RISK FACTORS

Potential investors should consider carefully all the information set out in this document and, in particular, should evaluate the following risks associated with an investment in our Company before making any investment decision regarding our Company. You should pay particular attention to the fact that our Company is incorporated in the Cayman Islands and most of our operations are conducted in the PRC and are governed by a legal and regulatory environment which in some respects may differ from that in Hong Kong. Any of the risks and uncertainties described below could have a material adverse effect on our business, results of operations, financial condition or on the [●], and could cause you to lose all or part of your investment.

RISKS RELATING TO OUR GROUP

Our business relies on a few major customers in the PRC and Hong Kong. The loss of one or more of these customers would negatively impact our business, operating results and financial condition

Our customers include operators or owners of public transport system, including [Beijing Metro Network, KMB, CTB, NWFB and NWFF]. During the Track Record Period, our revenue in the PRC was derived entirely from projects, services or spare parts provided for the Beijing Subway. The revenue from Beijing Metro Network attributable to the provision of transportation system design, installation and maintenance services in relation to ACC System for each of the two financial years ended 30 June 2010 and 30 June 2011 and the five months ended 30 November 2011 accounted for approximately 67.2%, 71.2% and 83.1% of our total revenue from Beijing Metro Network during the same period. For each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011, our five largest customers accounted for approximately [90.6]%, [96.5]% and [92.4]% of our total revenue respectively; with our largest customer, accounted for approximately [69.2]%, [70.7]% and [43.3]% of our total revenue during the same periods. In respect of our business with our largest customer, approximately [11.2]% and [49.0]% of our total revenue was attributable to project-based services provided for such customer and approximately [58.1]% and [21.7]% of our total revenue was attributable to maintenance services provided to such customer respectively for each of the two financial years ended 30 June 2011, while for the five months ended 30 November 2011, all of the revenue from our largest customer was attributable to sales of spare parts. We started to conduct business with Beijing Metro Network (our largest customer for each of the two financial years ended 30 June 2011) in 2009 and our 2012 Major Customer (our largest customer for the five months ended 30 November 2011) and Beijing Jianyi in 2011 and with our other major customers in 2010.

According to the HuiCong Research Report, Beijing had the largest number of projects in the PRC during 2009 and 2010. The market size of the industry of subway system in Beijing regarding computer systems amounted to approximately RMB5.7 billion from 2006 to 2010. To our Directors' knowledge, Beijing Metro Network was established to set up and operate the railway transport command centre in Beijing and related tenders for the Beijing Subway are offered by Beijing Metro Network, thus it is likely for players in our industry to have their revenue generated from one major customer.

We do not always have long-term contractual arrangements with our customers. A portion of our business has been, and we expect it will continue to be conducted on the basis of individual tender from time to time.

We cannot guarantee that our major customers will continue to do business with us at the same or increased levels or at all. If one or more major customers were to cease to conduct business with us and we were unable to maintain our business with existing customers or attract new customers, our business, financial condition and results of operations would be materially and adversely affected. A decision made by a major customer, whether motivated by competitive considerations, economic conditions or otherwise, to reduce its business with us or any other adverse change in our business relationship with any of our major customer could also have a material adverse effect on our business, financial condition and results of operations.

We are dependent on the cooperation with, and technological know-how of the Vix Group

We derived our know-how on automated fare collection and clearing system application solutions and services from the Vix Group. ERG HK, currently our wholly-owned subsidiary, was a wholly-owned subsidiary of Vix Technology until March 2010 and ERG BJ, currently our wholly-owned subsidiary, was set up as a wholly-owned subsidiary of Vix Holdings in 2006. Since the establishment of ERG HK and ERG BJ, ERG HK, ERG BJ and members of the Vix Group have been working together in various projects, and all the projects in which ERG HK participated were tenders won by members of the Vix Group. [Vix Transportation has given an irrevocable undertaking in favour of our Group on [●] pursuant to which Vix Transportation among others, (i) irrevocably undertakes to our Company that Vix Transportation shall not and shall procure that no holding company, subsidiary or subsidiary of a holding company of Vix Transportation and any company in which Vix Transportation or its affiliates has a controlling interest or shareholding engage in any business or activity which competes or may compete with the business of our Group; and (ii) grants to us a first right of refusal to bid or provide a proposal for an opportunity in the scope of our Group's business. Further details of the Vix Group's undertaking are set out in the paragraph headed "Vix Group's Non-competition Undertaking" in the section headed "Relationship with ERG Greater China BVI and the Vix Group" in this document.]

[Each of ERG HK and ERG BJ has entered into a licence agreement with Vix IP pursuant to which each of ERG HK and ERG BJ was granted a non-exclusive and non-transferable license to use certain licensor technology owned by or licensed to the Vix Group in the Greater China region. Each of the Licensing Agreements with Vix IP has a term commencing from the date of the Licensing Agreements and ending on 20 July 2014, then subject to renewal every three years pursuant to the terms of each of the Licensing Agreements. Further details of the Licensing Agreements with Vix IP are set out in the paragraph headed "Licensing Agreements" in the section headed "[●]" in this document.]

