ERNST & YOUNG
安 永

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

June 30, 2010

The Directors
China ITS (Holdings) Co., Ltd.
Merrill Lynch Far East Limited
CCB International Capital Limited
Macquarie Capital Securities Limited

Dear Sirs,

We set out below our report on the consolidated financial information relating to China ITS (Holdings) Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended December 31, 2007, 2008 and 2009 ("Relevant Periods") ("Financial Information") for inclusion in the prospectus of the Company dated June 30, 2010 (the "Prospectus") in connection with the listing of the shares of the Company (the "Listing") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated under the laws of the Cayman Islands on February 20, 2008 as a tax exempted company with limited liability. Pursuant to a group reorganisation ("Reorganisation"), as detailed in note 1(d) of Section II "Notes to the Financial Information" ("Section II") below, the Company became the holding company of the companies now comprising the Group. The Company has not carried out any business since the date of its incorporation except for the Reorganisation and certain financing activities. Details of the Company's interests in its subsidiaries as at the date of this report are set out in note 1(c) of Section II below. The Group has adopted December 31 as its financial year end date.

The statutory financial statements of the subsidiaries registered in the People's Republic of China ("PRC") for each of the three years ended December 31, 2007, 2008 and 2009 were prepared in accordance with the accounting principles and financial regulations applicable to PRC enterprises, and were audited by certified public accountants registered in the PRC. Details of their statutory auditors during the Relevant Periods are set out in note 1(c) of Section II below.

No statutory financial statements have been prepared for the Company and the following non-PRC subsidiaries, China Toprise Limited, Fairstar Success Holdings Limited and Winitop Investments Limited, since the dates of their incorporation, because the Company and these three subsidiaries are not subject to any statutory audit requirements under their jurisdictions of incorporation.

The Group prepared the Financial Information, which includes the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the Relevant Periods, and the consolidated statements of financial position of the Group as at December 31, 2007, 2008 and 2009 and the statements of financial position of the Company as at December 31, 2008 and 2009, together with the notes thereto, in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB"). The Financial Information has been prepared on the audited consolidated financial statements of the Group and is presented on the basis set out in note 1(d) of Section II below. In preparing this report, no adjustments were considered necessary to restate the audited consolidated financial statements of the Group.

Respective Responsibilities of Directors and Reporting Accountants

For the purpose of this report, we have carried out an independent audit on the Financial Information in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public

Accountants ("HKICPA"), and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The Financial Information is the responsibility of the directors of the respective companies who approve their issuance. The directors of the Company are responsible for the contents of the Prospectus, including the preparation and the true and fair presentation of the Financial Information in accordance with IFRSs.

Our responsibility is to express an opinion on the Financial Information based on our audit. We conducted our audit in accordance with Hong Kong Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

Procedures Performed in Respect of the Relevant Periods

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

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

Opinion in Respect of the Relevant Periods

In our opinion, the Financial Information for the Relevant Periods prepared on the basis of presentation set out in note 1(d) of Section II gives, for the purpose of this report, a true and fair view of the state of the Group's affairs as at December 31, 2007, 2008 and 2009 and of the Company as at December 31, 2008 and 2009, and of the consolidated results and cash flows of the Group for the Relevant Periods.

I. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

The following is a summary of the consolidated results of the Group for the Relevant Periods prepared on the basis set out in note 1(d) of Section II below:

	Notes	For the year ended December 31, 2007	2008	2009
		RMB'000	RMB'000	RMB'000
Revenue	3	694,143	1,126,930	1,405,447
Cost of revenue	4	(468,431)	(836,635)	(1,004,386)
Gross profit		225,712	290,295	401,061
Other income	4	5,337	2,437	16,420
Selling, general and administrative expenses		(97,463)	(198,199)	(163,761)
Other expenses	4	(484)	(1,557)	(103)
Operating profit		133,102	92,976	253,617
Finance income	4	952	659	809
Finance costs	4	(3,416)	(6,370)	(7,985)
Share of profits of jointly-controlled entities	9	3,314	647	291
Gain on disposal of a subsidiary	22(a)	39	—	—
Profit before tax		133,991	87,912	246,732
Income tax credit/ (expense)	5	(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
		RMB	RMB	RMB
Earnings per share attributable to ordinary equity holders of the Company				
Basic	6	0.10	0.08	0.18

Details of the dividends payable and proposed during the Relevant Periods are disclosed in note 29 of Section II below.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The following is a summary of the consolidated statements of comprehensive income of the Group for the Relevant Periods prepared on the basis set out in note 1(d) of Section II below:

		For the year ended December 31,		
	Notes	2007	2008	2009
		RMB'000	RMB'000	RMB'000
Profit for the year		114,772	91,859	214,672
Gain on asset revaluation from step acquisition of a subsidiary, net of tax	27(a)	1,164	—	—
Gain on property revaluation upon transfer to investment properties	7	—	—	10,376
Income tax effect	5	—	—	(2,594)
		1,164	—	7,782
Exchange differences on translation of foreign operations	27(b)	7,419	7,817	1,653
Other comprehensive income for the year, net of tax		8,583	7,817	9,435
Total comprehensive income for the year		123,355	99,676	224,107
Attributable to:				
Owners of the parent		121,773	99,103	224,107
Minority interests		1,582	573	—
		123,355	99,676	224,107

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The consolidated statements of financial position of the Group as at December 31, 2007, 2008 and 2009, prepared on the basis set out in note 1(d) of Section II below, are as follows:

	Notes	As at December 31, 2007	2008	2009
		RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	7	45,094	47,739	26,223
Investment properties	8	32,665	32,003	80,100
Interests in jointly-controlled entities	9	7,695	9,442	8,544
Goodwill	10	230,664	230,664	230,664
Deferred tax assets	5	6,097	8,322	5,946
Other assets		570	555	540
		322,785	328,725	352,017
Current assets				
Amount due from contract customers	11	387,604	596,419	679,579
Trade and notes receivables	12	109,618	247,427	411,394
Prepayments, deposits and other receivables	13	87,897	165,196	213,313
Inventories	14	4,625	8,334	6,432
Due from related parties	19	1,848	2,670	3,900
Pledged deposits	15	43,840	52,497	173,607
Cash and cash equivalents	15	101,596	169,473	177,173
		737,028	1,242,016	1,665,398
Current liabilities				
Amount due to contract customers	11	56,406	103,904	138,956
Trade and notes payables	16	177,363	411,269	488,590
Other payables and accruals	17	154,933	252,413	227,413
Interest-bearing loans	18	65,201	100,000	170,150
Due to related parties	19	173,625	9,125	4,567
Tax payable		11,052	11,781	12,792
		638,580	888,492	1,042,468
Net current assets		98,448	353,524	622,930
Total assets less current liabilities		421,233	682,249	974,947
Non-current liabilities				
Deferred tax liabilities	5	18,360	11,783	21,788
		18,360	11,783	21,788
Net assets		402,873	670,466	953,159
Represented by:				
Equity attributable to owners of the parent				
Issued capital	20	205	205	216
Statutory reserves	21(a)	12,755	20,263	55,069
Capital reserve	21(b)	221,024	391,695	673,771
Surplus reserve	27(a)	—	—	7,782
Foreign currency translation reserve	27(b)	7,419	15,236	16,889
Retained earnings		159,289	243,067	199,432
		400,692	670,466	953,159
Minority interests		2,181	—	—
Total equity		402,873	670,466	953,159

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

The consolidated statements of changes in equity of the Company for the Relevant Periods, prepared on the basis set out in note 1(d) of Section II below, are as follows:

		Attributable to owners of the Company								
	Notes	Issued capital	Statutory reserves	Capital reserve	Surplus reserve	Foreign currency translation reserve	Retained earnings	Total	Minority interests	Total equity
		RMB'000 note 20	RMB'000 note 21(a)	RMB'000 note 21(b)	RMB'000 note 27(a)	RMB'000 note 27(b)	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2007	20(a)	205	3,382	206,346	—	—	64,808	274,741	6,081	280,822
Total comprehensive income for the year		—	—	—	1,164	7,419	113,190	121,773	1,582	123,355
Acquisition of a subsidiary	22(b)	—	—	—	—	—	—	—	600	600
Disposal of subsidiary	22(a)	—	—	—	—	—	—	—	(1,904)	(1,904)
Acquisition of minority interests	1(d), 21(b)(i)	—	—	4,178	—	—	—	4,178	(4,178)	—
Transfer from revaluation surplus	27(a)	—	—	—	(1,164)	—	1,164	—	—	—
Transfer from retained earnings		—	9,373	10,500	—	—	(19,873)	—	—	—
At December 31, 2007 and January 1, 2008	20(a)	205	12,755	221,024	—	7,419	159,289	400,692	2,181	402,873
Total comprehensive income for the year		—	—	—	—	7,817	91,286	99,103	573	99,676
Capitalisation of amount due to Parent Company	21(b) (ii)	—	—	125,880	—	—	—	125,880	—	125,880
Acquisition of a minority interest	22(b)	—	—	—	—	—	—	—	(2,754)	(2,754)
Share-based payment transactions	21(b)(iii)	—	—	44,791	—	—	—	44,791	—	44,791
Transfer from retained earnings		—	7,508	—	—	—	(7,508)	—	—	—
At December 31, 2008 and January 1, 2009		205	20,263	391,695	—	15,236	243,067	670,466	—	670,466
Total comprehensive income for the year		—	—	—	7,782	1,653	214,672	224,107	—	224,107
Issue of shares	20(c)(v)	11	—	120,190	—	—	—	120,201	—	120,201
Share-based payment transactions	21(b)(iii)	—	—	9,886	—	—	—	9,886	—	9,886
Transfer from retained earnings		—	34,806	152,000	—	—	(186,806)	—	—	—
Dividend declared	29	—	—	—	—	—	(71,501)	(71,501)	—	(71,501)
At December 31, 2009		216	55,069	673,771	7,782	16,889	199,432	953,159	—	953,159

CONSOLIDATED STATEMENTS OF CASH FLOWS

The consolidated statements of cash flows of the Group for the Relevant Periods, prepared on the basis set out in note 1(d) of Section II below, are as follows:

	Notes	For the year ended December 31, 2007	2008	2009
		RMB'000	RMB'000	RMB'000
Cash flows from/(used in) operating activities:				
Profit for the year		114,772	91,859	214,672
Adjustments to reconcile net profit to net cash from/(used in) operating activities:				
Depreciation	4	4,328	5,213	7,370
Loss on disposal of items on property, plant and equipment, net	4	154	152	27
Share-based payment expense	24	—	44,791	9,886
Expenses related to the listing of the Company's shares	4	2,989	13,219	2,078
Impairment of trade receivables	4	—	1,482	—
Write-back of impairment of other receivables	4	(36)	(902)	—
Amortisation of acquired intangible assets	4	2,283	—	—
Deferred income tax charge/(credit)	5	6,834	(8,802)	9,787
Share of profits of jointly-controlled entities	9	(3,314)	(647)	(291)
Net (gain)/loss from fair value adjustment of investment properties	4	(2,497)	662	(11,108)
Gain on disposal of a subsidiary	22(a)	(39)	—	—
Interest income	4	(952)	(659)	(809)
Finance costs	4	3,416	6,370	7,985
		127,938	152,738	239,597
Changes in assets and liabilities:				
Pledged deposits		(18,134)	(8,657)	(70,882)
Trade and notes receivables		(59,442)	(139,291)	(163,967)
Prepayments, deposits and other receivables		(15,470)	(70,992)	(47,794)
Amount due from contract customers		(171,113)	(208,815)	(83,160)
Inventories		(4,625)	(3,709)	1,902
Balances with related parties		(3,891)	(10,160)	(351)
Trade and notes payables		49,619	233,906	77,321
Amount due to contract customers		53,037	47,498	35,052
Other payables and accruals		46,281	81,394	(32,587)
Income tax payable		5,711	729	1,011
Cash generated from operations		9,911	74,641	(43,858)
Interest paid		(3,416)	(6,370)	(7,985)
Interest received		952	659	809
Net cash flows from/(used in) operating activities		7,447	68,930	(51,034)
Cash flows from investing activities:				
Proceeds from disposal of items of property, plant and equipment		668	47	871
Purchases of items of property, plant and equipment		(7,797)	(8,057)	(13,365)
Acquisition of a subsidiary	22(b)	(971)	—	—
Disposal of a subsidiary	22(a)	3,980	—	—
An investment in a jointly-controlled entity		—	(1,100)	—
Acquisition of a minority interest	22(b)	—	(1,500)	(1,200)
Loans to related parties		(31,266)	(2,867)	—
Repayment of loans to related parties		31,243	2,358	—
Net cash flows used in investing activities		(4,143)	(11,119)	(13,694)

