receivables generally have standard credit terms of 30 days, the turnover days of our trade and notes receivable was 86 days for year ended December 31, 2009. This turnover period was a 48.3% lengthening from 58 days for the year ended December 31, 2008 due to the overall longer collection cycle of the rapidly growing railway Specialized Solutions business. The 58-day turnover period of our trade and notes receivable for the year ended December 31, 2008 was a 45% lengthening from 40 days for the year ended December 31, 2007 due to the overall longer payment cycle of the Turnkey Solutions business. In addition, for those customers that are public institutions and state-owned enterprises with good credit history, we usually agree to the granting of a longer credit period which will lengthen our overall turnover days. The terms and length of such period is determined on a case-by-case basis, depending on the particular customer but is generally one to three months for private enterprises, three to six months for public institutions, and six to nine months for state-owned enterprises.

The following table sets forth an aging analysis of trade and notes receivables as of the dates indicated:

	As of December 31,		
	2007	**2008**	**2009**
		RMB'000	
Less than 6 months	86,189	216,786	280,578
6 months to 1 year	20,963	14,817	97,745
1 year to 2 years	2,346	15,645	32,905
2 years to 3 years	—	179	166
Over 3 years	120	—	—
	109,618	247,427	411,394

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

	As of December 31,		
	2007	2008	2009
		RMB'000	
Neither past due nor impaired	52,113	103,469	160,291
Past due but not impaired			
Less than 6 months past due	35,249	114,025	122,584
6 months to 1 year past due	19,835	14,109	95,447
1 year to 2 years past due	2,301	15,645	32,906
2 years to 3 years past due	—	179	166
Over 3 years past due	120	—	—
Total trade and notes receivables net of provision	109,618	247,427	411,394

During the Track Record Period, trade and notes receivables, net of provision, as of December 31, 2007 had been 100% subsequently settled as of April 30, 2010; those outstanding as of December 31, 2008 had been 87% subsequently settled as of the same date; and those outstanding as of December 31, 2009 had been 45% subsequently settled, or RMB183.5 million, as of April 30, 2010, which is the latest practicable date for purposes of indebtedness.

Our management monitors the recoverability of overdue trade and notes receivables, and, when there is objective evidence that we may not be able to collect, provide for impairment of these accounts receivables. The impairment provision for these accounts amounted to RMB1.8 million, RMB3.3 million and RMB3.3 million as of December 31, 2007, 2008 and 2009, respectively. The trade and notes receivables that were past due but not impaired relate to a number of customers that have good track record with us and majority of them were either public institutions or state-owned enterprises. Based on past experience, our Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality, the balances are still considered fully recoverable.

As advised by our PRC legal advisors, we have the right to terminate contracts with customers and claim for payments and compensation to recover outstanding receivables and damages for breach of contract by customers in accordance with laws. In addition, all of our signed contracts contain certain dispute resolution clauses, pursuant to which we are entitled to initiate legal proceedings or apply for arbitrations if, among other things, customers fail to pay us in a timely manner, and as advised by our PRC legal advisors, any decisions, rulings or arbitration awards rendered therefrom are enforceable.

Trade and notes payable

	As of December 31,		
	2007	2008	2009
		RMB'000	
Trade payables	159,896	350,133	351,925
Notes payable	17,467	61,136	136,665
Total trade and notes payable	177,363	411,269	488,590
Turnover days of trade and notes payable (in days)(1)	118	128	164

Note:

(1) Turnover days of trade and notes payable for the relevant year is calculated by dividing the average of the opening and closing balances of trade and notes payable for the relevant year by cost of revenue and then multiplying this figure by 365.

Our trade and notes payable increased from RMB177.4 million as of December 31, 2007 to RMB411.3 million as of December 31, 2008, primarily due to the increase in our Turnkey Solutions business and our railway Specialized Solutions business. Our trade and notes payables increased from RMB411.3 million as of December 31, 2008 to RMB488.6 million as of December 31, 2009, primarily due to an increase in our railway Specialized Solutions business, partially offset by the slight decline in our Turnkey Solutions business. While trade payables remained relatively stable from 2008 to 2009, we have increasingly used notes payable to settle payments to our suppliers. The average maturity period of our notes payable was 112 days.

The turnover days of our trade and notes payable increased from 118 days for the year ended December 31, 2007 to 128 days for the year ended December 31, 2008 primarily due to an increase in the turnover days for trade receivables from our Turnkey Solutions business during the same period of time which we typically match our payment to suppliers with payment from customers. The turnover days of our trade and notes payable increased from 128 days for the year ended December 31, 2008 to 164 days for the year ended December 31, 2009 primarily due to an increase in the business volume of our railway Specialized Solutions business where we use bank notes as a means of settling certain of our suppliers contracts, resulting in an extension of our payable days. These bank notes, once received by our suppliers, may be converted into cash prior to their maturity dates, subject to the payment of discount interest, or endorsed by our suppliers to settle their payables. These bank notes are issued by licensed banks registered in the PRC.

The following table sets forth an aging analysis of trade and notes payable as of the dates periods indicated:

	As of December 31,		
	2007	2008	2009
		RMB'000	
Current or less than one year past due	149,549	334,862	332,428
One to two years past due	7,762	12,578	11,951
Over two years past due	2,585	2,693	7,546
	159,896	350,133	351,925

The credit terms granted by our suppliers generally range from 0 to 90 days. However, in practice, some of these suppliers have granted us longer payment terms which has enabled us to better manage our cash flow and match payments to suppliers with receipt of payment from customers. For example, in certain cases, suppliers have allowed us to delay payment for up to twenty-four months for certain equipment until receipt of payment from our project customers. Under our agreements with Huawei, our largest supplier, if the supply amount is less than RMB500,000, we normally pay off the whole amount at the time of or within one week after the purchase order; if the supply amount is over RMB500,000, we normally pay 30% of the total payment upon ordering and pay the remaining in accordance with the payment schedule under each individual purchase order prior to the delivery of the equipment. As of December 31, 2009, our trade payables over two years past due amounted to RMB7.5 million and, represents an aggregation of small trade payables balances due to more than eighty suppliers. In most cases, such payment has been delayed in order to match payment to suppliers with payment from customers, and we have not received any notice of dispute from any such suppliers.