Our dependence on the Vix Group exposes us to a number of risks. We cannot guarantee that the counterparties to the contractual arrangements will not breach any of the terms of the contractual arrangements in the future. Should the contractual arrangements be breached by the counterparties, our business and results of operations could be adversely affected. We cannot guarantee that we will be able to renew the Licensing Agreements or any of them with the Vix Group. We also cannot guarantee that the technology of the Vix Group would not be replaced by better or more efficient technologies that are developed in the industry or whether members of the Vix Group will be successful in their bidding proposals. If the technologies of the Vix Group are being replaced by other technologies, or members of the Vix Group are not successful in their bidding proposals, we may not be able to obtain the same level of projects as we currently obtain or at all and our business, financial condition and results of operations could be adversely affected.

Part of our revenue is project based and we may not be successful in winning tender bids, and we also may not be able to secure new customers or existing customers may not continue to engage us

During the Track Record Period, part of our revenue was derived from projects that we participated in and all of such projects required intended contractor(s)/supplier(s) to submit bidding proposals and the relevant contract(s) in relation to such project(s) would be awarded to the contractor(s)/supplier(s) which won the tender bids. We cannot guarantee that our bidding proposals that we tender on our own or jointly with other business partner(s) will be selected by the grantor(s) of the contract(s); or we will be able to secure new customers or our existing customers will continue to engage us to provide application solutions to them in the future. If our bidding proposal is not being chosen, we will not be able to obtain the relevant project offered under the tender, our business, operations and financial condition may be materially adversely affected. Likewise, if we cannot secure new customers or our existing customers do not engage us to provide services to them, our business, operations and financial condition may be materially adversely affected.

We may face difficulties in sourcing and developing new customers

We had [11] customers for the year ended 30 June 2010 and [11] customers for the year ended 30 June 2011 and [16] for the five months ended 30 November 2011. During the Track Record Period, a majority of our customers were owners or operators of public transport system. If we are not able to expand our customer base by soliciting new customers at desired levels or at all, it could have a material adverse effect on our business, financial condition and results of operations.

Tender offers are subject to qualification requirements in general. We do not currently possess CISI Qualification and we have to submit bidding proposals in the PRC with business partner(s) which possess(es) such certificate

The MII promulgated the CISI Rules in December 1999 and has implemented, on trial basis, the certification procedures for computer information system integration solutions providers since 1 January 2000. Under the CISI Rules, all providers of computer information system integration solutions in the PRC are required to obtain 計算機信息系統集成資質證書 (CISI Qualification certificate). During the Track Record Period, part of our revenue were derived from tenders which required such certificate and which we submitted bidding proposals jointly with our business partners.

As at the Latest Practicable Date, ERG BJ did not possess such qualification. Hence, depending on the qualification requirements of the relevant tender offer, we have to cooperate with enterprise which possesses the requisite qualification certificate when we submit the bidding proposal for such tender(s) in the PRC.

As confirmed by our Company and based on the due diligence exercise performed by our PRC Legal Advisers, the authority in charge of the CISI Qualification (i.e. the MIIT) is currently amending the Grade 1 to Grade 3 CISI Qualification requirements and it currently does not accept applications for Grade 1 to Grade 3 CISI Qualification.

On 10 October 2003, MIIT promulgated the Assessment Requirements of Qualification of Computer Information System Integration (Revised) (Xin Bu Gui (2003) No. 440)《計算機信息系統集成資質等級評定條件(修訂版)》(信部規[2003]440號), which sets out the requirements for Grade 1 to Grade 4 CISI Qualification. On 8 March 2011, MIIT issued the Circular of Relevant Administrative Issues on Qualification of Computer Information System Integration Enterprises and Qualification of Information System Engineering Supervision Enterprises (Gong Xin Ji Zi (2011) No. 3)《關於計算機信息系統集成企業資質和信息系統工程監理單位資質管理有關事項的通知》(工信計資[2011]3號), which set out the new requirements for Grade 4 CISI Qualification, stated that the requirements for Grade 1 to Grade 3 CISI Qualification were in the process of being revised and stated that all the applications for Grade 1 to Grade 3 CISI Qualification are to be suspended until the new requirements are issued. As far as our PRC Legal Advisers are aware, [as at the Latest Practicable Date], MIIT had not yet indicated as to when these new requirements will be published.

[As at the Latest Practicable Date], ERG BJ had 22 technical workers. Except for the requirement of having not less than 50 technical workers (including six project managers), ERG BJ conformed to all the other requirements for Grade 3 CISI Qualification under the original assessment requirements issued in 2003. Subject to the promulgation of the new requirements, we plan to apply for CISI Grade 3 CISI Qualification when ERG BJ is able to satisfy the new requirements to be published by MIIT. We also plan to expand our workforce and recruit experienced personnel with relevant technical know-how for the expansion of our business. We will make assessment when the new requirements for Grade 3 CISI Qualification are published and take appropriate action thereafter. [As at the Latest Practicable Date, our Directors were not able to opine on whether ERG BJ conformed to such new requirements.]