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	Notes	2007	2008	2009
		For the year ended December 31,		
		RMB'000	**RMB'000**	**RMB'000**
Cash flows from financing activities:				
Capital contributions from the Parent Company		373	—	—
New bank loans		65,000	100,000	170,150
Repayment of bank loans		(45,029)	(65,000)	(100,000)
Increase in pledged deposits for bank loans	15	—	—	(50,228)
Dividends paid		—	—	(56,204)
Proceeds from issue of shares	20(c)	—	—	120,201
Loans from related parties		66,818	7,232	—
Repayment of loans to related parties		(101,955)	(36,005)	(4,248)
Repayment of other loan for purchase of buildings		(1,897)	(201)	—
Prepayment of listing expenses		—	(3,777)	(8,896)
Net cash flows 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
Effect of foreign exchange rate changes, net		(4)	7,817	1,653
Cash and cash equivalents at beginning of year		114,986	101,596	169,473
Cash and cash equivalents at end of year	15	101,596	169,473	177,173

COMPANY STATEMENTS OF FINANCIAL POSITION

The statements of financial position of the Company as at December 31, 2008 and 2009 are as follows:

	Notes	As at December 31, 2008	As at December 31, 2009
		RMB'000	RMB'000
Non-current assets			
Investments in subsidiaries	25	592,270	591,330
		592,270	591,330
Current assets			
Prepayments, deposits and other receivables	13	3,281	71,115
Pledged deposits	15	—	50,228
Cash and cash equivalents	15	—	747
		3,281	122,090
Current liabilities			
Other payables and accruals	17	14,902	24,064
Due to the Parent Company	26	6,148	—
Due to a subsidiary	26	7,260	5,041
		28,310	29,105
Net current assets/(liabilities)		(25,029)	92,985
Total assets less current liabilities		567,241	684,315
Equity			
Issued capital	20	205	216
Capital reserve	21	586,966	706,992
Foreign currency translation reserve		5,127	4,187
Accumulated losses		(25,057)	(27,080)
Total equity		567,241	684,315

II. NOTES TO THE FINANCIAL INFORMATION

1. Corporate information and reorganisation

(a) Corporate information

The principal executive office of the Company is located at Level 11, Nexus Center, No. 19A East Third Ring Road North, Beijing 100020, the PRC.

(b) Principal activities

The Group is a transportation infrastructure technology solutions and services provider in the PRC.

The Group's principal businesses are summarised as follows:

- Turnkey Solutions business—it involves the integration of information technology with the physical transportation infrastructure;
- Specialised Solutions business—it provides solutions to discrete problems occurring in a client's existing or planned transportation infrastructure through the design, development and implementation of hardware-based and software-based systems; and
- Value-added Services business—it involves post-construction maintenance services for turnkey and specialised solutions.

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

(c) Details of subsidiaries

As at the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies (or, if incorporated outside of Hong Kong, have characteristics substantially similar to a private company incorporated in Hong Kong) and the particulars of which are set out below:

Name	Place and date of incorporation or registration	Nominal value of issued ordinary share /registered capital	Percentage of equity interests attributable to the Company Direct / Indirect	Principal activities
Winitop Investments Limited(6)	British Virgin Islands February 18, 2009	—	100	Investment holding
Well Score International Limited(4) ("Well Score")	Hong Kong March 27, 2009	HK$1.0	100	Investment holding
China Toprise Limited ("China Toprise")(6)	British Virgin Islands June 16, 2006	US$1,000	100	Investment holding
Fairstar Success Holdings Limited ("Fairstar")	British Virgin Islands June 13, 2006	US$50,000	100	Investment holding
北京瑞華贏科技發展有限公司 Beijing RHY Technology Development Co., Ltd. ("RHY Technology")(1)	PRC February 16, 2001	RMB150 million	100	Intelligent traffic system turnkey solutions and value-added services

Name	Place and date of incorporation or registration	Nominal value of issued ordinary share /registered capital	Percentage of equity interests attributable to the Company Direct / Indirect	Principal activities
北京亞邦偉業技術有限公司 Beijing Aproud Technology Co., Ltd. ("Aproud Technology")(2)	PRC February 15, 2001	RMB80 million	100	Communication and surveillance specialised solutions and value-added services
北京亞邦偉業信息工程有限公司 Beijing Aproud Information Engineering Co., Ltd. ("Beijing Aproud Information")(2)	PRC September 3, 2004	RMB2 million	100	Value-added services and specialised solutions
北京和信日晟科技有限公司 Beijing Hexin Risheng Technology Co., Ltd. ("Hexin Risheng")(2)	PRC December 26, 2003	RMB10 million	100	Communication and surveillance specialised solutions
北京百聯智達科技發展有限公司 Beijing Bailian Zhida Technology Development Co., Ltd. ("Bailian Zhida")(3)	PRC April 18, 2007	RMB5.5 million	100	Surveillance specialised solutions
北京昊天佳捷科技有限公司 Beijing Haotian Jiajie Technology Co., Ltd. ("Haotian Jiajie")(3)	PRC March 30, 2007	RMB5 million	100	Communication specialised solutions and value-added services
北京智訊天成技術有限公司 Beijing Zhixun Tiancheng Technology Co., Ltd. ("Zhixun Tiancheng")(3)	PRC June 25, 2007	RMB30 million	100	Communication specialised solutions
北京亞邦偉業軟件有限公司 Beijing Aproud Software Co., Ltd. ("Beijing Aproud Software")(3)	PRC July 11, 2007	RMB5 million	100	Intelligent transportation system related software development
江蘇智訊天成技術有限公司 Jiangsu Zhixun Tiancheng Technology Co., Ltd.(5)	PRC November 19, 2009	RMB10 million	100	Communication specialised solutions

All the companies are with limited liability.

The English names of certain companies referred to above and in other notes in this section represent the best efforts by management of the Company in directly translating the Chinese names of these companies as no English names have been registered or are available.

Notes:

(1) The statutory financial statements for each of the two years ended December 31, 2008 were audited by 北京中達安永會計師事務所有限責任公司 (Beijing Zhongda Anyong Certified Public Accountants). The statutory financial statements

for the year ended December 31, 2009 were audited by 北京森和光會計師事務所有限責任公司 (Beijing Senheguang Certified Public Accountants).

(2) The statutory financial statements for each of the three years ended December 31, 2009 were audited by 北京森和光會計師事務所有限責任公司 (Beijing Senheguang Certified Public Accountants).

(3) Bailian Zhida, Haotian Jiajie, Zhixun Tiancheng and Beijing Aproud Software were established in 2007. The statutory financial statements of Bailian Zhida and Haotian Jiajie for the period from their establishment to December 31, 2007 and the year ended December 31, 2008 was audited by 北京中達安永會計師事務所有限責任公司 (Beijing Zhongda Anyong Certified Public Accountants). The statutory financial statements for the year ended December 31, 2009 were audited by 北京森和光會計師事務所有限責任公司 (Beijing Senheguang Certified Public Accountants). The statutory financial statements of Zhixun Tiancheng and Beijing Aproud Software for the period from their establishment to December 31, 2007 and each of the two years ended December 31, 2008 and 2009 were audited by 北京森和光會計師事務所有限責任公司 (Beijing Senheguang Certified Public Accountants).

(4) Well Score was established on March 27, 2009. The statutory financial statements for the period from the establishment to December 31, 2009 was audited by Joyce M.C. Li & Company.

(5) Jiangsu Zhixun Tiancheng Technology Co., Ltd. was established on November 19, 2009. The statutory financial statements for the period from the establishment to December 31, 2009 were audited by 北京森和光會計師事務所有限責任公司 (Beijing Senheguang Certified Public Accountants).

(6) No audited financial statements have been issued as there is no statutory audit requirement in the place of incorporation of these companies.

(d) Reorganisation and basis of presentation

In preparation of the listing of the Company's shares, the Company underwent the Group Reorganisation which included the following steps:

2006 Reorganisation

Prior to the 2006 Reorganisation described in the following paragraphs, all business operations of the Group were conducted by RHY Technology and its subsidiaries. 百聯優力（北京）投資有限公司 (Bailian Youli (Beijing) Investment Co., Ltd. or "Bailian Youli"), which owned 55.5% of RHY Technology before the 2006 Reorganisation, was considered the ultimate holding company of RHY Technology before the 2006 Reorganisation. RAY Holdings Ltd. ("RAY Holdings"), Mr. Zhao Lisen, and Mr. Lv Xilin, held 37%, 5% and 2.5% of the remaining equity interests in RHY Technology before the 2006 Reorganisation, respectively. On October 16, 2004, save for Jiang Hailin, the other shareholders of Bailian Youli delegated their voting rights with respect of Bailian Youli to Mr. Jiang Hailin by way of a shareholders voting agreement pursuant to which Mr. Jiang Hailin was authorised to manage the affairs of RHY Technology on behalf of Bailian Youli, including the right to nominate directors of RHY Technology, attend shareholders' meetings and oversee the business operations and management of RHY Technology.

On August 8, 2006, Bailian Youli, RAY Holdings, Mr. Zhao Lisen and Mr. Lv Xilin entered into a sale and purchase agreement with 北京久帆科技有限公司 (Beijing Jiufan Technology Company Limited or "Jiufan") to sell a 5% equity interest of RHY Technology to Jiufan for a cash consideration of RMB4.2 million, which in the opinion of the directors of the Company (the "Directors"), approximated to 5% of the net asset value of RHY Technology. At the same time, all individual shareholders of Bailian Youli ("Bailian Youli Shareholders"), all individual shareholders of RAY Holdings, Mr. Zhao Lisen and Mr. Lv Xilin (hereinafter collectively known as "Founding Equity Holders") entered into a loan agreement ("Jiufan Shareholders Loan") with the only two individual equity holders of Jiufan ("Jiufan Equity Holders"), which stated that the Founding Equity Holders lent RMB4.2 million to the Jiufan Equity Holders who would then transfer such RMB4.2 million to Jiufan to purchase the abovementioned 5% equity interest of RHY Technology. The Jiufan Shareholders Loan is secured by the 5% equity interest of RHY Technology owned by Jiufan and the Jiufan Equity Holders shall be liable to pay to the Founding Equity Holders interest on the loan through future dividends and all other future economic benefits from the ownership of the 5% equity interest of RHY Technology. On the same date, the Founding Equity Holders and RHY Technology signed an agreement ("Agreement"), which stated that all the interest (i.e., dividends and all other future economic benefits in relation to 5% equity interest of RHY Technology) arising from the Jiufan Shareholders Loan shall be transferred by the Founding Equity Holders to RHY Technology. After the completion of the above transactions on August 8, 2006, Jiufan became a minority interest of the Group as it held 5% equity interest in RHY

Technology which amounted to RMB4.2 million. Despite this, as a result of the Jiufan Shareholders Loan and the Agreement, Jiufan was not able to share future economic benefits from its ownership of 5% equity interest in RHY Technology. Therefore, in accordance with IAS 27 *Consolidated and Separate Financial Statements*, such minority interest did not share any changes in equity and profit or loss of RHY Technology. In other words, all the future economic benefits earned by RHY Technology continue to be entitled to the Founding Equity Holders by virtue of their ownership of the 95% equity interest of RHY Technology.

