Investors should read this section in conjunction with the consolidated financial information, including the notes thereto ("Financial Information"), set forth in Appendix I to this document. The Financial Information have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by our Company in light of its experience and perception of historical trends, current condition and expected future developments, as well as other factors that it believes are appropriate under the circumstances. However, whether actual outcome and developments will meet the expectations and predictions of our Company depends on a number of factors over which the Company has no control. Investors should review the section headed "Risk factors" in this document for discussion of important factors that could cause the actual results of our Company to differ materially from the results described in or implied by forward-looking statements.

OVERVIEW

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 used at the network level of a public transport system where lines within such system are connected to. Our application solutions provide a centralised computer platform which enables different computer subsystems performing different functions at the line level of the public transport systems to be connected and linked up at the network level whereby operators of the public transport systems can monitor and oversee the operation of the entire public transport system at the control centre. Our application solutions for the ACC System and the TCC System and the application solutions for the PCC System to be developed by us can link up the three important network-level functions required for a public transport system, namely the ticketing and fare and data collection, transport control, and passenger-related functions, and allow exchange of information among these systems.

Our application solutions for the ACC System consolidate the ticketing and transport fare and data collection subsystems of individual lines within a public transport system at the network level, while our application solutions for the TCC System consolidate the transport control of individual lines at the network level. We are currently developing our application solutions for the PCC System which will in turn connect and centralise the passenger-related functions at the network level.

We provide software and hardware application solutions and related maintenance services for the ACC System and the TCC System for use at network level of public transport systems primarily in the PRC and maintenance services in relation to the AFC System in Hong Kong. The Group has entered into licensing agreements with the Vix Group. The ERG BJ Licensing Agreement licenses to ERG BJ certain technology, owned by the Vix Group, which include a range of application solutions and products that may be applied and used in automatic fare collection systems at the network level and/or at the line level depending on the business of the licensee. Currently, our Group does not provide application solutions and products for use at the line level of a public transport system in the PRC.

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 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.

FACTORS AFFECTING OUR GROUP'S RESULTS OF OPERATIONS

Our Directors consider the factors set forth below may have affected our Group's business and historical financial results and may also affect our future financial results. The following should be read in conjunction with the sections headed "Risk factors" and "Regulations" in this document.

Reliance on major customers

During the Track Record Period, our business relied mainly on a few customers, namely, [Beijing Metro Network], KMB, CTB, NWFB and Beijing Jianyi. For the two financial years ended 30 June 2011 and the five months ended 30 November 2011, our five major customers accounted for approximately 90.6%, 96.5% and 92.4% of our total revenue, of which our largest customer accounted for approximately 69.2%, 70.7% and 43.3% of our total revenue. Out of our business with our largest customer, approximately [11.2]% and [49.0]% of our total revenue was attributable to project-based services and approximately [58.1]% and [21.7]% of our total revenue was attributable to maintenance services provided to such customer for the two financial years ended 30 June 2011 respectively, while for the five months ended 30 November 2011, all of the revenue from our largest customer was attributable to the sales of spare parts.

Parts of our business were mainly secured by way of public tendering. 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. There is no assurance that our major customers will continue to do business with us at the same level or increased levels or at all. In the event that there is a significant reduction of work, either in terms of volume or value, from our major customers, and our Group is unable to secure work contracts from existing or new customers to compensate for such loss of business, our Group's business, results of operations and profitability may be adversely affected.

Nonetheless, we have an established business relationship with [Beijing Metro Network]. In 2006, ERG BJ, while it was then a member of the Vix Group, participated in the setting up of the first ACC System in Beijing for the Beijing Subway. Trial operation of the system took place in 2008. The establishment of the first TCC System in the PRC also commenced in Beijing in 2006 with its operation and integration with eight of the lines of the Beijing Subway to the system in 2008. Since then, 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 and the hardware of the TCC System. During 2009 and 2010, ERG BJ, after becoming a member of our Group, was awarded the ACC and TCC Integration Project for five of the lines of the Beijing Subway. These included Line 15, Daxing Line, Yizhuang Line, Fangshan Line and Changping Line. In 2011, we entered into contracts for the provision of maintenance services to the ACC System and the TCC System of the Beijing Subway for a term of two years ending 31 December 2013. In 2011, ERG BJ was further awarded the ACC and TCC Integration Project regarding four other lines of the Beijing Subway, namely Line 6 phase one, Line 8 phase two, Line 9 and Line 10 phase two. We have been engaged to provide services in relation to the establishment, integration and maintenance of the existing ACC System of the Beijing Subway.

[Our Directors believe that we have been working closely with Beijing Metro Network regarding the two important network level systems of the Beijing Subway, namely the ACC System and the TCC System, both in terms of the maintenance of the existing system and the expansion of such systems.] Historically, Beijing Metro Network had also relied on ERG BJ for expertise and the provision of licensed technology solutions. Further, due to the complexity and sophistication of the application systems we developed as well as the requisite associated technical know-how to carry out the maintenance work, our client will normally have to rely on us for after sales maintenance and technical support services as well as future upgrades and other integration services. For instance, ERG BJ took part in the construction of the ACC System of the Beijing Subway in 2006. Upon completion, ERG BJ had been awarded the maintenance contract for the ACC System of the Beijing Subway since 2009, and such contract was renewed in 2011 for a term of three years. For the two financial years ended 30 June 2011 and the five months ended 30 November 2011, the percentage of revenue from maintenance services from customers using application solutions developed by our Group were approximately 55.6%, 32.4% and 14.2% respectively, while the percentage of revenue from maintenance services from customers using application solutions developed by other service provider were approximately 22.2%, 11.4% and 4.0% respectively. Our Directors believe that our stable business relationship with [Beijing Metro Network], together with our 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 according to the HuiCong Research Report, our cooperation with [Beijing Metro Network] will be sustained and enhanced in the future.

Apart from that, there were 28 approved urban railway construction proposals in the PRC as at the Latest Practicable Date. From 2011 to 2015, an additional length of around 2,800 km and 324 km of railways are expected to be put into operation in the PRC as a whole and Beijing respectively. 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. Given the potential market growth, we plan to actively participate in tender offered by existing and potential customers. Subject to our further in-house research and costing analysis, we will decide whether to submit bidding proposals for forthcoming tenders available. We will continue to strengthen our marketing efforts in the PRC and Hong Kong and promote our products to potential customers and in other potential markets in the PRC not already covered by our network. In view of such, our Directors believe that our Group's revenue in the future can be maintained.

Unanticipated fluctuations in cost of service

Most of our Group's revenue is from fixed-price contracts. 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. In determining the price of the contracts, our Group needs to estimate the costs of executing the projects or performing our services including but not limited to the costs of engineering, material, spare parts and labour. The actual costs may differ from our Group's estimation due to unanticipated technical problems which may require us to incur costs we cannot recoup, failure to properly estimate the repair or maintenance requirements of our customers and other unforeseen reasons. In the event that the costs of the contracts increase unexpectedly to the extent that our Group has to incur substantial extra costs without sufficient compensations, the financial performance and profitability of our Group will be adversely affected.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on 7 January 2011 as part of the Reorganisation undertook by our Group. Upon completion of our Reorganisation on 27 June 2011, our Company became the holding company of the companies now comprising our Group, details of which are set out in the section headed "Reorganisation" in this document. The companies taking part in our Reorganisation were controlled by Mr. Cao and Ms. Wang during the Track Record Period.

Because the companies now comprising our Group were controlled by Mr. Cao and Ms. Wang before and after our Reorganisation and, consequently there was a continuation of the risks and benefits to Mr. Cao and Ms. Wang, the Financial Information has been prepared using the merger basis of accounting as if our Group has always been in existence. The net assets of the companies comprising our Group are consolidated using the book values from the perspective of Mr. Cao and Ms. Wang.

The consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of our Group for the Track Record Period as set out in Appendix I to this document include the results of operations of the companies now comprising our Group for the Track Record Period (or where the companies were incorporated/established/acquired by our Group at a date later than 1 July 2009, for the period from the date of incorporation/establishment/acquisition to 30 November 2011) as if the current group structure had been in existence throughout the entire Track Record Period. The consolidated balance sheets of our Group as at 30 June 2010, 30 June 2011 and 30 November 2011 have been prepared to present the state of affairs of the companies comprising our Group as at the respective dates as if the current group structure had been in existence as at the respective dates.

All material intra-group transactions and balances have been eliminated on consolidation.

CRITICAL ACCOUNTING JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

Our Group's financial position and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the consolidated Financial Information. Management bases the assumptions and estimates on historical experience and on other factors that the management believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of significant accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the Financial Information. The significant accounting policies are set out in note 1 to the Financial Information set out in Appendix I to this document. Management believes the following significant accounting policies involve the most significant judgements and estimates used in the preparation of the Financial Information.

(a) Impairment for property, plant and equipment

If circumstances indicate that the carrying amounts of property, plant and equipment may not be recoverable, the assets may be considered "impaired", and an impairment loss may be recognised to reduce the carrying amounts to the recoverable amount in accordance with the accounting policy for impairment of these assets as described in note 1(i)(ii) of the Financial Information set out in Appendix I to this document. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of future income and operating costs. Our Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of future income and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(b) Impairment for trade and other receivables

Our Group estimates impairment losses for trade and other receivables resulting from the inability of the customers to make the required payments. Our Group bases its estimates on the ageing of the trade and other receivables balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than expected and could significantly affect the result in future periods.

(c) Income taxes

Our Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determinations are uncertain during the ordinary course of business. Where the final tax outcomes are different from the amounts that were initially recorded, such differences may impact the income tax and deferred tax provisions in the year/period in which such determinations are made.

(d) Revenue recognition

As explained in policy note 1(p)(i) to the Financial Information set out in Appendix I to this document revenue recognition on an uncompleted project is dependent on estimating the total outcome of the service contract, as well as the work done to date. Based on our Group's recent experience and the nature of the services activity undertaken by our Group, our Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached the amounts due from customers for contract work as disclosed in note 12 to the Financial Information set out in Appendix I to this document will not include profit which our Group may eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

SUMMARY OF RESULTS OF OPERATIONS

The following table sets forth our Group's consolidated income statements for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011 and its corresponding period ended 30 November 2010:

	Year ended 30 June		**Five months ended 30 November**	
	2010	**2011**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Revenue	24,454	72,047	16,988	65,247
Cost of sales	(11,555)	(24,576)	(6,604)	(15,593)
Business tax and surcharge	(865)	(2,668)	(402)	(1,273)
Gross profit	**12,034**	**44,803**	**9,982**	**48,381**
Other net income/(expenses)	11	12	(11)	27
Selling, general and administrative expenses	(5,396)	(12,384)	(3,311)	(14,186)
Profit from operations	**6,649**	**32,431**	**6,660**	**34,222**
Investment income	63	48	–	–
Share of (loss)/profit of associate	(535)	13,341	(439)	(1,411)
Profit before taxation	**6,177**	**45,820**	**6,221**	**32,811**
Income tax	(1,229)	(5,350)	(1,060)	(6,781)
Profit for the year/period	**4,948**	**40,470**	**5,161**	**26,030**
Attributable to:				
Equity shareholders of the Company	**4,948**	**40,470**	**5,161**	**26,030**

Consolidated statements of comprehensive income

	Year ended 30 June		Five months ended 30 November	
	2010	**2011**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(unaudited)	
Profit for the year/period	**4,948**	**40,470**	**5,161**	**26,030**
Other comprehensive income for the year/period				
Exchange differences on translation of financial information of entities outside Hong Kong	938	1,409	249	834
Total comprehensive income for the year/period	**5,886**	**41,879**	**5,410**	**26,864**
Attributable to:				
Equity shareholders of the Company	**5,886**	**41,879**	**5,410**	**26,864**

OVERVIEW OF MAJOR INCOME STATEMENT ITEMS

Revenue

Our revenue during the Track Record Period was derived from our subsidiaries in Beijing and Hong Kong. The following table sets forth the breakdown of our Group's revenue by location of subsidiaries during the Track Record Period and the corresponding period ended 30 November 2010:

Revenue by location of subsidiaries

	Year ended 30 June				Five months ended 30 November			
	2010		**2011**		**2010**		**2011**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
					(unaudited)			
Beijing	19,195	78.5	51,354	71.3	8,482	49.9	53,143	81.4
Hong Kong	5,259	21.5	20,693	28.7	8,506	50.1	12,104	18.6
Total	24,454	100.0	72,047	100.0	16,988	100.0	65,247	100.0

Our Group's revenue is derived from:

(i) the provision of design and implementation of application solutions services for the networking and controlling systems of public transport companies as well as related maintenance and technical support services (collectively known as "transportation system design, installation and maintenance services"); and

(ii) sales of spare parts.