Our business mainly covers three areas, including the provision of application solutions, the provision of maintenance and technical services, and entering into ad hoc agreements with customers regarding consulting services, system enhancements, variation orders and procurement of equipment. Among these principal business activities, the 計算機信息系統集成資質證書 (CISI Qualification) is only required for the provision of application solutions. Provision of maintenance and technical services and entering into ad hoc agreements do not require such qualification.

Our Group did not generate any revenue from projects which require the abovementioned qualification for the year ended 30 June 2010, while approximately [39.4]% and [2.6]% of our revenue was generated from projects which require the abovementioned qualification for the year ended 30 June 2011 and for the five months ended 30 November 2011 respectively.

For tender offers in Hong Kong, the qualification and other requirements are normally set out in the tender document. Generally, pre-qualifications such as relevant past experience and financial track record are required to be fulfilled for submitting bidding proposals for tenders offered in Hong Kong. Bidding proposals for projects in Hong Kong had been either made by members of the Vix Group alone or jointly by the members of the Vix Group and ERG HK. Members of the Vix Group possess the qualifications required by the tenders offered in Hong Kong. ERG HK did not make any bidding proposals as it did not have the required qualifications. Bidding proposals which were successful and hence the resulting projects in which ERG HK participated in the past were made by members of the Vix Group alone.

We cannot assure that ERG BJ will be able to comply with the new requirements for CISI Qualification to be published by the MIIT. If we fail to obtain the CISI Qualification, we would have to continue to rely on our business partners for making bidding proposals. We cannot assure that we will be able to secure suitable business partner(s) for making bidding proposals, or to enter into business cooperation with any of them on terms commercially acceptable to us. If we are not able to enter into business cooperation with business partner(s) which possess(es) relevant CISI Qualification in the PRC or other business partner(s) on terms commercially acceptable to us, we will not be able to submit bidding proposal in the PRC for tenders which require such qualification or in other places where we do not possess the requisite qualification for making bidding proposals, and our business, operations and financial condition may be materially adversely affected.

If we fail to accurately estimate our costs or fail to execute within our cost estimates on fixed-price contracts, our results of operations would be adversely affected

Most of our revenue was generated from fixed-price contracts during the Track Record Period. Under these contracts, we execute our projects or perform our services at a fixed price and, as a result, we may be unable to recover any cost overruns. Fixed-price contracts carry inherent risks, including risks of losses from underestimating costs, difficulties and lack of flexibility in operating projects and other changes that may occur during the contract period. If our cost estimates for a contract are inaccurate, or if we do not execute the contract within our cost estimates, our gross profit may be reduced or the project may not be as profitable as we expected.

To manage the potential risk of cost over-runs, we analyse the estimated costs for each project before we negotiate with our customers. We also closely monitor the progress and estimated costs to completion for each project. If we make incorrect estimates of the resources and required costs to complete these projects, or if we are unable to manage the costs to complete these projects within the contract price, we may suffer losses from our operations which could have significant impact on our financial condition and results of operation.

In addition, the revenue, operating cost and gross profit on such contracts can vary, sometimes substantially, from the original projections due to changes in a variety of factors, such as:

- failure to properly estimate the cost of engineering, material, equipment or labour;
- unanticipated technical problems which may require us to incur costs we cannot recoup;
- our suppliers' failure to perform;
- failure to properly estimate the repair or maintenance requirements of our customers; and
- exacerbation of any one or more of these factors as projects grow in size and complexity.

These risks would increase if the duration of the project is long-term because there is an increased probability that the circumstances upon which we based our original bid will change in a manner that increases our costs. During the Track Record Period, our Group had not experienced any losses on its completed projects as a result of cost overruns. Further, we did not expect any outstanding projects to incur losses.

We engaged subcontractors to provide labour, materials and certain services to us

During the Track Record Period, we engaged subcontractors and services providers to provide labour, materials and services necessary for completion of certain parts of the services undertaken by our Group under the project agreements. Our Group's subcontracting fee increased by approximately 154.1% from approximately HK$5.41 million for the year ended 30 June 2010 to approximately HK$13.75 million for the year ended 30 June 2011, which accounted for approximately 46.8% and 55.9% of total cost of sales for the respective years. For the year ended 30 June 2011, the subcontracting fee was mainly paid to BII ERG, an associated company of our Group, as BII ERG possessed the licensed technology pursuant to the licence agreement entered into between BII ERG and Vix R&D on 3 December 2009. For the five months ended 30 November 2011, our Group did not engage any subcontractor.

