
INDUSTRY OVERVIEW

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INTRODUCTION

We are principally engaged in the design, implementation and maintenance of application solutions for centralising various functions of public transport systems in Beijing and Hong Kong. A public transport system mainly comprises computer systems and infrastructures which forms a network. Our application solutions are for use at the network level of a public transport system where lines within such system are connected to. BII ERG, our associated company, provides application solutions and products for the subsystems of a public transport system at the line level. The public transport systems industry imposes direct impact on our Group. Relevant information and data in relation to each of the national and regional public transport systems industry are set out below.

SOURCES OF THE INDUSTRY INFORMATION

We commissioned HuiCong Research, an Independent Third Party, to conduct an industry analysis of and produce the HuiCong Research Report on, amongst other things, the PRC public transport systems industry for inclusion in this document at an aggregate fixed fee of RMB220,000. HuiCong Market Research has over 19 years of industry experience. HuiCong Research, a joint venture company, was established by Huicong International Group and D&B in 2008. HuiCong Research specialises in researches on electric power and automation, machinery, intelligent building system, IT, communication, automobile, home appliances, pharmaceuticals and media industries. [●]. The HuiCong Research Report was published in [●] 2012.

HuiCong Research, on behalf of itself, its subsidiaries and units, confirms that the HuiCong Research Report was prepared in its ordinary course of business, and has given and not withdrawn its consent for us to quote from the HuiCong Research Report and to use information contained in the HuiCong Research Report in this document.

To the best of our Directors' information and belief, the information contained in the HuiCong Research Report is derived by means of data and intelligence gathering methodology which includes government/regulatory sources, industry reports and analyst reports, and the database maintained by HuiCong Research.

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ECONOMIC ENVIRONMENT

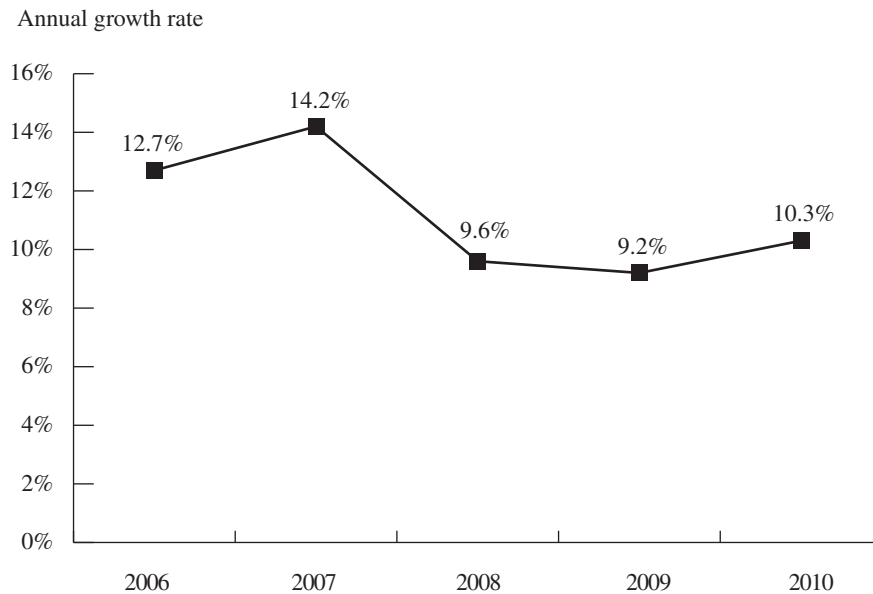
Continuous growth of the economy and population and hence increase in the number of passengers will lead to more complicated public transport systems network, and more efficient control, monitoring and management on the operation of public transport systems through application solutions will be required.

PRC

PRC economy

According to National Bureau of Statistics of China, GDP in the PRC increased from approximately RMB21,631.4 billion in 2006 to approximately RMB39,798.3 billion in 2010, representing a CAGR of over 10%, reflecting a rapid growth. Although the growth of GDP in the PRC dropped in 2008 and 2009 due to the global economic crisis, the annual growth rate was over 9% throughout 2006 to 2010.