During the Track Record Period, our Group's revenue was mainly generated from the provision of transportation system design, installation and maintenance services, including technical support and general consultancy services, in relation to the ACC System, the AFC System and the TCC System. The following table sets forth the breakdown of our Group's revenue by segment for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011 and its corresponding period ended 30 November 2010:

Revenue by segment

	Year ended 30 June				**Five months ended 30 November**			
	2010		**2011**		**2010**		**2011**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Transportation system design and installation services								
ACC	–	–	23,977	33.3	1,408	8.3	1,711	2.6
TCC	–	–	9,076	12.6	–	–	–	–
AFC *(Note 1)*	600	2.5	4,095	5.7	1,403	8.2	5,765	8.8
Technical support and general consultancy *(Note 3)*	2,889	11.8	479	0.7	145	0.9	17,458	26.8
	3,489	**14.3**	**37,627**	**52.3**	**2,956**	**17.4**	**24,934**	**38.2**
Maintenance services								
ACC	12,539	51.2	12,711	17.6	5,405	31.8	4,732	7.3
TCC	2,831	11.6	3,310	4.6	1,344	7.9	1,312	2.0
AFC *(Note 2)*	3,663	15.0	15,574	21.6	6,771	39.9	5,814	8.9
	19,033	**77.8**	**31,595**	**43.8**	**13,520**	**79.6**	**11,858**	**18.2**
Sales of spare parts	**1,932**	**7.9**	**2,825**	**3.9**	**512**	**3.0**	**28,455**	**43.6**
Total	**24,454**	**100.0**	**72,047**	**100.0**	**16,988**	**100.0**	**65,247**	**100.0**

Notes:

1. The services in relation to the AFC System were provided by ERG HK and were mainly related to the Bangkok Smartcard System Project.

2. The services in relation to the AFC System were provided by ERG HK and were mainly related to the maintenance projects with MTR, KMB, CTB, NWFB and NWFF.

3. These technical support and general consultancy services related to the provision of technical services to, among others, MTR in relation to the contactless smartcard system and the Network Emergency Communications Command System Design and Development Project with Beijing Jianyi during the five months ended 30 November 2011 (Further details on Beijing Jianyi and the Network Emergency Communications Command System Design and Development Project are set out in the paragraph headed "Customers" in the section headed "Business" in this document).

In view of the nature of our business, our Group's revenue was largely derived from a few major customers. For the two financial years ended 30 June 2011 and the five months ended 30 November 2011, our five major customers accounted for approximately 90.6%, 96.5% and 92.4% of our total revenue. The following table sets forth the breakdown of our Group's revenue by customer for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011 and its corresponding period ended 30 November 2010:

	Year ended 30 June				**Five months ended 30 November**			
	2010		**2011**		**2010**		**2011**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
2012 Major Customer *(Notes 1 and 2)*	–	–	–	–	–	–	28,280	43.3
Beijing Jianyi *(Note 2)*	–	–	–	–	–	–	17,109	26.2
Beijing Metro Network	16,938	69.2	50,958	70.7	8,092	47.6	7,755	11.9
Vix Technology	600	2.5	4,094	5.7	1,403	8.3	4,021	6.2
KMB	2,092	8.6	8,703	12.1	4,126	24.3	3,134	4.8
CTB	781	3.2	3,204	4.4	1,349	7.9	1,395	2.1
NWFB	689	2.8	2,607	3.6	1,051	6.2	1,073	1.6
NWFF	196	0.8	760	1.1	315	1.9	331	0.5
Others	3,158	12.9	1,721	2.4	652	3.8	2,149	3.4
Total	24,454	100.0	72,047	100.0	16,988	100.0	65,247	100.0

Notes:

1. Our 2012 Major Customer is a company established in the PRC and an Independent Third Party, whose principal activities include the research and development, production and sale of smart end-products as well as the provision of smart card system application solutions. Consent to disclose the name of our 2012 Major Customer is not granted.

2. The end user of the services and/or spare parts provided by our Group to our 2012 Major Customer and Beijing Jianyi is Beijing Subway. To the best knowledge of our Directors, our 2012 Major Customer and Beijing Jianyi are independent from Beijing Metro Network.

Revenue arising from the provision of transportation system design, installation and maintenance services

Our Group's transportation system design, installation and maintenance services are mainly target for use at the network level of public transport systems, which enable different computer subsystems performing different functions at the line-level of public transport systems to be integrated and linked-up, whereby operators of public transport systems can monitor and oversee the operation of the entire public transport system at the control centre.

In general, because of the complexity and sophistication of the application solutions we developed as well as the requisite associated technical know-how for repair and maintenance, there will be certain needs from our customers to retain us for after sales services such as, maintenance and technical support services, future upgrade as well as integration services. Our Group also possesses the ability to undertake maintenance and support services in relation to other application solutions developed by other service provider upon request. For instance, the TCC System of the Beijing Subway was constructed by other application solutions provider in 2006. However, we had been awarded the maintenance contract for the TCC System of the Beijing Subway since 2009, and such contract was renewed in 2011 for a term of three years. For each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011, the revenue from maintenance services from customers using application solutions developed by our Group accounted for approximately 55.6%, 32.4% and 14.2% of our Group's total revenue respectively, while the revenue from maintenance services from customers using application solutions developed by other service provider accounted for approximately 22.2%, 11.4% and 4.0% of our Group's total revenue respectively.

Our Group's revenue from maintenance services represents the income arising from the provision of repair and maintenance services to our customers in relation to the application systems developed by our Group as well as by other service providers.

Our revenue from transportation system design and installation projects may fluctuate according to the construction progress of public transport system, however, our revenue from maintenance services may remain stable or increase. We have successfully renewed our maintenance agreements with our major customer, Beijing Metro Network, and extended the term of such maintenance agreements from one year to three years, which secures our revenue stream from existing maintenance services. On the other hand, in respect of the projects we provide design and installation services, we are well-positioned to obtain subsequent maintenance contracts from the customers, which drives continuous growth of our revenue from maintenance services. Taking into account the importance of the application solutions and the associated technical know-how to service the system, there is a need for our customers to retain us to provide maintenance services to the system to avoid system breakdown. In light of this, maintenance services provide a steady recurring income stream to our Group and is chargeable at around 10% of the initial set up cost per annum.

For each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011, the revenue generated from the provision of maintenance services accounted for approximately 77.8%, 43.8% and 18.2% of our Group's total revenue.

The reason for the fluctuation of proportion of revenue from transportation system design and installation services and maintenance services during the Track Record Period was that in the year ended 30 June 2010, our Group had just been established through the acquisition of 70% interest in ERG Greater China, the then holding company of ERG BJ in May 2009, and the acquisition of ERG HK by ERG Greater China in March 2010, and we were at the stage of re-formulating our marketing strategy, therefore our revenue was largely generated from maintenance services that had continuously been provided by our business operating entities, namely, ERG BJ and ERG HK pursuant to agreements entered into by them prior to our Group's acquisition of such companies. With the formulation of our marketing strategy catering for the expansion of Beijing Subway, our Group had undertaken more large scale transportation system design and installation services which led to the reduction in the proportion of revenue generated from provision of maintenance services for the year ended 30 June 2011 and onwards.

We expect that revenue from maintenance services will continue to provide a steady income stream for us but we expect the proportion of revenue from design and installation services will increase over time as we undertake more project work.

Revenue arising from sales of spare parts

Our Group's revenue from sales of spare parts was primarily arising from the sales of spare parts related to our application solutions, including data security system software, batteries as well as smartcard readers. The spare parts we sold were usually specified by our customers before we made our procurement.

For each of the two financial years ended 30 June 2011, our revenue arising from the sales of spare parts were mainly related to data security system software and batteries. While for the five months ended 30 November 2011, our spare parts sales revenue were mainly generated from the sales of card readers for use in eight subway lines of Beijing Subway.

Smartcard reader is part of the AFC System and is used for reading and writing smartcard information. The software of the card reader we sold was developed by us and the hardware was procured from third parties. Since the establishment of our Group, we have been promoting our card reader to our customers. When the new lines of Beijing Subway were about to be in operation, we received an one-off order from our customer in early November 2011 for the procurement of our card readers for eight Beijing Subway lines of which approximately [67.0%] of the order had been delivered by 30 November 2011.

Historically, the revenue arising from the sales of spare parts only accounted for a small percentage of our Group's total revenue as it only comprised the sales of minor spare parts including batteries, modem and data security system software that were sold on a small scale. However, during the five months ended 30 November 2011, our Group received a large order for the purchase of our self-developed card readers. As a result, the proportion of our revenue arising from sales of spare parts increased to approximately 43.6% of our total revenue for the five months ended 30 November 2011 as compared to approximately 7.9% and 3.9% for each of the two financial years ended 30 June 2011 respectively.

The card reader order we received during the five months ended 30 November 2011 was being procured for the eight Beijing Subway lines of which approximately 67.0% of the order had been completed by 30 November 2011 leaving approximately 33.0% of the order to be delivered after 30 November 2011. With our plans to absorb entities with the capabilities to design and manufacture hardware for card readers in order to integrate with our present ability to develop software for card readers, it is expected that our card reader business will continue after [●]. However, the level of such sales may not be as high as that recorded during the Track Record Period as we expect that there will only be approximately three new Beijing Subway lines opening up per year in the near future.

Cost of sales

Our Group's overall cost of sales includes subcontracting fee, direct labour costs, cost of materials and other direct costs. The composition of the cost of sales varies, and is affected mainly by factors such as the nature and complexity of the work undertaken, the intensity of labour as well as the types of materials required. The following table sets forth the breakdown of our Group's overall cost of sales for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011 and its corresponding period ended 30 November 2010:

	Year ended 30 June				**Five months ended 30 November**			
	2010		**2011**		**2010**		**2011**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Subcontracting fee	5,410	46.8	13,748	55.9	2,308	34.9	–	–
Direct labour costs	3,595	31.1	7,598	30.9	2,925	44.3	4,255	27.3
Cost of materials	1,633	14.1	2,177	8.9	562	8.5	10,821	69.4
Other direct costs	917	8.0	1,053	4.3	809	12.3	517	3.3
Total	11,555	100.0	24,576	100.0	6,604	100.0	15,593	100.0

Cost of sales in respect of transportation system design and installation services

Our Group's cost of sales in respect of transportation system design and installation services comprises subcontracting fee, direct labour costs, cost of materials and other direct costs. The following table sets forth the breakdown of our Group's cost of sales in respect of transportation system design and installation services for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011 and its corresponding period ended 30 November 2010:

	Year ended 30 June				**Five months ended 30 November**			
	2010		**2011**		**2010**		**2011**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Subcontracting fee	–	–	10,135	74.0	–	–	–	–
Direct labour costs	501	83.5	2,879	21.0	436	61.7	2,529	90.6
Cost of materials	–	–	–	–	7	1.0	81	2.9
Other direct costs	99	16.5	678	5.0	263	37.3	182	6.5
Total	600	100.0	13,692	100.0	706	100.0	2,792	100.0

Our Group's cost of sales in respect of transportation system design and installation services accounted for approximately 5.2%, 55.7% and 17.9% of our Group's total cost of sales for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011 respectively.

Subcontracting fee

Subcontracting fee in respect of transportation system design and installation services represented charges and fees paid to subcontractors and services providers of our Group which provide labour, materials and services necessary for the completion of certain parts of the services undertaken by our Group.

For the year ended 30 June 2010 and for the five months ended 30 November 2011, no subcontracting fee was incurred in respect of transportation system design and installation services mainly because our Group had not undertaken any transportation system design and installation services that required the use of the Vix licensed technology that if required would be subcontracted to BII ERG, an associated company of our Group and the only licensee to the Vix licensed technology in the PRC during the Track Record Period.

For the year ended 30 June 2011, our Group's subcontracting fee in respect of transportation system design and installation services accounted for approximately 74.0% of our total cost of sales in respect of transportation system design and installation services. The main reason for the engagement of subcontractor during this period was because of the undertaking of certain system integration projects by our Group in the PRC that required the use of Vix licensed technology and the subcontracting fee incurred during the period was mainly paid to BII ERG. BII ERG had entered into a license agreement with Vix IP on 3 December 2009 and was licensed to use the Vix licensed technology. ERG BJ entered into ERG BJ Licensing Agreement with Vix IP on 28 February 2012. Hence, our Group expects that the subcontracting arrangement between ERG BJ and BII ERG in the area of ACC System will no longer be required. In addition, subcontracting arrangements with other contractors were mainly due to tight work schedule and large quantity of work. All those contractors are China-based corporations mainly engaged in IT services, datacenter and infrastructure solutions, or intelligent transportation business. Other than the previous business relationships, none of them has any past or present relationships with our Company, our subsidiaries, their shareholders, directors, senior management and any of their respective associates.]

The subcontracting agreements entered into by our Group in respect of transportation system design and installation services during the year ended 30 June 2010 mainly involved the engagement for technical and research and development services. We entered into subcontracting agreements on a project basis or for a specific term. Subcontracting fees are determined with reference to, among others, type of work, amount of human resources involved and duration of project. Payment to our suppliers (which include suppliers of components and equipment and our subcontractors are generally made by us within 15 days from the date of receipt of payment request from our suppliers or within a credit period of about 45 days.

Direct labour costs

Direct labour costs in respect of transportation system design and installation services represent the costs of labour incurred for the provision of system design and installation services, including salary for non-administrative staff. Direct labour costs in respect of transportation system design and installation services accounted for approximately 83.5%, 21.0% and 90.6% of the total cost of sales in respect of transportation system design and installation services for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011 respectively. Following the relocation of experienced technical staff from BII ERG back to ERG BJ and considering the ERG BJ Licensing Agreement taking effect, our Group expects that direct labour costs in respect of transportation system design and installation services will become our Group's major costs component going forward.

Cost of materials

Regarding transportation system design and installation services, we were generally responsible for the development of the system software only. In some cases where our customer requested us to provide the related hardware, it would normally be ordered separately as sales of spare parts. As such, cost of materials in respect of transportation system design and installation was limited and usually comprised minor spare parts only. For each of the two financial years ended 30 June 2011, there was no cost of materials incurred in respect of transportation system design and installation service. While for the five months ended 30 November 2011, cost of materials accounted for approximately 2.9% of our total cost of sales in respect of transportation system design and installation services.