ERG BJ entered into licensing agreement with Vix IP on 28 February 2012. Hence, it is expected that the subcontracting arrangement between ERG BJ and BII ERG in the area of the ACC System will no longer be required. Other than BII ERG, we have also entered into subcontracting arrangements with other contractors which are PRC-based corporations mainly engaged in IT services, datacenter and infrastructure solutions, or intelligent transportation business. There are numerous potential subcontractors with relevant expertise in the market. Further, we possess the relevant expertise, know-how and technology for the work performed by the subcontractors under these subcontracting arrangements but we entered into these arrangements with them in the event of tight work schedule and large quantity of work.

We may require the assistance of subcontractors from time to time in our business operations and if we are not able to engage appropriate subcontractors when the same should be required, our operation and future success will be adversely affected. If our subcontractors cannot meet delivery deadlines or deliver services or products of unsatisfactory quality, our business, reputation and operations may be adversely affected. There is no assurance that the services or products our subcontractors provide to us will always be able to meet the requirements of our customers. If any services or products they deliver cannot satisfy our customers' required standards, we may not be able to meet our commitments to our customers, which may have an adverse impact on our business reputation.

Our plans may not be successful or be achieved within the expected time frame or within the estimated budget

We plan to enhance our expertise and technical know-how on development of new application solutions, enhance our reputation and expand our customer base. Our Group aims to expand into new markets and will establish a market development team with approximately [10] employees. In accordance with the geographical division of Eastern China, Northern China and Southern China, our market development team will attempt to replicate the successful experience and model adopted in Beijing in other cities in the PRC, such as Zhengzhou, Chengdu, Kunming and Changchun. We are currently in the course of preparing promotional materials to introduce our business to other cities. We expect to incur significant costs in connection with the expansion of our business, and any failure to successfully implement our expansion plans may materially and adversely affect our business, financial condition and results of operations.

The future plans as set forth in this document are based on the existing plans and our intentions either at a conceptual or a preliminary state. These intentions and plans are based on assumptions, which by their nature are uncertain, subject to change, and may turn out to be inaccurate. Our actual course of action may therefore vary from our initial intentions or plans. We cannot assure that our plans will be achieved within the expected time frame or within the estimated budget and our business operation may be adversely affected as a result.

Reliance on key management personnel may impose risks on our Group

Our performance and success is, to a significant extent, attributable to contributions of our executive Directors Mr. Cao and Mr. Chen. Competition for senior management and key personnel in our industry is intense and the pool of qualified candidates is limited. Hence, we may not be able to retain the services of our Directors and members of senior management or other key personnel, or attract and retain high-quality personnel in the future. If any of these persons or any other members of the senior management team departs from us, and we are not able to hire a suitable replacement on a timely basis, our business, operations and financial condition may be materially adversely affected.

Our business could be adversely and materially affected if we fail to adequately protect our necessary technology

We rely substantially on relevant technology, information, trade secrets, know-how and market research data to conduct our business and to attract and retain customers. The success of our business depends on our ability to protect our know-how and our intellectual property portfolio, and to obtain patents without infringing the proprietary rights of others. If we do not effectively protect our know-how and intellectual property, our business and operating results could be adversely affected.

We may not be able to develop application solutions suitable for our customers' use or to expand into new markets

We cannot assure that our design and engineering capacity and capabilities are sufficient to develop any application solutions suitable for our customers' or potential customers' use or any income will be generated from such solutions. If we are not able to develop and introduce such application solutions successfully, or if our new application solutions fail to generate sufficient revenue to offset design and engineering costs, our business, financial condition and operating results could be adversely affected. Failure of such could lead to wasted resources.

An element of our strategy for growth also envisages us providing existing or new application solutions to potential customer(s) in the PRC and other overseas market(s). We cannot guarantee that we will be successful to execute this strategy and if we should fail to execute our growth strategy successfully, it may have a material adverse effect on our future revenue and profitability.

We recorded accumulated loss before the Track Record Period

ERG BJ was our only operating subsidiary as at 1 July 2009. ERG BJ was established by Vix Holdings in September 2006. Since 2006, ERG BJ has been providing maintenance and technical support services to the Beijing Subway in relation to both the software applications and other software and hardware of the ACC System. At its initial stage of development, ERG BJ had not acquired sufficient projects to cover its costs. In April 2009, Mr. Cao, through his interest in BETIT Australia, acquired 70% equity interest in ERG Greater China, the holding company of ERG BJ. Through the effort of our Controlling Shareholders, ERG BJ started to make profit for the year ended 30 June 2010. In March 2010, Vix Technology transferred its entire equity interest in ERG HK to ERG Greater China. The profit of ERG HK since the acquisition date was included in the consolidated financial result for the year ended 30 June 2010. ERG HK was profit-making before the acquisition.