Prepayments, deposits and other receivables

The following table sets forth our prepayments, deposits and other receivables as of the dates indicated:

	As of December 31,		
	2007	**2008**	**2009**
		RMB'000	
Prepayments to suppliers for purchases of goods	33,697	119,189	133,908
Tender deposits	23,975	22,133	27,625
Advances to staff	5,995	2,439	6,838
Contract deposits	21,758	14,481	31,019
Prepayments related to this offering	443	2,401	2,709
Others	2,029	4,553	11,214
	87,897	165,196	213,313

Our prepayments and other receivables primarily include prepayments to suppliers for purchases of goods, tender deposits, advances to staff, contract deposits and prepayments relating to this offering all of which, with the exception of prepayments relating to this offering, are considered part of our ordinary course of business and will continue after the listing of the Company's shares.

Prepayments to suppliers refer to prepayments and advances with respect to equipment and suppliers required for the implementation for our projects. Advance balances classified under prepayment generally refers to those which can be applied for offsetting future payable balances. Such prepayments typically amount to 10%-30% of contract value and are generally settled by offsetting future payable balances. No such prepayments have been forfeited during the Track Record Period.

Tender deposits refer to deposits made for bids we have submitted for projects in connection with the bidding process as set out by our potential customers.

Advances to staff refer to advances made to project managers, members of the implementation team, sales force and other relevant employees for business trips and on-site project implementation resulting in the incurrence of expenses relating to travel, meals and accommodation and miscellaneous project-related expenses.

Contract deposits refer to primarily deposits placed with our business partners and suppliers as guarantee or commitment deposit for projects we have been or will be engaged in. These advance balances are typically not allowable for offsetting future payable balances.

Our prepayments and other receivables increased by RMB77.3 million, or 87.9%, from RMB87.9 million as of December 31, 2007 to RMB165.2 million as of December 31, 2008. This increase was primarily due to a significant increase in prepayments to suppliers for purchases of goods associated with the growth in our railway Specialized Solutions business.

Our prepayments and other receivables increased by RMB48.1 million, or 29.1%, from RMB165.2 million as of December 31, 2008 to RMB213.3 million as of December 31, 2009. This increase was primarily due to (i) an increase in prepayments to suppliers for purchases of goods due to the continued growth in our railway Specialized Solutions business, (ii) an increase in contract deposits related to our Turnkey Solutions business as customers increasingly demanded cash deposits for projects during the period and (iii) an increase in our expressway Specialized Solutions business volume.

With respect to advances to staff, we require such advances to be settled by staff within twelve months. The advances are unsecured and interest-free and are extended to our project managers, members of the implementation team, sales force and other relevant employees for the purpose of payment of daily operating expenses incurred during the execution of on-site project implementation. Upon return to the office, receipts for expenses incurred are submitted for review and any unutilized advances are returned to the Company. The utilized portions of the advances are reclassified into the relevant expense category in the income statement as appropriate. The amount and length of such advances varies, depending on the nature and location of the project to be implemented or duration of the business trip involved, but, in any event, we expect that these advances to be settled within twelve months.

To effectively monitor and control the advances to our staff, we have amended our internal policy with respect to the granting requirements, approval procedures and repayment controls of such advances and such policy has been implemented within our Group. In particular, our policy includes criteria for (i) the granting of advances, (ii) the proper usage or purpose of the advances and (iii) the maximum amount for each kind of advance allowed. We have also defined the repayment and settlement methods for each type of advance, including the deduction of delinquent or non-settled advances from the delinquent staff member's salaries. We have established authorization policies, as further discussed below that require specific approvals for various types of and amounts of advances and any exceptions to such authorizations must have upper-level management approval. Our finance department maintains records of all such advances, the approvals for such advances and performs regular aging analysis on settlement or outstanding status of advances made.

For each type of advance, including staff advances and business-related advances, the authorization includes both subsidiary- and headquarter-level approval depending on the type and amount of the advance. For example, for amounts less than RMB20,000, approval from the department head and finance manager of the respective subsidiary is required, while for amounts between RMB20,000 to RMB100,000, approval from the general manager, department head and finance manager of the respective subsidiary will be required, and for any advances of over RMB100,000, approval from the relevant business segment vice president, Group president of finance and the general manager, department head and finance manager of the respective subsidiary. Applications must be submitted for all advances including proper documentation on the reasons for such advances. Our finance department keeps track of the applications and approvals as well as records of advances settled and outstanding on a regular basis.

As advised by our PRC legal advisors, all the above mentioned advancing activities conducted in the ordinary course of business are legal and permitted under PRC law.

Other payables and accruals

The following table sets forth our other payables and accruals as of the dates indicated:

	As of December 31,		
	2007	2008	2009
		RMB'000	
Advances from customers	61,695	138,498	109,199
Business advances	1,889	2,420	4,670
Staff cost and welfare accruals	24,950	20,506	17,614
Accruals related to this offering	1,500	14,832	8,322
Other taxes payable	58,373	66,498	70,079
Advances from sub-contractors	2,940	335	—
Dividend payables	—	—	15,297
Others	3,586	9,324	2,232
	154,933	252,413	227,413

Accrued expenses and other payables are non-interest-bearing and have no fixed terms of repayment.

Accrued expenses and other payables included advances from customers, business advances, staff cost and welfare accruals, accruals related to this offering, other taxes payable, advances from sub-contractors, accrued expenses and others. "Other taxes payable" refer to value added tax and business tax payables as a result of the timing difference between IFRS accounting and tax reporting. For example, a project with revenue recognized in

2007 under IFRS accounting may not have the associated revenue under tax reporting in the same year and such difference in timing in revenue recognition gives rise to the "other taxes" payables. For this reason a certain amount of "other taxes" appears on our consolidated statements of financial position. Advances from customers refers to the advance payment that our customers often extend to us in connection with the commencement of a project. This advance corresponds with certain project bonds as discussed in the "Business—Project Operation Process" section of this prospectus and, is a necessary part of our ordinary course of business and will continue after the listing of the Company's Shares. Advances from customers specifically refer to advances from our customers as prepayments of certain contracts.