Other direct costs

Other direct costs in respect of transportation system design and installation services mainly comprised consumables, travelling expenses and other service administrative expenses which accounted for approximately 16.5%, 5.0% and 6.5% of our total cost of sales in respect of transportation system design and installation services for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011 respectively.

Cost of sales in respect of maintenance services

Our Group's cost of sales in respect of maintenance services comprise subcontracting fee, direct labour costs, cost of materials and other direct costs. The following table sets forth the breakdown of our Group's cost of sales in respect of maintenance services for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011 and its corresponding period ended 30 November 2010:

	Year ended 30 June				**Five months ended 30 November**			
	2010		**2011**		**2010**		**2011**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Subcontracting fee	5,410	57.5	3,613	38.3	2,308	40.8	–	–
Direct labour costs	3,094	32.9	4,719	50.1	2,489	44.1	1,726	83.7
Cost of materials	177	1.9	768	8.1	333	5.9	272	13.2
Other direct costs	734	7.7	328	3.5	521	9.2	63	3.1
Total	9,415	100.0	9,428	100.0	5,651	100.0	2,061	100.0

Our Group's cost of sales in respect of maintenance services accounted for approximately 81.5%, 38.4% and 13.2% of our Group's total cost of sales for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011 respectively.

Subcontracting fee

Subcontracting fee in respect of maintenance services represented charges and fees paid to subcontractors and services providers of our Group which provide labour, materials and services necessary for the completion of certain parts of the services undertaken by our Group.

For each of the two financial years ended 30 June 2011, subcontracting fee in respect of maintenance services accounted for approximately 57.5% and 38.3% of our total cost of sales in respect of maintenance services respectively. While for the five months ended 30 November 2011, there was no subcontracting fee incurred in respect of maintenance services.

For each of the two financial years ended 30 June 2011, in view of the undertaking of certain system integration projects by our Group in the PRC that required the use of Vix licensed technology, our Group had subcontracted part of the related maintenance work to BII ERG during the period 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. As a result, the subcontracting fee in respect of maintenance services incurred during the period was mainly paid to BII ERG. Apart from BII ERG, our Group also engaged other subcontractors to carry out part of our maintenance services during the period when facing tight work schedule and large quantity of work. All those contractors are China-based corporations mainly engaged in IT services, datacenter and infrastructure solutions, or intelligent transportation business. Other than the previous business relationships, none of them has any past or present relationships with our Company, our subsidiaries, their shareholders, directors, senior management and any of their respective associates. Since ERG BJ entered into the ERG BJ Licensing Agreement with Vix IP on 28 February 2012, our Group expects that the subcontracting arrangement between ERG BJ and BII ERG in the area of ACC System will no longer be required.

The subcontracting agreements entered into by our Group in respect of maintenance services during the year ended 30 June 2010 and 30 June 2011 mainly involved the engagement for technical support, research and development and maintenance services. We entered into subcontracting agreements on a project basis or for a specific term. Subcontracting fees are determined with reference to, among others, type of work, amount of human resources involved and duration of project. Payment to our suppliers (which include suppliers of components and equipment and our subcontractors are generally made by us within 15 days from the date of receipt of payment request from our suppliers or within a credit period of about 45 days.

For each of the two financial years ended 30 June 2011, subcontracting fee to three and nine of our subcontractors represented more than 99% and 99% of our total subcontracting fee for the respective period. While for the five months ended 30 November 2011, no subcontractor was engaged by our Group.

Direct labour costs

Direct labour costs in respect of maintenance services represent the costs of labour incurred for the provision of repair and maintenance services, including salary for technical staff, programmer and other non-administrative staff. Apart from normal routine maintenance services, our Group was also responsible for the provision of technical support and maintenance services on demand. As such, direct labour costs in respect of maintenance services mainly varied depending on the number of non-routine services carried out as well as the complexity of the case. Direct labour costs in respect of maintenance services accounted for approximately 32.9%, 50.1% and 83.7% of the total cost of sales in respect of maintenance services for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011 respectively. Following the relocation of experienced technical staff from BII ERG back to ERG BJ, our Group expects that direct labour costs in respect of maintenance services will become our Group's major costs component going forward.

Cost of materials

Cost of materials in respect of maintenance services mainly comprised spare parts consumed for the provision of maintenance services which accounted for approximately 1.9%, 8.1% and 13.2% of our Group's total cost of sales in respect of maintenance services for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011 respectively.

Other direct costs

Other direct costs in respect of maintenance services mainly comprised consumables, travelling expenses and other service administrative expenses which accounted for approximately 7.7%, 3.5% and 3.1% of our total cost of sales in respect of maintenance services for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011 respectively.

Cost of sales in respect of sales of spare parts

Our Group's cost of sales in respect of sales of spare parts comprised cost of materials and other direct costs. The following table sets forth the breakdown of our Group's cost of sales in respect of its sales of spare parts for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011 and its corresponding period ended 30 November 2010:

	Year ended 30 June				Five months ended 30 November			
	2010		2011		2010		2011	
	HK$'000	%	*HK$'000*	%	*HK$'000* (unaudited)	%	*HK$'000*	%
Cost of materials	1,456	94.5	1,409	96.8	222	89.9	10,468	97.5
Other direct costs	84	5.5	47	3.2	25	10.1	272	2.5
Total	1,540	100.0	1,456	100.0	247	100.0	10,740	100.0

Our Group's cost of sales in relation to sales of spare parts accounted for approximately 13.3%, 5.9% and 68.9% of our Group's total cost of sales for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011 respectively.

As shown in the table above, the major cost item was the cost of materials, which accounted for approximately 94.5%, 96.8% and 97.5% of the total cost of sales in relation to the sales of spare parts for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011 respectively. Cost of materials represent the cost of acquiring the spare parts or goods for sale. In general, our Group will only procure the spare parts according to customers' specification, therefore the nature of spare parts sold may vary from time to time as requested by customer.

Other direct costs mainly comprised sales contract administration expenses, including travelling and entertainment expenses.

Gross profit

Gross profit represents revenue less cost of sales and business tax and surcharge. Our Group's gross profit for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011 and its corresponding period ended 30 November 2010 are as follows:

	Year ended 30 June		**Five months ended 30 November**	
	2010	**2011**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Gross profit	12,034	44,803	9,982	48,381

Our Group's gross profit has been increasing over the period as a result of increase in undertaking of higher gross margin work and reducing subcontracting arrangement.

Other net income

Our Group's other net income consists of bank interest income and foreign exchange gain or loss.

Selling, general and administrative expenses

Our Group's selling, general and administrative expenses refer to expenses incurred on a regular basis to our Group's normal course of business, including principally staff costs, office expenses, travelling expenses, legal and professional fees as well as rental expenses.

The following table sets forth the breakdown of our Group's selling, general and administrative expenses for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011 and its corresponding period ended 30 November 2010:

	Year ended 30 June				**Five months ended 30 November**			
	2010		**2011**		**2010**		**2011**	
	HK$'000	%	*HK$'000*	%	*HK$'000* (unaudited)	%	*HK$'000*	%
Staff costs	1,781	33.0	6,657	53.7	1,568	47.4	2,678	18.9
Office expenses	1,061	19.7	1,428	11.5	474	14.3	729	5.2
Travelling expenses	771	14.3	1,085	8.8	302	9.1	685	4.8
Legal and professional fees	777	14.4	1,049	8.5	135	4.1	8,431	59.4
Rental expenses	463	8.6	1,048	8.5	436	13.2	996	7.0
Others	543	10.0	1,117	9.0	396	11.9	667	4.7
Total	5,396	100.0	12,384	100.0	3,311	100.0	14,186	100.0

Our Group's selling, general and administrative expenses accounted for approximately 22.1%, 17.2% and 21.7% of our Group's total revenue for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011 respectively. The increase in such percentage for the five months ended 30 November 2011 was mainly attributable to the increase in legal and professional fees incurred for [●].

The major selling, general and administrative expenses for each of the two financial years ended 30 June 2011 was staff costs, representing approximately 33.0% and approximately 53.7% of our Group's selling, general and administrative expenses respectively. The major selling, general and administrative expenses for the five months ended 30 November 2011 was legal and professional fees which mainly include expenses incurred for retaining lawyers, accountants and financial institution for [●], representing approximately 59.4% of our Group's selling, general and administrative expenses for the period.

Investment income

Our Group's investment income amounted to HK$63,000 and HK$48,000 for each of the two years ended 30 June 2011 respectively. During the two financial years ended 30 June 2010 and 2011, our Group subscribed certain financial products which matured with principal and investment income. These financial products represent short term held-to-maturity debt investments launched by the financial institutions in the PRC. For the five months ended 30 November 2011, our Group did not subscribe such financial products.

Historically, our Group invests in such financial products when we have excess cash over our operation in order to achieve a higher return than deposits at bank with similar maturity. Our Directors confirm that our Group will not subscribe such financial products after [●].

Share of loss or profit of associate

Our Group's share of loss or profit of associate consists of the share of loss or profit from our associated company BII ERG, a company primarily engaged in providing software in application solutions and products for the subsystems for the ACC System, the TCC System and the PCC System.

Income tax

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, our Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

The statutory income tax rate of our Company's subsidiaries registered in Hong Kong is 16.5%. PRC's statutory income tax rate is 25%. ERG BJ was recognised as a High Technology Enterprise and is entitled to a reduced tax rate of 15% for the calendar years from 2010 to 2012.

The income taxes imposed on our Group consist of Hong Kong profits tax from ERG HK and PRC corporate income tax from ERG BJ. Except for these two companies, no provision for income tax has been provided for during the Track Record Period as they did not have assessable profits subject to income tax.

REVIEW OF HISTORICAL OPERATING RESULTS

Comparison of our Group's results for the five months ended 30 November 2011 with the five months ended 30 November 2010

Revenue

Our Group's revenue increased by approximately 284.0% from approximately HK$16.99 million for the five months ended 30 November 2010 to approximately HK$65.25 million for the five months ended 30 November 2011. The increase was mainly attributable to the increase in the provision of transportation system design, installation and maintenance services, in particular the Network Emergency Communications Command System Design and Development Project as well as the increase in the sales of spare parts, especially card readers.

Revenue arising from the provision of transportation system design and installation services

Our Group's revenue arising from the provision of transportation system design and installation services increased by approximately 742.2% from approximately HK$2.96 million for the five months ended 30 November 2010 to approximately HK$24.93 million for the five months ended 30 November 2011. The increase was mainly attributable to the provision of the Network Emergency Communications Command System Design and Development Project for Beijing Subway subcontracted to us by Beijing Jianyi.

Revenue arising from maintenance services

Our Group's revenue arising from the provision of maintenance services decreased by approximately 12.3% from approximately HK$13.52 million for the five months ended 30 November 2010 to approximately HK$11.86 million for the five months ended 30 November 2011. The decrease was mainly because during the previous period, one of our customers requested us to provide additional one off repair and maintenance services in addition to our normal maintenance services while there was none during the five months ended 30 November 2011. Other than that, our revenue arising from maintenance services was generally maintained at similar level.

Revenue arising from sales of spare parts

Our Group's revenue arising from the sales of spare parts increased by approximately [5,480.4]% from approximately HK$[0.51] million for the five months ended 30 November 2010 to approximately HK$28.46 million for the five months ended 30 November 2011. The increase was mainly attributable to the sale of card readers to our 2012 Major Customer for use in eight lines of Beijing Subway, which accounted for approximately 99.4% of our revenue arising from sales of spare parts for the period.

Cost of sales

Our Group's overall cost of sales has increased by approximately 136.2% from approximately HK$6.60 million for the five months ended 30 November 2010 to approximately HK$15.59 million for the five months ended 30 November 2011. The increase in the overall cost of sales was primarily due to the procurement of hardware for the card readers ordered by our customer.

Cost of sales in respect of transportation system design and installation services

Our Group's cost of sales in respect of transportation system design and installation services increased by approximately 293.0% from approximately HK$0.71 million for the five months ended 30 November 2010 to approximately HK$2.79 million for the five months ended 30 November 2011. The increase was mainly due to the increase in direct labour costs incurred during the period.

There was no subcontracting fee incurred in respect of transportation system design and installation services for both the five months ended 30 November 2010 and the five months ended 30 November 2011.

Direct labour costs in respect of transportation system design and installation services increased by approximately 475.0% from approximately HK$0.44 million for the five months ended 30 November 2010 to approximately HK$2.53 million for the five months ended 30 November 2011. The increase was mainly attributable to the increase in technical staff mainly transferred back from BII ERG to substitute subcontractors' work.

Cost of materials incurred in respect of transportation system design and installation services increased by approximately 700.0% from approximately HK$0.01 million for the five months ended 30 November 2010 to approximately HK$0.08 million for the five months ended 30 November 2011. As transportation system design and installation services normally did not require much materials, the amount of cost of materials was minimal.

Other direct costs in respect of transportation system design and installation services decreased by approximately 30.8% from approximately HK$0.26 million for the five months ended 30 November 2010 to approximately HK$0.18 million for the five months ended 30 November 2011. The decrease was mainly due to reduction in other direct general and administrative expenses for the execution of services including travelling expenses.

Cost of sales in respect of maintenance services

Our Group's total cost of sales in respect of maintenance services decreased by approximately 63.5% from approximately HK$5.65 million for the five months ended 30 November 2010 to approximately HK$2.06 million for the five months ended 30 November 2011. The decrease was mainly due to the reduction in subcontracting fee during the period.