With the accumulated loss before the Track Record Period, we cannot assure that we can continue to make profits from our operations in the future and continue the profit growth trend as shown in the financial information. Our ability to achieve profitability will depend on the growth of our existing business and the successful implementation of our business expansion plans. Our profitability is affected by a number of factors outside our control. Our operating results may be adversely affected by any of such factors.

We may not be able to maintain our growth in the future and our future performance and reputation are dependent on our ability to continue developing new application solutions

Our future growth depends upon our ability to develop and provide new and improved application solutions in line with technological advancements, which meet the evolving requirements of our customers and our ability to bring these application solutions to market in a timely manner. The design and engineering of new and improved application solutions is a complex process requiring, among other factors, the accurate anticipation of the technological and market trends. New application or refinements and improvements of existing application solutions may have technical failures which could cause delays in their introduction. Such application solutions may have higher production or implementation costs than we originally expect and such costs may not be accepted by our customers. Any failure of these application solutions could have a material adverse effect on our financial performance and our reputation. There is also no assurance that any design and engineering efforts undertaken or to be undertaken by us would result in the successful development of any new or improved application solutions or that any such new or improved application solutions will meet customers' requirements and achieve customer acceptance. Any failure in our design and engineering efforts to materialise could have an adverse impact on the business and prospects of our Group. In addition, if any of our application solutions or refinements fail, it is possible that our customers may not consider us as a provider of application solutions in the future. Further, we may not be able to maintain our growth in the future or may not have the resources to develop and provide new and improved application solutions or manage our business growth.

We are reliant on the PRC market and we may be unable to adjust our resources to other markets in the event of an economic downturn in the PRC

During the Track Record Period, more than half of our revenue was derived from customers in the PRC and all of such revenue was derived from projects, services or spare parts provided for the Beijing Subway during the same period. We anticipate that sales to customers based in the PRC will continue to represent a majority of our revenue. Any adverse change in the economic conditions in the PRC may directly or indirectly affect the demand for our application solutions or services and our business operation and financial condition may also be adversely affected as a result.

Should there be an economic downturn or credit crisis in the PRC for any reason, our ability to borrow funds from funding sources, if necessary, may be limited, which in turn could materially and adversely affect our business, liquidity, results of operations, financial condition, and most importantly, our expansion plans. Moreover, apart from our access to funds, economic downturn or credit crisis will also affect our customers, and may in turn reduce the demand for our services or affect their abilities to settle amounts owed to us. As such, we cannot assure that our business operations will not suffer adverse effects caused by previous or future credit crisis in the future.

We receive payments from our customers by instalments, and any delay in payments from our customers may affect our working capital and cash flow

During the Track Record Period, part of our revenue was derived from projects undertaken by us during the period. For work that we provide to our customers on a project basis, contract sums are usually payable by our customers by instalments at different stages of the project. Down-payment is usually payable upon signing of the project agreement (or shortly thereafter); depending on the expected duration and value of the project, part-payment may be payable at completion of different stages of the project and when stage-payment is payable, payment may be made after certain deliverables are available or certain milestones are reached. A majority part of the contract sum, usually up to 95% will have been paid upon completion and acceptance of the relevant work by our customers, subject to any retention money (if any) which will be withheld by customers until expiry of the warrant period for such project. The retention money (if any), subject to any permitted deduction agreed by the contracting parties, will be settled by our customers upon expiry of the warranty period.

For maintenance and technical services and other ad hoc agreements with our customers, fees may be payable to us on a monthly or quarterly basis, depending on the terms of the relevant contracts.

Delays in receiving payments from or non-payment by our customers may adversely affect our cash flow position and our ability to meet our working capital requirements. In addition, defaults in making payments to us on projects for which we have already incurred significant costs and expenditures can materially and adversely affect our results of operations and reduce our financial resources that would otherwise be available for other projects. We cannot assure that our customers will make payment in full to us on a timely basis or that we will be able to efficiently manage the level of bad debt arising from receipt of payments in stages.

Historically we did not experience any risk of cash flow mismatch. We receive progress billings from customers when the milestones are achieved in accordance with the terms of the contracts. We entered into subcontracting agreements and purchase agreements on a project basis or for a specific term. The subcontracting or purchase agreements specified that payment to subcontractors or suppliers will be made upon acceptance of their work or materials by our Group and the end-users, which is generally in line with the acceptance and billing progress of the projects. We normally make payments to our suppliers, which comprise primarily service subcontractors and suppliers for materials, when payments are received from customers. If we were unable to continue such practice with our customers and suppliers, we may need to pay our suppliers before we receive progress billings from customers, which may have significant impact on our Group's financial condition and results of operation.