On August 12, 2006, the Founding Equity Holders, other than Mr. Jiang Hailin, entered into a shareholders voting agreement to delegate their voting rights with respect to Best Partners Development Limited ("Best Partners"), a company incorporated in the British Virgin Islands, which was held among the Founding Equity Holders with the exact relative percentage as their direct interests in China Toprise, to Mr. Jiang Hailin.

On August 15, 2006, RAY Holdings sold a 20% equity interest in RHY Technology to Bailian Youli. Following this transaction, Bailian Youli, RAY Holdings, Mr. Zhao Lisen and Mr. Lv Xilin, held 75.5%, 17%, 5% and 2.5% equity interests in RHY Technology, respectively.

On August 17, 2006, Bailian Youli, RAY Holdings, Mr. Zhao Lisen and Mr. Lv Xilin entered into an agreement to transfer their 95% equity interest in RHY Technology to China Toprise, a company incorporated in the British Virgin Islands owned by the Founding Equity Holders with the same relative percentage of shareholding as their relative beneficial interests in RHY Technology before the transfer, for a cash consideration of RMB73 million, which in the opinion of the Directors, approximated to 95% of the net asset value of RHY Technology. On October 17, 2006, the Founding Equity Holders transferred all their equity interests in China Toprise to Best Partners. In October 2006, Best Partners did a share swap with China ITS Co., Ltd. ("Parent Company"), a wholly-owned subsidiary of Best Partners incorporated under the laws of the Cayman Islands, for all the interest of China Toprise. Accordingly, the transactions described above were considered to be transactions under common control as: a) the Bailian Youli Shareholders, being represented by Jiang Hailin, controlled more than 50% of the voting and equity interests in Best Partners, China Toprise, RHY Technology and the Parent Company before and after the 2006 Reorganisation; and b) there were no changes in the ultimate beneficial ownership of the RHY Technology operations before and after the 2006 Reorganisation even though 5% equity interest of RHY Technology, which does not have the share of future economic benefits in RHY Technology, was transferred to Jiufan as at August 8, 2006.

The 2006 Reorganisation has been accounted for as a reorganisation under common ownership and common control in a manner similar to a pooling of interests as if the Company had always been holding 100% interest in RHY Technology since the first day of the periods presented. The consolidation of the entities has been reflected at historical cost and 100% of the results of operations and related assets and liabilities of the operations of RHY Technology have been included in the Financial Information for all the periods presented. The total cash consideration of RMB73 million paid by China Toprise to the Founding Equity Holders described above is accounted for as distributions to equity owners of the Group.

2007 Reorganisation

On October 12, 2007, the Group purchased the remaining 5% equity interest of RHY Technology held by Jiufan for a cash consideration of RMB1 and the settlement of Jiufan Shareholders Loan by Jiufan Equity Holders to the Founding Equity Holders. Accordingly, the settlement of such RMB4.2 million Jiufan Shareholders Loan was considered as investment cost of the Group for the 5% equity interest in RHY Technology, and was considered as an equity contribution by the Founding Equity Holders to the Group.

2008 Reorganisation

The Company was incorporated under the laws of the Cayman Islands on February 20, 2008 as a tax exempted company with limited liability, with an authorised share capital of HK$380,000 divided into 3,800,000 ordinary shares of HK$0.10 each. One share of HK$0.10 was issued and allocated to Best Partners on February 24, 2008. On June 10, 2008, an instrument of transfer was signed between the Parent Company and Best Partners, pursuant to which Best Partners transferred the one issued ordinary share which was subsequently split into 500 ordinary shares. On June 18, 2008, the Parent Company subscribed 100 shares in China Toprise and 1 share in Fairstar at a consideration of approximately RMB125.9 million, which was settled by the capitalisation of amounts due to the Parent Company from China Toprise and Fairstar. Pursuant to a sale and purchase agreement entered into between the Company and the Parent Company on June 18, 2008, the Company acquired all the subsidiaries of the Parent Company, in consideration of which, the Company issued and allotted 1,166,530,554 ordinary shares to the Parent Company and credited the 500 existing shares in the Company held by the Parent Company as fully paid.

Upon the completion of such transactions, the Company held 100% equity interest of the Group. As there are no changes in the ultimate beneficial interests of the Group before and after the 2008 Reorganisation, the 2008 Reorganisation has been accounted for as a reorganisation under common control in a manner similar to a pooling of interests as if the Company had always been holding a 100% interest in the Group since the first day of the periods presented.

The Financial Information includes the financial statements of the Group's subsidiaries listed in the following table.

			Percentage of equity interest of subsidiaries attributable to the Company		
		Country of incorporation/ registration and operations	As at December 31,		
	Note		**2007**	**2008**	**2009**
China Toprise		British Virgin Islands	100%	100%	100%
Fairstar		British Virgin Islands	100%	100%	100%
RHY Technology		PRC	100%	100%	100%
Bailian Zhida		PRC	100%	100%	100%
Haotian Jiajie		PRC	100%	100%	100%
Zhixun Tiancheng		PRC	100%	100%	100%
Beijing Aproud Software		PRC	100%	100%	100%
Aproud Technology		PRC	100%	100%	100%
Beijing Aproud Information		PRC	100%	100%	100%
Hexin Risheng	(a)	PRC	90%	100%	100%
Winitop Investments Limited		British Virgin Islands	—	—	100%
Well Score		Hong Kong	—	—	100%

Note:

(a) The Group held a 51% equity interest in Hexin Risheng and accounted for it as a jointly-controlled entity as at December 31, 2006. An additional 39% equity interest of Hexin Risheng was acquired by the Group since January 1, 2007, and Hexin Risheng was controlled by the Group and accounted for as a subsidiary thereafter. On December 20, 2008, the Group acquired the remaining 10% equity interest of Hexin Risheng and held the entire equity interest in Hexin Risheng upon the completion of such transaction. Further details are included in note 22(b) of Section II.

2.1 Principal accounting policies

The Financial Information has been prepared under the historical cost convention, except for investment properties, which have been measured at fair value. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The Financial Information has been prepared in accordance with IFRSs, which comprise standards and interpretations approved by IASB, and International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect, except for the following standards that are relevant to the Group's operations and have been early adopted as at January 1, 2007:

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs and* IAS 27 *Consolidated and Separate Financial Statements—Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment—Vesting Conditions and Cancellations*
IFRS 7 Amendments	Amendments to IFRS7 *Financial Instruments: Disclosures—Improving Disclosures about Financial Instruments*
IFRS 8	*Operating Segments*
IAS 1 (Revised)	*Presentation of Financial Statements*
IAS 18 Amendments*	Amendments to Appendix to IAS 18 *Revenue—Determining whether an entity is acting as a principal or as an agent*
IAS 23 (Revised)	*Borrowing Costs*
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation and* IAS 1 *Presentation of Financial Statements—Puttable Financial Instruments and Obligations Arising on Liquidation*
IAS 39 and IFRS 7 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS7 *Financial Instruments: Disclosures—Reclassification of Financial Assets*
IFRIC 9 and IAS 39 Amendments	Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement*
IFRIC 11	IFRS 2—*Group and Treasury Share Transactions*
IFRIC 12	*Service Concession Arrangements*
IFRIC 13	*Customer Loyalty Programmes*
IFRIC 14	IAS-19—*The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
IFRIC 15	*Agreements for the Construction of Real Estate*
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*
Improvements to IFRS (October 2008)**	Amendments to a number of IFRSs.

Notes:

* Included in Improvements to IFRSs 2009 (as issued in May 2009)

** The Group adopted all the improvements to IFRSs issued in October 2008 except for the amendments to IFRS 5 *Non-current assets Held for Sale and Discontinued Operations—Plan to sell the controlling interest in a subsidiary*, which is effective for annual periods beginning on or after July 1, 2009.

Impact of New and Revised IFRSs

The Group has not applied the following relevant new and revised IFRSs, which have been issued but are not yet effective in the Financial Information:

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*[1]
IFRS 1 Amendments	Amendments to IFRS 1: *First-time Adoption of International Financial Reporting Standards—The Additional Exemptions for First-time Adopters*[2]
IFRS 2 Amendments	Amendments to IFRS 2: *Share-based Payment—Group Cash-settled Share-based Payment Transactions*[2]
IFRS 3 (Revised)	*Business Combinations*[1]
IFRS 5 Amendments	Amendments to IFRS 5: *Non-current Assets Held for Sale and Discontinued Operations—Plan to Sell the Controlling Interest in a Subsidiary*[1]
IFRS 8 Amendment	Amendment to HKFRS 8: *Operating Segments-Disclosure of information about segment assets*[1]
IFRS 9	*Financial Instruments*[6]
IAS 24 (Revised)	*Related Party Disclosures*[5]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
IAS 32 Amendment	Amendment to IAS 32: *Financial Instruments: Presentation—Classification of Rights Issues*[3]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement—Eligible Hedged Items*[1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayment of a Minimum Funding Requirement*[5]
IFRIC 17	*Distribution of Non-cash Assets to Owners*[1]
IFRIC 18	*Transfer of Assets from Customers*[1]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
Interpretation 4 (Revised in December 2009)	*Leases—Determination of the Length of Lease Term in Respect of Hong Kong Land Lease*[2]
Improvement to IFRS*	Improvements to IFRS issued in 2009 and 2010[7]

Notes:

* the IASB has issued improvements IFRSs 2009 which sets out amendments to a number of IFRSs primarily with a view to removing inconsistences and clarify by wording.

1 Effective for annual periods beginning on or after July 1, 2009

2 Effective for annual periods beginning on or after January 1, 2010

3 Effective for annual periods beginning on or after February 1, 2010

4 Effective for annual periods beginning on or after July 1, 2010

5 Effective for annual periods beginning on or after January 1, 2011

6 Effective for annual periods beginning on or after January 1, 2013

7 Effective for annual periods beginning on or after July 1, 2009, January 1, 2010 or January 2011, as appropriate

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results and financial position.

Basis of consolidation

The Financial Information comprises the financial statements of the Company and its subsidiaries for the Relevant Periods. Except for the Reorganisation which has been accounted for as a reorganisation under common control in a manner similar to a pooling-of-interests as described in note 1(d) of Section II above, 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 Relevant Periods as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party.

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

The consolidated income statements 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 recognised 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 statement and within equity in the consolidated statements of financial position, separately from the equity attributable to owners of the parent. 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 recognised as goodwill.