Subcontracting fee in respect of maintenance services was approximately HK$2.31 million for the five months ended 30 November 2010 and there was no subcontracting fee incurred for the five months ended 30 November 2011. The decrease in subcontracting fee was mainly due to the reorganisation of our human resources by transferring technical staff back from BII ERG that possessed the required technical knowhow to handle our maintenance work. ERG BJ had also entered into ERG BJ Licensing Agreement with Vix IP on 28 February 2012. In light of this, our Group expects that the subcontracting arrangement between ERG BJ and BII ERG in the area of ACC System will no longer be required.

Direct labour costs in respect of maintenance services decreased by approximately 30.5% from approximately HK$2.49 million for the five months ended 30 November 2010 to approximately HK$1.73 million for the five months ended 30 November 2011. The decrease was mainly attributable to the reduction in non-routine technical support and maintenance services carried out during the five months ended 30 November 2011. In addition, following the relocation of experienced technical staff back to our Group, we were able to deliver more efficient maintenance service to our customer, thus further saved us certain direct labour costs in rendering our services.

Cost of materials in respect of maintenance services decreased by approximately 18.2% from approximately HK$0.33 million for the five months ended 30 November 2010 to approximately HK$0.27 million for the five months ended 30 November 2011. The decrease was mainly attributable to the reduction in the number of maintenance cases that required the replacement of spare parts during the five months ended 30 November 2011.

Other direct costs in respect of maintenance services decreased by approximately 88.5% from approximately HK$0.52 million for the five months ended 30 November 2010 to approximately HK$0.06 million for the five months ended 30 November 2011. The decrease was mainly due to the reduction in non-routine technical support and maintenance services carried out for the five months ended 30 November 2011.

Cost of sales in respect of sales of spare parts

Our Group's total cost of sales in respect of sales of spare parts increased by approximately [4,196.0]% from approximately HK$[0.25] million for the five months ended 30 November 2010 to approximately HK$10.74 million for the five months ended 30 November 2011. The increase was mainly attributable to the increase in cost of materials.

The cost of materials in respect of sales of spare parts increased by approximately [4,659.1]% from approximately HK$[0.22] million for the five months ended 30 November 2010 to approximately HK$10.47 million for the five months ended 30 November 2011. The increase was primarily attributable to the procurement of hardware for the card readers ordered by our customer.

Other direct costs mainly comprised direct general expenses for the execution of the sales contract including travelling and other administrative expenses.

Gross profit

Our Group's gross profit increased by approximately 384.8% from approximately HK$9.98 million for the five months ended 30 November 2010 to approximately HK$48.38 million for the five months ended 30 November 2011. The increase in gross profit was mainly attributable to the increase in the provision of higher margin services particularly, the Network Emergency Communications Command System Design and Development Project as well as the increase in the sales of higher margin spare parts, in particular, card readers.

Other net expenses/income

Our Group's other net expenses for the five months ended 30 November 2010 amounted to approximately HK$11,000 and the other net income for the five months ended 30 November 2011 amounted to approximately HK$27,000. Our Group's other net income consists of bank interest income and foreign exchange loss. The amount of bank interest income recorded for the five months ended 30 November 2010 and the five months ended 30 November 2011 amounted to approximately HK$[2,000] and HK$[33,000] respectively. The amount of foreign exchange loss for the five months ended 30 November 2010 and the five months ended 30 November 2011 amounted to approximately HK$13,000 and HK$6,000 respectively.

Selling, general and administrative expenses

Our Group's selling, general and administrative expenses increased by approximately 328.7% from approximately HK$3.31 million for the five months ended 30 November 2010 to approximately HK$14.19 million for the five months ended 30 November 2011. The increase was mainly due to the increase in legal and professional fees, staff costs and rental expenses.

Legal and professional fees increased by approximately 5,921.4% from approximately HK$0.14 million for the five months ended 30 November 2010 to approximately HK$8.43 million for the five months ended 30 November 2011. The increase was mainly due to the engagement of lawyers, accountants, financial institution and other professional firms for [●].

Staff costs increased by approximately 70.7% from approximately HK$1.57 million for the five months ended 30 November 2010 to approximately HK$2.68 million for the five months ended 30 November 2011. It was mainly due to the employment of three senior management staff to oversee the Group's corporate finance, business development and accounting matters.

Rental expenses increased by approximately 127.3% from approximately HK$0.44 million for the five months ended 30 November 2010 to approximately HK$1.00 million for the five months ended 30 November 2011. The increase was mainly attributable to the rental of our newly set up management and administrative office in Hong Kong commencing from July 2011.

Profit from operations

Our Group's profit from operations increased by approximately 413.8% from approximately HK$6.66 million for the five months ended 30 November 2010 to approximately HK$34.22 million for the five months ended 30 November 2011. The increase in profit from operations is primarily attributable to the increase in the provision of transportation system design, installation and maintenance services as well as increase in customer order for our spare parts, in particular, card readers.

Share of loss of associate

Our Group's share of loss of associate increased by approximately 220.5% from a share of loss of approximately HK$0.44 million for the five months ended 30 November 2010 to a share of loss of approximately HK$1.41 million for the five months ended 30 November 2011. The increase was mainly attributable to the increase in direct and indirect labour costs and reduction in operating income of our associate. The increase in direct and indirect costs was generally due to employment of new technical staff and increase in salary for existing staff. The reduction in operating income was largely due to a substantial part of the existing contracts had already been completed in previous period, thus the income generated from existing contracts during the five months ended 30 November 2011 was limited. Furthermore, some of the new contracts awarded to our associate during the five months ended 30 November 2011 were only being awarded near the period end, therefore, no income had been generated from the new contracts during the period as these contracts were still at their planning stage. With the execution of these new contracts awarded to our associate near the period ended 30 November 2011 and the new contract awarded to our associate subsequently up to the Latest Practicable Date, it is envisaged that our associate would have a better performance in the second half of the financial year ending 30 June 2012.

Profit before taxation

Our Group's profit before taxation increased by approximately 427.5% from approximately HK$6.22 million for the five months ended 30 November 2010 to approximately HK$32.81 million for the five months ended 30 November 2011. The increase in profit before taxation was primarily attributable to the increase in provision of transportation system design, installation and maintenance services as well as increase in customer order for our spare parts, in particular, card readers.

Income tax

Our Group's income tax increased approximately by 539.6% from approximately HK$1.06 million for the five months ended 30 November 2010 to approximately HK$6.78 million for the five months ended 30 November 2011. The increase was generally in line with the growth in our profit before taxation. As our profits grew, income tax also increased accordingly.

For the five months ended 30 November 2010 and the five months ended 30 November 2011, our effective income tax rate was 17.0% and 20.7% respectively. The increase in our effective tax rate was mainly due to the increase in non-deductible expenses incurred during the five months ended 30 November 2011, mainly arising from the newly set up management and administrative office in Hong Kong.

Profit attributable to equity shareholders of the Company

Our Group's profit attributable to equity shareholders of our Company increased by approximately 404.5% from approximately HK$5.16 million for the five months ended 30 November 2010 to approximately HK$26.03 million for the five months ended 30 November 2011. The increase was primarily due to the growth in revenue and improvement in gross profit.

Comparison of our Group's results for the year ended 30 June 2011 with the year ended 30 June 2010

Revenue

Our Group's revenue increased by approximately 194.7% from approximately HK$24.45 million for the year ended 30 June 2010 to approximately HK$72.05 million for the year ended 30 June 2011. The continued rapid expansion of the railway network in China, the winning of various large scale ACC and TCC solutions projects by ERG BJ as well as the inclusion of the full year operating results of ERG HK, a subsidiary acquired on 30 March 2010, had contributed to the growth in our Group's revenue from the provision of transportation system design, installation and maintenance services for the year ended 30 June 2011. Based on our Group's business strategy, revenue generated from provision of services will continue to be our main sources of revenue.

Revenue arising from the provision of transportation system design and installation services

Our Group's revenue arising from the provision of transportation system design and installation services increased by approximately 978.2% from approximately HK$3.49 million for the year ended 30 June 2010 to approximately HK$37.63 million for the year ended 30 June 2011. The increase was mainly attributable to the provision of ACC and TCC application solutions integration services by ERG BJ in relation to the ACC and TCC Integration Project regarding five of the lines of the Beijing Subway, namely Line 15, Daxing Line, Yizhuang Line, Fangshan Line and Changping Line awarded by Beijing Metro Network that accounted for approximately 75.4% of the total revenue generated from the provision of transportation system design and installation services for the year ended 30 June 2011.

Revenue arising from maintenance services

Our Group's revenue arising from the provision of maintenance services increased by approximately 66.1% from approximately HK$19.03 million for the year ended 30 June 2010 to approximately HK$31.60 million for the year ended 30 June 2011. The increase was mainly attributable to the inclusion of the full year's operating results of ERG HK who largely engaged in the provision of transportation system maintenance services, for which its revenue deriving from maintenance services accounted for approximately 49.3% of our Group's total revenue generated from the provision of maintenance services for the year ended 30 June 2011. Whereas, for the year ended 30 June 2010, only three months operating results of ERG HK was included since our Group's acquisition on 30 March 2010.

Revenue arising from sales of spare parts

Our Group's revenue arising from the sales of spare parts increased by approximately 46.6% from approximately HK$1.93 million for the year ended 30 June 2010 to approximately HK$2.83 million for the year ended 30 June 2011. The increase was mainly attributable to the supply of spare parts for data exchange and clearing system for Phase I of Line 15, Daxing Line, Yizhuang Line, Fangshan Line and Changping Line of the Beijing Metro Network.

Cost of sales

Our Group's overall cost of sales has increased by approximately 112.6% from approximately HK$11.56 million for the year ended 30 June 2010 to approximately HK$24.58 million for the year ended 30 June 2011. The increase in the overall cost of sales was primarily due to the increase in our business volume through winning of various large scale ACC and TCC System projects by ERG BJ, as well as the inclusion of the full year operations of ERG HK, a subsidiary acquired on 30 March 2010.

Cost of sales in respect of transportation system design and installation services

Our Group's total cost of sales in respect of transportation system design and installation services increased by approximately 2,181.7% from approximately HK$0.60 million for the year ended 30 June 2010 to approximately HK$13.69 million for the year ended 30 June 2011. The increase was generally in line with the growth of our Group's revenue derived from the provision of transportation system design and installation services.

There was no subcontracting fee incurred in respect of transportation system design and installation services for the year ended 30 June 2010. The subcontracting fee incurred for the five months ended 30 November 2011 was approximately HK$10.14 million and was mainly arising from the subcontracting arrangement entered into with BII ERG in relation to the provision of the ACC and TCC Integration Project for the Beijing Subway regarding Line 15, Daxing Line, Yizhuang Line, Fangshan Line and Changping Line that required the use of the Vix licensed technology.

Direct labour costs in respect of transportation system design and installation services increased by approximately 476.0% from approximately HK$0.50 million for the year ended 30 June 2010 to approximately HK$2.88 million for the year ended 30 June 2011. The increase was mainly attributable to the increase in provision of our transportation system design and installation services in particular, the ACC and TCC Integration Project for the Beijing Subway regarding Line 15, Daxing Line, Yizhuang Line, Fangshan Line and Changping Line.

There was no cost of materials incurred in respect of transportation system design and installation services for each of the two financial years ended 30 June 2011.

Other direct costs in respect of transportation system design and installation services increased by approximately 580.0% from approximately HK$0.10 million for the year ended 30 June 2010 to approximately HK$0.68 million for the year ended 30 June 2011. The increase was mainly associated with the increase in the provision of services undertaken by our Group for the year ended 30 June 2011.

Cost of sales in respect of maintenance services

Our Group's total cost of sales in respect of maintenance services increased by approximately 0.1% from approximately HK$9.42 million for the year ended 30 June 2010 to approximately HK$9.43 million for the year ended 30 June 2011. The increase was mainly due to the rise in direct labour costs and materials consumption during the period.

Subcontracting fee in respect of maintenance services decreased by approximately 33.3% from approximately HK$5.41 million for the year ended 30 June 2010 to approximately HK$3.61 million for the year ended 30 June 2011. The decrease was mainly attributable to the completion of a one off maintenance contract that was partially subcontracted to our subcontractors during the year ended 30 June 2010.

Direct labour costs in respect of maintenance services increased by approximately 52.8% from approximately HK$3.09 million for the year ended 30 June 2010 to approximately HK$4.72 million for the year ended 30 June 2011. The increase was mainly attributable to the increase in the provision of maintenance services rendered by ERG HK during the year ended 30 June 2011 as ERG HK was only being acquired by our Group on 30 March 2010, only three months operating results from ERG HK was included for the year ended 30 June 2010.

Cost of materials in respect of maintenance services increased by approximately 327.8% from approximately HK$0.18 million for the year ended 30 June 2010 to approximately HK$0.77 million for the year ended 30 June 2011. The increase was mainly attributable to the increase in the provision of maintenance services rendered by ERG HK during the year ended 30 June 2011 as ERG HK was only being acquired by our Group on 30 March 2010, only three months operating results from ERG HK was included for the year ended 30 June 2010.

Other direct costs in respect of maintenance services decreased by approximately 54.8% from approximately HK$0.73 million for the year ended 30 June 2010 to approximately HK$0.33 million for the year ended 30 June 2011. The decrease was mainly attributable to reduction in related travelling and entertainment expenses during the year ended 30 June 2011.

Cost of sales in respect of sales of spare parts

Our Group's total cost of sales in respect of sales of spare parts decreased by approximately 5.2% from approximately HK$1.54 million for the year ended 30 June 2010 to approximately HK$1.46 million for the year ended 30 June 2011.