Annual growth rate of GDP in the PRC from 2006 to 2010



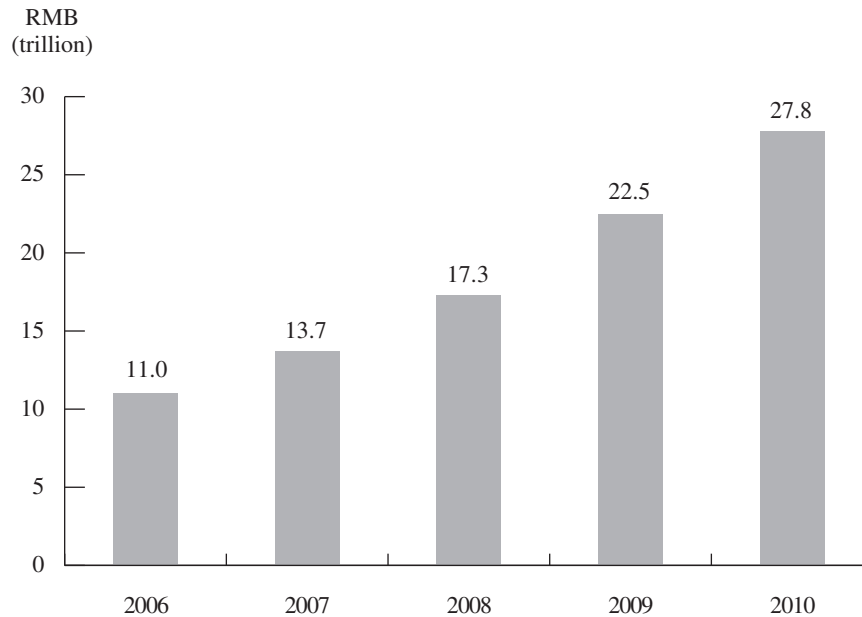
Source: National Bureau of Statistics of China

PRC fixed assets investment

According to National Bureau of Statistics of China, the fixed assets investment in the PRC increased from approximately RMB11 trillion in 2006 to approximately RMB27.81 trillion in 2010, representing a CAGR of over 26%, reflecting a rapid growth.

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PRC fixed assets investment from 2006 to 2010

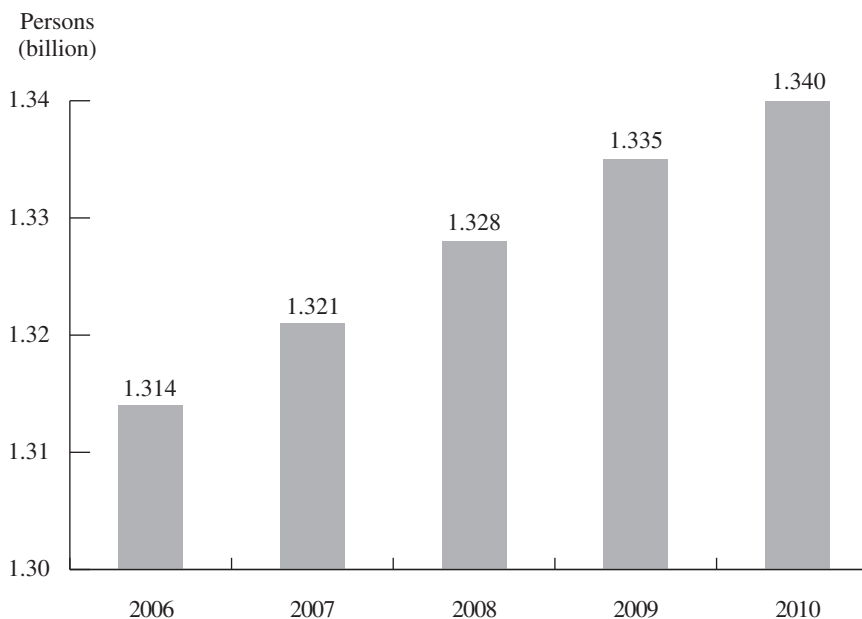


Source: National Bureau of Statistics of China

PRC population

According to National Bureau of Statistics of China, the population in the PRC increased from approximately 1.31 billion in 2006 to approximately 1.34 billion in 2010, representing a CAGR of approximately 0.6%.

PRC population from 2006 to 2010



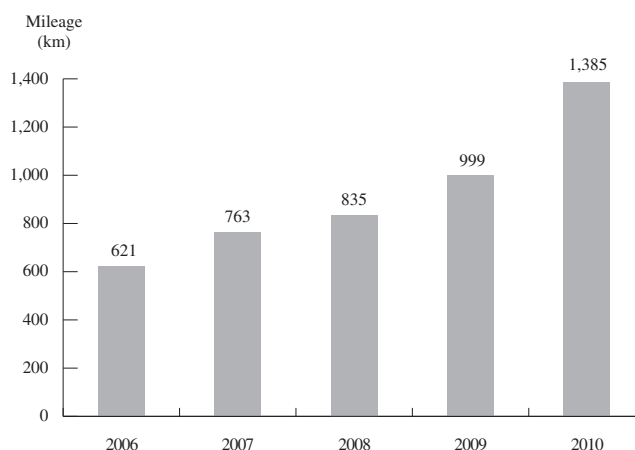
Source: National Bureau of Statistics of China

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PRC urban railway transport mileage

According to National Bureau of Statistics of China, the urban railway transport mileage in the PRC increased from approximately 621 km in 2006 to approximately 1,385 km in 2010, representing a CAGR of approximately 22.2%.

PRC urban railway transport mileage from 2006 to 2010



Source: National Bureau of Statistics of China

PRC urban railways

According to National Bureau of Statistics of China, from 2006 to 2010, an additional of around 826 km of urban railways had been successfully operated. Based on the assumption that an investment cost of approximately RMB500 million would be incurred for construction of each kilometre of a railway, an investment of approximately RMB413 billion was made in the PRC during 2006 to 2010 in respect of railway construction.