Our accrued expenses and other payables increased by RMB97.5 million from RMB154.9 million as of December 31, 2007 to RMB252.4 million as of December 31, 2008, primarily due to (i) an increase in advances from customers as a result of the growth in our Turnkey Solutions business volume and railway Specialized Solutions business volume, (ii) other taxes payable and (iii) other accrued expenses relating to this offering. Our accrued expenses and other payables decreased by RMB25.0 million from RMB252.4 million as of December 31, 2008 to RMB227.4 million as of December 31, 2009, primarily due to a decrease in advances from customers and other accrued expenses as a result of a decline in business volume in our Turnkey Solutions and expressway Specialized Solutions businesses, and to a lesser degree, a decrease in accruals related to this offering, and partially offset by an increase in dividend payables to our shareholders in relation to the unpaid portion of the dividend declared in November 2009.

During the three months ended March 31, 2010, the subsequent settlement of other taxes payable in our accrued expenses and other payables as of December 31, 2009 was RMB24.0 million.

Inventory

With the expansion of our business, we have stored a limited amount of raw materials, work in progress and finished goods, and as of December 31, 2007, we had RMB4.6 million in inventory. RMB1.7 million of this inventory was attributable to Bailian Zhida and the remaining RMB2.9 million to Aproud Technology in each case, as a result of the purchase of certain raw materials to be used in Specialized Solutions and VA Services and certain products used in our Specialized surveillance solution. Our inventory, as of December 31, 2008, increased to RMB8.3 million due to the continued build-up of raw materials for our expressway Specialized Surveillance Solutions business in anticipation of the business growth in our expressway Specialized Solutions business in 2009. Our inventory, as of December 31, 2009, decreased slightly to RMB6.4 million due to a decrease in raw materials related to our expressway Specialized Solutions business in connection with a change in inventory management strategy after the launching of our ONU products in the market.

The turnover days of our inventory increased from 1.8 days for the year ended December 31, 2007 to 2.8 days for the year ended December 31, 2008 and decreased slightly to 2.7 days for the year ended December 31, 2009. For purposes of this calculation, turnover days of our inventory for the relevant year is calculated by dividing the average of the opening and closing balances of our inventory for the relevant year by cost of revenue and then multiplying this figure by 365.

During the three months ended March 31, 2010, the subsequent usage of our inventory as of December 31, 2009 was RMB3.1 million.

Goodwill

The goodwill of RMB230.7 million as of December 31, 2007, 2008 and 2009, arose from the acquisition of Aproud Technology, which is considered by the Directors 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. Details of the key assumptions used in value in use calculations are set out in Note 10 to the Accountants' Report attached as Appendix I to this prospectus.

Liquidity Ratios

Our current assets divided by current liabilities, or current ratio, as of December 31, 2007, 2008 and 2009, was 1.2, 1.4, and 1.6, respectively. Our current ratio increased from 1.2 as of December 31, 2007 to 1.4 as of December 31, 2008 due to an increase in amount due from contract customers, trade and notes receivables, prepayments, deposits and other receivables, and cash and cash equivalents and a significant reduction in amount due to related parties. Our current ratio increased to 1.6 as of December 31, 2009 due to continued increase in amount due from contract customers, trade and notes receivables, prepayments, deposits and other receivables, and pledged deposits.

Our current assets, after subtraction of inventories, divided by our current liabilities, or quick ratio, as of December 31, 2007, 2008 and 2009 was 1.2, 1.4, and 1.6, respectively.

Indebtedness

The table below sets out our borrowings as of the dates indicated:

	Effective interest rate	As of December 31,			As of April 30,
		2007	2008	2009	2010
	%		RMB'000		RMB'000
Current					
Bank loans—secured	4.78-8.75	55,000	55,000	95,150	96,920
Bank loans—guaranteed	5.31-8.38	10,000	45,000	75,000	145,000
Other loan—secured	5.76	201	—	—	—
		65,201	100,000	170,150	241,920

Our borrowings increased from RMB65.2 million as of December 31, 2007 to RMB170.2 million as of December 31, 2009 primarily as a result of business growth and re-financings. As the business grew rapidly during the Track Record Period, working capital needs also increased, as discussed further in the section entitled "—Liquidity and Capital Resources," and the Company viewed some level of increased bank borrowing as the most cost-effective means of financing such growing working capital needs. Notwithstanding this increased borrowing, it should be noted that, as noted below, bank loans amounting to approximately RMB45.2 million as of December 31, 2009 were secured by pledged deposits of approximately RMB50.2 million of the Company's own pledged deposits, which were temporarily held in offshore bank accounts of the Company while the Company completed approval procedures in China for repatriation of the funds and thus are different in nature than other borrowings.

Our bank borrowings increased from RMB170.2 million as of December 31, 2009 to RMB241.9 million as of April 30, 2010, reflecting increasing funding requirements to meet the needs of our continuing business expansion.

Bank loans amounting to approximately RMB50.0 million, RMB50.0 million and RMB50.0 million as of December 31, 2007, 2008 and 2009, respectively, were secured by certain of our buildings and investment properties.

Bank loans amounting to approximately RMB45.2 million as of December 31, 2009 were secured by pledged deposits of approximately RMB50.2 million of the Company.

Bank loans amounting to approximately RMB5.0 million, RMB5.0 million and nil as of December 31, 2007, 2008 and 2009, respectively, were guaranteed by Beijing Zhongguancun Science and Technology Guarantee Company (北京中關村科技擔保公司), an independent third party company, as well as a subsidiary, and certain Directors of the Company. For the purpose of the guarantee, properties of a close family member of the financial controller of a subsidiary and trade receivables amounting to RMB10.9 million were pledged in favor of Beijing Zhongguancun Science and Technology Guarantee Company as of December 31, 2007 and 2008, respectively.

As of December 31, 2007, 2008, 2009 and April 30, 2010, we had unutilized bank borrowing facilities amounting to RMB15.0 million, RMB34.0 million, RMB24.0 million and RMB50.0 million, respectively.

As of December 31, 2007, 2008, 2009 and April 30, 2010, we did not have any long-term loans, and all of our bank borrowings were short-term loans.

We confirm that we had no material delay or default in the repayment of any bank borrowings during the Track Record Period.