Foreign currencies

Since the Company conducts its primary business operations through its subsidiaries established in the PRC, the Company adopts RMB as the presentation currency of the Group. The Company's functional currency is Hong Kong dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

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

Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

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

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

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

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries, after reassessment, is recognised immediately in the income statement.

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

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

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

A joint venture is treated as:

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

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

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

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

Jointly-controlled entities

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

The Group's interests in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statements and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interest in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

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.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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

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

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property at cost less accumulated depreciation and any impairment losses up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation surplus in the statement of comprehensive income.

Borrowing costs

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

Investment properties

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

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

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, and loans and receivables. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

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

Subsequent measurement

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

Loan and receivables

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

Trade and other receivables

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

Derecognition of financial assets

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

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

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

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

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Inventories

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

Impairment of non-financial assets other than goodwill

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Construction contracts

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

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

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

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

Contracts for services

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

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

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

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

Cash and cash equivalents

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

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

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.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

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.

Employee benefits

Share option plan

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

Equity-settled transactions

The cost of equity-settled transactions with employees, for awards granted after 7 November 2002, is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using a Hull-White Binomial option pricing model, further details of which are given in note 24 of Section II.

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

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

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

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

There is no dilutive effect from the options granted by the Parent Company in the computation of earnings per share of the Company. As further disclosed in note 6 of Section II, the underlying ordinary shares of the Company were in issue and owned by the Parent Company and which will be transferred to the relevant employees upon the exercise of such options.

PRC contribution plans

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

Leases

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

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

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

Revenue recognition

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

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

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

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

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

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

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

Income taxes

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

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

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Dividend

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

2.2 Significant accounting judgements and estimates

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

Judgements

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

Classification between investment properties and owner-occupied properties

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

Judgement is made on an individual property basis is to determine whether ancillary services are so significant that a property does not qualify as an investment property.

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. The carrying amount of goodwill at December 31, 2007, 2008 and 2009 was RMB230.7 million, respectively. Further details are included in note 10 of Section II.

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. The carrying amount of investment properties at December 31, 2007, 2008 and 2009 were appropriately RMB32.7 million, RMB32.0 million and RMB80.1 million, respectively.

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 judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of 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 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 additional provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality, and the balances are still considered fully recoverable. Further details are set out in note 12 of Section II. The impairment losses have been recognised for trade receivables for year ended December 31, 2007, 2008 and 2009 were nil, RMB1.5 million and nil respectively.

Current income tax and deferred income tax

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

Deferred tax assets relating to certain deductible temporary differences and unused tax losses are recognised as management considers it is probable that future taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised. The realisation of the deferred tax assets mainly depends on whether sufficient profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in the income statement for the period in which such a reversal takes place. The carrying value of deferred tax assets at December 31, 2007, 2008 and 2009 were approximately RMB6.1 million, RMB8.3 million and RMB5.9 million, respectively.

Percentage of completion of construction work

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

3. Revenue

Revenue, which is also the Group's turnover, represents: (1) an appropriate proportion of contract revenue of construction contracts, net of business tax and government surcharges; and (2) the invoiced value of goods sold, net of value-added tax and government surcharges, and after allowances for goods returns and trade discounts.

An analysis of revenue is as follows:

	For the year ended December 31,		
	2007	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**
Revenue from:			
Implementation of projects	671,046	1,099,713	1,386,375
Sale of products	23,097	27,217	19,072
	694,143	1,126,930	1,405,447

4. Profit before tax

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

	Notes	For the year ended December 31, 2007	2008	2009
		RMB'000	RMB'000	RMB'000
Cost of services rendered for implementation of projects		456,295	818,921	993,111
Cost of inventories sold for sale of products		12,136	17,714	11,275
		468,431	836,635	1,004,386
Employee benefits expense (including Directors' and senior executives' remuneration (note(h))	(a)	33,422	77,531	52,111
Minimum lease payments under operating leases:				
Land and buildings		2,868	4,151	11,788
Expenses related to the listing of the Company's shares		2,989	13,219	2,078
Depreciation	(b)	4,328	5,213	7,370
Impairment of trade receivables, net		—	1,482	—
Write-back of impairment of other receivables, net		(36)	(902)	—
Foreign exchange differences, net		(2)	613	248
Gain on disposal of a subsidiary	22(a)	(39)	—	—
Other income	(c)	(5,337)	(2,437)	(16,420)
Finance income	(d)	(952)	(659)	(809)
Finance costs	(e)	3,416	6,370	7,985
Amortisation of acquired intangible assets	(f)	2,283	—	—
Other expenses	(g)	484	1,557	103

(a) Employee benefit expense

	For the year ended December 31, 2007	2008	2009
	RMB'000	RMB'000	RMB'000
Employee benefit expense (including Directors' and senior executives remuneration (note (h))			
Wages and salaries	25,513	27,533	31,055
Social insurance costs and staff welfare	4,285	3,803	7,322
Pension plan contributions	3,624	1,404	3,848
Share-based payment expenses (note 24)	—	44,791	9,886
	33,422	77,531	52,111

(b) Depreciation

	For the year ended December 31, 2007	2008	2009
	RMB'000	RMB'000	RMB'000
Included in selling, general and administrative expenses	4,328	5,213	7,370

(c) Other income

	Note	For the year ended December 31, 2007	2008	2009
		RMB'000	RMB'000	RMB'000
Fair value gain on investment properties		2,497	—	11,108
Government grants	(i)	—	—	3,203
Rental income	(ii)	2,413	2,437	2,104
Others		427	—	5
		5,337	2,437	16,420

Notes:

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

(ii) Included in the Group's rental income are rental income from related parties of RMB2,413,000, RMB2,437,000 and RMB813,000 for the years ended December 31, 2007, 2008 and 2009, respectively. Refer to note 19 for details.

(d) Finance income

	For the year ended December 31, 2007	2008	2009
	RMB'000	RMB'000	RMB'000
Bank interest income	952	659	809

(e) Finance costs

	For the year ended December 31, 2007	2008	2009
	RMB'000	RMB'000	RMB'000
Interest on bank loans and other loan	3,416	6,370	7,985

(f) Amortisation of acquired intangible assets

The intangible assets comprise customer contracts acquired through business combinations, which are amortised over their useful economic lives of one year.

	Hexin Risheng
	RMB'000 (note 22(b))
At January 1, 2007	—
Acquisition of a subsidiary	2,283
Amortisation provided during the year 2007	(2,283)
At December 31, 2007, 2008 and 2009	—

(g) Other expenses

	For the year ended December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Loss on disposal of items of property, plant and equipment	154	152	27
Net loss from fair value adjustment on investment properties	—	662	—
Charitable donations	—	670	67
Others	330	73	9
	484	1,557	103

(h) Directors' and senior executives' remuneration

(A) Directors' remuneration

Details of the Directors' remuneration are as follows:

	For the year ended December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Fees	—	—	—
Other emoluments:			
Salaries, allowances and benefits in kind	1,507	2,474	1,387
Bonuses	754	—	—
Share-based payment expense	—	5,850	2,225
Pension plan contributions	112	135	60
	2,373	8,459	3,672

Year ended December 31, 2007

	Fees	Salaries, allowances and benefits in kind	Bonuses	Share-based payment expense	Pension plan contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:						
Mr. Jiang Hailin	—	201	129	—	6	336
Mr. Wang Jing	—	102	—	—	—	102
Mr. Zhao Lisen	—	123	203	—	21	347
Mr. Lv Xilin	—	109	191	—	7	307
Mr. Dang Kulun	—	281	39	—	21	341
Mr. Pan Jianguo	—	279	31	—	21	331
Mr. Jing Yang	—	295	—	—	21	316
Mr. Mou Yi	—	117	161	—	15	293
	—	1,507	754	—	112	2,373

Year ended December 31, 2008

	Fees	Salaries, allowances and benefits in kind	Bonuses	Share-based payment expense	Pension plan contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:						
Mr. Jiang Hailin	—	260	—	—	17	277
Mr. Wang Jing	—	100	—	2,709	—	2,809
Mr. Zhao Lisen	—	230	—	—	17	247
Mr. Lv Xilin	—	119	—	423	16	558
Mr. Dang Kulun	—	268	—	—	23	291
Mr. Pan Jianguo	—	268	—	—	23	291
Mr. Jing Yang	—	286	—	—	23	309
Mr. Mou Yi	—	119	—	490	16	625
Mr. Leung Ming Shu	—	824	—	2,228	—	3,052
	—	2,474	—	5,850	135	8,459

Year ended December 31, 2009

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

During the year ended December 31, 2008, certain Directors were granted share options, in respect of their services to the Group, under the share option plan of the Parent Company, further details of which are set out in note 24 below. The fair value of these options was determined as at the date of grant and has been recognised in the consolidated income statement over the vesting period. The amounts included in the financial statements for each of the years ended December 31, 2008 and 2009 are included in the above Directors' remuneration disclosures.

Mr. Pan Jianguo, Mr. Jing Yang, Mr. Leung Ming Shu, Mr. Lv Xilin, Mr. Mou Yi and Mr. Zhao Lisen ceased to be the Directors on June 10, 2009 pursuant to a resolution passed on that day. Mr. Pan Jianguo was reappointed as a Director on February 9, 2010. Their remunerations from June 10, 2009 to the end of the Relevant Periods are excluded from Directors' remuneration disclosed above. Mr. Lu Xiao was appointed as a Director on July 1, 2009 and his remuneration before the date of appointment is excluded from Directors' remuneration disclosed above.

There were no fees or other remunerations paid to non-executive directors and independent non-executive directors during the Relevant Periods.

(B) Five highest paid individuals

During each of the three years ended December 31, 2007, 2008 and 2009, the five highest paid individuals included five Directors, two Directors and two Directors of the Company respectively. Details of these Directors' remuneration are set out above. Details of the remuneration of the remaining three and three non-director, highest paid individuals for the year ended December 31, 2008 and 2009 are as follows:

	For the year ended December 31,		
	2007	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**
Salaries, allowances and benefits in kind	—	422	737
Share-based payment expense	—	5,378	1,703
Pension plan contributions	—	34	19
	—	5,834	2,459

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

	Number of employees For the year ended December 31,		
	2007	**2008**	**2009**
Nil to RMB1,000,000	—	—	2
RMB1,000,001 to RMB1,500,000	—	—	1
RMB1,500,001 to RMB2,000,000	—	2	—
RMB2,000,001 to RMB2,500,000	—	1	—
	—	3	3

During the year ended December 31, 2008, share options were granted to three non-director, highest paid employees in respect of their services to the Group, further details of the share option plan are set out in note 24 below. The fair value of these options was determined as at the date of grant and has been recognised in the income statement over the vesting period. The amounts included in the financial statements for each of the years ended December 31, 2008 and 2009 are included in the above non-directors, highest paid individual's remuneration disclosures.

During the Relevant Periods, no payments were made by the Group to Directors or the highest paid individuals in respect of inducement to join the Group or compensation for loss of office, and no Directors or the highest paid individuals waived any of the emoluments.

5. Income tax

(a) The Company's subsidiaries, China Toprise and Fairstar are tax exempted companies incorporated in the British Virgin Islands.

(b) 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 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 a HNTE in December 2008 for a period of three years from January 1, 2008 and therefore was entitled to a preferential rate of 15% for each of the years ended December 31, 2008 and 2009.