System failures, delays and other problems could harm our reputation and business, cause us to lose customers and expose us to liability

We may experience failure or interruption to our systems or services or other problems in connection with our operations as a result of various matters, including damage or interruption caused by fire, flood, power loss or power shortages; damage to or failure of our computer software or hardware or its infrastructure and connections; data processing errors by our systems; the loss or corruption of data; computer viruses or software defects; and security breaches or hackings. If we cannot adequately ensure the ability of our systems and services to perform at a consistently high level or if we otherwise consistently fail to meet customers' expectations, we may experience damage to our reputation; we may incur liabilities to customers under the contracts which we have in place with them; our operating expenses or capital expenditure may increase as a result of remedial action which we are required to take; and/or our customers may reduce their use of our services or seek an alternative service provider. These or any other consequences would adversely affect our revenue and results of operations.

Our application solutions may contain undetected flaws or defects. Our business and reputation may be affected by product liability claim, litigation, complaints or adverse publicity in relation to our application solutions

Our application solutions may contain latent defects or flaws. Although we test our application solutions prior to delivery, our application solutions may contain flaws that are not detected. Any flaws or defects discovered in our application solutions after delivery could result in loss of revenue or delay in revenue recognition, damage to our reputation and our relationship with customers, loss of customers and increased service and warranty cost, any of which could adversely affect our business, operating results and financial condition. If our application solutions fail to perform as expected, or proved to be defective, we may be subject to claims for compensation and may incur significant legal costs regardless of the outcome of any claim of alleged defect. Generally, a warranty of one to three years from delivery and acceptance of our products or services is provided under our project agreements obtained through tender process. During the warranty period, complimentary after-sales maintenance and repair services are typically provided to our customers. For both project agreements and maintenance agreements, different levels of compensation are stipulated in the relevant agreement according to the type of faults or accidents that may occur during the period of service. Our PRC Legal Advisers advised that under applicable laws and regulations in the PRC if our application solutions cause any losses, we shall be held liable for breach of contract, however if our application solutions lead to any physical body injury or property damage to a third party, we may be held liable for tort. During the Track Record Period and up to the Latest Practicable Date, we have not been subject to any product liability claims, litigation, complaints or adverse publicity in relation to our application solutions.

We may be subject to project risks and variation in project size

Our projects that we participated in are typically contracted at a predetermined price and completion date. Implementation of these projects are subject to various factors such as cost of supplies, transportation delays, disruption of supply and increase in labour cost. Some of these factors may be beyond the control of us and our customers. These unforeseen factors which we are exposed to may affect the smooth implementation of these projects within the fixed budget and time frame which would cause cost overrun and penalties generally calculated on the basis of a predetermined percentage of the value of the sales contract. Such factors could, in turn, have an adverse effect on our financial position.

In addition, the size of these projects may vary significantly. The significant variation in the size of projects that we can secure may affect our allocation of resources and business performance and we cannot assure that we can secure sizeable projects or that such fluctuation in the size of our projects will not continue in the future.

We may be required to pay income tax on capital gains from the transfer of equity interests in our PRC subsidiary held by our offshore subsidiaries

In connection with the PRC EIT Law which came into effect on 1 January 2008, the Ministry of Finance (財政部) and the State Administration of Taxation of ("**SAT**") (國家稅務總局) jointly issued, on 30 April 2009, the Circular on Issues Concerning Process of Corporate Income Tax in Enterprise Restructuring Business (Cai Shui [2009] No. 59) (《關於企業重組業務企業所得稅處理若干問題的通知》) (財稅[2009]59號), which became effective retrospectively on 1 January 2008. During the taxation year ended 31 March 2010, our Group commenced our Reorganisation. For more details of our Reorganisation, please refer to the section headed "Reorganisation" in this document. The transfer of equity interests in our PRC subsidiary indirectly held by offshore subsidiaries of our Group to other offshore subsidiaries of our Group is subject to an income tax of 10.0% on capital gains which may be determined as the difference between the fair value of the equity interests transferred and the cost of investment. On 10 December 2009, the SAT issued the Notice on Strengthening the Management on Corporate Income Tax for Non-resident Enterprises Equity Transfer (Guo Shui Han [2009] No. 698) (《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》) (國稅函[2009]698號), which became effective retrospectively on 1 January 2008. The notice clarified the definition of cost of investment and other relevant details on Enterprise Income Tax management regarding the transfer of shares in a PRC resident enterprise by non-PRC resident enterprises directly or indirectly. We have not made any provision for the payment of any income tax on any capital gain that may arise under the above circular and notice as it is currently unclear how the relevant PRC tax authorities will implement or enforce the above circular and notice and whether such income tax on capital gains treatment will be subject to further change. In the event that we are required to pay the income tax on capital gains by the relevant PRC tax authorities, our tax liability may increase and our net profits and cash flow may be affected.

RISKS RELATING TO THE INDUSTRY

Industry-wide adoption of other technologies in the future might seriously affect our business

We are engaged in the design and implementation of application solutions for the networking and controlling systems for public transport service providers. In the event that other technologies are adopted, our business, financial condition and results of operations may be adversely affected. Our application solutions may not be compatible or suitable to be applied to such technologies and we may not be able to develop appropriate application solutions successfully to cater for the industry-wide adoption of other technologies which do not require our application solutions.