As of December 31, 2009, the Company had cash and cash equivalents of RMB177.2 million, and outstanding interest-bearing loans of RMB170.2 million and as of March 31, 2010, outstanding interest-bearing loans were RMB186.9 million. With respect to its operations, the Company has relied on short-term debt, while maintaining a cash balance as a liquidity buffer. All borrowings are denominated in RMB.

In addition, the Company will settle all loans due to and from related parties prior to the Listing. As of December 31, 2009, the total net amount was RMB0.7 million due to related parties, which will be settled by cash payment to such related parties.

We will have sufficient cash at hand and cashflow generated from operations to settle the maturing debt which are not renewed and the amount due to related parties.

We are not aware of any potential withdrawal of any banking facilities, early payment of outstanding loans required by banks, requests by banks to increase the amount of pledges for secured borrowings, cancellation of orders, bankruptcy or default on the part of any customers or suppliers which may affect our assets, operations, business, profits or cashflow.

Other than the operating leases detailed below, the Company has no capital commitments as of each of the three year ended December 31, 2007, 2008 and 2009. Furthermore, as detailed in the section entitled "—Capital Expenditures," due to the nature of its business, the Company incurs limited capital expenditures in connection with business expansion. Any capital expenditure needs arising during 2010 will be met by the operating cash flow generated as well as the credit facilities detailed above.

The Directors confirm that there had been no material adverse change in the indebtedness position of the Group from April 30, 2010 to the Latest Practicable Date.

Gearing Ratio

Our adjusted net debt divided by adjusted total equity, or gearing ratio, as of December 31, 2007, 2008 and 2009 was (7.9)%, (17.6)% and (18.5)%, respectively. For purposes of the calculation of our gearing ratio, adjusted net debt comprises all interest-bearing bank borrowings and amounts due to related parties less cash and cash equivalents and pledged bank balances; adjusted total equity comprises owner's equity and minority interests stated in the consolidated statements of financial position. Balances arising from amounts due to the Parent Company have all been settled or capitalized as of December 31, 2009 and thus have been excluded from our debts and included in our equity to arrive at adjusted net debt and adjusted total equity for the purpose of calculating our gearing ratio as set out below:

	As of December 31,		
	2007	2008	2009
		RMB'000	
Amount due to related parties	173,625	9,125	4,567
Less: Amount due to the Parent Company	(135,896)	(6,148)	—
	37,729	2,977	4,567
Interest-bearing loans	65,201	100,000	170,150
	102,930	102,977	174,717
Less: Cash and cash equivalents	(101,596)	(169,473)	(177,173)
Less: Pledged bank balances	(43,840)	(52,497)	(173,607)
Adjusted (Net cash)	(42,506)	(118,993)	(176,063)
Total equity	402,873	670,466	953,159
Add: Amount due to the Parent Company	135,896	6,148	—
Adjusted total equity	538,769	676,614	953,159
Gearing ratio	(7.9)%	(17.6)%	(18.5)%

Our negative gearing ratio increased from (7.9)% as of December 31, 2007 to (17.6)% as of December 31, 2008 primarily due to increased cash and cash equivalents and pledged bank deposits, and partially offset by an increase in equity base as a result of the Pre-IPO Share Incentive Scheme and capitalization of amounts due to our parent company. Our gearing ratio remained relatively constant at (18.5)% as of December 31, 2009 as compared to (17.6)% as of December 31, 2008. While pledged bank balances increased significantly, our equity base also increased significantly as a result of the Pre-IPO Share Incentive Scheme and issuance of new shares to CMTF.

Guarantees and Security

The following table sets forth our pledged bank balances as of the dates specified. Other than as set forth below or described in "—Indebtedness" above, as of December 31, 2009, the Company did not have any other guarantees or security outstanding.

	As of December 31,		
	2007	2008	2009
		RMB'000	
Pledged bank balances for			
Bank loans	—	—	50,228
Project bonds	34,396	35,399	74,660
Notes payable	9,444	17,098	48,719
Total	43,840	52,497	173,607

Commitments

Operating Leases

The following table sets forth our operating leases as of the dates specified.

	As of December 31,		
	2007	2008	2009
		RMB'000	
Operating Lease Commitments (as Lessee)			
Within one year	2,655	3,235	13,538
After one year but not more than five years	4,890	3,258	21,046
Total	7,545	6,493	34,584

	As of December 31,		
	2007	2008	2009
		RMB'000	
Operating Lease Commitments (as Lessor)			
Within one year	2,413	2,104	4,097
After one year but not more than five years	—	2,104	2,805
Total	2,413	4,208	6,902

The increase in our operating lease commitments from December 31, 2008 to December 31, 2009 was primarily due to the increased lease costs incurred in relation to centralizing our business operations in new offices in Beijing. Other than operating the leases set forth above, we had no significant capital commitments as of December 31, 2007, 2008 and 2009.

Contingent Liabilities

As of December 31, 2007, 2008 and 2009, we had no significant contingent liabilities and we confirm that as of the Latest Practicable Date there were no material changes to our contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into any off-balance sheet transactions or arrangements.

RELATED PARTY BALANCES

Details of our balances with related parties during the Track Record Period are set forth as follows.

Relationship	Name of party	Remarks	For the year ended December 31, 2007	2008	2009
				RMB'000	
Due from related parties:					
Non-trade balances					
The Parent Company	China ITS Co., Ltd.[1]		326	—	—
Entity with common shareholders of the Group and significantly influenced by directors	Bailian Youli[1]	Jiang Hailin (executive Director) and Yuan Chuang (former Director) own 22% and 5% interest in Bailian Youli, respectively	916	1,459	—
Entity with common shareholders of the Group and controlled by a Director	RAY Holdings[1]	Wang Jing (executive Director) owns 58.9% interest in RAY Holdings	138	774	2,711
A director	Mou Yi (former Director)		—	85	—
Senior management	Guo Zhigang (former senior manager)		16	—	—
Entity significantly influenced by a Director	Beijing Jiyier Technology Development Co., Ltd.[2] ("Beijing Jiyier Technology")	A wholly owned subsidiary of Xinjiang RHY (a jointly- controlled entity of the Group). Lv Xilin (former Director) is a director of Beijing Jiyier Technology	100	—	—
Close family member of an individual who is both shareholder and Director of the Group	Liu Hua		352	352	—
A jointly-controlled entity	Wuhan Chenguang		—	—	1,189
Total			**1,848**	**2,670**	**3,900**

Notes:

(1) Investment holding company.
(2) Principally engages in the provision of tolling solutions.