(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 a HNTE in December 2008 for a period of three years from January 1, 2008 and therefore was entitled to a preferential rate of 7.5% for each of the years ended December 31, 2008 and 2009.

(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 a HNTE in December 2008 for a period of three years from January 1, 2008 and therefore was entitled to a preferential rate of 7.5% for each of the years ended December 31, 2008 and 2009.

(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 years 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 a HNTE in December 2008 for a period of three years from January 1, 2008 and therefore were entitled to a preferential rate of 15% for each of the years ended December 31, 2008 and 2009.

(vi) For the year ended December 31, 2007, in accordance with the approval from the state tax bureau of the 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 from the state tax bureau of the Beijing Economic-technological Development Area, Kaiguoshuisuohan 2008 No.55 (開國稅所函[2008]55號) dated May 26, 2008, RHY Technology was exempted from state income tax 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% from January 1, 2009. This preferential tax rate will be progressively increased to 15% over five years.

(c) No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits in Hong Kong during the Relevant Periods.

Under the Implementation Rule, from January 1, 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, are subject to withholding tax at the rate of 10% on various types of passive income such as dividends derived from entities in the PRC. Distributions of the pre-2008 earnings are exempted from the above-mentioned withholding tax. For the year ended December 31, 2008, the Group provided for PRC withholding tax of RMB6,958,000 in respect of the remittance of the 2008 earnings from certain of the PRC subsidiaries. At 31 December 2009, no deferred tax liabilities have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC. In the opinion of the Directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

The major components of income tax expense for the Relevant Periods are:

	For the year ended December 31,		
	2007	2008	2009
	RMB'000	RMB'000	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 statement	19,219	(3,947)	32,060

A reconciliation of income tax expense and the product of the accounting profit multiplied by the PRC's statutory income tax rate for the Relevant Periods is as follows:

	For the year ended December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Profit before tax	133,991	87,912	246,732
At the PRC statutory income tax rate of 25% (2007: 33%)	44,217	21,978	61,683
Tax holiday or lower tax rates for the PRC subsidiaries	(29,023)	(22,325)	(34,230)
Adjustments in respect of current income tax of the previous period (note i)	—	(6,977)	—
Non-deductible expenses	1,884	6,362	3,302
Non-taxable income	—	(75)	—
Effect on changes in tax rates on deferred tax (note ii)	2,745	(9,868)	1,405
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	—	6,958	—
Profits attributable to jointly-controlled entities	(604)	—	(100)
Income tax expense/(credit) reported in the consolidated income statements	19,219	(3,947)	32,060
Effective income tax rate	14.3%	(4.5)%	13.0%

Notes:

(i) In 2007, RHY Technology has provided for and submitted income tax to the tax bureau based on an 18% tax rate. In April 2008, RHY Technology obtained a written approval from the local tax authorities to enjoy a tax exemption in 2007 and 2008 and as a result the 2007 tax provision of RMB6,977,000 was fully reversed during 2008.

(ii) The implementation guidance for enterprises designated as HNTE was released for implementation in April 2008. During 2008, certain PRC subsidiaries of the Group were designated as HNTE and were eligible for preferential tax rates and as a result the Group recognised the effect of changes in tax rates on deferred taxes in year 2008.

The movements in deferred tax assets and liabilities during the Relevant Periods are as follows:

Deferred tax assets

	Impairment of trade receivables	Accrued expenses	Unrealised loss	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2007	574	4,369	—	4,943
Deferred tax credited to the income statement	445	3,147	106	3,698
Acquisition of a subsidiary (note 22(b))	176	39	—	215
Disposal of a subsidiary (note 22(a))	(511)	(2,248)	—	(2,759)
At December 31, 2007 and January 1, 2008	684	5,307	106	6,097
Deferred tax credited/(charged) to the income statement	435	1,896	(106)	2,225
At December 31, 2008 and January 1, 2009	1,119	7,203	—	8,322
Deferred tax (charged) to the income statement	—	(2,376)	—	(2,376)
At December 31, 2009	1,119	4,827	—	5,946

Deferred tax liabilities

	Gain/ (loss) from a fair value adjustment on investment properties	Unrealised profits	Recognition of revenue on construction contracts*	Withholding tax of the PRC	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2007	327	129	10,635	—	11,091
Disposal of a subsidiary (note 22(a))	—	—	(3,263)	—	(3,263)
Deferred tax charged/(credited) to the income statement	624	(129)	10,037	—	10,532
At December 31, 2007 and January 1, 2008	951	—	17,409	—	18,360
Deferred tax charged/(credited) to the income statement	(165)	468	(13,838)	6,958	(6,577)
At December 31, 2008 and January 1, 2009	786	468	3,571	6,958	11,783
Deferred tax charged to the statement of other comprehensive income	2,594	—	—	—	2,594
Deferred tax charged/(credited) to the income statement	2,976	295	11,098	(6,958)	7,411
At December 31, 2009	6,356	763	14,669	—	21,788

Note:

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

6. Earnings per share attributable to ordinary equity holders of the Company

The calculation of basic earnings per share during the Relevant Periods is based on the following data and on the assumption that the Group Reorganisation has been effective since 1 January 2007.

	For the year ended December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Earnings			
Profit attributable to owners of the parent, used in the basic earnings per share calculation	113,190	91,286	214,672

	Number of shares		
	For the year ended December 31,		
	2007	2008	2009
Shares			
Number of ordinary shares in issue during the Relevant Periods used in the basic earnings per share calculation	1,166,531,054	1,166,531,054	1,207,816,541

No diluted earnings per share amounts have been presented as the Company did not have any dilutive potential ordinary shares during the Relevant Periods. The share option plan as disclosed in note 24 will not give rise to any additional ordinary shares of the Company upon their exercise because the underlying ordinary shares of the Company were in issue and owned by the Parent Company and which will be transferred to the relevant employees upon the exercise of relevant options.

The number of ordinary shares in issue for the Relevant Periods has been retrospectively adjusted for the effects of the share split of the ordinary shares that took place in 2008 as set out in note 1(d) of Section II.

7. Property, plant and equipment

Group

	Buildings	Computers and electronic equipment	Office equipment	Motor vehicles	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2007, net of accumulated depreciation	29,443	2,419	1,239	7,337	1,698	42,136
Additions	—	2,309	1,205	3,353	930	7,797
Acquisition of a subsidiary (note 22(b))	—	216	—	313	—	529
Disposal of a subsidiary (note 22(a))	—	—	(96)	(122)	—	(218)
Disposals	—	(239)	(9)	(574)	—	(822)
Depreciation charge for the year	(1,251)	(938)	(458)	(1,127)	(554)	(4,328)
At December 31, 2007, net of accumulated depreciation	28,192	3,767	1,881	9,180	2,074	45,094
Additions	4,076	1,123	473	2,256	129	8,057
Disposals	—	(11)	(8)	(180)	—	(199)
Depreciation charge for the year	(1,423)	(1,088)	(534)	(1,600)	(568)	(5,213)
At December 31, 2008, net of accumulated depreciation	30,845	3,791	1,812	9,656	1,635	47,739
Additions	—	1,963	2,711	2,647	6,044	13,365
Disposals	(858)	(37)	(3)	—	—	(898)
Revaluation upon transfer to investment properties (note 8)	10,376	—	—	—	—	10,376
Transfer to investment properties (note 8)	(36,989)	—	—	—	—	(36,989)
Depreciation charge for the year	(475)	(2,170)	(1,039)	(2,481)	(1,205)	(7,370)
At December 31, 2009, net of accumulated depreciation	2,899	3,547	3,481	9,822	6,474	26,223
At January 1, 2007						
Cost	30,607	2,910	1,601	8,592	1,880	45,590
Accumulated Depreciation	(1,164)	(491)	(362)	(1,255)	(182)	(3,454)
Net carrying amount	29,443	2,419	1,239	7,337	1,698	42,136
At December 31, 2007						
Cost	30,607	3,950	2,456	10,922	2,810	50,745
Accumulated Depreciation	(2,415)	(183)	(575)	(1,742)	(736)	(5,651)
Net carrying amount	28,192	3,767	1,881	9,180	2,074	45,094
At December 31, 2008						
Cost	34,683	5,144	2,764	12,883	2,939	58,413
Accumulated Depreciation	(3,838)	(1,353)	(952)	(3,227)	(1,304)	(10,674)
Net carrying amount	30,845	3,791	1,812	9,656	1,635	47,739
At December 31, 2009						
Cost	3,059	6,783	5,461	15,530	8,983	39,816
Accumulated Depreciation	(160)	(3,236)	(1,980)	(5,708)	(2,509)	(13,593)
Net carrying amount	2,899	3,547	3,481	9,822	6,474	26,223

As of December 31, 2007, 2008 and 2009, the buildings of the Group with aggregate carrying values of RMB28.2 million, RMB30.8 million and nil have been pledged for bank loans of the Group, as further disclosed in note 18 of section II.

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

	As at December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Lease over 50 years	10,033	13,544	2,899
Lease between 20 and 50 years	18,159	17,301	—
	28,192	30,845	2,899

8. Investment properties

Group

	For the year ended December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
At beginning of the year	30,168	32,665	32,003
Transfer from property, plant and equipment (note 7)	—	—	36,989
Net gain/(loss) from fair value adjustment	2,497	(662)	11,108
At end of the year	32,665	32,003	80,100

The Group's investment properties transferred from property, plant and equipment in 2009 were valued by Savills Valuation and Professional Services Limited ("Savills"), independent professionally qualified valuers, at their respective dates of transfer by reference to the comparable market transactions as available and where appropriate, on the basis of capitalisation of net rental incomes. The difference of RMB10.4 million between the carrying value of RMB26.6 million and the fair value of RMB37.0 million was recorded in the consolidated statement of comprehensive income for year ended December 31, 2009.

The Group's investment properties were revalued by Savills, on December 31, 2007, 2008, and 2009 at RMB32.7 million, RMB32.0 million and, RMB80.1 million, respectively, by reference to the comparable market transactions as available and where appropriate, on the basis of capitalisation of net rental incomes. Certain investment properties are leased to related parties under operating leases, further details of which are included in note 19 of Section II.

The Group's investment properties were pledged to secure bank loans granted to the Group at December 31, 2007, 2008 and 2009, as disclosed in note 18 of Section II.

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

9. Interests in jointly-controlled entities

Group

	As at December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Share of net assets	7,695	9,442	8,544

Particulars of the jointly-controlled entities are as follows:

Name of jointly-controlled entities	Place of registration	Percentage of equity interest attributable to the Group			Principal activities
		As at December 31,			
		2007	2008	2009	
Wuhan Chenguang Transportation Technology Development Co., Ltd. ("Wuhan Chenguang")	PRC	51%(1)	51%(1)	51%(1)	Intelligent traffic system turnkey solutions
Xinjiang RHY Technology Co., Ltd. ("Xinjiang RHY")	PRC	51%(2)	51%(2)	51%(2)	Value-added services
Chengdu Zhida Weilute Technology Co., Ltd. ("Chengdu Weilute")	PRC	—	—	51%(3)	Value-added services

Notes:

(1) The shareholders' meeting of Wuhan Chenguang requires three-quarters of votes for approval of essential decisions and two-thirds of votes for other matters. The BOD of Wuhan Chenguang has five persons and the Group has three representatives. In accordance with the articles of association of Wuhan Chenguang, the BOD meetings require two-thirds of votes of directors for approval. Based on the above, in the opinion of the Directors, the Group could not exercise unilateral control over the financial and operating policies of Wuhan Chenguang and accordingly, it is accounted for as a jointly-controlled entity of the Group.