Set out below is the information in relation to the railways of major locations in the PRC in 2010:

	GDP (RMB (billion))	Population ('000 persons)	Fixed assets investment (RMB (billion))	Operating lines of railway	Railway transport mileage (km)
Shanghai	1,687.24	23,019	531.77	12	452.6
Beijing	1,377.79	19,612	549.35	14	336.0
Guangzhou	1,060.45	12,701	326.36	13	236.0
Nanjing	501.04	8,005	330.61	3	85.0
Tianjin	910.88	12,938	651.14	2	71.6
Shenzhen	951.09	10,358	194.47	4	63.5
Dalian	515.81	6,690	508.43	1	63.4
Changchun	332.90	7,677	300.15	1	32.0
Wuhan	551.58	9,785	375.32	1	28.3
Shenyang	501.70	8,106	500.67	1	27.8
Chongqing	789.42	17,645	693.48	1	19.2
Chengdu	555.13	14,048	425.54	1	9.3

Source: National Bureau of Statistics of China and Municipal Bureaus of Statistics

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Beijing

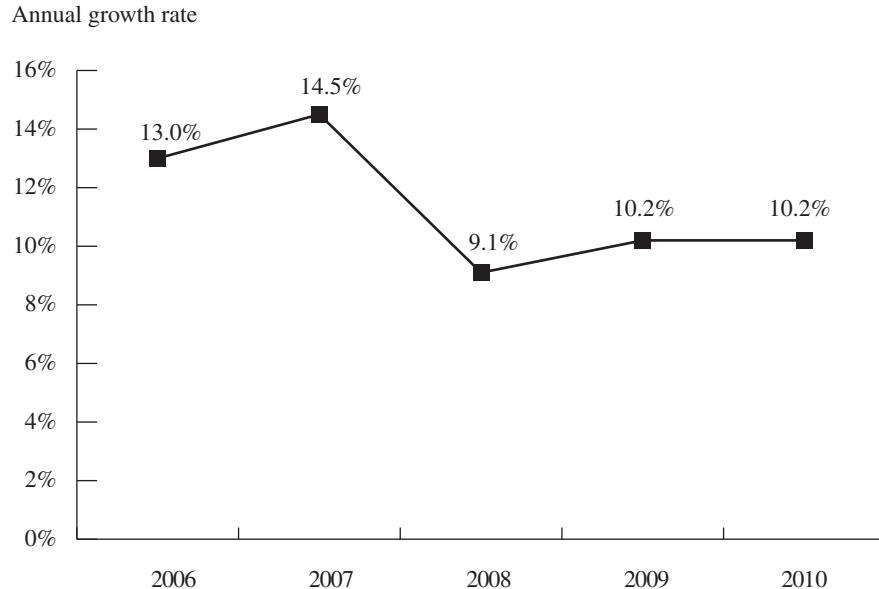
During 2006 to 2010, the railway transport industry in the PRC grew rapidly. An investment of approximately RMB413 billion was made in the PRC during 2006 to 2010 in respect of railway construction, of which an investment of approximately RMB111 billion was made in Beijing, representing approximately 27%.

The total market size of the projects for the railway system in Beijing regarding computer systems in terms of contract value during the period 2006 to 2010 contributed more than 25% of the entire market in the PRC. During 2009 and 2010, the number and contract value of railway system projects offered in Beijing rank the highest among all the places in the PRC.

Beijing economy

According to Beijing Municipal Bureau of Statistics, GDP in Beijing increased from approximately RMB811.8 billion in 2006 to approximately RMB1,377.8 billion in 2010, representing an annual growth rate of over 10%. Although the growth of GDP in Beijing dropped in 2008 due to the global economic crisis, the annual growth rate was over 9% throughout 2006 to 2010.

Annual growth rate of GDP in Beijing from 2006 to 2010



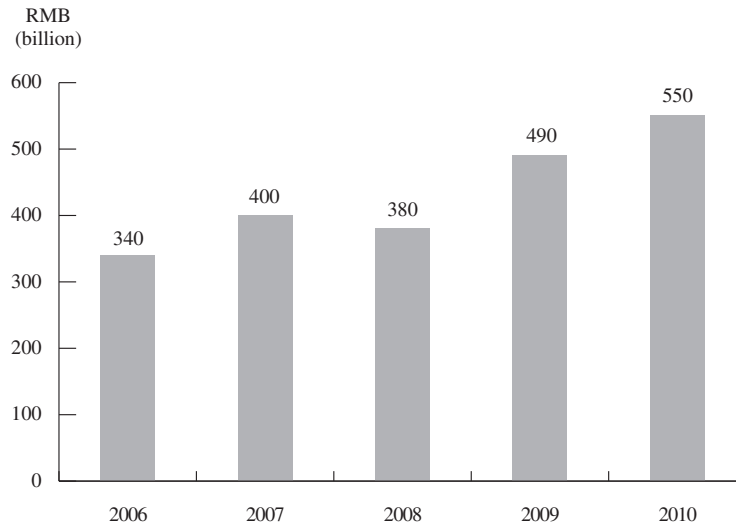
Source: Beijing Municipal Bureau of Statistics

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Beijing fixed assets investment

According to Beijing Municipal Bureau of Statistics, the fixed assets investment in Beijing increased from approximately RMB340 billion in 2006 to approximately RMB550 billion in 2010, representing a CAGR of approximately 12.8%.