All the non-trade balances arose mainly due to loans made to related parties and, to a lesser degree, due to rentals to related parties during the Track Record Period. All of the non-trade balances outstanding as of December 31, 2009 will be settled in cash from the Company's internal resources prior to the Listing.

The following table sets forth the details of amounts due to related parties during the Track Record Period.*

Relationship	Name of party	Remarks	For the year ended December 31, 2007	2008	2009
			RMB'000		
Due to related parties:					
Trade balances					
Entity with common shareholders of the Group and significantly influenced by a Director	Beijing Zhongwei Rongzhi Technology Co., Ltd.(1)	Bailian Youli owns 95% interest in Beijing Zhongwei Rongzhi Technology Co., Ltd. Yuan Chuang (former Director) is a director of Beijing Zhongwei Rongzhi	880	1,110	—
Entity significantly influenced by a Director	Beijing Jiyier Technology Development Co., Ltd.(2) ("Beijing Jiyier Technology")	Wholly owned subsidiary of Xinjiang RHY (a jointly-controlled entity of the Group). Lv Xilin (former Director) is a Director of Beijing Jiyier Technology	1,119	409	—
A jointly-controlled entity	Wuhan Chenguang(3)		2,435	533	3,060
Sub total—trade balance			**4,434**	**2,052**	**3,060**
Non-trade balances					
The Parent Company	China ITS Co., Ltd.(4)		135,896	6,148	—
Entity with common shareholder of the Group and significantly influenced by Directors	Bailian Youli(4)	Jiang Hailin (executive Director) and Yuan Chuang (former Director) own 22% and 5% interest in Bailian Youli, respectively	449	687	287
Entity with common shareholder of the Group and controlled by Directors	Aproud Innovative Technology(4)	Dang Kulun (former Director), Pan Jianguo (executive Director) and Jing Yang (former Director), directors of Aproud Innovative Technology, owns 49.5%, 30.5% and 20%, respectively	20,241	—	—
Parties who are both shareholders of the Group and Directors	Lv Xilin (former Director)		1,820	—	—
	Zhao Lisen (former Director)		3,639	—	—
	Jing Yang (former Director)		2	—	—
	Dang Kulun (former Director)		2	—	—
	Jiang Hailin (executive Director)		21	—	—
			5,484	—	—
Entity with common shareholders of the Group and significantly influenced by a Director	Beijing Zhongwei Rongzhi Technology Co., Ltd.(1)	Bailian Youli owns 95% interest in Beijing Zhongwei Rongzhi Technology Co., Ltd. Yuan Chuang (former Director) is a director of Beijing Zhongwei Rongzhi	330	—	—
Jointly-controlled entities	Xinjiang RHY(5)		1,133	—	—
	Wuhan Chenguang(3)		5,658	238	1,220
			6,791	238	1,220
Sub-total—non-trade balance			**169,191**	**7,073**	**1,507**
Total			**173,625**	**9,125**	**4,567**
Guarantee provided to the Group(6)			10,000	—	—

Notes:

(1) Principally engages in the development, sales and services of IT software and hardware for consumer industry.
(2) Principally engages in the provision of tolling solutions.
(3) Principally engages in the provision of intelligent traffic system turnkey solutions.
(4) Investment holding company.
(5) Principally engages in the provision of value added operations and services.

(6) The guarantees provided to the Group were fully released during 2008.
* Pursuant to the resolutions of our Board of Directors and shareholders passed on March 19, 2010, we declared a dividend of RMB50 million payable to our shareholders of record as of December 31, 2008, which included China ITS Co., Ltd., CCBIAM and Baring. It is expected that such dividend will be paid out of the capital reserve of the Company after the Listing Date.

Trade Balances

During the Track Record Period, we purchased from our related parties an insignificant amount of various types of products and equipment such as testing equipment, cables, display systems and closed-circuit monitors for project implementation. The products and equipment purchased are readily available in the market and we can source from alternative suppliers.

Our Directors are of the view that all the trade related party transactions were based on prices mutually agreed between the parties with reference to market prices in the ordinary and usual course of business and on normal commercial terms, that their terms are fair and reasonable and that all related party transactions (other than the purchases from Wuhan Chenguang (a jointly-controlled entity of the Group) and Beijing Jiyier Technology (a subsidiary of a jointly-controlled entity of the Group), and the connected transactions as disclosed in the "Connected Transactions" section of this prospectus) will be settled in cash from the Company's internal resources prior to the Listing and such transactions shall be discontinued thereafter.

Non-trade Balances

The non-trade balance of RMB1.5 million outstanding as of December 31, 2009 arose due to unsettled portions of previous related parties transaction balance which will be settled prior to the Listing in cash from the Company's internal resources.

Details of all our related party transactions are set out in Note 19 to the Accountants' Report in Appendix I to this prospectus.

Loans to and from Related Parties

With respect to loans to and from related parties, such loans are approved by the board of directors of our Group companies concerned and evidenced in the relevant board proceedings. Outstanding balances at the end of each financial reporting period were unsecured and interest-free, and there have been no guarantees provided or received for any related party receivable or payable. There are no fixed terms of repayment. We note that our PRC legal counsel has advised us that related party loans involving a company of the Group as one party and an individual as the other party do not violate PRC law and are valid and legally enforceable and furthermore that according to the General Principles on Lending promulgated by the People's Bank of China on June 28, 1996, PRC companies not engaged in the banking business in the PRC are prohibited from lending to another company with or without interest. Although a limited number of our related party loans have, in the past, failed to comply with this regulation, our PRC legal counsel has advised that, in light of the fact that penalties are based on the interest charged and all such loans were non-interest bearing, the risk that the relevant related parties of the Group will be penalized by the relevant PRC authorities is low. Nevertheless, we confirm that we shall release all guarantees and settle all balances arising from our loan advancing activities with related parties including all loans to and from related parties, before our Listing. Furthermore, we undertake not to engage in any such related party loan activities in the future. Our Controlling Shareholders have agreed to indemnify us with respect to any penalty suffered by us as a result of the above-mentioned related party loans.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to various types of market risks, including changes in interest rate risks, foreign exchange risks and inflation risks in the normal course of business.