The cost of materials in respect of sales of spare parts decreased by approximately 3.4% from approximately HK$1.46 million for the year ended 30 June 2010 to approximately HK$1.41 million for the year ended 30 June 2011. The decrease was primarily attributable to the difference in nature of spare parts sold in each of the two years. In general, our Group will only procure the spare parts according to customers' specification, therefore the nature of spare parts sold may vary from time to time as requested by customer.

Other direct costs mainly comprised sales contract administration expenses, including travelling and entertainment expenses.

Gross profit

Our Group's gross profit increased by approximately 272.4% from approximately HK$12.03 million for the year ended 30 June 2010 to approximately HK$44.80 million for the year ended 30 June 2011. The increase in gross profit was mainly attributable to the increase in undertaking of higher gross margin work and reducing subcontracting arrangement as well as increase in the amount of our services awarded as a result of the rapid development of the railway transportation system in China and through the acquisition of ERG HK on 30 March 2010.

Other net income

Our Group's other net income for each of the two financial years ended 30 June 2011 amounted to approximately HK$11,000 and HK$12,000 respectively. Our Group's other net income consists of bank interest income and foreign exchange gain or loss. The amount of bank interest income recorded for each of the two financial years ended 30 June 2011 were approximately HK$9,000 and HK$24,000 respectively. The amount of foreign exchange gain was approximately HK$2,000 for the year ended 30 June 2010 and the amount of foreign exchange loss was approximately HK$12,000 for the year ended 30 June 2011.

Selling, general and administrative expenses

Our Group's selling, general and administrative expenses increased by approximately 129.3% from approximately HK$5.40 million for the year ended 30 June 2010 to approximately HK$12.38 million for the year ended 30 June 2011. The increases were mainly due to:

(i) our Group's selling, general and administrative expenses for the year ended 30 June 2010 only included three months' selling, general and administrative expenses of ERG HK because it only became part of our Group on 30 March 2010, whereas, the selling, general and administrative expenses for the year ended 30 June 2011 included ERG HK's full year's related expenses, which accounted for approximately 51.5% of our Group's total selling, general and administration expenses for the year ended 30 June 2011;

(ii) the increase in staff costs mainly relates to the salaries of administrative, marketing and finance staff. Staff costs were the major item under selling, general and administrative expenses for each of the two financial years ended 30 June 2011, representing approximately 33.0% and 53.7% of the total selling, general and administrative expenses for the respective year. During the year ended 30 June 2011, we increased our human resources to accommodate the development of our Group's business and operation needs thus increased part of our staff costs. In addition, similar to (i) above, the increase in staff costs was the result of the inclusion of ERG HK's full year's operating results for the year ended 30 June 2011.

Profit from operations

Our Group's profit from operations increased by approximately 387.7% from approximately HK$6.65 million for the year ended 30 June 2010 to approximately HK$32.43 million for the year ended 30 June 2011. The increase in profit from operations is primarily attributable to the increase in the amount of services rendered for the year ended 30 June 2011 as a result of the increase in demand for our services by transport system owners and operators, especially in China, to cater for the swift development of the railway transportation network. In addition, improvement in cost control also contributed to the increase in our Group's profit from operations for the year ended 30 June 2011, in particular, the selling, general and administrative expenses as a percentage of our Group's total revenue decreased from approximately 22.1% for the year ended 30 June 2010 to approximately 17.2% for the year ended 30 June 2011.

Share of loss or profit of associate

Our Group's share of loss or profit of associate consists of the share of loss or profit from BII ERG. The improvement from a loss of HK$0.54 million for the year ended 30 June 2010 to a profit of HK$13.34 million for the year ended 30 June 2011 was mainly because BII ERG was established in September 2009 and few projects were obtained from its customers during the year ended 30 June 2010. For the year ended 30 June 2011, BII ERG achieved strong business performance through the provision of various application solutions projects at the line level awarded by Beijing Metro Network.

Profit before taxation

Our Group's profit before taxation increased by approximately 641.4% from approximately HK$6.18 million for the year ended 30 June 2010 to approximately HK$45.82 million for the year ended 30 June 2011. The increase in profit before taxation was primarily attributable to the growth in provision of services undertaken by our Group as well as the growth in the share of profit of associate for the year ended 30 June 2011.

Income tax

Our Group's income tax increased approximately by 335.0% from approximately HK$1.23 million for the year ended 30 June 2010 to approximately HK$5.35 million for the year ended 30 June 2011. The increase was primarily due to the increase in profit before taxation from approximately HK$6.18 million for the year ended 30 June 2010 to approximately HK$45.82 million for the year ended 30 June 2011.

For the year ended 30 June 2010 and 2011, our effective income tax rate was 19.9% and 11.7% respectively. The decrease in our effective tax rate was mainly due to the tax effect of share of profit or loss of associate. In accordance with the relevant tax rules and regulations in the PRC, share of profit or loss of associate is neither taxable nor deductible. For the year ended 30 June 2010, we recognised non-deductible share of loss of associate of approximately HK$0.54 million, which resulted in an increase in our effective tax rate by approximately 2.2% from its notional tax on profit before taxation. For the year ended 30 June 2011, we recognised non-taxable share of profit of associate of approximately HK$13.34 million, which resulted in a decrease in our effective tax rate by approximately 7.3% from its notional tax on profit before taxation.

Profit attributable to equity shareholders of the Company

Our Group's profit attributable to equity shareholders of our Company increased by approximately 717.6% from approximately HK$4.95 million for the year ended 30 June 2010 to approximately HK$40.47 million for the year ended 30 June 2011. The increase was primarily due to growth in revenue, improvement in gross profit, increase in share of profit of associate as well as the inclusion of the full year's operating results of ERG HK that was acquired on 30 March 2010.

KEY FINANCIAL RATIOS

The following table sets forth certain key financial ratios of our Group for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011:

		Years ended 30 June		Five months ended 30 November
	Note	**2010**	**2011**	**2011**
Profitability ratios				
Gross profit margin (%)	*1*	49.2	62.2	74.1
Net profit margin (%)	*2*	20.2	56.2	39.9
Return on assets (%)	*3*	20.9	47.0	18.6
Return on equity (%)	*4*	22.4	98.8	23.6
Liquidity ratios				
Current ratio	*5*	8.0	1.5	4.0
Capital adequacy ratio				
Gearing ratio (%)	*6*	N/A	37.4	N/A

Notes:

1. Gross profit margin is calculated based on the gross profit for the year/period divided by total revenue for the year/period and multiplied by 100%.

2. Net profit margin is calculated based on the net profit for the year/period divided by total revenue for the year/period and multiplied by 100%.

3. Return on assets is calculated based on the net profit for the year/period divided by the total assets at the end of the year/period and multiplied by 100%.

4. Return on equity is calculated based on the net profit for the year/period divided by issued share capital and reserves at the end of the year/period and multiplied by 100%.

5. Current ratio is calculated based on the total current assets at the end of the year/period divided by the total current liabilities at the end of the year/period.

6. Gearing ratio is calculated based on total debt at the end of the year/period divided by total assets at the end of the year/period and multiplied by 100%. Debts are defined to include payables incurred not in the ordinary course of business, including advanced cash injection from investor, amount due to shareholder and profit distribution payable but excluding trade payables.

ANALYSIS ON KEY FINANCIAL RATIOS

Gross profit margin

The following table sets forth the breakdown of our Group's gross profit margins for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011:

	Years ended 30 June		Five months ended 30 November
	2010	**2011**	**2011**
	%	%	%
Gross profit margin			
– Transportation system design and installation services	79.9	58.8	84.9
– Maintenance services	46.5	67.4	80.0
– Sales of spare parts	20.3	48.5	62.3
Overall	49.2	62.2	74.1

Our Group's overall gross profit margin increased from approximately 49.2% for the year ended 30 June 2010 to approximately 62.2% for the year ended 30 June 2011 was mainly attributable to the improvement in costs control. Our Group's gross profit margin further increased to approximately 74.1% for the five months ended 30 November 2011 was mainly due to the reduction in subcontracting arrangement and received higher margin sales order from customers for our spare parts sales.

The gross profit margin in respect of each of the respective transportation system design, installation and maintenance services undertaken by our Group ranged from approximately 3.7% to 93.3%, from approximately 47.4% to 87.3% for the two financial years ended 30 June 2011 and from approximately 59.6% to 92.1% for the five months ended 30 November 2011 respectively. The main characteristics of the contracts with low gross profit margins (below 5%) and high gross profit margins (above 90%) during the Track Record Period are as follows:

- Contracts with gross profit margins below 5%:

  There was only one contract with gross profit margin below 5% during the Track Record Period. The contract was awarded by Beijing Metro Network for the provision of maintenance services for the Beijing Subway ACC Application System. Due to the undertaking of certain system integration projects by our Group in the PRC that required the use of Vix licensed technology, our Group had subcontracted a substantial part of the contract to BII ERG. As a result, the gross profit margin of such contract was relatively low.

- Contracts with gross profit margins above 90%:

  There were three contracts with gross profit margin above 90% during the Track Record Period. The contracts were awarded by Vix Technology and MTR. All of these contracts were ad hoc in nature, being mainly provision of AFC system modification services and minor variation orders related to the Bangkok Smartcard System Project which largely involved direct labour costs only. For the AFC system modification services, as the system was developed by us and only required small scale modification, the direct labour costs incurred was low which led to a high gross profit margin. For the variation orders, as it largely involved data signing, the costs incurred was limited.

Our Group's gross profit margin in respect of transportation system design and installation services decreased from approximately 79.9% for the year ended 30 June 2010 to approximately 58.8% for the year ended 30 June 2011 and increased to approximately 84.9% for the five months ended 30 November 2011. The particularly low gross profit margin for the year ended 30 June 2011 was primarily attributable to the use of subcontractors, mainly our associated company BII ERG which was the only company in China that possessed the requisite licensed technology awarded by the Vix Group in relation to the ACC System during the period, to undertake certain parts of our work during the year ended 30 June 2011. We engaged external subcontractors when we had a tight work schedule and large quantity of work. 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. There was no subcontracting arrangement for the year ended 30 June 2010 and the five months ended 30 November 2011. For the year ended 30 June 2011, subcontractors were engaged for the ACC and TCC Integration Project regarding Line 15, Daxing Line, Yizhuang Line, Fangshan Line and Changping line as the use of licensed technology was required. BII ERG was engaged because certain project agreements required the use of the licensor technology. BII ERG was the only company which had been licensed to use the Vix licensed technology pursuant to the licence agreement entered into between BII ERG and Vix R&D on 3 December 2009.

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 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. The subcontracting agreements entered into by our Group during the Track Record Period mainly involved the engagement for technological development, consultancy services and technical services in relation to system testing, software and product maintenance.

Our Group's profit margin in respect of transportation system design and installation services increased from approximately 58.8% for the year ended 30 June 2011 to approximately 84.9% for the five months ended 30 November 2011. The increase was mainly due to the reduction in subcontracting fee because our Group had not undertaken any work that required the use of the Vix licensed technology and other subcontractor's assistance during the period.

In addition, the high gross profit margin of approximately 88.1% achieved by the newly awarded Network Emergency Communications Command System Design and Development Project had significantly contributed to the increase in our overall gross profit margin in respect of transportation system design and installation services for the five months ended 30 November 2011 as the revenue from such project accounted for approximately 68.6% of our total revenue arising from transportation system design and installation services for the five months ended 30 November 2011. The project was subcontracted to our Group by Beijing Jianyi to assist them in the development of the Geographic Information System ("GIS"), a sub-system of the Network Emergency Communications Command System for the Beijing Subway. GIS is a system designed to capture, store, manipulate, analyse, manage, and present all types of geographically referenced data. The main purpose for the development of the GIS for the Beijing Subway is to provide instant accurate positioning information of the Beijing Subway in case of emergency, including but not limited to information regarding the floor layout, structural information, exit and entrance location, transformer station location of each individual Beijing Subway station as well as information regarding the structure of the Beijing Subway network. Considering our Group had already obtained those requisite data during the course of the development of the ACC System and the TCC System of the Beijing Subway previously, Beijing Jianyi entered into a subcontracting arrangement with our Group. The official subcontracting agreement was entered into on 10 November 2011, however, our Group had to deliver our work by the end of 31 December 2011. In view of the tight deadline, we were able to bargain a higher premium for this project. In addition, given the work to be delivered was almost readily available, the labour costs involved was limited. As a result, our Group was able to achieve a high gross profit margin for this project.

Our Group's gross profit margin in respect of maintenance services increased from approximately 46.5% for the year ended 30 June 2010 to approximately 67.4% for the year ended 30 June 2011 and further increased to approximately 80.0% for the five months ended 30 November 2011. The increase was largely attributable to the strengthening of our Group's servicing team to undertake the work that used to be carried out by subcontractors. In addition, as certain of our staff who participated in the development of the ACC System in Beijing and were seconded to BII ERG during its establishment had returned to ERG BJ in the end of June 2011, we were able to deliver more efficient maintenance service to our customer by leveraging on their experience, thus further lower our costs of service. Moreover, maintenance services mainly involve routine regular check-ups and non-routine ad hoc technical support services; as fewer ad hoc technical support services were demanded during the five months ended 30 November 2011, less costs were incurred during the period and we were able to achieve a higher gross profit margin during this period with fixed-price maintenance contracts. However, during the Track Record Period, the need for subcontractors would still arise where our Group required the use of licensed technology or was in short of man power.