Beijing fixed assets investment from 2006 to 2010

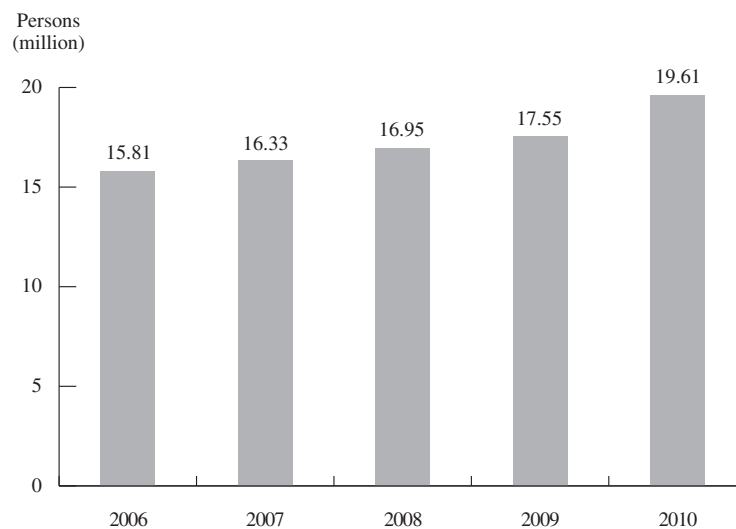


Source: Beijing Municipal Bureau of Statistics

Beijing population

According to Beijing Municipal Bureau of Statistics, the population in Beijing increased from approximately 15.81 million in 2006 to approximately 19.61 million in 2010, representing a CAGR of approximately 5.5%.

Beijing population from 2006 to 2010



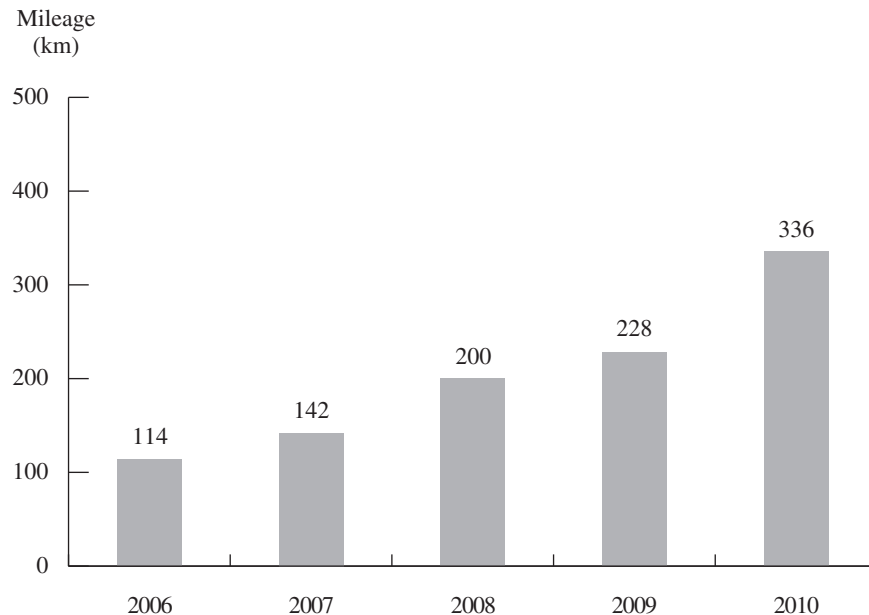
Source: Beijing Municipal Bureau of Statistics

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Beijing urban railway transport mileage

According to Beijing Municipal Bureau of Statistics, the railway transport mileage in Beijing increased from approximately 114 km in 2006 to approximately 336 km in 2010, representing a CAGR of approximately 31%, which is higher than that of the PRC as a whole.

Beijing railway transport mileage from 2006 to 2010



Source: Beijing Municipal Bureau of Statistics

Beijing railways

The operation of the first subway in the PRC was commenced in Beijing in 1969. According to Beijing Municipal Bureau of Statistics, the number of lines of the Beijing Subway increased from four lines in 2006 to 14 lines in 2010. From 2006 to 2010, an additional of around 222 km of railways had been successfully operated. Based on the assumption that an investment cost of approximately RMB500 million would be incurred for construction of each kilometre of a railway, an investment of approximately RMB111 billion was made in Beijing during 2006 to 2010 in respect of railway construction.