Foreign Currency Exchange Rate Risk

We conduct our business primarily in the PRC with most of the transactions denominated and settled in Renminbi. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an appreciation of the Renminbi against the U.S. dollar recently. The PRC government may take further actions that could cause future exchange rates to vary significantly from current or historical exchange rates. A depreciation of the Renminbi would adversely affect the value of any dividends we pay to offshore investors and would also result in an increase in the price of goods with imported content which we source from our suppliers. An appreciation, on the other hand, may affect the value of the proceeds from the Global Offering, which will be denominated in HK dollars.

Interest Rate Risk

Our income and operating cash flows are substantially independent of changes in market interest rates and we have no significant interest-bearing assets except for the cash and bank balances, details of which have been disclosed in Note 15 of Accountants' Report in Appendix I to this prospectus.

Our exposure to changes in interest rates is mainly attributable to our borrowings, details of which have been disclosed in Note 18 in Accountants' Report in Appendix I to this prospectus. As of December 31, 2009, we had total interest bearing loans of RMB170.2 million, as described above in "—Indebtedness." To the extent that we borrow loans at floating rate in the future, those borrowings may expose us to cash flow interest-rate risk. To the extent that we borrow loans at fixed rate in the future, those borrowings may expose us to fair value interest rate risk.

Credit Risk

We have no significant concentrations of credit risk. The carrying amount of restricted bank balances, cash and cash equivalents trade receivables and other receivables included in our consolidated statements of financial position represents our maximum exposure to credit risk in relation to our financial assets. We have policies in place to ensure that credit sales of products are made to customers with an appropriate credit history and we perform periodic credit evaluations of our customers. Our historical experience in the collection of trade and other receivables falls within the recorded allowances and our directors are of the opinion that adequate provision for uncollectible trade receivables has been made in the financial statements.

Inflation

In recent years, the PRC has not experienced significant inflation, and thus inflation has not had a significant effect on our business during the past three years. According to the China Statistical Bureau, China's overall national inflation rate, as represented by the general consumer price index, was approximately (0.7)% in 2009, 5.9% in 2008 and 4.8% in 2007.

CRITICAL ACCOUNTING POLICIES

The financial information set out in the Accountants' Report in Appendix I to this prospectus has been prepared in accordance with IFRS. Our principal accounting policies are set out in Note 2 of the Accountants' Report in Appendix I to this prospectus. IFRS requires that we adopt the accounting policies and make the estimates that our directors believe are appropriate in the circumstances for the purposes of giving a true and fair view of our results and financial condition. However, different policies, estimates and assumptions in critical areas could lead to materially different results. Critical accounting policies are those that are both most important to the portrayal of our financial conditions and results of operations and require most difficult, subjective, or complex judgment by our management, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Certain accounting estimates are particularly sensitive because of their significance to our financial statements and because of the possibility that future events affecting the estimate may differ significantly from management's current estimates and judgments used in the preparation of our financial statements. Our directors believe the accounting policies described below involve the most significant judgments and estimates used in the preparation of our financial statements.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

(a) *Sale of products*. Sale of products comprises trading of goods contracts which are not qualified as construction contracts. Revenue is recognized 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 products sold. As shown in Note 3 of the Accountants' Report in Appendix I to this prospectus, a *de minimis* portion of our overall revenue during the Track Record Period was derived from trading of goods contracts which did not involve implementation of projects. In the past, for certain of our projects, we entered into a master contract for project implementation, testing and services with the customer and also entered into separate contracts which involved delivery of goods. Because we entered into separate contracts, the revenue recognized from such delivery of goods contracts was treated as revenue recognized from "sales of products," rather than implementation of projects.

(b) *Implementation of projects*. Revenue is recognized on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" below.

(c) *Rendering of services*. Revenue is recognized when services are rendered.

(d) *Interest income*. Interest income is recognized as interest accrues by using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

(e) *Dividend income*. Dividend income is recognized when the shareholders' right to receive the payment is established.

(f) *Rental income*. Rental income arising from operating leases on investment properties is accounted for on the straight line basis over the lease terms.

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 labor 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 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 customers.

Basis of Consolidation

The financial information comprises the financial statements of the Company and its subsidiaries for the Track Record Period. Except for the Reorganization which has been accounted for as a reorganization under common ownership and common control in a manner similar to a pooling-of-interests as described in Note 1(d) of Section II of the Accountants' Report in Appendix I to this prospectus, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

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 Track Record Period 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 combined 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 statements of income 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.

The purchase method of accounting involves allocating the cost of business combinations to the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate fair value of the assets given and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Under the purchase method of accounting, 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, income and expenses and profits and losses resulting from intra-group transactions that are recognized in assets, are eliminated in full.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated income statements and within equity in the consolidated statements of financial position, separately from the equity attributable to equity holders of the Company. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

The Group has customer contracts included in intangible assets during the Track Record Period.

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, 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. The Group generally does not require collateral from its customers.

Trade and Other Payables

Liabilities for trade 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.

Related Parties

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

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

(2) the party is an associate;

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

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

(5) the party is a close member of the family of any individual referred to in (1) or (4);

(6) 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 (4) or (5); or

(7) 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.

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 amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. 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%. Another key assumption is gross margin used in the cash flow projection. In determining the gross margins used in the cash flow projection, the management considered it appropriate to use a three-year average so as to normalize the impact of changes in product mix and gross margin in any particular period. In determining the discount rates used in the cash flow projection, the factors considered by management included but not limited to the borrowing interest rates applicable to the entity, risks relating to the business operation of the entity and the risks relating to the ITS industry in the PRC, further details of which are set out in the section headed "Risk Factors" in this prospectus.

Paragraph 33(c) of IAS 36 *Impairments of Assets*, regarding evaluating value in use, provides that an entity shall estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

In determining the growth rate used for the "Second Five Years," the Directors have taken into account, among other things, the growth rate of Gross Domestic Product ("GDP") of the PRC from 2015 to 2019 which is estimated to grow at a decreasing growth rate of 12.1% in 2015 to 11.6% in 2019 (Source: Euromonitor). Despite the fact that there might be difference between the Group's average growth rate and the average GDP growth rate of the PRC of approximately 11.7%, the management considered the use of a conservative 5% growth rate for the Second Five Years to be more appropriate for purposes of goodwill impairment testing. The carrying amount of goodwill as at December 31, 2007, 2008 and 2009 was RMB230.7 million.