Going forward, we expect the use of subcontractors would decrease because certain of our staff who participated in the development of the ACC System in Beijing and were seconded to BII ERG during its establishment had returned to ERG BJ. ERG BJ has also entered into the ERG BJ Licensing Agreement with Vix IP and would therefore, possess technology which is capable of being used in an AFC System, and its related product or service as well as the ACC technology for the project relating to the ACC System of the Beijing Subway. Hence, our Group expects that the subcontracting arrangement between ERG BJ and BII ERG in the area of ACC System will no longer be required. For the five months ended 30 November 2011, no subcontracting arrangement had been entered into with subcontractors. We would, however, still engage subcontractors depending on the work schedule and quantity of work.

During the Track Record Period, certain parts of our transportation system design, installation and maintenance services contract had not been fully completed. The following table sets forth the comparison between our Group's gross profit margin in respect of the outstanding contracts commenced and completed during the Track Record Period and our Group's expected gross profit margin in respect of outstanding contracts commenced but not yet completed up to the Latest Practicable Date:

	Completed contracts	**Outstanding contracts**
	%	%
Gross profit margin		
Transportation system design and installation services *(Note)*	65.4%	62.8%
Maintenance services *(Note)*	59.6%	75.7%

Note: The gross profit margin in relation to the transportation system design, installation and maintenance services is calculated after taking into account the business tax and surcharge. There is no material difference between the key contract terms of the completed contracts and the outstanding contracts. All of the contracts are fixed-price contracts.

Our Group's gross profit margin in respect of sales of spare parts increased approximately from 20.3% for the year ended 30 June 2010 to 48.5% for the year ended 30 June 2011 and further increased to approximately 62.3% for the five months ended 30 November 2011. The improvement was primarily attributable to the selling of higher margin products in particular, card readers which accounted for approximately 99.4% of our total revenue arising from sales of spare parts for the five months ended 30 November 2011. As the core component namely the software of the card reader was developed by our Group, we were able to achieve a higher margin for such product. While in previous period, all of the spare parts we sold were sourced from third party suppliers, therefore, the gross profit margin for the previous period were relatively lower than that for the five months ended 30 November 2011.

Net profit margin

The following table sets forth our Group's net profit margin for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011:

	Year ended 30 June		**Five months ended 30 November**
	2010	**2011**	**2011**
	%	%	%
Net profit margin	20.2	56.2	[39.9]

The net profit of our Group for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011 were approximately HK$4.95 million, HK$40.47 million and HK$26.03 million respectively.

Our Group's net profit margin increased from approximately 20.2% for the year ended 30 June 2010 to approximately 56.2% for the year ended 30 June 2011. The increase in net profit margin was mainly the result from the growth in profit of associate during the year ended 30 June 2011 and increase in gross profit margin. In addition, ERG BJ was entitled to a reduced income tax rate of 15% for the calendar years from 2010 to 2012, therefore, ERG BJ was entitled to a full year reduced income tax rate for the year ended June 2011 thus further increases our Group's net profit margin.

Our Group's net profit margin decreased to approximately 39.9% for the five months ended 30 November 2011. The decrease in net profit margin was mainly due to the increase in selling, general and administrative expenses, in particular, legal and professional fees incurred for the [●] of our Company amounting to approximately HK$[8.31] million and the increase in share of loss of associate from a share of profit of approximately HK$13.34 million for the year ended 30 June 2011 to a share of loss of approximately HK$1.41 million.

During the three months ended 29 February 2012, in addition to our existing contracts on transportation system design and installation projects, maintenance services and sales of spare parts, our Group had secured five new contracts in relation to the provision of transportation system design and installation services with an aggregate contract value of approximately HK$[30.21] million and one new contract in relation to sales of spare parts with an aggregate contract value of approximately HK$[3.00] million. Based on our revenue and results for the five months ended 30 November 2011 and our recent work progress, our Directors expect that there would be an increase in our revenue for the year ending 30 June 2012. However, as there was an increase in the head count of our staff in our design and engineering team since December 2011 and also an increase in our direct labour costs since January 2012 due to salary review of our existing technical staff, our Directors expected that our gross profit margin for the year ending 30 June 2012 would be lower than that recorded for the five months ended 30 November 2011 as the increase in labour costs would be recognised in our financial year ending 30 June 2012. Likewise, our Directors also expect there would be an increase in our selling, administration and general expenses for the year ending 30 June 2012 as a result of, among other things the increased in staff-related costs and [●]. Taking into account the above, our Directors expect that our net profit margin for the year ending 30 June 2012 would be lower than that for the five months ended 30 November 2011.

Return on assets

Return on assets for each of the two financial years ended 30 June 2010 and 30 June 2011 was approximately 20.9% and 47.0% respectively. For the year ended 30 June 2011, our net profit and total asset increased by approximately 717.9% and 262.8% respectively as compared with that for the year ended 30 June 2010. The increase in our net profit was mainly resulted from the growth in the share of profit of associate as well as attributable to the reduction in income tax rate of ERG BJ. The increase in total was mainly attributable to the increase in investment in associated company and increase in cash injected by investor. The higher return on assets for the year ended 30 June 2011 as compared with that for the year ended 30 June 2010 was due to the rate of increase in net profit exceeded the rate of increase in total assets.

Return on assets for the five months ended 30 November 2010 and 30 November 2011 was approximately 15.7% and 18.6% respectively. For the five months ended 30 November 2011, our net profit and total asset increased by approximately 404.4% and 325.4% respectively as compared with that for the five months ended 30 November 2010. The increase in our net profit was mainly resulted from the growth in operating profit while the increase in total asset for was mainly attributable to the increase in investment in associated company and increase in cash injected by investor. The higher return on assets for the five months ended 30 November 2011 as compared with that for the five months ended 30 November 2010 was mainly due to the rate of increase in net profit exceeded the rate of increase in total assets.

Return on equity

Return on equity for each of the two financial years ended 30 June 2010 and 30 June 2011 was approximately 22.4% and 98.8% respectively. For the year ended 30 June 2011, our net profit and equity increased by approximately 717.9% and 85.1% respectively as compared with that for the year ended 30 June 2010. Both net profit and equity of our Group had grown over the year ended 30 June 2011, however, the increase in net profit outweighed the increase in equity, thus led to an increase in return on equity for the year ended 30 June 2011 as compared with that for the year ended 30 June 2010.

Return on equity for each of the five months ended 30 November 2010 and 30 November 2011 was approximately 18.7% and 23.6% respectively. For the five months ended 30 June 2011, our net profit and equity increased by approximately 404.4% and 300.3% respectively as compared with that for the five months ended 30 November 2010. Both net profit and equity of our Group had grown over the five months ended 30 November 2011, however, the increase in net profit outweighed the increase in equity, thus led to an increase in return on equity for the five months ended 30 November 2011 as compared with that for the five months ended 30 November 2010.

Current ratio

As at 30 June 2010, 30 June 2011 and 30 November 2011, the current ratios of the Group were 8.0, 1.5 and 4.0 respectively. The high current ratio as at 30 June 2010 was mainly because most of the trade payables were settled near year end. The decrease of current ratio to 1.5 as at 30 June 2011 was mainly because of the share issuance to Guotai Junan, was completed only after 30 June 2011, therefore the cash injection of approximately HK$22.86 million received from Guotai Junan was recognised as a liability as at 30 June 2011. The current ratio increased to 4.0 as at 30 November 2011 mainly because of the amount due to Guotai Junan had been transferred into equity of our Company. In addition, the Group received cash injection from another investor of approximately HK$19.51 million. Out of our current assets as at 30 November 2011, approximately 43.2% was cash. We believe that our current ratio maintained at a reasonable level.

Gearing ratio

Our Group did not have any bank borrowings, long term debts and payables incurred not in the ordinary course of business during the year ended 30 June 2010. However, our Group received a capital injection of approximately HK$22.86 million from Guotai Junan for the subscription of our shares on 1 June 2011 that was subject to the approval of our Board and our Shareholders as at 30 June 2011. Furthermore, our Group received advances from a Controlling Shareholder of approximately HK$4.50 million and incurred a profit distribution of approximately HK$4.88 million payable to an original shareholder for the year ended 30 June 2011. As such, our Group's gearing ratio increased to 37.4% for the year ended 30 June 2011.

During the five months ended 30 November 2011, the HK$22.86 million capital injection from Guotai Junan was fully transferred into equity. In addition, the HK$4.50 million shareholder advances and the HK$4.88 million profit distribution payable were fully settled. Furthermore, as at 30 November 2011, our Group did not have any bank borrowings, long term debts, and payables incurred not in the ordinary course of business. As such, our Group's gearing ratio decreased to nil as at 30 November 2011.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

	Year ended 30 June		Five months ended 30 November
	2010	**2011**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Net cash generated from operating activities	11,524	22,553	5,693
Net cash used in investing activities	(8,763)	(207)	(1,710)
Net cash generated from financing activities	–	4,685	14,699
Net increase in cash	2,761	27,031	18,682
Cash as at beginning of year/period	2,997	5,812	33,021
Effect of changes in foreign exchange rate	54	178	29
Cash as at end of year/period	5,812	33,021	51,732

Cash flow from operating activities

The net cash generated from operating activities for the year ended 30 June 2010 amounted to approximately HK$11.52 million. Our profit before taxation was approximately HK$6.18 million. Positive cash flow adjustments was primarily attributable to the decrease in trade and other receivables of approximately HK$6.86 million, mainly due to settlement of service fees by customers. The positive cash flow adjustment were partially offset by (i) decrease in trade and other payables of approximately HK$1.25 million, largely due to settlement of subcontracting fees; and (ii) payment of income tax of approximately HK$1.05 million.

The net cash generated from operating activities for the year ended 30 June 2011 amounted to approximately HK$22.55 million. Our profit before taxation was approximately HK$45.82 million. Positive cash flow adjustments were primarily due to: (i) increase in trade and other payables of approximately HK$15.58 million, mainly due to increase in amount due to Controlling Shareholder of approximately HK$4.50 million, increase in profit distribution payable to original shareholder of approximately HK$4.88 million and increase in amount due to an associate of approximately HK$8.00 million; and (ii) cash received from associates in respect of profit appropriation of approximately HK$5.01 million. The positive cash flow adjustments were offset partially by (i) payment of income tax of approximately HK$5.36 million; (ii) increase in trade and other receivables of approximately HK$25.54 million, largely because more projects were completed close to the end of year and; (iii) adjustment for the share of profit of associate.

The net cash generated from operating activities for the five months ended 30 November 2011 amounted to approximately HK$5.69 million. Our profit before taxation was approximately HK$32.81 million. Positive cash flow adjustments was primarily attributable to the increase in trade and other payables of approximately HK$9.93 million, mainly due to the accrual of payables in relation to the card readers hardware procurement made near period end. The positive cash flow adjustment were partially offset by (i) increase in trade and other receivables of approximately HK$38.77 million, largely due to increase in gross amounts due from customers for contract work performed but not yet billed to customers; and (ii) payment of income tax of approximately HK$2.88 million.

Cash flow from investing activities

The net cash used in investing activities was approximately HK$8.76 million for the year ended 30 June 2010, of which approximately HK$10.0 million was used for the capital injection in an associate and approximately HK$0.74 million was used to purchase fixed assets. In addition, there was a cash inflow of approximately HK$1.97 million, being the cash acquired from acquisition of a subsidiary.

The net cash used in investing activities was approximately HK$0.21 million for the year ended 30 June 2011, of which approximately HK$0.26 million was used to purchase office equipment. In addition, there was a net cash inflow of approximately HK$0.05 million derived from short term investments during the year.

The net cash used in investing activities was approximately HK$1.71 million for the five months ended 30 November 2011, which was mainly used for the renovation of our newly set up management and administrative office in Hong Kong as well as for the purchase of furniture and equipment for use in our new office.

Cash flow from financing activities

There was no cash flow from financing activities for the year ended 30 June 2010.

The net cash inflow from financing activities for the year ended 30 June 2011 was approximately HK$4.69 million, being the cash contribution from equity shareholders of our Company of approximately HK$0.4 million and cash injection from an investor of approximately HK$22.86 million. The inflow was offset partially by the distribution of profits to the original shareholders of approximately HK$18.57 million.

The net cash inflow from financing activities for the five months ended 30 November 2011 was approximately HK$14.70 million. The cash inflow was mainly the cash received from one of our investors for its capital injection to our Company of approximately HK$19.51 million and was offset partially by payment of the distribution of profits to the original shareholders of approximately HK$4.88 million.

WORKING CAPITAL

The following table sets forth our Group's net current assets as at 30 June 2010, 30 June 2011, 30 November 2011 and 29 February 2012:

	As at 30 June 2010	As at 30 June 2011	As at 30 November 2011	As at 29 February 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current assets				
Inventories	680	685	1,064	878
Trade receivables	4,002	17,055	37,085	40,454
Gross amounts due from customers for contract work	–	6,665	28,198	41,876
Prepayments, deposits and other receivables	696	3,420	1,533	21,566
Amounts due from related parties	1,716	5,539	248	248
Cash and cash equivalent	5,812	33,021	51,732	22,538
	12,906	66,385	119,860	127,560
Current liabilities				
Trade payables	–	1,741	13,312	15,444
Other payables	1,401	3,002	6,080	5,387
Current taxation	209	194	7,377	7,383
Cash injection from an investor	–	22,855	–	–
Amounts due to related parties	–	17,373	2,991	2,647
	1,610	45,165	29,760	30,861
Net current assets	11,296	21,220	90,100	96,699

Taking into account the estimated net proceeds of the [●], the cash flows from our Group's operations and cash injection from investors, our Directors confirm that our Group has sufficient working capital for its present requirements and for the next 12 months from the date of this document.