Set out below is the number of lines of the Beijing Subway from 2006 to 2010:

Year	2006	2007	2008	2009	2010
Lines of Beijing Subway	4	5	8	9	14

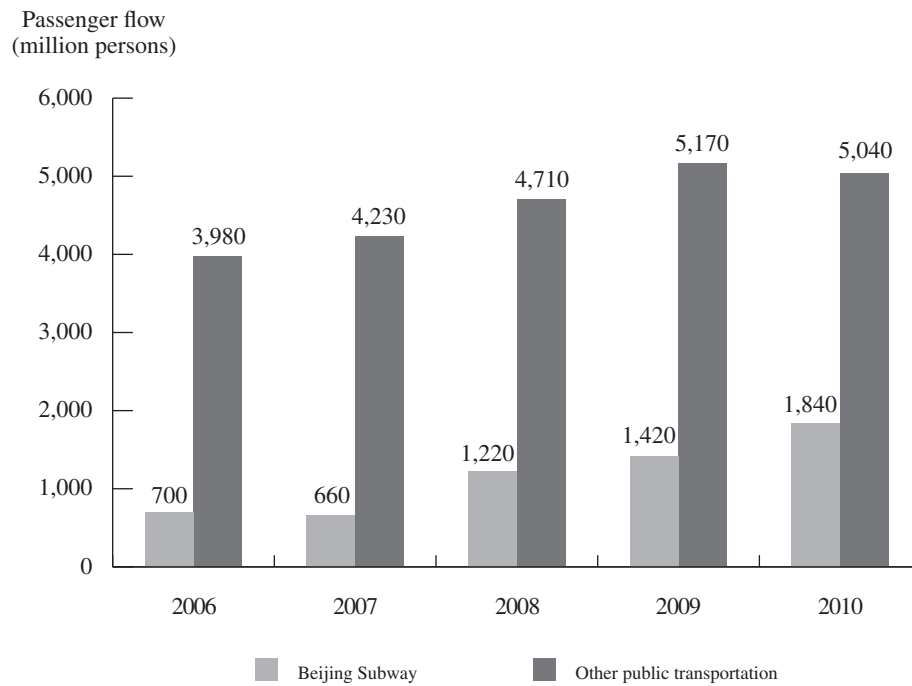
Source: Beijing Municipal Bureau of Statistics

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Beijing passenger flow

According to Beijing Municipal Bureau of Statistics, the passenger flow of Beijing Subway increased from approximately 700 million people in 2006 to approximately 1,840 million people in 2010, representing a CAGR of approximately 27.33%. The passenger flow of other public transportation in Beijing increased from approximately 3,980 million people in 2006 to approximately 5,040 million people in 2010, representing a CAGR of approximately 6.08%. The growth rate of passenger flow of Beijing Subway was much higher than that of other public transportation from 2006 to 2010.

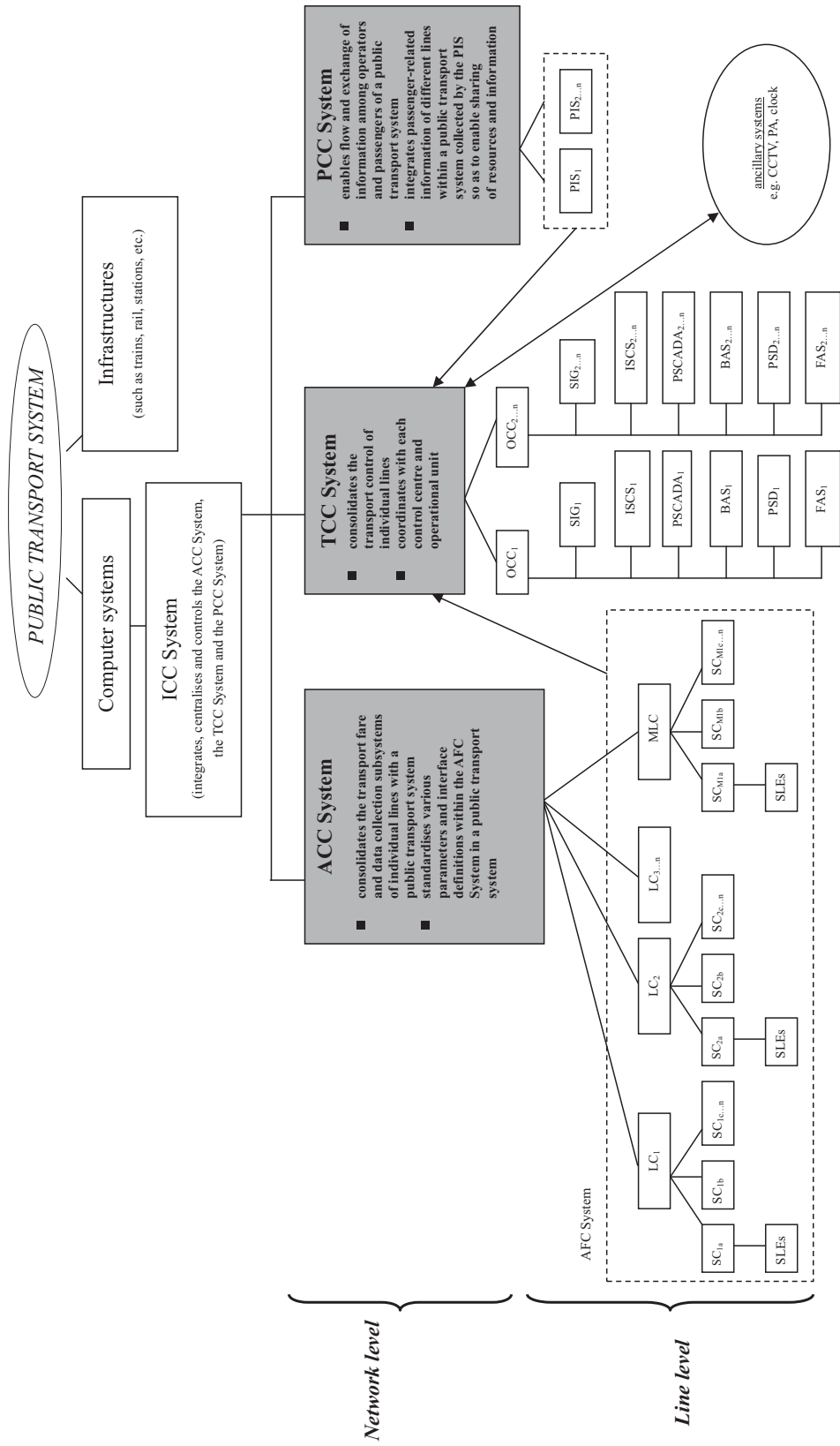
Passenger flow in Beijing from 2006 to 2010