The PRC Government may adopt measures to slow down growth in the public transport industry, thereby adversely affecting the demand for our application solutions

The PRC Government has in the past adopted, and may in the future adopt from time to time, restrictive measures to curtail the growth of various industry sectors in an effort to control inflation and stabilise the value of RMB. Such measures may extend to the infrastructure industry, such as public transport systems. Moreover, the Beijing Subway, being the railway system for which we provided, among others, our application solutions and derived more than half of our revenue during the Track Record Period, received monetary subsidy from the PRC Government to finance some of its operating expenses. We cannot assure that the PRC Government will not take actions in the future that would adversely affect the demand and prices for our application solutions in the PRC or that the PRC Government will increase the amount of subsidies to the Beijing Subway or continue to subsidise the Beijing Subway or at all. Any such actions could materially and adversely affect our business, financial condition and results of operations.

Our industry is subject to economic and market conditions

Our business depends on the global economic and market conditions, in particular those in the PRC. Slowing economic growth or a recession could slow down the growth or expansion or upgrading of the public transport systems which, in turn, have a material adverse effect on our business, financial condition and results of operations as well as affecting our expansion strategies. Periods of relatively slow economic growth or a recession may decrease the demand for our application solutions, thereby adversely affecting our sales and profitability.

We operate in a highly competitive industry

There are numerous application solutions and service providers supplying application solutions to owners or operators of the public transport systems, in the PRC and worldwide.

During the Track Record Period, we competed with PRC as well as overseas industry players, but we may also face competition from new entrants to the market, some of which may have a lower cost structure than ours due to lower capital expenditures. Some of our competitors have operations worldwide or they may have greater financial and other resources than we do; and some may have longer business track record periods than us. We cannot assure you that we will be able to compete successfully in our existing markets or in the new markets where we are expanding into. Any increase in competition may adversely affect our business, financial condition and results of operations.

In addition, we compete with other existing players in terms of pricing and quality of our application solutions and the ability to recruit experienced and talented employees. If we are not able to maintain our competitiveness in respect of the foregoing, our business operations, market share and financial condition may be adversely affected.

We cannot assure that the competitiveness of our competitors will not improve or that we will be successful in expanding our market share against our competitors. Our competitors may be able to respond more quickly to new or emerging technologies and changes in client requirements and/or demands. Existing and/or increased competition could adversely affect our market share and materially affect our business, financial condition and operating results. If competitive pressure should intensify, it may force us to reduce the price of our application solutions, which could adversely affect our business, financial condition and operating results.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Political and economic policies of the PRC government and social conditions and legal developments of the PRC could affect our business

Our results, financial condition and prospects are to a significant degree subject to the economic, political and legal developments of the PRC, as a majority of our revenue is derived from operations that take place in the PRC. The economic, political and social conditions, as well as government policies, including taxation policies, of the PRC, could affect our business. The PRC economy differs from the economies of other countries in many respects. The PRC economy has historically been a planned economy and has been in a transitional stage to a more market-driven economy. Although the PRC government has implemented measures emphasising the use of market forces for economic reform in recent years, there can be no assurance that economic, political or legal systems of the PRC will not develop in a way that is detrimental to our business, results of operations and prospects.

The government control of currency conversion could affect our business operations

During the Track Record Period, part of our revenue was received in RMB. At present, RMB is not freely convertible to other currencies. Under the current foreign exchange regulations, RMB is convertible without approvals from the SAFE only with regard to current account transactions, including trade and service related foreign exchange transactions and payment of dividends to foreign investors, while the foreign exchange transactions in respect of capital account items including the foreign currency capital in any foreign investment enterprise in the PRC, the repayment of foreign currency loans and the payment pursuant to foreign currency guarantees, continue to be subject to significant foreign exchange controls and require the prior approval of the SAFE. There can be no assurance that the PRC government will not impose more stringent restrictions on the convertibility of RMB, especially relating to foreign exchange transactions.

Uncertainties regarding interpretation and enforcement of the PRC laws and regulations may impose adverse impact on our business, operations and profitability

Although many laws and regulations have been promulgated and amended in the PRC since 1978, the PRC legal system is still not sufficiently comprehensive when compared to the legal systems of certain developed countries. The interpretation of the PRC laws and regulations may be influenced by momentary policy changes reflecting domestic political and social changes. In addition, it may also be difficult to enforce judgments and arbitration awards in the PRC.

Many laws and regulations in the PRC are promulgated in broad principles and the Central People's Government has gradually laid down implementation rules and has continued to refine and modify such laws and regulations. As the PRC legal system develops, the promulgation of new laws or refinement and modification of existing laws may affect foreign investors. There can be no assurance that future changes in legislation or the interpretation thereof will not have an adverse effect upon our business, operations or profitability.