Inventories

Our Group's inventories balances mainly consists of components and equipment and other common items for our application solutions and spare parts for our transportation system design, installation and maintenance services. Normally, our Group would not keep inventory for spare parts sales as it would only be procured when we received order from customers.

Our Group's inventory level increased slightly by approximately 1.5% from approximately HK$0.68 million as at 30 June 2010 to approximately HK$0.69 million as at 30 June 2011 and further increased by approximately 53.6% to approximately HK$1.06 million as at 30 November 2011. The increase in inventory level as at 30 November 2011 was mainly due to the procurement of spare parts in relation to the ACC and TCC Integration Project regarding Fangshan Line and Changping Line.

As at the Latest Practicable Date, approximately [54.5%] and [41.4]% of our Group's inventories balances as at 30 June 2011 and 30 November 2011 have been subsequently utilised, the remaining inventories are largely common items for our application solutions and spare parts for our maintenance services that can be utilised in future. As such, no provision for obsolete inventories was made for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011.

Trade receivables

Our Group's trade receivables represent primarily the balances due from our customers to which certain terms of credit are offered in the ordinary course of business. The trade receivables were mainly derived from the transportation system design, installation and maintenance services for the two years ended 30 June 2011 and spare parts for the five months ended 30 November 2011. In general, our customers are required to settle our service fee on demand when certain milestone is met as specified in the contract. However, in practice, the Group usually grants a credit period of approximately 60 days after the issuance of invoices to our customers on a case by case basis. Historically, our Group had not encountered any major uncollectible trade receivables.

Our Group's trade receivables balances increased by approximately 326.5% from approximately HK$4.00 million as at 30 June 2010 to approximately HK$17.06 million as at 30 June 2011. The increase was primarily due to the increase in our Group's revenue, resulting from the increase in volume of business and projects acquired by our Group. As at the Latest Practicable Date, approximately [98.6]% of our Group's trade receivables balances as at 30 June 2011 have been subsequently settled.

Our Group's trade receivables balances increased by approximately 117.4% from approximately HK$17.06 million as at 30 June 2010 to approximately HK$37.09 million as at 30 November 2011. The increase was mainly attributable to the increase in trade receivables arising from the card readers delivered to our 2012 Major Customer near the end of 30 November 2011 which accounted for approximately 50.7% of the trade receivables balances as at 30 November 2011. Our Group received an order for 6,637 units of card readers on 2 November 2011, of which 5,431 units of card readers were to be delivered to our customer by the end of 31 December 2011 as specified in the order. As at 30 November 2011, we had delivered 4,442 units of card readers to our customer and the corresponding trade receivables were then recognised. As a result, there was a substantial increase in trade receivables as at 30 November 2011.

Our 2012 Major Customer was established in 2004 with a registered capital of RMB10 million and had been the smartcard application service provider to major railway transportation operators, financial institutions and toll road operators in the PRC. It is a subsidiary of a group headquartered in Hong Kong, which developed parking meters and contactless card readers with international standards and had been the supplier of IC card parking meters in both Hong Kong and Beijing. Based on the history and scale of our 2012 Major Customer's business, a 60-day credit period was granted to our 2012 Major Customer with reference to our Group's normal practice. Although it is the normal practice for our 2012 Major Customer to settle its payable after receiving the corresponding payment from its customer, given the card readers were procured ultimately by Beijing Subway, we believed there would not be any potential hindrance for our 2012 Major Customer to collect its receipts to settle our billings after going through Beijing Subway's official certification. As such, we assessed that there would not be any potential recoverability issues regarding the settlement of our receivables from this customer. Except for the aforementioned factors, we are not aware of any other major factors, including dispute from our customer and end user, that leads to the increase in our trade receivables balances as at 30 November 2011. Nevertheless, we would follow up closely with our customer regarding the settlement matters.

As at the Latest Practicable Date, approximately 15.4% of the outstanding trade receivables balances as at 30 November 2011 have been subsequently settled.

The following table sets forth a summary of the ageing analysis of our Group's trade receivables by billing date as at the balance sheet date:

	Year ended 30 June		**Five months ended 30 November**
	2010	**2011**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Within one month	2,201	14,770	33,441
Over one month but less than three months	1,801	2,285	3,644
Total	4,002	17,055	37,085

The following table sets forth a summary of average turnover of trade receivables for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011:

	Year ended 30 June		**Five months ended 30 November**
	2010	**2011**	**2011**
Turnover of trade receivables (days) *(Note)*	57	53	63

Note: Turnover of trade receivables (in days) equal to average trade receivables divided by turnover and multiplied by the number of days in the respective period. Average trade receivables equal to trade receivables at the beginning of the respective period plus trade receivables at the end of the respective period and divided by two.

The trade receivables turnover days as at 30 June 2010, 30 June 2011 and 30 November 2011 were approximately 57 days, 53 days and 63 days respectively. Both trade receivables turnover days as at 30 June 2010 and 30 June 2011 were at similar level. However, the trade receivables turnover days increased to approximately 63 days as at 30 November 2011. The increase was mainly attributable to the increase in billings arising from the part of the card reader order received and completed by our Group near the period ended 30 November 2011. Our Group's credit policy remained unchanged throughout each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011, and the trade receivables turnover days as at each respective date were generally consistent with our normal credit terms.

The following table sets forth a summary of average turnover of trade receivables (including amounts due from related parties arising from operating activities) for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011:

	Year ended 30 June		Five months ended 30 November
	2010	**2011**	**2011**
Turnover of trade receivables (days) *(Note)*	70	59	64

Note: Turnover of trade receivables (in days) equal to average trade receivables (including amounts due from related parties arising from operating activities) divided by turnover and multiplied by the number of days in the respective period. Average trade receivables (including amounts due from related parties arising from operating activities) equal to trade receivables (including amounts due from related parties arising from operating activities) at the beginning of the respective period plus trade receivables (including amounts due from related parties arising from operating activities) at the end of the respective period divided by two.

The trade receivables turnover days (including amounts due from related parties arising from operating activities) as at 30 June 2010, 30 June 2011 and 30 November 2011 were approximately 70 days, 59 days and 64 days respectively. The relatively high turnover days as at 30 June 2010 was mainly attributable to the recognition of trade receivables arising from the subcontracting agreement with our associated company BII ERG in accordance with the agreed billing milestone that happened to fall near year end. Other than that, the turnover days for the two financial years ended 30 June 2011 and the five months ended 30 November 2011 were generally consistent with our normal credit terms. The trade receivables turnover days (including amounts due from related parties arising from operating activities) increased to approximately 64 days as at 30 November 2011, which was at similar level as our trade receivables turnover days excluding amounts due from related parties arising from operating activities as our Group had not undertaken much work for our related parties during the five months ended 30 November 2011. The amounts due from related parties are repayable on demand or in accordance with contractual terms which are similar to those offered to third parties.

Gross amounts due from customers for contract work

For those project contracts in progress, gross amounts due from customers for contract work represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in our Group's contract activities based on normal operating capacity.

Gross amounts due from customers for contract work is presented as part of trade and other receivables in the balance sheet for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the difference is presented as deferred income/revenue in the balance sheet.

There was no gross amounts due from customers for contract work as at 30 June 2010 and the outstanding balances of our Group's gross amounts due from customers for contract work as at 30 June 2011 and 30 November 2011 were approximately HK$6.67 million and HK$28.20 million respectively, representing the balances due from our customers for project work we have performed but not yet billed to our customers. The substantial increase in such balance as at 30 November 2011 was mainly attributable to the unbilled work performed for the Network Emergency Communications Command System Design and Development Project subcontracted to us by Beijing Jianyi on 10 November 2011. Given the fact that we were required to deliver our fully completed work by the end of 31 December 2011 and the work to be delivered was almost readily available through the course of the development of the ACC System and the TCC System of the Beijing Subway carried out by us previously, we had completed approximately 70% of our work as at 30 November 2011. The work subcontracted to us by Beijing Jianyi was only part of the whole Network Emergency Communications Command System Design and Development Project that was ultimately awarded by Beijing Subway. Like any other Beijing Subway related projects, our work performed was subject to Beijing Subway's official certification which would normally take place by stage with reference to the progress of the whole project. Progress billings would then be issued to our customer once the related work had been satisfactorily certified by Beijing Subway. As such, even though we had already obtained the confirmation from Beijing Jianyi confirming our work progress, only 20% of our work had been billed to Beijing Jianyi as at the Latest Practicable Date. Except for the aforementioned factors, we are not aware of any other major factors, including dispute from our customer and end user, that lead to the increase in the amount of gross unbilled work performed as at 30 November 2011.

Beijing Jianyi was established in 2004 with a registered capital of RMB10 million and was the supplier of AFC and PSD equipment for various Beijing Subway lines as well as other city railway transportation operators in other cities in China. It has branch offices in both Shanghai and Kunming and possesses qualifications such as ISO 9001 quality management system certification and China railway product certification, and was recognised as a High & New Technology Enterprise. Based on the reputation of the company in the market and the past cooperation relationship with our associate, a 60-day credit period would be granted to Beijing Jianyi with reference to our Group's normal practice. Although it is the normal practice for the contractor to pay its subcontractor once the contractor receives payment from its customer, given the project was ultimately from Beijing Subway, we believed there would not be any potential hindrance for Beijing Jianyi to collect its receipts to settle our billings. As such, we assessed that there would not be any potential recoverability issues regarding the settlement of our receivables with this customer. Nevertheless, we would follow up closely with Beijing Jianyi regarding the billing and settlement matters.

As at the Latest Practicable Date, approximately [52.7]% of the outstanding balance as at 30 November 2011 had been billed to relevant customers of which approximately [21.2]% had been settled. There was no deferred income as at 30 June 2010, 30 June 2011 and 30 November 2011.

As at 30 June 2010, all project contracts in progress were billed to relevant customers. According to aforesaid accounting policy, such billed amount was presented as part of the trade and other receivables, instead of gross amounts due from customers for contract work. As at 30 June 2010, 30 June 2011 and 30 November 2011, there was no progress billings exceeding costs incurred plus recognised profits, thus no deferred income/revenue was recorded in the statement of financial position.

Prepayments, deposits and other receivables

Our Group's prepayments, deposits and other receivables mainly consisted of deposits paid to professional firms and intermediaries in relation to [●], rental deposits and tender bonds.

Our Group's prepayments, deposits and other receivables balances increased by approximately 388.6% from approximately HK$0.70 million as at 30 June 2010 to approximately HK$3.42 million as at 30 June 2011. The increase was mainly due to the payment of deposits to professional firms and other intermediaries in relation to [●]. The balances then decreased by approximately 55.3% to approximately HK$1.53 million as at 30 November 2011, mainly because most of the deposits paid to professional firms and other intermediaries had been expensed during the period.

Amounts due from related parties

Amounts due from related parties are unsecured, non-interest bearing, and are repayable on demand or in accordance with contractual terms which are similar to those terms offered to third parties.

As at 30 June 2011, the aggregate amount due from related parties was approximately HK$5.54 million, being mainly dividend receivable from BII ERG. The amounts due from related parties was fully settled in November 2011.

As at 30 November 2011, the amounts due from related parties were approximately HK$0.25 million, being amounts due from Vix Technology arising from operating activities. The outstanding balances was fully settled in April 2012.

Trade payables

Our Group's trade payables mainly include subcontracting charge payable to our Group's subcontractors and the amount due to suppliers of materials and consumables. Payment to our suppliers are generally made by us within 15 days from the date of receipt of payment request from our suppliers or within a credit period of about 45 days. Our Group's trade payables increased from nil as at 30 June 2010 to approximately HK$1.74 million as at 30 June 2011. The increase was mainly due to the payables arising during the year ended 30 June 2010 had been fully settled and no billing was received near year end, while during the year ended 30 June 2011, the Group received various billings near year end. As at the Latest Practicable Date, approximately [84.5]% of the balance had been settled.

Our Group's trade payables increased by approximately 664.9% from approximately HK$1.74 million as at 30 June 2011 to approximately HK$13.31 million as at 30 November 2011. The increase was mainly due to the procurement of card reader hardware that our Group received customer order near the end of the period. As at the Latest Practicable Date, approximately [5.9]% of the balance had been settled.

The following table sets forth the ageing analysis of trade payables by transaction date as at the balance sheet date:

	Year ended 30 June		Five months ended 30 November
	2010	**2011**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Within one month	–	1,741	12,252
Over three months but less than six months	–	–	1,060
	–	1,741	13,312

The following table sets forth a summary of turnover of trade payables for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011:

	Year ended 30 June		Five months ended 30 November
	2010	**2011**	**2011**
Turnover of trade payables (days) *(Note)*	5	13	[74]

Note: Turnover of trade payables (in days) equals to average trade payables divided by cost of sales and multiplied by the number of days in the respective period. Average trade payables equals to trade payables at the beginning of the respective period plus trade payables at the end of the respective period and divided by two.

As at 30 June 2010, 30 June 2011 and 30 November 2011, our Group's trade payables turnover days were approximately 5 days, 13 days and 74 days respectively. As at 30 June 2011, the trade payables turnover days were within the credit period granted by them. The increase in turnover days as compared to that as at 30 June 2010 was mainly attributable to the receipt of various billing near year end. The increase in trade payables turnover days as at 30 November 2011 was mainly due to recognition of trade payables arising from the procurement of card reader hardware by the end of the period. In general, the Group settles its trade payables within the credit period.