Source: Beijing Municipal Bureau of Statistics

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PUBLIC TRANSPORT SYSTEMS INDUSTRY Public transport system structure



Keys:

↔ The TCC System and the ancillary systems are interactive and there is an exchange of information between them.

→ The ACC System and the PIS delivers information to the TCC System as the TCC System coordinates and supervises the respective control centres.

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<i>BAS:</i>	building automation system, a line-level system which controls internal air circulation for human and operating devices, supervises and manages operating devices including lighting, drainage, gates, PSDs and escalators in a public transport system
<i>FAS:</i>	fire alarm system
<i>ISCS:</i>	integrated supervision and control system, a line-level system which provides facilities for integrated, centralised and local control as well as the supervision of electrical and mechanical subsystems remotely located at passenger stations, online power substations and tunnels
<i>LC:</i>	line centre, a line-level system which receives system data and commands from SCs and the ACC System, monitors the operation of SCs and SLEs of the relevant line within a public transport system, upload data to the ACC System, reconcile accounts with the ACC System, manages equipment and ticketing of the relevant line
<i>MLC:</i>	multiple LC
<i>OCC:</i>	operating control centre system, a line-level system which consolidates and connects different subsystems to the TCC System
<i>PIS:</i>	passenger information system, a line-level system which gives real-time audio and multimedia information to passengers through computerised public announcements and digital display subsystems
<i>PSCADA:</i>	power supervisory control and data acquisition system, a line-level system which enables railway operators to remotely monitor and control power substations, by managing devices within substation sites, providing alarming and reporting capabilities, diagnosing and facilitating troubleshooting of equipment failures
<i>PSD:</i>	platform screen doors, a line-level safety system used mainly in subway to separate subway platforms from the railway track, by way of sliding doors installed on the subway platform which interact with train doors while opening and closing simultaneously
<i>SC:</i>	station computer, which is responsible for consolidation of all transaction records, audit registers and status sent by SLEs, providing commands and control functions to SLEs by receiving control parameters from line central computer and disseminating the same to SLEs
<i>SLE:</i>	station-level equipment, comprising automatic ticket vending machines, booking office machines, automatic gates and automatic ticket checking machines, and which performs various functions, including value-adding of tickets, sale, checking, rebate and substitution of tickets, application for and loss reporting of tickets, and ticket information service
<i>SIG:</i>	signaling system, a line-level system which implements the supervising and controlling functions of the TCC System, including designing and preparing monitoring diagrams for each station and line

A public transport system mainly comprises computer systems and infrastructures. The ICC System is a control and supervisory system within a public transport system which comprises the ACC System, the TCC System and the PCC System. The ICC System collects and manages all operational information collected from various stations within a public transport system and on-board equipment through its network in real-time, and performs, among others, traffic control, energy control, ancillaries management, passenger information system, communication control and resource management.

Network-level systems

The ACC System is a network-level system which apportions and clears amounts among the clearing participants registered in the system to realise their commercial agreements. The first ACC System in the PRC was established and implemented in Shanghai in 2005. In the same year, the construction establishment of the ACC System in Beijing also commenced and trial operation took place in 2008. In recent years, a number of places in the PRC, including Guangzhou, Nanjing and Shenzhen, has also established their ACC System. For other places in China, such as Chengdu, Dalian, Wuxi and Hangzhou, establishment of the ACC System is in progress.