Pursuant to the shareholders agreement, the Group was only entitled to 40% of profits, instead of 51%, from Wuhan Chenguang from April 22, 2005 (date of establishment) to December 31, 2007. From January 1, 2008, the Group is entitled to 51% of profits from Wuhan Chenguang.

(2) The shareholders' meeting of Xinjiang RHY requires two-thirds of votes for approval. The BOD of Xinjiang RHY has five persons and the Group has three representatives. In accordance with the articles of association of Xinjiang RHY, the BOD meetings require two-thirds of votes of directors for approval. Based on the above, in the opinion of the Directors, the Group could not exercise unilateral control over the financial and operating policies of Xinjiang RHY and accordingly, it is accounted for as a jointly-controlled entity of the Group.

(3) Chengdu Weilute was established on December 9, 2009. The BOD of Chengdu Weilute has five persons and the Group has three representatives. In accordance with the articles of association of Chengdu Weilute, the BOD meetings require at least four-fifth of votes of directors for approval. Based on the above, in the opinion of the Directors, the Group could not exercise unilateral control over the financial and operating policies of Chengdu Weilute and accordingly, it is accounted for as a jointly-controlled entity of the Group. The Group did not make capital contributions to Chengdu Weilute before December 31, 2009 and therefore could not share any interests in Chengdu Weilute during the Relevant Periods.

The share of profits of jointly-controlled entities during the Relevant Periods is as follows:

Group

	For the year ended December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Share of profits/(losses) of jointly-controlled entities:			
Wuhan Chenguang	3,262	333	363
Xinjiang RHY	52	314	(72)
Chengdu Weilute	—	—	—
	3,314	647	291

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

	As at December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Current assets	24,887	25,678	24,405
Non-current assets	995	1,731	1,678
Current liabilities	(8,638)	(7,797)	(9,021)
Net assets	17,244	19,612	17,062

	For the year ended December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Income	27,901	21,636	20,596
Costs and expenses	(19,644)	(20,367)	(19,899)
Tax	—	—	(126)
Profit after tax	8,257	1,269	571

10. Goodwill

The goodwill of RMB230.7 million as at 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.

Key assumptions used in value in use calculations

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

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

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

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

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

Sensitivity to changes in assumptions

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

11. Amount due from/due to contract customers

Group

	As at December 31,		
	2007	2008	2009
	RMB'000	RMB'000	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 recognised profits less recognised losses to date	1,132,773	1,562,499	2,492,873
Less: Progress billings	(801,575)	(1,069,984)	(1,952,250)
	331,198	492,515	540,623

12. Trade and notes receivables

Group

	As at December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Trade receivables	111,451	249,743	414,138
Provision for impairment	(1,833)	(3,316)	(3,316)
	109,618	246,427	410,822
Notes receivable	—	1,000	572
	109,618	247,427	411,394

Trade receivables, which are non-interest-bearing, are recognised and carried at original invoiced amount less any impairment loss. An estimate for doubtful debts is made when there is objective evidence that an impairment loss on receivables has been incurred. The Group generally does not require collateral from its customers. The Group's trade receivables amounting to RMB10.9 million were pledged for certain bank loans of the Group as at December 31, 2008 (note 18).

The movements in impairment of trade receivables are as follows:

	For the year ended December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
At beginning of the year	221	1,833	3,316
Acquisition of a subsidiary	1,612	—	—
Impairment for the year	—	1,704	—
Write-back of impairment	—	(221)	—
At end of the year	1,833	3,316	3,316

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

	As at December 31,		
	2007	2008	2009
	RMB'000	RMB'000	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

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

Group

	As at December 31,		
	2007	2008	2009
	RMB'000	RMB'000	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	—	—
	109,618	247,427	411,394

13. Prepayments, deposits and other receivables

Group

	Note	As at December 31,		
		2007	2008	2009
		RMB'000	RMB'000	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	(a)	5,995	2,439	6,838
Contract deposits		21,758	14,481	31,019
Prepayments related to the listing of the Company's shares		443	2,401	2,709
Others		2,029	4,553	11,214
		87,897	165,196	213,313

Note:

(a) Advances to staff are for the purpose of payment of daily operating expenditures. In general, the Group's policy requests the advances to be settled by staff within twelve months. The advances are unsecured and interest-free.

Company

	As at December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Prepayments related to the listing of the Company's shares	—	2,401	2,709
Dividends receivable from subsidiaries	—	—	66,880
Others	—	880	1,526
	—	3,281	71,115

14. Inventories

Group

	As at December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Raw materials	996	3,265	2,831
Work in progress	1,493	237	191
Finished goods	2,136	4,832	3,410
	4,625	8,334	6,432

15. Cash and cash equivalents and pledged deposits

Group

	As at December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Cash and bank balances	145,436	221,970	350,780
Less: Pledged deposits for			
—Bank loans (note 18)	—	—	(50,228)
—Project bonds	(34,396)	(35,399)	(74,660)
—Notes payable	(9,444)	(17,098)	(48,719)
	(43,840)	(52,497)	(173,607)
Cash and cash equivalents	101,596	169,473	177,173

Cash at banks earns interest at floating rates based on daily bank deposit rates.

The cash and bank balances of the Group denominated in RMB amounted to RMB113.6 million, RMB214.1 million and RMB298.7 million as at December 31, 2007, 2008, and 2009, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Company

	As at December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Cash and bank balances	—	—	50,975
Less: Pledged deposits for bank loans	—	—	(50,228)
Cash and cash equivalents	—	—	747

16. Trade and notes payables

Group

	As at December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Trade payables	159,896	350,133	351,925
Notes payable	17,467	61,136	136,665
	177,363	411,269	488,590

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

	As at December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Current or less than 1 year past due	149,549	334,862	332,428
1 to 2 years past due	7,762	12,578	11,951
Over 2 years past due	2,585	2,693	7,546
	159,896	350,133	351,925

17. Other payables and accruals

Group

	As at December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Advances from customers	61,695	138,498	109,199
Business advances	1,889	2,420	4,670
Staff costs and welfare accruals	24,950	20,506	17,614
Accruals related to the listing of the Company's shares	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

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

Company

	As at December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Dividend payables	—	—	15,297
Accruals related to the listing of the Company's shares	—	14,832	8,322
Others	—	70	445
	—	14,902	24,064

18. Interest-bearing loans

Group

	Effective interest rate	As at December 31,		
		2007	2008	2009
	%	RMB'000	RMB'000	RMB'000
Current				
Bank loans—secured and repayable within one year:	4.78 – 8.75	55,000	55,000	95,150
Bank loans—guaranteed and repayable within one year:	5.31 – 8.38	10,000	45,000	75,000
Other loan—secured and repayable within one year:	5.76	201	—	—
		65,201	100,000	170,150

The bank loans amounting to approximately RMB50.0 million, RMB50.0 million and RMB50.0 million as at December 31, 2007, 2008 and 2009 were secured by the buildings and investment properties of the Group (notes 7 and 8 of Section II).

The bank loans amounting to approximately RMB45.2 million as at December 31, 2009 were secured by pledged deposits of approximately RMB50.2 million of the Group.

The bank loans amounting to approximately RMB5 million, RMB5 million and nil as at December 31, 2007, 2008 and 2009 were guaranteed by 北京中關村科技擔保公司 ("Beijing Zhongguancun Science and Technology Guarantee Company", the "Guarantor"), an independent third party company, and certain Directors (note 19 of Section II). For the purpose of the guarantee, properties of a close family member of the financial controller of a subsidiary were pledged in favor of the Guarantor as at December 31, 2007, and the Group's trade receivables amounting to RMB10.9 million were pledged in favor of the Guarantor as at December 31, 2008 (note 12).

As at December 31, 2007, 2008 and 2009, the Group had unutilised available bank borrowing facilities amounting to RMB15 million, RMB34 million and RMB24 million, respectively.

The Group's bank loans and other loans are all denominated in RMB. The carrying amounts of the Group's current borrowings approximate to their fair values.

19. Related party disclosures

	Notes	For the year ended December 31, 2007	2008	2009
		RMB'000	RMB'000	RMB'000
Purchases from related parties:	(a)			
Entity with common shareholders of the Group and significantly influenced by a Director	(b)	2,235	1,168	—
A jointly-controlled entity	(b)	2,435	—	4,800
Entity significantly influenced by a Director	(b)	1,119	3,991	—
Total		5,789	5,159	4,800
Loans to related parties:	(c)			
The Parent Company		326	225	—
Parties who are both shareholders of the Group and Directors		676	1,130	—
Jointly-controlled entities		1,945	—	—
Entity with common shareholders of the Group and significantly influenced by a Director		10,307	—	—
Entity significantly influenced by a Director		116	1,500	—
Entity with common shareholders of the Group and significantly influenced by Directors		14,530	—	—
Entity with common shareholders of the Group and controlled by a Director		1,276	—	—
Entities with common shareholders of the Group and controlled by Directors		2,000	—	—
Shareholders of the Parent Company		—	12	—
Senior management		90	—	—
Total		31,266	2,867	—
Loans from related parties:	(c)			
The Parent Company		34,237	4,248	—
Entity with common shareholders of the Group and significantly influenced by a Director		4,856	—	—
Entity with common shareholders of the Group and controlled by a Director		12,359	—	—
Entity with common shareholders of the Group and controlled by Directors		3,500	—	—
Jointly-controlled entities		11,009	2,984	—
Parties who are both shareholders of the Group and Directors		825	—	—
Senior management		32	—	—
Total		66,818	7,232	—
Rental income from related parties:				
Entity with common shareholders of the Group and controlled by a Director	(d)	654	1,215	212
Entity with common shareholders of the Group and significantly influenced by a Director	(e)	823	—	—
Entity with common shareholders of the Group and significantly influenced by Directors	(d)	654	1,222	601
Entity significantly influenced by a Director	(e)	282	—	—
Total		2,413	2,437	813
Dividend from related parties				
A jointly-controlled entity		—	—	1,189
Guarantee provided by related parties:				
Parties who are Directors of the Group	(f)	10,000	—	—

Notes:

(a) In the opinion of the directors, the transactions between the Group and the related parties were conducted in the ordinary course of business and based on prices mutually agreed between the parties after taking reference of market prices.
The directors are of the view that all related party transactions (other than the purchases from a jointly-controlled entity and its subsidiary) will be discontinued prior to the listing of the shares of the Company on the Stock Exchange of Hong Kong Limited ("Initial Public Offering").
The purchases from a jointly-controlled entity and its subsidiary will continue but this related party transaction does not constitute continuing connected party transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange ("Listing Rules").

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

(c) The loans were unsecured, interest-free and had no fixed terms of repayment.

(d) These related party transactions also constitute continuing connected party transactions as defined in Chapter 14A of the Listing Rules.

(e) In the opinion of the Directors, these related party transactions will be discontinued prior to the Company's Initial Public Offering.

(f) The related party guarantees provided to the Group were fully released during year 2008.

(g) 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 million payable to shareholders registered at the close of business on December 31, 2008. The shareholders registered at the close of business on December 31, 2008 included the Parent Company, CCB International Asset Management Limited ("CCBIAM") and Baring Private Equity Asia Group Investment Limited ("Baring"). The dividend will be paid out from the capital reserve account of the Company after completion of the IPO.