The following table sets forth a summary of average turnover of trade payables (including amounts due to related parties arising from operating activities) for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011:

	Year ended 30 June		Five months ended 30 November
	2010	**2011**	**2011**
Turnover of trade payables (days) *(Note)*	[5]	[72]	[128]

Note: Turnover of trade payables (in days) equal to average trade payables (including amounts due to related parties arising from operating activities) divided by cost of sales and multiplied by the number of days in the respective period. Average trade payables (including amounts due to related parties arising from operating activities) equal to trade payables (including amounts due to related parties arising from operating activities) at the beginning of the respective period plus trade payables (including amounts due to related parties arising from operating activities) at the end of the respective period divided by two.

The trade payables turnover days (including amounts due to related parties arising from operating activities) increased from approximately five days as at 30 June 2010 to approximately 72 days as at 30 June 2011. The increase was mainly due to the increase in billings from our associated company BII ERG near year end. The trade payables turnover days (including amounts due to related parties arising from operating activities) further increased to approximately 128 days as at 30 November 2011 mainly because there was an outstanding amount due to BII ERG of which the corresponding receivables from customer had not yet been settled due to delay in certification by customer. As it was our normal practice to pay our supplier only upon receipt of the corresponding receivables, such amount due to BII ERG become outstanding, thus increased our trade payables turnover days (including amounts due to related parties arising from operating activities) as at 30 November 2011. The amounts due to related parties are repayable on demand or in accordance with contractual terms which are similar to those offered to third parties.

Other payables

Our Group's other payables mainly comprised accrued employees' salaries, accrued business tax and value added tax as well as other accrued expenses.

Our Group's other payables increased by approximately 114.3% from approximately HK$1.40 million as at 30 June 2010 to approximately HK$3.00 million as at 30 June 2011. The increase was mainly attributable to the increase in the accrual of business tax. The amount of other payables further increased by approximately 102.7% to approximately HK$6.08 million mainly because of the increase in accrued value added tax arising from the sales of card readers.

As at 30 June 2010, 30 June 2011 and 30 November 2011, there were no retention payables.

Cash injection from an investor

The balance of cash injection from an investor as at 30 June 2011 refers to the cash received from Guotai Junan of approximately HK$22.86 million for the subscription of 698 ordinary shares of our Company pursuant to a share subscription agreement entered into between our Company and Guotai Junan on 31 May 2011. The share subscription was completed on 6 July 2011 and the amount of the cash received was fully transferred into equity accordingly, therefore, there was no such balance as at 30 November 2011.

Amounts due to related parties

There was no amounts due to related parties as at 30 June 2010, the amounts due to related parties as at 30 June 2011 and 30 November 2011 amounted to approximately HK$17.37 million and HK$2.99 million respectively.

As at 30 June 2011, the amounts due to related parties comprised primarily:

– amount due to a Controlling Shareholder of approximately HK$4.50 million, representing advances made by our Controlling Shareholder to the Group for the payment of certain professional service fees in Hong Kong. The amount was fully settled in November 2011.

– profit distribution payable to ERG Greater China (the then shareholder of ERG HK and ERG BJ) of approximately HK$4.88 million, which was fully settled in July 2011; and

– subcontracting charges of approximately HK$7.99 million due to our associated company, BII ERG, for subcontracting work hired by ERG BJ. As at the Latest Practicable Date, approximately [74.5%] of the outstanding balance had been settled and the remaining balance would be settled once we received respective payment from our customer.

As at 30 November 2011, the amounts due to related parties comprised primarily:

– subcontracting charges of approximately HK$2.99 million due to BII ERG. As at the Latest Practicable Date, approximately [30.2]% of the balance had been settled, the remaining amount due to BII ERG will be settled once we received respective payment from our customer.

All the above amounts are unsecured, non-interest bearing and are repayable on demand or in accordance with the contractual terms similar to those terms offered by third parties.

Accumulated loss at 1 July 2009

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 did not acquire sufficient projects to cover its costs. In April 2009, Mr. Cao and Ms. Wang, through their 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.

CAPITAL EXPENDITURE

It was our Group's intention to keep a minimal amount of capital expenditure and tend to lease instead of purchase properties for its operations, therefore, our Group did not have any material capital expenditure for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011.

CAPITAL COMMITMENTS

As at the Latest Practicable Date our Group did not have significant capital commitments.

OUR HISTORICAL ORDER BACKLOG

The following table sets forth the order backlog information in respect of our transportation system design and installation services, maintenance services and sales of spare parts for each of the two financial years ended 30 June 2011 and the five months ended 30 November 2011.

	Year ended 30 June						Five months ended 30 November		
	2010			2011			2011		
	Awarded by Beijing Metro Network	Others	Total	Awarded by Beijing Metro Network	Others	Total	Awarded by Beijing Metro Network	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Backlog order beginning balance *(Notes 1 and 7)*	21,235	31,632	52,867	43,979	40,004	83,983	58,598	32,463	91,061
New contracts signed *(Note 2)*	42,373	10,396	52,769	51,339	26,404	77,743	6,220	73,965	80,185
Orders completed *(Note 6)*	(19,629)	(2,024)	(21,653)	(36,720)	(33,945)	(70,665)	–	(19,105)	(19,105)
Backlog order ending balance *(Note 7)*	43,979	40,004	83,983	58,598	32,463	91,061	64,818	87,323	152,141 *(Note 5)*

Notes:

1. The backlog order beginning balance for the year ended 30 June 2010 represents the contracts awarded to ERG BJ and ERG HK before they were acquired by our Group.

2. Five new contracts under the ACC Integration Project were obtained through joint tender bids during the year ended 30 June 2011 and these contracts amounted to approximately HK$[32.11] million. In addition, one new contract amounted to approximately HK$6.22 million under the ACC Project ([the only ACC Project offered by Beijing Metro Network during the period]) was obtained through joint tender bids during the five months ended 30 November 2011.

3. As at the Latest Practicable Date, the aggregate amount of outstanding backlog order was approximately HK$[188.13] million of which seven outstanding backlog orders were awarded by Beijing Metro Network, which amounted to approximately HK$[95.64] million. As at the Latest Practicable Date, the year of relationship with our backlog order customers ranges from approximately four months to three years since the establishment of our Group. The contracts executed by ERG HK that are governed by Hong Kong law under the backlog order are valid and enforceable in Hong Kong. The contracts executed by ERG BJ that are governed by the PRC law under the backlog order are also valid and enforceable in the PRC.

4. As at the Latest Practicable Date, [approximately 15.3%] of the backlog order required the use of licensed technology.

5. Our Directors believe that our Company is able to fulfill its obligations under such backlog order having considered the sufficiency of its cash flow and manpower.

6. The amount represents the whole contract sum of the contracts completed during the year/period.

7. Backlog orders for a particular year/period refer to contracts that have not been completed as of the end of the relevant year/period indicated; and the whole contract sum for the relevant backlog order has been included for the purpose of calculating the amount of backlog order at the beginning and end of the relevant year/period (as the case maybe).

The increase in our Group's backlog order ending balance from approximately HK$83.98 million for the year ended 30 June 2010 to approximately HK$91.06 million for the year ended 30 June 2011 was mainly due to the increase in number and value of contracts awarded to our Group during the year ended 30 June 2011. No licensed technology was required for our backlog order for each of the two financial years ended 30 June 2011 as we subcontracted the portion of projects which required the use of licensed technology to BII ERG during such period.

The increase in our Group's backlog order ending balance from approximately HK$91.06 million for the year ended 30 June 2011 to approximately HK$152.14 million for the five months ended 30 November 2011 was mainly due to the increase in new contracts awarded to our Group during the five months ended 30 November 2011, the backlog contracts are expected to be completed by 31 December 2013.

INDEBTEDNESS

As at 29 February 2012, our Group had no material borrowings or loans. Our Directors also believe that there will not be any difficulty for our Group to obtain bank financing should any need arise in the future.

[As at 30 June 2011, our Group received the registration approval in relation to our pledge of the entire interests in BII ERG to BII HK as collateral for More Legend's payment obligation for the purchase of the shares in our Company by BII HK if our Company fails to complete [●] on or before 30 June 2012. The formal equity pledge agreement was subsequently executed on 6 July 2011 and released on 1 September 2011.

Our Group agreed to pledge 70% of our equity interests in ERG BJ to BII HK as collateral for More Legend's payment obligation for the purchase of the shares in our Company by BII HK. The pledge was registered at the relevant regulatory authorities on 15 August 2011. [The equity pledge was subsequently released on 16 December 2011 and was replaced by a cash collateral of approximately HK$19.51 million pledged to BII HK on 12 January 2012 pursuant to the Second Entrustment Agreement dated 23 December 2011. The cash collateral has been released and repaid to our Group on 10 April 2012.

Operating lease commitments

As at 30 June 2010, 30 June 2011 and 30 November 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 30 June		As at 30 November
	2010	**2011**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	838	285	2,508
After one year but within five years	278	–	4,378
	1,116	285	6,886

Save as described in this section, our Group did not have any outstanding mortgages, charges, pledges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, acceptance liabilities, acceptance credits, any guarantees or other significant contingent liabilities.

No material change

Our Directors confirm that besides the release of cash collateral mentioned above, there has not been any material change in the indebtedness and contingent liabilities of our Group as at [20 April 2012], being the latest practicable date for ascertaining information for disclosure in this section.

FINANCIAL RISKS

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Credit evaluations are performed on all customers requiring credit over a certain amount.

Our Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when our Group has significant exposure to individual customers. As at 30 June 2010, 30 June 2011 and 30 November 2011, approximately 41.5%, 89.5% and [50.7]% of the trade receivables were due from our Group's largest customer and 80.3%, 96.2% and [98.3]% of the trade receivables were due from our Group's five largest customers respectively.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the balance sheets after deducting any impairment allowance. Our Group does not provide any other guarantees which would expose our Group to credit risk.

Foreign currency risk

For presentation purposes, our Group and our Company's financial information is shown in Hong Kong dollars. The companies within our Group, whose functional currencies are different from Hong Kong dollars, have translated their financial information into Hong Kong dollars for consolidation purpose. As at 30 June 2010, 30 June 2011 and 30 November 2011, all companies within our Group have no financial instruments that were denominated in a currency other than the respective functional currency in which they measured.

Interest rate risk

The interest rate profile of our Group's and our Company's interest-bearing financial instruments was:

Our Group

	As at 30 June		As at 30 November
	2010	**2011**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Variable rate instruments			
Financial assets – cash at bank	5,786	32,618	51,250
	5,786	32,618	51,250

As at 30 June 2010, 30 June 2011 and 30 November 2011, it is estimated that a general increase/decrease of 10 basis points in interest rates for cash at bank, with all other variables held constant, would increase/decrease our Group's profit for the year and retained earnings by approximately HK$4,000, HK$19,000 and HK$42,000 respectively.

Liquidity risk

Our Company is responsible for our Group's overall cash management and the raising of borrowings to cover expected cash demands. Our Group's policy is to regularly monitor current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirement in the short and longer term.

PROPERTY INTEREST

Particulars of our Group's property interest are set out in Appendix III to this document. Cushman & Wakefield Valuation Advisory Services (HK) Limited has valued the property interest of our Group as at 31 March 2012.

PROFIT DISTRIBUTION

For the year ended 30 June 2010 and the five months ended 30 November 2011, our Group had not made any profit distribution.

For the year ended 30 June 2011, our Group made a profit distribution to original shareholders of approximately HK$23.45 million, of which approximately HK$18.57 million was paid during the year ended 30 June 2011, the remaining amount of approximately HK$4.88 million was fully paid in July 2011.

DIVIDEND

We currently do not have a dividend policy. The declaration, payment and amount of dividends in the future will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to the Articles and the Companies Law. Under the Articles and the Companies Law, payment of dividends out of our share premium account is possible on the condition that we are able to pay our debts when they become due in the ordinary course of business at the time the proposed dividend is to be paid. Our Shareholders in a general meeting must approve any declaration of dividends, which must not exceed the amount recommended by our Directors. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors. In addition, our Controlling Shareholders will be able to influence the approval by our Shareholders in a general meeting for any payment of dividends. Cash dividends on our Shares, if any, will be paid in Hong Kong dollars. Other distributions, if any, will be paid to our Shareholders by any means which our Directors deem legal, fair and practicable.

As we are a holding company, our ability to declare and pay dividends will depend on receipt of sufficient funds from our subsidiaries, in particular our operating subsidiary in China, ERG BJ. ERG BJ must comply with its articles of association and the PRC laws and regulations in declaring and paying dividends to us. Pursuant to laws in China, dividends may only be paid out of distributable profits defined as after tax profits as determined under the PRC GAAP less any recovery of accumulated losses and the required allocations to statutory reserves made by our operating subsidiary in China. In general, we will not declare dividends in a year where we do not have any distributable earnings.

RETAINED EARNINGS ATTRIBUTABLE FOR DISTRIBUTION

Our Company was incorporated on 7 January 2011 and has not carried on any business since the date of its incorporation. Accordingly, there were no retained earnings available for distribution to equity shareholders as at 30 November 2011.

DISCLOSURE UNDER CHAPTER 17 OF THE [●]

Save as disclosed in this document, our Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure obligation under Rules 17.15 to 17.21 of the [●].

NO MATERIAL ADVERSE CHANGE

Our Directors are not aware of any material adverse change in the financial or trading position or prospects of our Group since 30 November 2011 (being the date to which the latest audited financial statements of our Group were made up).