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The TCC System is a network-level system whose functions include coordinating and supervising the respective control centres and operators of different lines, facilitating information exchange between the lines and operators, direct control in cases of emergency, contacting and coordinating with external public functions such as the police, fire stations and weather observatories. The establishment of the first TCC System in the PRC commenced in Beijing in 2006 with its operation and integration with eight of the lines of the Beijing Subway to the system in 2008. Currently, Shenzhen has also established its TCC System, and preparation for the construction of the TCC System is taking place in each of Wuhan and Hangzhou.

The PCC System is a network-level system which centralises the functions of compiling and disseminating multimedia information and day-to-day operation data, receiving external information, and acting as information link between various lines within a public transport system with passenger interchange points.

Line-level systems

Within a common public transport system, there are a number of line-level systems involved as shown in the diagram above. The HuiCong D&B Report focuses on five line-systems, namely, the AFC System, MLC, PIS, ISCS and PSD. According to the HuiCong Research Report, the investment cost for application solutions for the line-level systems in each railway amounts to approximately 5% of the total investment cost for construction of a railway (including both computer systems and infrastructure).

The AFC System is a line-level system which mainly handles fare collection and manages and controls tickets and functions of SLEs of a public transport system; while MLC is a line-level system consolidating a number of systems which receives system data and commands from SCs and ACC System, monitors the operation of SCs and SLEs of the several lines within a public transport system, upload data to the ACC System, reconcile accounts with the ACC System, manages equipment and ticketing of the relevant lines. The first MLC was successfully implemented in Beijing in 2010. As at the Latest Practicable Date, Beijing was the only city which had adopted MLC.

ISCS is a line-level system which provides facilities for integrated, centralised and local control as well as the supervision of electrical and mechanical subsystems remotely located at passenger stations, online power substations and tunnels. The first ISCS in the PRC was established in Beijing in 2000. In the same year, ISCS was also established in Shanghai. ISCS has indeed become an integral part of all railway transport projects nowadays.

PSD is a line-level safety system used mainly in subway to separate subway platforms from the railway track, by way of sliding doors installed on the subway platform which interact with train doors while opening and closing simultaneously. The first PSD in the PRC was established in Guangzhou in 2002. In recent years, PSD has also been established and implemented in Beijing, Shanghai, Chongqing and Shenzhen. The current railway transport projects which are in compliance with applicable safety standards in Nanjing, Chengdu, Shenyang and Hangzhou have included PSD.

PIS is a line-level system which gives real-time audio and multimedia information to riders through computerised public announcements and digital display subsystems. PIS was first adopted in Shanghai in 2003. From 2004 onwards, PIS was gradually adopted in Beijing, Tianjin, Guangzhou, Shenzhen, Nanjing and Chengdu, etc. Currently, preparation for construction of PIS in Wuxi and Xi'an is in progress.

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PRC markets

During 2009 and 2010, there were in aggregate 42 projects in relation to the ACC System and the TCC System and the total contract value amounted to approximately RMB414 million in the PRC. Our Group had been awarded projects regarding integration of the ACC System and the TCC System.

The following table sets out the projects took place in the PRC during 2009 and 2010 and the participation of our Group:

Project	Nature	Overall		Awarded to and with participation by our Group	
		Number of projects	Contract value (RMB (million))	Number of projects	Market share (Note)
ACC System	Construction	7	315	–	–
	Integration	28	51	6 (By ERG BJ)	35%
TCC System	Construction	1	30	–	–
	Integration	6	18	5 (By ERG BJ)	83%

Source: HuiCong Research Report

Note: The market share is calculated based on the overall contract value of the projects.

BII ERG, our associated company, had been awarded and participated in one AFC project in relation to MLC and three PIS projects during 2009 and 2010, which represented a market share of 100% and about 9% respectively for those projects that took place in the PRC during that period.

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Set out below are the number of projects in relation to the ACC System, the TCC System, the AFC System (including MLC), PIS, ISCS and PSD and their corresponding contract value which took place in various locations in the PRC during 2009 to 2010:

Locations	Number of projects	Contract value <i>(RMB (million))</i>
Beijing	51	2,550
Chongqing	17	1,110
Shenzhen	14	900
Guangzhou	31	750
Tianjin	8	700
Wuhan	5	430
Xi'an	5	430
Chengdu	6	410
Hangzhou	3	340
Suzhou	4	330
Shenyang	2	150
Fuzhou	1	150
Nanjing	3	100
Wuxi	1	90
Dalian	1	60
Ningbo	1	40
Shanghai	11	20
	<hr/>	<hr/>
Total	<u>164</u>	<u>8,560</u>

Source: HuiCong Research Report

Beijing markets

As shown in the table above, Beijing had the largest number of projects 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. It is expected that such market size would reach approximately RMB8.3 billion for 2011 to 2015. During 2009 and 2010, there were around 20 corporate group participants in the subway system projects in Beijing. For subway system network-level projects offered in Beijing during the period, all ACC integration projects were undertaken by ERG BJ; while TCC integration projects offered during the period were undertaken by ERG BJ as well as another market participant, namely Tongfang Co., Ltd (同方股份有限公司), which provides application solutions and services of the AFC System, TCC System, and ISCS etc.. Other corporate group participants were engaged in line-level projects. As at the Latest Practicable Date, there were [two] operators managing the Beijing Subway. Projects in respect of relevant application solution or products are offered by tenders.

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The following table sets out the projects in relation to the ACC System and the TCC System which took place in Beijing during 2009 and 2010, with their corresponding contract value, and the participation of our Group:

Project	Overall		Awarded to and with participation by our Group	
	Number of projects	Contract value (RMB (million))	Number of projects	Market share (Note)
ACC System Integration	6	18	6 (By ERG BJ)	100%
TCC System Integration	6	18	5 (By ERG BJ)	83%

Source: HuiCong Research Report

Note: The market share is calculated based on the overall contract value of the projects.

BII ERG, our associated company, had been awarded and participated in one AFC project in relation to MLC and three PIS projects during 2009 and 2010, which represented a market share of 100% and about 23% respectively for those projects that took place in Beijing during that period.

According to the HuiCong Research Report, during 2009 and 2010, the number and contract value of subway system projects offered in Beijing ranked the highest among all the places in the PRC, the total contract value of the projects offered during the period was estimated to be about RMB2.55 billion, which represented approximately 30% of the total contract sum of the projects offered in the PRC.

The HuiCong Research Report also states that the total value of contracts obtained by ERG BJ during 2009 and 2010 was about RMB33 million which represented that ERG BJ having a market share of about 92% of the total amount of subway system network-level projects offered in Beijing during 2009 and 2010 and a market share of about 8% of the total amount of subway system network-level projects offered in the PRC during 2009 and 2010. During the same period, ERG BJ had a market share of about 1.3% and 0.4% of the total amount of subway system projects, at both network level and line level, offered in Beijing and the PRC respectively.

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The following table sets out the market share of the major market participants at the subway system network-level projects offered in the PRC during 2009 and 2010:

Name of corporation	Location of projects	Market share by contract value (%)
上海華騰軟件系統有限公司 (Shanghai Huateng Software Systems Co., Ltd*)	Suzhou, Chongqing	26
浙大網新科技股份有限公司 (Insigma Technology Company Limited*)	Tianjin, Hangzhou	22
高新現代智能系統股份有限公司 (Gaoxin Modern Intelligent System Co., Ltd*)	Shenzhen, Wuhan	22
東軟股份集團有限公司 (Neusoft Corporation*)	Shenyang	11
ERG BJ	Beijing	8
中國電子系統工程總公司 (China Electronic Systems Engineering Corporation*)	Shenzhen	7

Note: The remaining 4% of the market share includes a few other companies. It should be noted that the market share referred to herein reflects only the tenders of network-level projects won by the market participants. There exists some small to medium-sized companies in the market that are in operation and yet have not participated in or obtained contracts successfully.

Source: HuiCong Research Report

OVERVIEW OF POTENTIAL MARKETS

Other than the rapid growth in the public transport systems industry in the PRC and in particular, Beijing, such industry has been continuously developing globally. In 1960, there were 25 railway systems in the world, while the number of railway systems around the world increased to 54 in 1980. Up to 2000, there were 100 railway systems throughout the world, and Asia is one of the major industry players. The first railway in Asia was established in 1927 in Japan. Due to the increasing population and development of economy, the public transport systems industry in Asia had been growing rapidly in recent years. By the end of 2003, there were 38 urban railway projects covering over 2,150 km. Each of Japan, Korea, Hong Kong, the PRC and Singapore is a major player in the public transport systems industry in Asia.

As the PRC economy continues to grow, the PRC has become the most important country in the development of such industry in Asia after 2003. At the same time, there was a significant development of railways in Hong Kong. The Hong Kong MTR was constructed in November 1975 and operation of the first line took place in 1979. As at 31 December 2010, 11 lines were in operation in Hong Kong, covering about 218 km. There are currently a number of ongoing railways projects which would cover about 56 km.

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The recent growth in the public transport systems industry in the PRC has provided our Group with the potential for future growth.

As at the Latest Practicable Date, there were 28 approved urban railway construction proposals in the PRC. From 2011 to 2015, an additional length of around 324 km railways is expected to be put into operation in Beijing alone and an additional length of approximately 2,800 km for the PRC as a whole. Based on the assumption that an investment cost of approximately RMB500 million would be incurred for the construction of each kilometre of a railway, a total investment of approximately RMB162 billion and RMB1,400 billion would be made in Beijing and the PRC during 2011 to 2015 in respect of railway construction respectively.