	As at December 31,		
	2007	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**
Due from related parties:			
Non-trade related			
The Parent Company	326	—	—
Entity with common shareholders of the Group and significantly influenced by Directors	916	1,459	—
Entity with common shareholders of the Group and controlled by a Director	138	774	2,711
A Director	—	85	—
Senior management	16	—	—
Entity significantly influenced by a Director	100	—	—
Close family member of an individual who is both shareholder and Director of the Group	352	352	—
A jointly-controlled entity	—	—	1,189
Total	1,848	2,670	3,900

	As at December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Due to related parties:			
Trade related			
Entity with common shareholders of the Group and significantly influenced by a Director	880	1,110	—
A jointly-controlled entity	2,435	533	3,060
Entity significantly influenced by a Director	1,119	409	—
	4,434	2,052	3,060
Non-trade related			
The Parent Company	135,896	6,148	—
Parties who are both shareholders and Directors	5,484	—	—
Entity with common shareholder of the group and significantly influenced by a Director	330	—	—
Entity with common shareholders of the Group and significantly influenced by Directors	449	687	287
Entity with common shareholder of the Group and controlled by Directors	20,241	—	—
Jointly-controlled entities	6,791	238	1,220
	169,191	7,073	1,507
Total	173,625	9,125	4,567

Terms and conditions of transactions with related parties

Outstanding balances at the end of each of the Relevant Periods were unsecured and interest-free. There are no fixed terms of repayment and settlement will be in cash. There were no guarantees provided or received for any related party receivables or payables.

Compensation of key management personnel of the Group

	For the year ended December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	2,559	2,474	2,026
Share-based payment expenses	—	5,850	2,951
Pension plan contributions	142	135	70
Total compensation paid to key management personnel	2,701	8,459	5,047

Further details of the Directors' remuneration are included in note 4(h) of Section II.

20. Share capital

For the purpose of this report, the share capital in the consolidated statement of financial position as at the respective year ends was presented as follows:

(a) The share capital as at the beginning of the Relevant Periods and December 31, 2007 represented the Company's ordinary shares in issue pursuant to the Reorganisation on the assumption that the Reorganisation had been completed at the beginning of the Relevant Periods.

(b) Upon the completion of 2008 Reorganisation as set out in note 1(d) of Section II, the share capital as at December 31, 2008 and 2009 represented the issued share capital of the Company.

(c) The movements of the authorised and issued share capital of the Company are as follows:

	Notes	Shares	RMB'000
Authorised:			
On February 20, 2008 (date of incorporation):			
Ordinary shares of HK$0.10 each	(i)	3,800,000	335
Subdivision of shares on June 18, 2008	(iii)	1,896,200,000	—
December 31, 2008 and 2009:			
Ordinary shares of HK$0.0002 each		1,900,000,000	335
Issued and fully paid:			
On February 24, 2008:			
1 ordinary share of HK$0.10 each	(ii)	1	—
Subdivision of shares on June 18, 2008	(iii)	499	—
Share issued for the Reorganisation	(iv)	1,166,530,554	205
Issued and fully paid at December 31, 2008:			
Ordinary shares of HK$0.0002 each		1,166,531,054	205
Issue of ordinary shares, of HK$0.0002 each	(v)	59,798,423	11
Issued and fully paid at December 31, 2009:			
Ordinary shares of HK$0.0002 each		1,226,329,477	216

Notes:

(i) The Company was incorporated in the Cayman Islands on February 20, 2008. The initial authorised share capital of the Company was HK$380,000 divided into 3,800,000 ordinary shares of HK$0.10 each.

(ii) One nil-paid ordinary share was allotted and issued to Best Partners on February 24, 2008. On June 10, 2008, Best Partner transferred this issued share to the Parent Company.

(iii) Pursuant to the resolutions in writing of the shareholder passed on 18 June 2008, each of the issued and unissued shares of par value of HK$0.10 each in the share capital of the Company were subdivided into 500 shares of par value of HK$0.0002 each, such that the Company had an authorised share capital of HK$380,000 divided into 1,900,000,000 shares of par value HK$0.0002 each.

(iv) Pursuant to the 2008 Reorganisation as set out in note 1(d) of Section II, on June 18, 2008 the Company allotted and issued 1,166,530,554 ordinary shares to the Parent Company and credited the 500 existing shares in the Company held by the Parent Company as fully paid. On June 19, 2008, the Parent Company transferred 81,202,592, 63,674,438 and 21,654,024 issued shares of the Company to the other three investors of the Company.

(v) In April 2009, the Company issued 59,798,423 shares of common share with par value of HK$0.0002 each to a corporate investor at a cash consideration of approximately RMB120,201,000.

21. Reserves

(a) Statutory reserves

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

(b) Capital reserve

Group

Capital reserve at the beginning of the Relevant Periods of RMB206 million was attributable to the acquisition of Fairstar and its subsidiaries in 2006 by the Parent Company.

Movements in capital reserve during the Relevant Periods are as follows:

(i) As part of the 2007 Reorganisation, the Founding Equity Holders contributed 5% equity interests in RHY Technology with carrying value of RMB4.2 million to the Group. Refer to note 1(d) for details;

(ii) As part of the 2008 Reorganisation, on June, 18, 2008, the Parent Company subscribed to 100 shares in China Toprise and 1 share in Fairstar at a consideration of approximately RMB125.9 million, which was settled by the capitalisation of amounts due to the Parent Company from China Toprise and Fairstar;

(iii) As disclosed in note 24 below, the Parent Company granted share options to the employees of the Group in 2008, resulting in a share-based payment expense of RMB44.8 million and RMB9.9 million and corresponding increase in capital reserve for the years ended December 31, 2008 and 2009, respectively;

(iv) As mentioned in note 20(v) above, in April 2009, the Company issued 59,798,423 shares of common with par value of HK$0.0002 each to a corporate investor at a cash consideration of RMB120.2 million. The excess of the total consideration over the nominal value of the common shares issued was accounted for as capital reserve; and

(v) Retained earnings of RMB10.5 million and RMB152.0 million were transferred to paid-in capital of subsidiaries of the Group for the year ended December 31, 2007 and 2009, respectively.

Company

The Company's capital reserve at the beginning of the Relevant Periods represented the excess of the net asset value of all the subsidiaries acquired pursuant to 2008 Reorganisation as set out in note 1(d) of Section II over the nominal value of the Company's shares issued in exchange thereof.

22. Business combinations and disposal of subsidiaries

(a) Disposal of Beijing Tripod Technology Co., Ltd. ("Beijing Tripod")

As at the beginning of the Relevant Periods, the Group held a 75% equity interest in Beijing Tripod and accounted for it as a subsidiary. On January 15, 2007, the Group disposed of its equity interest in Beijing Tripod at a cash consideration of RMB5,750,000.

The carrying amounts of the net assets of Beijing Tripod immediately before the disposal date were as follows:

	RMB'000
Net assets disposed of:	
Property, plant and equipment	218
Deferred tax assets	2,759
Amount due from contract customers	22,065
Trade receivables	3,880
Prepayments and other receivables	751
Due from related parties	3
Cash and bank balances	1,770
	31,446
Amount due to contract customers	140
Trade payables	1,868
Other payables and accruals	10,036
Due to a related party	4,456
Income tax payable	4,068
Deferred tax liabilities	3,263
	23,831
Net assets disposed of	7,615
Minority interests	(1,904)
Gain on the disposal	39
Total consideration	5,750
Satisfied by:	
Cash	5,750

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

	RMB'000
Cash consideration	5,750
Cash and bank balances disposed	(1,770)
Net inflow of cash and cash equivalents in respect of the disposal of Beijing Tripod	3,980

(b) Acquisition of Hexin Risheng

As at January 1, 2007, the Group held a 51% equity interest in Hexin Risheng, which was accounted for as a jointly-controlled entity. On January 23, 2007, the Group acquired an additional 39% equity interest in Hexin Risheng and obtained control of Hexin Risheng. The total consideration for the acquisition of the 39% equity interest was RMB2.3 million in cash.

The fair values of the identifiable assets and liabilities of Hexin Risheng as at the effective date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition	Previous carrying amount
	RMB'000	RMB'000
Property, plant and equipment	529	529
Deferred tax assets	215	215
Customer contracts (Note)	2,283	—
Amount due from contract customers	783	783
Trade receivables	10,141	10,141
Prepayments and other receivables	7,551	7,551
Cash and bank balances	1,369	1,369
	22,871	20,588
Short-term bank loan	2,000	2,000
Trade payables	4,055	4,055
Accrued expenses and other payables	10,813	10,813
	16,868	16,868
Net assets	6,003	3,720
Less: Previously held equity interests	(3,063)	
Minority interests	(600)	
Net assets acquired and total cash consideration	2,340	

	RMB'000
Cash consideration	(2,340)
Cash and bank balances acquired	1,369
Net outflow of cash and cash equivalents in respect of the acquisition of Hexin Risheng	(971)

Note: The fair value of customer contracts was assessed as the sum of the discounted present value of the projected annual excess earnings. The annual excess earnings were estimated based on the operating cash flows attributable to such contracts less required costs for their contributory tangible and intangible assets, such as working capital, fixed assets and workforce.

The increase of RMB1.2 million in the fair value of net assets of Hexin Risheng over the Group's previously held interests in Hexin Risheng was recorded in the surplus reserve in the consolidated statements of comprehensive income.

As the customer contracts generally had only a one-year term, amortisation of the customer contracts amounting to RMB2.3 million was recognised in the Company's consolidated income statement for the year ended December 31, 2007 (note4(f)).

Since the date of acquisition was on January 23, 2007, Hexin Risheng contributed RMB76.5 million to the revenue of the Group and RMB15.1 million to the net profit of the Group for the year ended December 31, 2007.

In December 2008, the Group acquired the remaining 10% equity interest in Hexin Risheng from an independent third party at a cash consideration of RMB 2.7 million. The payment was fully settled in 2009.

(c) Disposal of Huaneng

On April 24, 2007, the Group disposed of a subsidiary, Huaneng, at a cash consideration of HK$10,000, which was equivalent to the net asset value of Huaneng at the date of disposal and as a result there was no gain or loss arising from this disposal transaction.

23. Operating segment information

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

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

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

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

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

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

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

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

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

Revenue of approximately RMB76.1 million, RMB133.7 million and RMB151.2 million was derived from a single customer in the Turnkey Solution Business, the Turnkey Solution Business and the Specialized Solution Business during each of the Relevant Periods, respectively.