We are a holding company and rely on dividend payments from our subsidiary

We are a holding company and a significant part of our business was carried out through our operating subsidiary in the PRC. As a result, our ability to pay dividends depends on dividends and other distributions received from our operating subsidiary in the PRC. If such subsidiary incurs debt or losses, it may impair its ability to pay dividends or other distributions to us, which could adversely affect our ability to pay dividends to our Shareholders.

PRC law requires foreign invested enterprises, such as our subsidiary in the PRC, to set aside part of its net profit as statutory reserves. Our PRC subsidiary is required to set aside each year at least 10% of its after-tax profits for such year, as reported in its PRC statutory financial statements, to the statutory surplus reserve of such PRC subsidiary. Such reserve may not be discontinued until the accumulated amount has reached 50% of the registered capital of the PRC subsidiary. These statutory reserves are not available for distribution to us, except in liquidation. The calculation of distributable profits under the PRC Accounting Standards and Regulations differs in many aspects from the calculation under International Financial Reporting Standards ("**IFRSs**"). As a result, our subsidiary in the PRC may not be able to pay any dividend in a given year to us if it does not have distributable profits as determined under the PRC Accounting Standards and Regulations, even if it has profits for that year as determined under IFRSs.

Limitations on the ability of our PRC subsidiary to remit its entire after-tax profits to us in the form of dividends or other distributions could adversely affect our ability to grow, make investments that could be beneficial to our business, pay dividends and otherwise fund and conduct our business. We cannot assure that our subsidiaries will generate sufficient earnings and cash flows to pay dividends or otherwise distribute sufficient funds to us to enable us to pay dividends to our Shareholders.

The PRC EIT Law and its implementation rules stipulate that if an entity is deemed to be a non-PRC resident enterprise without an establishment or place of business in the PRC, withholding tax at the rate of 10% will be applicable to any dividends paid to it by its PRC subsidiary, unless it is entitled to reduction or elimination of such tax, including by tax treaties.

In addition, restrictive covenants in bank credit facilities, joint venture agreements or other arrangements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to pay dividends or make distributions to us. These restrictions could reduce the amount of dividends or other distributions we receive from our subsidiaries, which in turn would restrict our ability to pay dividends to our Shareholders.

Recent PRC regulations relating to acquisitions of PRC companies by foreign entities may limit our ability to acquire PRC companies and adversely affect the implementation of our strategy as well as our business and prospects

The Rules on the Acquisition of Domestic Enterprises by Foreign Investors (2006 Revision) (關於外國投資者併購境內企業的規定) ("**M&A Rules**"), which were promulgated in August 2006, became effective from 8 September 2006 and were amended on 22 June 2009, provide the rules with which foreign investors must comply if they are seeking to acquire shares in a PRC company, whether through a purchase agreement with existing shareholders or through a direct subscription from a company, that would result in that company becoming a foreign-funded enterprise. The M&A Rules further require that the business scope of the resultant foreign-funded enterprise to conform to the Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄). The M&A Rules also provide the takeover procedures for the acquisition of equity interests in PRC companies.

There are uncertainties as to how the M&A Rules will be interpreted or implemented. If we decide to acquire a PRC company in the future, there is no assurance that we or the owners of such PRC company can successfully complete all necessary approval requirements under the M&A Rules. This may restrict our ability to implement our expansion and acquisition strategy and could materially and adversely affect our future growth.

RISKS RELATING TO STATEMENTS IN THIS DOCUMENT

We cannot guarantee the accuracy of facts and other statistics with respect to the public transport systems industry and the PRC economy contained in this document

We have derived certain facts and other statistics in this document relating to the public transport systems industry and the PRC economy, from various government publications or various organisations that we believe to be reliable. However, we cannot guarantee the quality or reliability of such source materials. While our Directors have taken reasonable care in the reproduction of the information, they have not been prepared or independently verified by us or any of our respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC. The facts and other statistics include the facts and statistics included in the sections headed "Risk factors", "Industry overview" and "Business" in this document. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to official statistics produced for other economies and you should not place undue reliance on them. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In all cases, you should consider carefully how much weight or importance you should attach to or place on such facts or statistics.

Forward-looking statements contained in this document are subject to risks and uncertainties

This document contains forward-looking statements with respect to our business strategies, operating efficiencies, competitive positions, growth opportunities for existing operations, plans and objectives of management, certain pro forma information and other matters.

The words "anticipate", "believe", "could", "potential", "continue", "expect", "intend", "may", "plan", "seek", "will", "would", "should" and the negative of these terms and other similar expressions identify a number of these forward-looking statements. These forward-looking statements, including, amongst others, those relating to our future business prospects, capital expenditure, cash flows, working capital, liquidity and capital resources are necessarily estimates reflecting the best judgement of our Directors and management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. As a consequence, these forward-looking statements should be considered in light of various important factors, including those set out in the section headed "Risk factors" in this document. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on any forward-looking information. All forward-looking statements in this document are qualified by reference to this cautionary statement.