Further details are included in Note 10 of Section II of the Accountants' Report in Appendix I to this prospectus.

Fair value of investment properties

The best evidence of fair value is current prices in an active market for similar properties. In the absence of such information, the Group considers information from a variety of sources, including: (i) by reference to independent valuations; (ii) current prices in an active market for properties of different natures, conditions or locations (or subject to different leases or other contracts), adjusted to reflect those differences; (iii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of transactions that occurred at those prices; and (iv) discounted cash flow projections, based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from 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 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.

Impairment of trade receivables

The Group's policy for impairment of trade receivables is based on an assessment of the recoverability of trade receivables. The identification of doubtful debts requires management judgment 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 trade receivables and impairment loss in the period in which such estimate has been changed.

The trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group and majority of them were either government agencies or state-owned enterprises. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality the balances are still considered fully recoverable. Further details are set out in Note 12 of Section II of the Accountants' Report in Appendix I to this prospectus.

Current income tax and deferred income tax

The Group is subject to income taxes in numerous jurisdictions. Judgment 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 future profits or taxable temporary differences will be available in the future. In cases where the actual 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.

Percentage of completion of construction work

The Group recognizes revenue according to the percentage of completion of individual contract 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.

Provisions

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

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

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

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in the financial or trading position of our Company since December 31, 2009 (being the date to which our latest consolidated financial results were prepared as set out in the Accountants' Report in Appendix I to this prospectus).

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that as of the Latest Practicable Date, there were no circumstances which, had they been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

FORECAST FOR THE HALF YEAR ENDING JUNE 30, 2010

We forecast that, in the absence of unforeseen circumstances and on the bases and assumptions set out in the Profit Forecast in Appendix III to this prospectus, and in accordance with IFRS, our net profit attributable to our shareholders for the half year ending June 30, 2010 is expected to be not less than RMB41.2 million.

The forecast is presented on a basis consistent in all material respects with the accounting policies currently adopted by us as set out in the Accountants' Report in Appendix I to this prospectus dated the date of this prospectus.

Our Directors have prepared a profit forecast only for the half year ending June 30, 2010, as the factors described under the sections headed "Risk Factors" and "—Factors Affecting Our Results of Operations and Financial Condition" make any forecast for a longer period subject to too many uncertainties.

The unaudited pro forma fully diluted earnings per Share for the half year ending June 30, 2010 is expected to be not less than RMB0.027. This amount has been calculated based on the forecast consolidated profit attributable to equity holders of our Company for the half year ending June 30, 2010 and assuming that our Company had been listed since January 1, 2010 and a total of 1,550,296,334 Shares were in issue during the half year ended June 30, 2010, without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme.

Our revenue is generated primarily by three business segments: Turnkey Solutions, Specialized Solutions and VA Services.

Revenue from construction contracts, which is fixed price in nature, is recognized using the percentage of completion method when the contract activities have progressed to a stage where economic benefit can be reasonably foreseen and is measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

The estimate of our revenue for the half year ending June 30, 2010 for purposes of our profit forecast on, among other things:

(i) backlog as of December 31, 2009 (based on percentage completion milestones as set out in contracts signed or orders secured).

(ii) contracts signed to date (based on contracts entered into since December 31, 2009 and actual work done or projected percentage completion milestones as set out in such contracts); and

(iii) bids won to date (based on winning bid notification or other written notification and projected percentage completion milestones as set out in the bidding documents. The Directors confirm that based on past experience, bids won generally become actual contracts signed and that there will not be changes in the terms and conditions of the bids as compared to actual contracts entered into that will materially and adversely affect our contracts). The period from bid winning to contract signing is typically one to two months.

Sensitivity Analysis

The following table illustrates the sensitivity of net profit attributable to the equity holders of the Company to revenue recognized for all projects during the forecast period.

Reduction in net profit attributable to equity holders of the Company (revenue sensitivity analysis).

	If 2.5% of revenue is not recognized	If 5.0% of revenue is not recognized
	RMB million	RMB million
Reduction in net profit attributable to equity holders of the Company	(2.4)	(4.8)

The following table illustrates the sensitivity of net profit attributable to the equity holders of the Company to cost overrun for all projects during forecast period.

Reduction in net profit attributable to equity holders of the Company (cost sensitivity analysis).

	If cost is overrun by 1.0%	If cost is overrun by 2.5%
	RMB million	RMB million
Reduction in net profit attributable to equity holders of the Company	(2.5)	(6.2)

The above sensitivity analysis is intended for reference only, and any variation could exceed the ranges given. Investors should note in particular that (i) this sensitivity analysis is not intended to be exhaustive and is limited to the impact of the variance in revenue recognition and cost for all projects for the half year ending June 30, 2010 and (ii) the profit forecast is subject to further and additional uncertainties generally.

We have considered for the purposes of the profit forecast what we believe is the best estimate of the sensitivity in revenue recognized and cost overrun for all projects as at June 30, 2010. However, the sensitivity in revenue recognized and cost overrun for all projects and/or any changes of the sensitivity in revenue recognized and cost overrun for all projects as at the relevant time may differ materially from our estimate, and is dependent on market conditions and other factors that are beyond our control. Our profit forecast involves estimates and assumptions in this regard which may prove to be incorrect.

You may find the texts of the letters from Ernst & Young, our auditors and reporting accountants, and the Joint Sponsors for the Listing, in respect of the Profit Forecast in Appendix III to this prospectus.

DIVIDEND POLICY

We may distribute dividends by way of cash or by other means that we consider appropriate. A decision to distribute any dividends would require the approval of our Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to shareholders' approval.

A decision to declare or to pay any dividends in the future, and the amount of any dividends, depends on a number of factors, including our results of operations, financial condition, the payments by our subsidiaries of cash dividends to us, future prospects and other factors that our Directors may consider important.

No dividend was declared and paid by the Group in 2007 and 2008. On November 6, 2009, the Company declared a dividend of RMB71,501,000 to the shareholders registered at the close of business on December 31, 2008 and settled such dividend (i) with respect to RMB56.2 million thereof, by an offset of an advance from China ITS Co., Ltd. in December 2009 and (ii) with respect to the remaining RMB15.3 million thereof, out of cash on hand in February 2010. The shareholders registered at the close of business on December 31, 2008 included the Parent Company, CCBIAM and Baring.

In addition, pursuant to the resolutions of the board of Directors dated March 19, 2010 and the shareholders resolutions dated March 19, 2010, the Company declared a dividend of RMB50.0 million payable to shareholders registered at the close of business on December 31, 2008. The dividend will be paid out from the capital reserve account of the Company after completion of the Global Offering. Conyers Dill & Pearman, our Cayman Islands counsel, has advised, and our Directors, based on the advice given by our Cayman Islands counsel, have confirmed, that such declaration of dividend is in compliance with Cayman Islands law and the Company's Articles of Association.

DISTRIBUTABLE RESERVES

Under the Cayman Companies Law, the Company may pay dividends out of profit or its share premium account of the Company in accordance with the provisions of the Company's Articles of Association and provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be able to pay its debts as and when they fall due in the ordinary course of business.

As of December 31, 2009, the Company had a share premium of RMB120.2 million included in the capital reserve account, which is available for distribution to our shareholders.

PROPERTY INTERESTS AND PROPERTY VALUATION

Particulars of the Company's property interests are set out in Appendix IV to this prospectus. Savills Valuation and Professional Services Limited has valued the property interests of our Company as of April 30, 2010. A summary of values and valuation certificates issued by Savills Valuation and Professional Services Limited are included in Appendix IV to this prospectus.

Disclosure of the reconciliation between the valuation of the interests in properties attributable to the Group in the property valuation report in Appendix IV to this prospectus as of April 30, 2010 and such property interests in the Group's balance sheets as of December 31, 2009 contained in the Accountants' Report in Appendix I to this prospectus, as required under Rule 5.07 of Listing Rules is set forth below.

	RMB'000
Buildings included in property, plant and equipment[(1)]	2,899
Investment properties[(1)]	80,100
Net book value as of December 31, 2009	82,999
Movement from January 1, 2010 to April 30, 2010	—
Add: Addition during the period	—
Less: Depreciation and amortisation during the period	(45)
Net book value as of April 30, 2010	82,954
Valuation surplus	646
Valuation as of April 30, 2010	83,600

Note:

(1) For the purpose of this reconciliation, only properties with proper title certificates are included.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted net tangible assets of the Group, which has been prepared for the purpose of illustrating the effect of the Global Offering as if it had taken place on December 31, 2009. It is based on the audited net tangible assets attributable to equity holders of the parent as at December 31, 2009 as shown in the accountants' report of the Group, the text of which is set out in Appendix I to this prospectus, and is adjusted as follows:

	Audited net tangible assets attributable to equity holders of the parent as at December 31, 2009	Estimated net proceeds receivable by the Company from the Global Offering	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share	Unaudited pro forma adjusted net tangible assets per Share
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000	RMB (Note 3)	(HK$ equivalent) (Note 4)
Based on an Offer Price of HK$2.85 per share	722,495	437,850	1,160,345	0.75	0.85
Based on an Offer Price of HK$3.90 per share	722,495	617,480	1,339,975	0.86	0.99

Notes:

(1) The net tangible assets attributable to equity holders of the parent as at December 31, 2009:

	RMB'000
Audited net assets of the Group as set out in Appendix I	953,159
Less: Minority interests	—
Net assets attributable to equity holders of the parent	953,159
Less: Goodwill	230,664
Net tangible assets attributable to equity holders of the parent	722,495

(2) The estimated net proceeds from the Global Offering are based on the Offer Shares and the Offer Price of HK$2.85 or HK$3.90 per Share, being the low or high end of the stated offer price range, after deduction of the underwriting fees and related expenses payable by the Company and takes no account of any share which may be purchased upon exercise of the Over-allotment Option or the exercise of options granted under the Pre-IPO Share Incentive Scheme. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at an exchange rate of HK$1 to RMB0.8773.

(3) The unaudited pro forma adjusted net tangible assets per Share is calculated based on 1,550,296,334 Shares in issue immediately following the completion of the Share Offer without taking into account any Shares which may be purchased upon exercise of the Over-allotment Option or the exercise of options granted under the Pre-IPO Share Incentive Scheme.

(4) The unaudited pro forma adjusted net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of RMB0.8773 to HK$1.

(5) The Group's property interests as of April 30, 2010 have been valued by Savills Valuation and Professional Services Limited, and the relevant property valuation report is set out in the property valuation report in Appendix IV to this prospectus. The above unaudited pro forma adjusted net tangible assets do not take into account the surplus attributable to the Group arising from the revaluation of the Group's property interests amounting to RMB0.6 million. The revaluation surplus will not be incorporated in the Group's financial statements for the year ending December 31, 2010 because it is the Group's accounting policy to state the property interests, classified under the captions "Property, plant and equipment" in the Accountants' Report set out in Appendix I to this prospectus, at cost less accumulated depreciation and impairment rather than at revalued amounts. If the valuation surplus was recorded in the Group's financial statements for the year ending December 31, 2010, an additional depreciation of approximately RMB30,000 (equivalent to HK$34,195.8 based on an exchange rate of HK$1.00:RMB0.8773) per annum would have been incurred.

SUBSEQUENT EVENTS

On February 26, 2010, a consortium consisting of Baytree, GE Capital, Intel Capital, Greater China and Future Choice, entered into an agreement for (a) the purchase and subscription of Shares, (b) 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) Baytree and Future Choice, further subscription of Shares at the time of the Listing. For further details, see the section headed "History and Corporate Structure—Reorganization—Introduction of new investors."

Pursuant to the resolutions of our Board of Directors and shareholders passed on March 19, 2010, we declared a dividend of RMB50.0 million payable to our shareholders of record as of December 31, 2008, which included China ITS Co., Ltd., CCBIAM and Baring. It is expected that such dividend will be paid out of the capital reserve of the Company after the Listing Date.