Operating segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the Relevant Periods:

Year ended 31 December 2007	Turnkey solutions	Specialised solutions	Value-added services	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue				
Sales to external customers	375,054	310,953	8,136	694,143
Intersegment sales	—	14,257	—	14,257
	375,054	325,210	8,136	708,400
Reconciliation:				
Elimination of intersegment sales				(14,257)
Revenue				694,143
Segment results	43,913	89,946	4,063	137,922
Reconciliation:				
Interest income				952
Share of profits of jointly-controlled entities				3,314
Gain on disposal of a subsidiary				39
Unallocated gains				2,497
Corporate and other unallocated expenses				(7,317)
Finance costs				(3,416)
Profit before tax				133,991
Segment assets	294,371	518,919	6,674	819,964
Reconciliation:				
Corporate and other unallocated assets				239,849
Total assets				1,059,813
Segment liabilities	204,985	181,181	548	386,714
Reconciliation:				
Unallocated liabilities				270,226
Total liabilities				656,940
Other segment information				
Share of profits and losses of:				
Jointly-controlled entities				3,314
Impairment losses reversed in the Income statement	—	36	—	36
Depreciation and amortisation				6,611
Interest in jointly-controlled entities				7,695
Capital expenditure				7,797

Year ended 31 December 2008	Turnkey solutions	Specialised solutions	Value-added services	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue				
Sales to external customers	572,592	542,178	12,160	1,126,930
Intersegment sales	—	26,308	80	26,388
	572,592	568,486	12,240	1,153,318
Reconciliation:				
Elimination of intersegment sales				(26,388)
Revenue				1,126,930
Segment results	71,396	85,640	8,680	165,716
Reconciliation:				
Interest income				659
Share of profits of jointly-controlled entities				647
Corporate and other unallocated expenses				(72,740)
Finance costs				(6,370)
Profit before tax				87,912
Segment assets	491,610	746,827	5,582	1,244,019
Reconciliation:				
Corporate and other unallocated assets				326,722
Total assets				1,570,741
Segment liabilities	381,011	263,900	1,003	645,914
Reconciliation:				
Unallocated liabilities				254,361
Total liabilities				900,275
Other segment information				
Share of profits and losses of:				
Jointly-controlled entities				647
Impairment losses recognised in the income statement	—	1,482	—	1,482
Impairment losses reversed in the income statement	—	902	—	902
Other non-cash expense				44,791
Depreciation and amortisation				5,213
Interest in jointly-controlled entities				9,442
Capital expenditure				8,057

Year ended 31 December 2009	Turnkey solutions	Specialised solutions	Value-added services	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue				
Sales to external customers	534,462	852,657	18,328	1,405,447
Intersegment sales	—	30,340	—	30,340
	534,462	882,997	18,328	1,435,787
Reconciliation:				
Elimination of intersegment sales				(30,340)
Revenue				1,405,447
Segment results	84,350	167,675	10,714	262,739
Reconciliation:				
Interest income				809
Share of profits of jointly-controlled entities				291
Unallocated gains				11,108
Corporate and other unallocated expenses				(20,230)
Finance costs				(7,985)
Profit before tax				246,732
Segment assets	488,466	1,036,582	12,854	1,537,902
Reconciliation:				
Corporate and other unallocated assets				479,513
Total assets				2,017,415
Segment liabilities	305,703	533,296	663	839,662
Reconciliation:				
Unallocated liabilities				224,594
Total liabilities				1,064,256
Other segment information				
Share of profits and losses of:				
Jointly-controlled entities				291
Depreciation and amortisation				7,370
Other non-cash expenses				9,886
Interest in jointly-controlled entities				8,544
Capital expenditure				13,365

24. Share option plan

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

The share option expenses recognised during the Relevant Periods are as follows:

	For the year ended December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Share option expenses	—	44,791	9,886

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of and movements in, Share Options during the Relevant Periods:

	For the year ended December 31,					
	2007	2007	2008	2008	2009	2009
	No. '000	WAEP RMB	No. '000	WAEP RMB	No. '000	WAEP RMB
Outstanding at January 1,	—	—	—	—	116,653	1.80
Granted during the year	—	—	116,653	1.80	—	—
Forfeited during the year	—	—	—	—	—	—
Exercised during the year	—	—	—	—	—	—
Outstanding at December 31,	—	—	116,653	1.80	116,653	1.80
Exercisable at December 31,	—	—	58,170	0.60	58,170	0.60

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

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

Since the Share Options were granted by Parent Company, the Company did not have any Share Options outstanding as at the date of this report.

25. Investments in subsidiaries

	As at December 31,	
	2008	2009
	RMB'000	RMB'000
Unlisted investments, at cost	592,270	591,330

Particulars of the principal subsidiaries of the Company are set out in note 1(c) of Section II above.

26. Due to the Parent Company and a subsidiary

The amounts due to the Parent Company and a subsidiary are unsecured, interest-free and have no fixed terms of repayment.

27. Notes to the statement of comprehensive income.

(a) Surplus reserve

The addition in surplus reserve during 2007 represented the Group's share of the fair value adjustments to the intangible assets of Hexin Risheng (the Group's previously held interests) upon step acquisitions of equity interests in Hexin Risheng, and this balance was transferred into retained earnings upon the amortisation of relevant intangible assets during the year ended December 31, 2007 (further details are included in note 22 (b) of Section II).

The movement in surplus reserve during 2009 represented the revaluation reserve of the Group's properties upon the transfer to investment properties on March 31, 2009.

(b) Foreign currency translation reserve

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

28. Notes to the consolidated statements of cash flows

(a) Major non-cash transactions

(i) On June 18, 2008, the Parent Company subscribed to 100 shares in China Toprise and 1 share in Fairstar at a consideration of approximately RMB125.9 million, which was settled by the capitalisation of amounts due to the Parent Company from China Toprise and Fairstar (note 21(b)); and

(ii) As further disclosed in note 24 above, the Parent Company granted share options to the employees of the Group in 2008, resulting in share option expenses of RMB44.8 million and RMB9.9 million, respectively.

(b) Supplemental cash flow information

	For the year ended December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Cash paid for income tax	(6,889)	(4,124)	(21,262)

29. Dividends

No dividend was declared and paid by the Group for the years ended December 31, 2007 and 2008. The Company declared a 2009 dividend of RMB71,501,000 to the then shareholders on November 6, 2009.

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 million payable to shareholders registered at the close of business on December 31, 2008. The shareholders registered at the close of business on December 31, 2008 included the Parent Company, CCBIAM and Baring. The dividend will be paid out from the capital reserve account of the Company after completion of the IPO.

30. Operating lease commitments—Group as lessee

The lease commitments are in respect of office premises, all of which are classified as operating leases. These non-cancellable leases have lease terms of between two months and five years. Future minimum lease payments under these leases as at December 31 are as follows:

	As at December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Within one year	2,655	3,235	13,538
In the second to fifth years, inclusive	4,890	3,258	21,046
	7,545	6,493	34,584

Operating lease commitments—Group as lessor

The Group leases its investment properties to certain related parties and independent third parties, with leases negotiated for a term of two years. Future minimum rental receivables under non-cancellable operating leases as at December 31 are as follows:

	As at December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Within one year	2,413	2,104	4,097
In the second to fifth years, inclusive	—	2,104	2,805
	2,413	4,208	6,902

The Company did not have any operating lease commitments as at the end of each of the Relevant Periods.

31. Financial instruments by category

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

Group

Financial assets	**2007**	**2008**	**2009**
	Loans and receivables	**Loans and receivables**	**Loans and receivables**
	RMB'000	**RMB'000**	**RMB'000**
Trade and notes receivables	109,618	247,427	411,394
Due from related parties	1,848	2,670	3,900
Pledged deposits	43,840	52,497	173,607
Financial assets included in prepayments, deposits and other receivables	45,733	36,614	58,644
Cash and cash equivalents	101,596	169,473	177,173
	302,635	508,681	824,718

Group

Financial liabilities	**2007**	**2008**	**2009**
	Financial liabilities at amortised cost	**Financial liabilities at amortised cost**	**Financial liabilities at amortised cost**
	RMB'000	**RMB'000**	**RMB'000**
Trade and notes payables	177,363	411,269	488,590
Due to related parties	173,625	9,125	4,567
Interest-bearing loans	65,201	100,000	170,150
Financial liabilities included in other payables and accruals	—	—	15,297
	416,189	520,394	678,604

Company

Financial assets	**2007**	**2008**	**2009**
	Loans and receivables	**Loans and receivables**	**Loans and receivables**
	RMB'000	**RMB'000**	**RMB'000**
Financial assets included in prepayments, deposits and other receivables	—	—	66,880
Pledged deposits	—	—	50,228
Cash and cash equivalents	—	—	747
	—	—	117,855

Company

Financial liabilities	**2007**	**2008**	**2009**
	Financial liabilities at amortised cost	**Financial liabilities at amortised cost**	**Financial liabilities at amortised cost**
	RMB'000	**RMB'000**	**RMB'000**
Due to the Parent Company	—	6,148	—
Due to a subsidiary	—	7,260	5,041
Financial liabilities included in other payables and accruals	—	—	15,297
	—	13,408	20,338

32. Financial risk management objectives and policies

The Group's principal financial instruments comprise interest-bearing loans, cash and cash equivalents and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and notes receivables, trade and notes payables and other payables, which arise directly from its operations.

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

(i) Interest rate risk

The Group does not have any long-term debt obligations with floating interest rates as at the end of each of the Relevant Periods. Therefore, the Group considers that the exposure to interest rate risks is insignificant.

(ii) Foreign currency risk

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

The Group's certain bank balances are denominated in US$ and HK$, and certain expenses of the Group are denominated in currencies other than the RMB.

A reasonably possible change of 5% in the exchange rate between US$ and RMB as at December 31, 2007 and 2008 would have no material impact on the Group's profit or loss and equity. The following table demonstrates the sensitivity December 31, 2009 to a reasonable possible change in US$ exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in US$ rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity *
	%	RMB'000	RMB'000
2009			
If RMB weakens against US$	5 %	—	2,958
If RMB strengthens against US$	(5)%	—	(2,958)

Note:

* Excluding retained earnings

(iii) Credit risk

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

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

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

(iv) Liquidity risk

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

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

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

As at December 31, 2007	On demand	Less than 3 months	3 to less than 12 months	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and notes payables	10,347	167,016	—	177,363
Due to related parties	173,625	—	—	173,625
Interest-bearing loans	—	—	65,201	65,201
	183,972	167,016	65,201	416,189

As at December 31, 2008	On demand	Less than 3 months	3 to less than 12 months	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and notes payables	25,848	385,421	—	411,269
Due to related parties	9,125	—	—	9,125
Interest-bearing loans	—	—	100,000	100,000
	34,973	385,421	100,000	520,394

As at December 31, 2009	On demand	Less than 3 months	3 to less than 12 months	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and notes payables	49,571	439,019	—	488,590
Due to related parties	4,567	—	—	4,567
Interest-bearing loans	—	—	170,150	170,150
Financial liabilities included in other payable and accruals	15,297	—	—	15,297
	69,435	439,019	170,150	678,604

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

(v) Capital management

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

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

33. Events after the reporting period

Issue of new shares

On February 26, 2010, a consortium consisting of Baytree Investments (Mauritius) Pte Ltd ("Baytree"), GE Capital Equity Investments Ltd., Intel Capital Corporation, Greater China PE Fund L.P. and Future Choice Limited ("Future Choice") (collectively known as the "Co-investors"), entered into an agreement (the "Agreement") for (a) the purchase and subscription of ordinary shares of the Company, (b) Baytree, the subscription of an exchangeable bond of the Parent Company and the extension of a short-term loan to the Parent Company, and (c) Baytree and Future Choice, further subscription of ordinary shares of the Company at the time of the Listing. For further details, see the section headed "History and corporate structure" in the Prospectus.

Pursuant to the Agreement, the Co-investors subscribed for an aggregate 123,964,076 new ordinary shares of the Company for a consideration of US$46.0 million on March 5, 2010. The issued ordinary shares of the Company increased to 1,350,293,553 ordinary shares with par value of HK$0.0002 each thereafter.

Subsequent dividend

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 million payable to shareholders registered at the close of business on December 31, 2008. The shareholders registered at the close of business on December 31, 2008 included the Parent Company, CCBIAM and Baring. The dividend will be paid out from the capital reserve account of the Company after completion of the IPO.

34. Subsequent financial statements

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to December 31, 2009.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong