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### OVERVIEW

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

During the Track Record Period, we generated an aggregate of RMB3,980.5 million in new contract value, and our annual new contract value increased at a two-year CAGR of 25.7%, from RMB1,066.5 million for the year ended December 31, 2007 to RMB1,686.3 million for the year ended December 31, 2009. Our revenue increased from RMB694.1 million for the year ended December 31, 2007 to RMB1,405.4 million for the year ended December 31, 2009, representing a two-year CAGR of 42.3%. Our Adjusted EBITDA increased from RMB140.2 million for the year ended December 31, 2007 to RMB261.8 million for the year ended December 31, 2009, representing a two-year CAGR of 36.7%. Our net profit for the year increased from RMB114.8 million in 2007 to RMB214.7 million in 2009, representing a two-year CAGR of 36.8%. Our contract backlog as of December 31, 2009 was RMB917.5 million. Backlog is defined as the aggregate value of contracts signed or secured with third-party customers as of the indicated date, *less* revenues recognized in connection with such contracts up to and including the same date.

Our business consists of the following segments:

**Turnkey Solutions** Our Turnkey Solutions involve the integration of information technology with the physical transportation infrastructure. Our Turnkey Solutions activities focus on understanding the needs and requirements of clients, and then defining, choosing and optimizing multiple specialized solutions (as described below), such as tolling, communication and surveillance systems, and integrating them into a single tailor-made system through engineering implementation. Engineering implementation involves negotiation and coordination with numerous equipment contractors, system integration and comprehensive management of ITS projects. The Turnkey Solutions projects that we undertake may involve certain of our proprietary technology. We, as the Turnkey Solutions provider, are the project manager, accountable to the clients, who are local or provincial-level transportation related public institutions and state-owned enterprises. The end-users of our Turnkey Solutions are the drivers and passengers who use the expressways and urban roadways on a daily basis. Our landmark Turnkey Solutions projects include the design, installation and coordination of surveillance, communication and tolling systems on the Chongqing Hu-Rong Expressway, with five tunnels and located in a mountainous area; an integrated tunnel ITS system in the Qinling Zhongnanshan Tunnel in Shaanxi Province consisting of two 18-kilometer long parallel tunnels, which are the longest tunnels in Asia and the second-longest tunnels in the world; and the design, installation and coordination of a comprehensive ITS system in the 278-kilometer long Shaoyang-Huaihua-Xinhuang Expressway in Hunan Province with 303 bridges and 24 tunnels.

**Specialized Solutions** Our Specialized Solutions provide efficient and effective solutions to discrete problems occurring in a client's existing or planned transportation infrastructure through the design, development and implementation of hardware- and software-based systems. We have developed highly specialized tolling, communication and surveillance systems used primarily in expressway, railway and urban traffic projects in China. Clients of our Specialized Solutions include Turnkey Solutions providers, as well as local or provincial-level transportation related public institutions and state-owned enterprises. We have developed modules for our

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Specialized Solutions that can be customized to meet the specific needs of the ITS project. Our Specialized Solutions typically integrate hardware and software from multiple external suppliers as well as proprietary content. We have provided Specialized Solutions to most of the primary Turnkey Solutions contractors in the ITS industry in China. Our tolling, communication and surveillance solution modules can be found extensively in China's expressways. Our communication solutions can also be found extensively in China's railways and have growing application in the urban traffic—rapid transit sector. We have broadened the application of our specialized surveillance solutions from expressways into the urban traffic—roadway sector. Our landmark Specialized Solutions projects include the development of tolling solutions which have been installed in Hunan and Liaoning Provinces, the development of the specialized communication system for the Wuhan-Guangzhou high-speed railway, the longest passenger-dedicated railway in China, traveling at speeds of up to 350 kilometers per hour, and the application of our communication solutions in the first phase of Shanghai Subway Line 10 with a length of 36 kilometers which is currently in operation for 2010 Shanghai World Expo.

**VA Services** We currently provide post-construction maintenance and follow-up services for completed Turnkey and Specialized Solutions projects. Building on our technical expertise, knowledge and relationships developed as a Turnkey and Specialized Solutions provider, we intend to expand our VA Services to (i) provide a full-service package to expressway and railway operators, (ii) develop enterprise resource planning solutions particularly targeted at expressway operators, and (iii) develop information platform services to serve end-users. Our landmark VA Services projects include the development of an electromechanical facility operation and maintenance management system for the Beijing-Qinghuangdao Expressway and the innovation and maintenance of the communication systems installed in the expressway network of Liaoning Province.

The table below sets forth the revenue generated from each business segment and the percentage of our overall revenue contributed by our operations in such business segment for the years indicated:

	<b>For the year ended December 31,</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<b>RMB'000, except percentages</b>		
Turnkey Solutions . . . . .	375,054	572,592	534,462
% of total . . . . .	52.9%	49.6%	37.2%
Specialized Solutions . . . . .	325,210	568,486	882,997
% of total . . . . .	45.9%	49.3%	61.5%
VA Services . . . . .	8,136	12,240	18,328
% of total . . . . .	1.2%	1.1%	1.3%
Subtotal . . . . .	708,400	1,153,318	1,435,787
Inter-segment Elimination . . . . .	(14,257)	(26,388)	(30,340)
Total revenue . . . . .	<u>694,143</u>	<u>1,126,930</u>	<u>1,405,447</u>

As shown in the table, during the Track Record Period, our revenue has primarily been generated from our Turnkey Solutions and Specialized Solutions segments, and our Specialized Solutions segment makes up an increasingly large portion of our revenue, growing from 45.9% of our total revenue for the year ended December 31, 2007 to 61.5% of our total revenue for the year ended December 31, 2009.

Our revenue generated from our Turnkey Solutions segment increased by RMB159.4 million, or 42.5%, from RMB375.1 million for the year ended December 31, 2007 to RMB534.5 million for the year ended December 31, 2009. Our revenue generated from our Specialized Solutions segment increased by RMB557.8 million, or 171.5%, from RMB325.2 million for the year ended December 31, 2007 to RMB883.0 million for the year ended December 31, 2009. Our revenue generated from our VA Services segment increased by RMB10.2 million, or 125.9%, from RMB8.1 million for the year ended December 31, 2007 to RMB18.3 million for the year ended December 31, 2009.

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We conduct our business operations in four industry sectors in the ITS market in China: expressway, railway, urban traffic and energy. Our major customers are PRC public institutions, which are public services institutions set up by the government or other organizations using state-owned assets, and state-owned enterprises. For the year ended December 31, 2007, 2008 and 2009, our sales to PRC public institutions and state-owned enterprises together represented over 50%, 75% and 75% of our total revenue for such period, respectively. The table below summarizes the services that we currently provide in each industry sector:

	<u>Expressway</u>	<u>Railway</u>	<u>Urban traffic</u>	<u>Energy</u>
Turnkey Solutions .....	✓	-	✓	-
Specialized Solutions .....	✓	✓	✓	✓
VA Services .....	✓	-	-	-

The table below sets forth the revenue generated from each industry sector and the percentage of our overall revenue contributed by our operations in such sector for the years indicated:

	<b>For the year ended December 31,</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<b>RMB'000, except percentages</b>		
Expressway .....	567,814	761,040	750,080
% of total .....	81.8%	67.5%	53.4%
Railway .....	39,702	283,746	537,743
% of total .....	5.7%	25.2%	38.3%
Urban traffic .....	1,666	21,824	56,810
% of total .....	0.3%	1.9%	4.0%
Energy .....	84,961	60,320	60,814
% of total .....	12.2%	5.4%	4.3%
Total revenue .....	<u>694,143</u>	<u>1,126,930</u>	<u>1,405,447</u>

As shown in the table, during the Track Record Period, our revenue has primarily been generated from projects in the expressway and railway sectors, and projects in the railway sector make up an increasingly large portion of our revenue, growing from 5.7% of our total revenue for the year ended December 31, 2007 to 38.3% of our total revenue for the year ended December 31, 2009. Our revenue generated from the expressway sector increased by RMB182.3 million, or 32.1%, from RMB567.8 million for the year ended December 31, 2007 to RMB750.1 million for the year ended December 31, 2009. Our revenue generated from the railway sector increased by RMB498.0 million, from RMB39.7 million for the year ended December 31, 2007 to RMB537.7 million for the year ended December 31, 2009. Our revenue generated from the urban traffic sector increased by RMB55.1 million, from RMB1.7 million for the year ended December 31, 2007 to RMB56.8 million for the year ended December 31, 2009. Our revenue generated from the energy sector decreased by RMB24.2 million, or 28.5%, from RMB85.0 million for the year ended December 31, 2007 to RMB60.8 million for the year ended December 31, 2009.

While we believe that our Turnkey Solutions and Specialized Solutions businesses can operate as highly-competitive independent business units, we believe that the synergies realized by the combination of these businesses create a unique advantage in the ITS market in China and provide us with significant business opportunities and a stable growth platform. The customer relationships and broad project management expertise derived from our Turnkey Solutions business benefit our existing Specialized Solutions business and also offer a potential outlet for promoting new Specialized Solutions. Our Specialized Solutions business, in turn, contributes technical expertise and proprietary technologies used in our Turnkey Solutions business. This integration has created a strong platform from which to provide additional VA Services, which will allow us to provide a complete platform of services unique in the ITS market in China. Not only do these businesses complement one

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another in the execution of projects, but they also diversify our exposure to risk in any particular segment of the ITS market. Moreover, our activities in expressway, railway, urban traffic and energy sectors allow further diversification, thus reducing our exposure to business segment or industry sector fluctuations.

The following table sets forth the revenue, gross profit, gross profit margin, operating profit and operating profit margin for each of our three business segments, for the year ended December 31, 2007, 2008 and 2009.

	<b>For the year ended December 31,</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<b>RMB'000, except percentages</b>		
Turnkey Solutions .....	375,054	572,592	534,462
Specialized Solutions .....	325,210	568,486	882,997
VA Services .....	8,136	12,240	18,328
Subtotal .....	708,400	1,153,318	1,435,787
Elimination .....	(14,257)	(26,388)	(30,340)
<b>Revenue</b> .....	<b>694,143</b>	<b>1,126,930</b>	<b>1,405,447</b>
Turnkey Solutions .....	68,524	100,657	109,017
Specialized Solutions .....	151,725	179,699	280,555
VA Services .....	5,463	9,939	11,489
<b>Gross Profit</b> .....	<b>225,712</b>	<b>290,295</b>	<b>401,061</b>
Turnkey Solutions .....	18.3%	17.6%	20.4%
Specialized Solutions .....	46.7%	31.6%	31.8%
VA Services .....	67.1%	81.2%	62.7%
<b>Gross Profit Margin</b> .....	<b>32.5%</b>	<b>25.8%</b>	<b>28.5%</b>
Turnkey Solutions .....	43,913	71,396	84,350
Specialized Solutions .....	89,946	85,640	167,675
VA Services .....	4,063	8,680	10,714
<b>Segment Result</b> .....	<b>137,922</b>	<b>165,716</b>	<b>262,739</b>
Unallocated gains .....	2,497	—	11,108
Corporate and other unallocated expenses .....	(7,317)	(72,740)	(20,230)
<b>Operating Profit<sup>(1)</sup></b> .....	<b>133,102</b>	<b>92,976</b>	<b>253,617</b>
Turnkey Solutions .....	11.7%	12.5%	15.8%
Specialized Solutions .....	27.7%	15.1%	19.0%
VA Services .....	49.9%	70.9%	58.5%
<b>Operating Profit Margin</b> .....	<b>19.2%</b>	<b>8.3%</b>	<b>18.0%</b>

Note:

(1) Total operating profit represents total of segment results *plus* unallocated income gains and *minus* corporate and other unallocated expenses

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The table below sets forth brief information about our major existing projects. Backlog information presented in this prospectus has been derived, in part, based on contracts for these projects. All of the contracts for these projects had been entered into as of December 31, 2009 and are expected to be completed by the end of 2010. Accordingly, revenue under the relevant contracts, other than any revenue to be recognized upon expiration of post-construction service periods, are also expected to be completely recognized by the end of 2010. For more details on our completed projects, see “— Turnkey Solutions” and “— Specialized Solutions.”

<u>Contract Name</u>	<u>Location</u>	<u>Contract Value (RMB in millions)</u>	<u>Commencement Date</u>	<u>Expected Completion Date</u>
<i>Turnkey Solutions: Expressway</i>				
Fujian Yong'an-Wuping Expressway Longyan Segment	Fujian	68.2	April 2009	July 2010
Hubei Wuhan-Yingshan Expressway	Hubei	67.0	April 2009	August 2010
Chongqing Outer-Ring Expressway	Chongqing	64.3	May 2009	September 2010
Inner Mongolia Expressway Surveillance, Tolling and Communications Management Center	Inner Mongolia	42.7	October 2009	October 2010
<i>Specialized Solutions: Expressway</i>				
Shanxi Traffic Information Communication Network	Shanxi	11.5	November 2009	July 2010
Liaoning Expressway Communication Network Renovation	Liaoning	9.6	December 2009	August 2010
<i>Specialized Solutions: Railway</i>				
Taiyuan-Zhongwei-Yinchuan Railway	Shanxi to Ningxia	161.9	September 2009	September 2010
Beijing-Kowloon Railway	Beijing to Hong Kong	79.4	June 2009	August 2010
Shanghai-Nanjing Intercity Railway	Shanghai to Jiangsu	54.6	July 2009	July 2010
Guangzhou-Shenzhen-Hong Kong Passenger Dedicated Railway (Guangzhou-Shenzhen Segment)	Guangdong	39.4	November 2009	November 2010
Chengdu-Dujiangyan Railway	Sichuan	37.0	October 2009	August 2010
Longyan-Xiamen Railway	Fujian	31.4	October 2009	October 2010
Shanghai-Hangzhou Passenger Dedicated Railway	Shanghai to Zhejiang	17.8	November 2009	October 2010
<i>Specialized Solutions: Urban Traffic</i>				
Phase I of Line 15, Beijing Subway	Beijing	19.3	December 2009	September 2010
Phase I of Line 2, Xi'an Subway	Shaanxi	12.9	December 2009	October 2010
Daxing Line, Beijing Subway	Beijing	7.9	December 2009	October 2010

### OUR COMPETITIVE STRENGTHS

We believe we have the following principal competitive strengths:

#### **Leading market position in China's ITS market with proven track record and industry reputation**

We consider ourselves to be the leading transportation infrastructure technology solution and service provider in China with a proven operating history and a strong reputation and credentials in China's ITS market.

Our leading position is demonstrated by the market share we currently hold, where according to the OC&C Industry Report, we were ranked number one in the Chinese expressway ITS market in 2009, where across the three expressway product segments, we captured market shares of 70% and 70%-80% in communications and surveillance expressway solutions, respectively, and became a market leader in tolling solutions with a market share of over 10%. Within the railway ITS market, we also commanded the highest market share within the specialized communication solutions segment, capturing 70% in wired and 60% in wireless communications market in 2009. Furthermore, we are rapidly expanding our market share in the urban rapid transit and urban roadway ITS sectors. With our coverage across the expressway, railway, urban rapid transit as well as urban roadway sectors, we currently have the broadest product platform amongst our competitors in the Chinese ITS market. During the same period, we had higher gross margins than any of our major expressway competitors. During the Track Record Period, we generated an aggregate of RMB3,980.5 million in new contract value, and our annual new contract value increased at a CAGR of 25.7%, from RMB1,066.5 million for the year ended December 31, 2007 to RMB1,686.3 million for the year ended December 31, 2009. Our backlog amounted to RMB917.5 million as of December 31, 2009.

Overall, we believe we have established a strong reputation as a Turnkey and Specialized Solutions provider in China among our customers, which are mainly local and provincial-level transportation related public institutions and state-owned enterprises, as well as Turnkey Solutions providers in China who employ our Specialized Solutions services. We believe that our significant installed base in China, together with our strong reputation and proven track record, is well recognized in the market and positions us to secure contracts from existing and new customers alike. In particular, an average of 70% of new contracts entered into for expressway Specialized Solutions during the Track Record Period were entered into with repeat customers, with whom we had executed contracts in the past.

#### **Extensive geographical coverage and local market presence**

Our projects cover all provinces in China and our sales network is divided into seven regions with a dedicated local salesforce in each region. We believe that our local presence brings us closer to our customers, allows us to gain first hand intelligence on customer requirements and market trends, and enables us to respond quickly to market needs.

Compared to our international competitors, our localized and focused salesforce provides greater local knowledge, better relationships with customers and easier access to regional markets. Additionally, compared to our local or regional competitors, our extensive geographical coverage:

- allows us to bid for local and regional projects against these competitors, where we believe our track record, financial strength and technical capabilities will be far stronger;
- gives regional customers greater access to leading market solutions and technologies, while providing us greater access to international suppliers who prefer to partner with companies with a more extensive network;
- allows us to negotiate better terms with both domestic and international suppliers due to economies of scale; and
- builds a more extensive platform from which to provide after-sales service and support.



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Given China's regional infrastructure spending plans targeting a variety of areas, including expressway investment mainly in the central and western regions of the country, accelerated railway projects and new subways being built in second-tier cities, increasing momentum in the roadway ITS market in first tier cities to county cities under a new centralized governing body and upgrades needed for existing installations in mainly coastal areas, we believe our extensive geographic coverage and local market presence will position us well in securing future contracts.

### **Dedicated focus on the ITS sector and integrated business model**

Our main focus is the ITS market, whereas many of our competitors have a more fragmented business. According to OC&C, we have by far the largest percentage of revenues derived from ITS among the major ITS solution providers. We believe our clients recognize that our key strategic priority is the development of our ITS business.

Our business is horizontally integrated with our activities spanning the various ITS industry sectors including expressways, railways, urban rapid transit and urban roadways. We believe that our horizontal integration allows us to apply the experience and knowledge base from one industry sector to solve client needs in another. Our expressway communication and surveillance solutions are able to address needs in the urban roadway, while our railway communications solutions also share common elements with our rapid transit communications solutions. We believe that none of our competitors have a significant presence across all our industry sectors.

In addition, we also benefit from our vertical integration across the ITS value chain—from Turnkey and Specialized Solutions to VA Services, enabling us to better understand changing industry dynamics and customer requirements at an early stage, which in turn facilitates more effective development of solutions and VA Services. The customer relationships and broad project management know-how derived from our Turnkey Solutions offer a potential outlet for promoting new Specialized Solutions. The technical expertise and proprietary technologies used in our Specialized Solutions also contribute to the development of our Turnkey Solutions business. In addition, our increasing involvement in VA Services help us to gain an advanced insight into client needs in terms of ongoing maintenance and future upgrades. This gives us a first mover advantage in understanding client needs and securing upcoming projects. Furthermore, we have achieved higher gross margins than our competitors in the expressway sector, and we believe this is largely due to the unique combination of horizontal and vertical integration of our business activities. We believe such synergies gained by vertical integration also help provide a more stable growth platform, thereby enabling us to balance our business between sourcing Turnkey Solutions and creating a steady flow of business from Specialized Solutions and VA Services.

We will continue to seek ways of leveraging this horizontal and vertical integration to secure new contracts, generate better solutions and improve margins.

### **Strategically positioned to capture opportunities in the rapidly growing ITS market in China**

Transport infrastructure spending in the expressway, railway and urban traffic sectors in China has risen by a CAGR of 22% from 2001 to 2009, according to OC&C. The expanding transportation network and the need for a more effective and efficient transportation network as well as the increasing focus on safety and security in turn have driven the need for ITS solutions. The investment in ITS in China has increased substantially over the last few years. China's aggregate ITS market is expected to exceed RMB83 billion by 2010 at a CAGR of 26% from 2001 to 2009, according to OC&C.

We believe that our combination of competitive strengths as well as the alignment of our business with developing industry trends provides a strong position from which we can capitalize on these growth opportunities. In particular, we believe our business is aligned to the following industry trends:

- *Further increase in expressway ITS investment in China's central and western regions with a greater need for tunnel ITS solutions due to mountainous terrain.* According to OC&C, the ITS market in the

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central and western regions of China is expected to represent 81% of total new expressway ITS investment by 2020. We are the market leader in tunnel projects according to the same report and have completed 61% of total major tunnel projects in China until 2007. We believe we are well-positioned to win new tunnel ITS projects due to our leading market position and our proven track record.

- *Emerging ongoing ITS Services, including VA Services and required maintenance and upgrades in the eastern regions.* We have been working closely with our existing customers to test and perfect various VA Services models, as well as to educate the market on benefits of VA Services. Our large installed base and our ongoing investment in VA Services position us well to capitalize on the future growth of this sector. In addition, Specialized Solutions providers usually have a more significant role compared to Turnkey Solutions providers, particularly in relation to communications and surveillance solutions, which account for the bulk of expressway ITS maintenance and upgrades. As a leading player in expressway ITS Specialized Solutions with dominant market positions in communications and surveillance solutions, we believe we will have better opportunities to expand in the VA Services market.
- *Localization production ratio of at least 70% in the railway and rapid transit ITS sectors.* We are the leading domestic provider of communication solutions for railway ITS applications and expanding in rapid transit specialized communication solutions. As the PRC government aims to increase the share of domestic suppliers within this segment, we believe our market share will continue to grow.

### **Effective and efficient R&D capabilities that enable us to develop widely accepted Specialized Solutions**

We have built an effective and efficient R&D organization with proven track record of developing widely accepted Specialized Solutions. Our R&D efforts are managed along the following principles:

- *Market orientation.* Our sales force and technical teams engage in regular dialogue with the end-users in order to determine client needs and requirements at an early stage, which guide our R&D direction.
- *Practicality and scalability.* When developing solutions, we apply existing technologies and emphasize the ability to accommodate future expansion and upgrades.
- *Reliability.* To ensure the reliability of our solutions, we apply existing technology and test solutions extensively prior to implementation.
- *Accountability.* Each business unit bears the expenses and enjoys the gains for its R&D activities, which we believe fosters accountability for our R&D spending within our organization.

Based on these principles, we have built a strong technical and R&D team, which currently consists of 44 engineers. Among these 44 engineers, all of them have bachelor's degrees or other forms of higher education, 10 have master's degrees or higher, and 22 have over 5 years' experience in China's ITS industry. Our head of R&D center, Mr. Zhao Lisen, has over 12 years' experience in ITS applications in the expressway sector. We believe our strong technical expertise and R&D capabilities have enabled us to develop proprietary technologies for our Specialized Solutions. As of the Latest Practicable Date, we held 63 software copyrights in connection with our Specialized Solutions. Our Specialized Solutions have been used widely in communication applications within the expressway and railway sectors, and we believe will continue to serve as a strong basis for us to develop more widely accepted Specialized Solutions across other ITS industry sectors.

### **Experienced and highly incentivized management team**

We believe we have a strong management team with a proven industry track record and deep understanding of the ITS market in China. We believe our experienced management team enables us to capture market opportunities and to formulate and execute sound business strategies. We have successfully expanded the range of our activities to date through both organic growth and strategic investments. Our senior management possesses extensive operating experience, technical know-how, management skills and industry expertise. Our management team has an average of over 10 years of relevant industry experience and an in-depth knowledge of the industry in which we operate. The chairman of our Board, executive Director and chief executive officer, Mr. Jiang



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Hailin, who has over 17 years of experience in the transportation and ITS industries, is responsible for the overall business operations and strategy formulation of the Company. He joined our Group in May 2002 and has held various positions within our Group. Our executive Director and vice president of the Company, Mr. Wang Jing, who founded RHY Technology, has over 16 years of experience in transportation-related infrastructure investment business. Our executive Director, vice president of the Company and president of our Specialized Solutions business unit focusing on the railway sector, Mr. Lu Xiao, has over 13 years of experience in the railway sector. Our executive Director and vice president, Mr. Pan Jianguo, has over 12 years of experience in the expressway sector. Our chief financial officer and company secretary, Mr. Leung Ming Shu, who is a Fellow Member of the Association of Chartered Certified Accountants (FCCA) and a Member of the Hong Kong Institute of Certified Public Accountants (HKICPA), has valuable financial expertise and over 10 years experience in corporate finance and is responsible for the overall financial and corporate finance management of our Company. Our vice president and president of our Turnkey Solutions and VA Services business units focusing on the expressway sector, Mr. Lv Xilin, has approximately 16 years of experience in managing Turnkey Solutions projects in the ITS industry. Our vice president and president of our Specialized Solutions business unit focusing on the expressway sector, Mr. Jing Yang, has engaged in the specialized communication solutions business of the ITS industry for over 14 years. The president of our Turnkey and Specialized Solutions business units focusing on the urban traffic sector, Mr. Kong Qiang, has over 12 years of experience in the urban traffic sector. The head of the R&D center, Mr. Zhao Lisen, is responsible for the management of technology, research and development of our Group. The financial controller of our Group, Mr. Mou Yi, is responsible for the financial management of the Company. For details of our senior management's backgrounds, see "Directors and Senior Management." In addition, we believe our management team is highly incentivized, as immediately prior to the Global Offering, our current management team beneficially owns approximately 32.8960% of the Shares of the Company.

### OUR STRATEGIES

We seek to enhance shareholder value by maintaining and enhancing our position in China's ITS market and gradually expanding internationally. The strategies that we have adopted with a view to attaining this goal include the following principal elements:

#### **Expanding our range of Specialized Solutions in China's railway ITS sector**

Over the past two years, we have significantly expanded our business volume in the railway Specialized Solutions communications sector. Building on this momentum, we plan to expand into the surveillance, signalling and power traction sectors while continuously growing our market share in the communications sector.

With respect to our surveillance solutions, we intend to either develop in-house or acquire existing solutions tailored to the high-speed railway market. We are working with the Ministry of Railways to develop standards for railway surveillance solutions by leveraging our expertise in the communication systems. With respect to the signalling and power traction segments of the railway Specialized Solutions market, we are currently exploring potential partnerships with foreign companies that could provide leading technology within these market segments.

#### **Strengthening our leading position in both Turnkey and Specialized Solutions in China's expressway ITS sector**

Investment by the PRC government into the expressway sector of China's ITS market is expected to grow rapidly in the central and western regions where significant new expressway infrastructure is being built. These regions exhibit much more mountainous terrain and hence tunnel projects are becoming increasingly prevalent. Meanwhile, in the eastern region of China, new business potential is expected to come primarily from upgrading existing Specialized Solution installations.

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We have a strong presence in the Turnkey Solutions market in the central and western regions of China, in particular, due to our expertise in tunnel solutions. We intend to leverage this position to further grow our Turnkey Solutions business in these regions. We also intend to pursue selective acquisitions of Turnkey Solutions providers in other regions such as Southern China.

With respect to our Specialized Solutions, we seek to increase the penetration of our tolling solutions. We expect to achieve this by (i) leveraging the reputation gained from establishing our provincial tolling solutions in both Hunan and Liaoning Provinces, (ii) incorporating electronic toll collection technology and (iii) improving security, reliability and energy efficiency by transferring related hardware and software to an embedded platform. We also intend to intensify efforts to deploy our surveillance solutions, especially in the central and western regions of China. By integrating our proprietary Automatic Incident Detection (“AID”) and Optical Network Unit (“ONU”) technologies (in each case, as described in greater detail below) into a single package, we expect to offer highly competitive Specialized Solutions to clients. In the eastern region of China, we plan to focus on surveillance solutions, for which upgrade needs are most substantial. We constantly seek to improve our technologies and product offerings to further solidify our market share. In 2009, we formed a joint venture with Chengdu Weilute Software Technology Limited to develop high resolution surveillance products to fulfill the need for greater security and surveillance as part of a more advanced transportation network in the expressway and urban traffic sectors. The initial application is expected to be in the urban traffic segment, but we will seek to roll it out as part of our expressway specialized solutions as well.

### **Broadening our Specialized Solutions platform and expanding our Turnkey Solutions in China’s urban traffic ITS sector**

The needs for urban traffic specialized communication and surveillance solutions, with respect to both urban roadway and rapid transit, overlap significantly with the expressway sector. Our strategy for the urban roadway sector of China’s ITS market involves continuing to provide specialized surveillance solutions similar to those we already offer in the expressway market. We intend to utilize the technologies already developed for expressway projects, including our proprietary AID and ONU as well as the high resolution technologies as specified in the section on expressway and our tolling solutions, for urban roadway projects. For rapid transit, we expect to (i) further penetrate the market with our specialized communication solutions, and (ii) expand our product offering into signaling and surveillance, potentially in collaboration with international partners.

We also plan to expand our Turnkey Solutions for the urban roadway sector. We see opportunities in medium-sized cities for providing Turnkey Solutions incorporating specialized surveillance solutions. We have developed certain technologies, some of which are proprietary, specifically for the urban roadway surveillance market, including electronic policing solutions, traffic signal control solutions and traffic information broadcasting solutions.

### **Leveraging our expertise, knowledge and relationships to roll out VA Services in China’s expressway and railway ITS sectors**

ITS infrastructure investment has been significant in China. As the ITS market in China matures, we anticipate that there will be increasing demand for higher efficiency level and improved data management. The provision of ongoing VA Services, after construction is expected to be a major trend and large potential market for ITS solutions providers. Targeting this trend, we plan to leverage our expertise, knowledge and relationships from our Turnkey and Specialized Solutions business, to roll out VA Services. We believe the expressway and railway sectors are the most mature from the ITS perspective and aim to focus our VA Services efforts within these sectors. In particular, we plan to provide maintenance, ERP solutions and information platform services.

We currently provide post-construction maintenance services for completed Turnkey and Specialized Solutions projects. We intend to expand these services to offer full-service packages to provincial expressway and railway operators and collect service fees on an annual basis. We aim to differentiate these maintenance services by offering a supporting software platform that enables our expressway clients to obtain real-time information regarding hardware and software maintenance needs, translating into more systematic, efficient and

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economical maintenance plans. Furthermore, we are in the process of developing ERP solutions specifically targeted at expressway operators. We expect our information platform services to encompass integration of existing expressway information platforms at the provincial level. As part of our information platform services, we intend to consolidate information from various sources to serve end-users through different media, including the Internet, wireless, radio broadcasting, and dynamic traffic message boards.

We are actively working with our existing customers to explore VA Services opportunities and develop suitable VA Services models for the China ITS market.

### **Continued emphasis on R&D efforts to develop new Specialized Solutions**

We intend to continue to invest in our R&D efforts to develop new Specialized Solutions, leveraging our technical capability and existing technologies from areas outside traditional ITS. We plan to continue to work closely with our clients to understand their requirements and ensure that our R&D efforts are targeted and efficient. We also plan to work closely with international strategic partners to apply leading technologies to our clients' needs and develop new Specialized Solutions. As discussed above, we expect that our R&D efforts will primarily focus on supporting the expansion of our Specialized Solutions in the railway and urban traffic sectors as well as facilitating market share gains in the expressway sector.

### **Gradual expansion into overseas markets in cooperation with Chinese infrastructure construction contractors**

We plan to gradually expand our business into overseas markets. In 2009, we established a new sales team within our Specialized Solution business unit specifically to focus on our overseas strategy and we have already completed railway communications solutions projects in Angola. To date, we have carried out such projects by selling our Specialized Solutions to PRC Turnkey Solutions providers in the railway sector. Over time, we expect our strategy for overseas markets to involve partnerships with large PRC construction contractors and Turnkey Solutions providers specializing in the transportation infrastructure sector. The PRC government is actively encouraging the expansion of PRC companies' activities abroad, especially in emerging markets. We believe a partnership strategy with PRC infrastructure construction contractors specialized in transportation infrastructure will allow us to tap new markets with limited additional investment needed as the marketing would be done by our partners. We believe we can provide value to these partners through providing our range of proven Turnkey and Specialized Solutions as part of their overall offering in international markets.

## **OUR INDUSTRY SECTORS**

We conduct our business operations in three industry sectors in the ITS market in China: expressway, railway and urban traffic. We also conduct business operations in the energy sector in China.

### **Expressway**

The expressway sector of the ITS market in China includes communication systems, surveillance systems, toll collection systems and certain value added services. We commenced business in the expressway sector in 2001. In addition to Turnkey Solutions, we have provided specialized tolling, surveillance and communication solutions for expressways and tunnels across the country. We have demonstrated our strength in providing solutions for expressway tunnel projects, which require higher technical capability compared to standard expressway projects due to the integration of multiple discrete modules including, but not limited to, lighting, ventilation and fire warning systems. We have completed approximately 61% of the total major expressway tunnel projects in the expressway ITS market in China until 2007. For the year ended December 31, 2009, approximately 53.4% of our revenue was generated from the expressway sector.

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### **Railway**

The railway sector of the ITS market in China includes communication systems, signaling systems and power supply systems. We commenced business in the railway sector in the second half of 2007, as we expected growing ITS market potential in the railway sector and the opportunity to leverage the expertise and experience from our expressway solutions in the railway sector, and have expanded our railway business rapidly during the Track Record Period. Our projects in the railway sector have been exclusively communication based specialized solutions, and according to OC&C, in 2009, we held the largest market share in both wired and wireless communication solutions with 60% and 70% market share by total contract value in these sectors, respectively. For the year ended December 31, 2009, approximately 38.3% of our revenue was generated from the railway sector.

### **Urban Traffic**

The urban traffic sector of the ITS market in China, including both roadways and rapid transit, involves external information technology control and feedback systems, such as communication systems, signaling systems, surveillance systems and urban traffic control systems. Our current business in the urban traffic sector is focused on Turnkey Solutions, specialized surveillance solutions in the urban traffic—roadway segment and specialized communication solutions in the urban traffic—rapid transit segment. For the year ended December 31, 2009, approximately 4.0% of our revenue was generated from the urban traffic sector.

### **Energy**

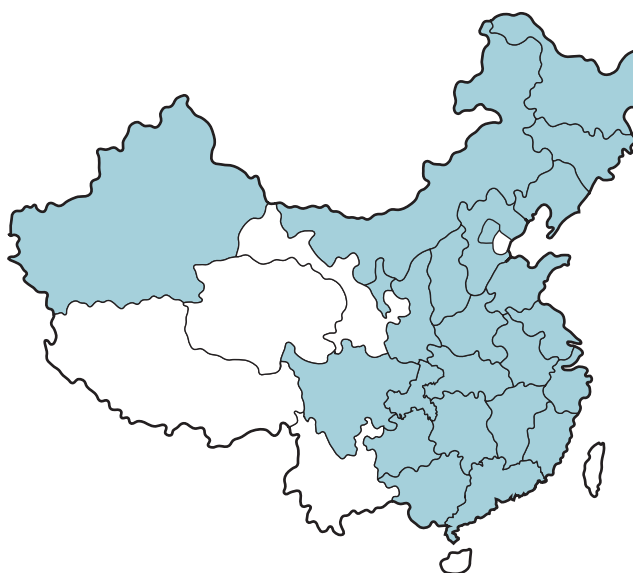
In addition to our ITS activities, we also address certain segments of the energy market, including oil production and electricity generation. We commenced business in the energy sector in 2004 and have provided communication solutions in the energy sector for the communication network systems for power generation stations, oil fields and other customers in the energy sector. For the year ended December 31, 2009, approximately 4.3% of our revenue was generated from the energy sector.

### OUR BUSINESS

Our business consists of Turnkey Solutions, Specialized Solutions and VA Services. For the year ended December 31, 2009, approximately 37.2%, 61.5% and 1.3% of our revenue and 27.2%, 69.9% and 2.9% of our gross profit were derived from our Turnkey Solutions, Specialized Solutions and VA Services, respectively.

#### Turnkey Solutions

Our Turnkey Solutions mainly target the expressway market but also increasingly the urban traffic market. During the Track Record Period, we generated RMB1,482.1 million in revenue from more than 130 Turnkey Solutions projects in 22 provinces in China. Since commencing operations in 2001, we have been engaged in Turnkey Solutions projects in 25 provinces (including provincial-level cities) in China. The map below shows the provinces in which we have engaged in Turnkey Solutions projects during the period from 2001 through December 31, 2009:



A Turnkey Solution within the ITS industry involves the integration of information technology with the physical transportation infrastructure. Our Turnkey Solutions activities focus on understanding the needs and requirements of clients, and then defining, choosing and optimizing multiple Specialized Solutions, such as tolling, communications, surveillance and tunnel solutions, and integrating them into a single tailor-made system through engineering implementation. Engineering implementation involves negotiation and coordination with numerous equipment contractors, system integration and comprehensive project management of ITS projects. The Turnkey Solutions projects that we undertake may involve certain of our proprietary technology. We, as the Turnkey Solutions provider, are the project manager accountable to the clients, who are local or provincial-level transportation related public institutions and state-owned enterprises. The end-users of our Turnkey Solutions are the drivers and passengers who use the expressways and urban roadways.

As a Turnkey Solutions provider, we will first gather information and understand all the needs and requirements of the client, and then define, choose and optimize multiple specialized solutions and design the appropriate combination of specialized solutions to fulfill these needs and requirements. In this process, we will match the functional requirements of project owners with the technical capability of various Specialized Solutions. We will subsequently customize and test the integrated system to ensure the various specialized systems communicate with each other and operate as one functioning system. To ensure the overall performance requirements of the clients, we as the Turnkey Solutions provider, will often have to either develop software to ensure compatibility of the individual Specialized Solutions or work with the Specialized Solutions providers to modify the solution.

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We design, engineer and implement integrated ITS systems for expressways and urban traffic. Each of these ITS systems provides unique solutions to complicated transportation problems. For regular expressway projects, we develop integrated systems consisting of tolling, communication and surveillance solutions based on client needs. For tunnel expressway projects, our systems typically include specialized communication and surveillance solutions tailor-made for tunnel applications as well as additional modules such as lighting, ventilation and fire warning systems. We have developed proprietary technologies for surveillance in tunnels including modules for peripheral device coordination and interfacing, information monitoring, data collection, statistics and analysis and traffic information publishing which provide real-time information from the tunnels with respect to the working status of the modules, traffic conditions, weather conditions, status of any unexpected incidents and tolling information, all of which can be released, automatically or manually to drivers through the publishing module and can lead to increased traffic capacity and safety. For urban traffic projects, we typically develop Turnkey Solutions for surveillance purposes, which include electronic policing solutions, traffic signal control solutions, and traffic information broadcasting solutions. In most cases, our Turnkey Solutions will rely upon and utilize certain of our Specialized Solutions in tolling, communication and surveillance.

### *Expressway*

During the period from 2001 through December 31, 2009 we were involved in expressway Turnkey Solutions projects in 23 provinces (including provincial-level cities) in China. During the Track Record Period, we entered into numerous Turnkey Solutions projects in the expressway sector, including the Xichang-Panzhihua Expressway which was constructed and opened to traffic in 2008 after the Sichuan earthquake. In addition, we have particular strength in expressway tunnel projects. According to the OC&C Industry Report, we are the market leader in tunnel projects, having completed 61% of total major expressway tunnel projects in China until 2007, including many landmark tunnel projects, such as the Qinling Zhongnanshan expressway tunnel, which is the longest tunnel in Asia and the second longest tunnel in the world. The expressway ITS market in the central and western regions of China is expected to grow rapidly. By 2020, 81% of total new expressway ITS investment will be allocated to the central and western regions of China, according to OC&C. These regions exhibit much more mountainous terrain and hence tunnel projects are likely to become increasingly important. We believe that our strength in expressway tunnel projects will help us gain more business opportunities due to our proven track record and established relationships with local transportation related public institutions and state-owned enterprises in these regions.



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The table below sets forth examples of our Turnkey Solutions projects in the expressway sector:

Contract Name	Commencement Date	Completion Date	Aggregate Contract Value (RMB in millions)	Description
Shaanxi Qinling Zhongnanshan Tunnel	March 2006	March 2007	69.0	The Qinling Zhongnanshan Tunnel in Shaanxi Province consists of two unidirectional tunnels, each 18 kilometers in length, and is the longest tunnel in Asia and the second longest tunnel in the world. As the Turnkey Solutions provider, we provided tunnel surveillance solutions for the project. Our tunnel surveillance solutions comprise central controlling system, closed-circuit television system, environment monitoring system, fire alarm system, wired broadcasting system, ventilation system, illumination system and emergency call systems. There are a total of 288 surveillance cameras in the two tunnels. The Qinling Zhongnanshan Tunnel project is a state-of-the-art infrastructure project utilizing advanced and comprehensive surveillance technology in tunnel and expressway construction.
Anhui Tongling-Tangkou Expressway	March 2007	October 2007	84.0	The Tongling-Tangkou Expressway in Anhui Province connects Tongling and Tangkou and is a rapid transit channel for several regional tourist destinations. The expressway is 121 kilometers in length, which includes 16.8 kilometers of tunnels. As the Turnkey Solutions provider, we designed and installed the tunnel surveillance system, which consisted of central controlling system, closed-circuit television system, environment monitoring system, fire alarm system, wired broadcasting system, ventilation, illumination and emergency systems.
Hunan Changde-Jishou Expressway Xiangxi Segment	January 2008	December 2008	90.5	The Changde-Jishou Expressway is an important part of the expressway that links Changsha, Hunan Province and Chongqing. As the Turnkey Solutions provider, we developed and integrated ventilation, lighting and power supply systems for the 20 tunnels of the Xiangxi Segment.

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<u>Contract Name</u>	<u>Commencement Date</u>	<u>Completion Date</u>	<u>Aggregate Contract Value (RMB in millions)</u>	<u>Description</u>
Chongqing Hu-Rong Expressway Fenshuiling-Zhongxian Segment	March 2008	October 2009	69.9	The Fenshuiling-Zhongxian Segment of the Hu-Rong Expressway in Chongqing has five tunnels and is located in a mountainous area. As the Turnkey Solutions provider, we designed and installed the tolling system, communications system and tunnel surveillance system, as well as the construction of one toll sub-center, five toll stations, 40 lanes, eight communications stations, one communications sub-center and one tunnel surveillance station.
Liaoning Tieling-Chaoyang Expressway	May 2008	May 2009	61.8	The Tieling-Chaoyang Expressway, with a total length of 541 kilometers, starts from the Liaoning and Jilin provincial border and ends at the Liaoning and Hebei provincial border, connecting Tieling, Shenyang, Fuxin, Chaoyang cities throughout the northwest Liaoning Province. As the Turnkey Solutions provider, we developed the tolling solutions by integrating infrared vehicle separators with lane controllers, and also installed vehicle identification systems, weight systems and other equipment.

### *Urban Traffic*

Due to a historical lack of centralized funding, the absence of unified technical standards among urban traffic roadway ITS applications and a complex project environment, which lacks a standardized open bidding process, we have taken a selective approach to target profitable Turnkey Solutions projects in the urban traffic sector. In particular, we have targeted projects in medium-sized cities with clearly defined city plans and guaranteed sources of funding. Our current business in the urban traffic sector has been focused on the urban roadway segment.

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The table below sets forth examples of our Turnkey Solutions projects in the urban traffic sector:

Contract Name	Commencement Date	Completion Date	Aggregate Contract Value (RMB in millions)	Description
Shanxi Jiexiu Intelligent Traffic Management System	August 2008	February 2009	7.9	As the Turnkey Solutions provider for the police department of Jiexiu, Shanxi Province, we constructed and designed closed-circuit television surveillance subsystem, electronic policing, blacklist alarm, plate number identification, checkpoint, traffic violation penalty, monitoring and large-screen administrative systems for the command center. We also applied our proprietary intelligent traffic management system-GIS software platform for traffic management.
Shanxi Jinzhong Intelligent Transportation Command System	September 2008	March 2009	16.0	This project aimed to improve and upgrade the overall traffic control performance in Jinzhong, Shanxi Province. As the Turnkey Solutions provider, we developed and integrated ten systems, including intelligent surveillance, signal control, image capturing of violations, e-police, information service and guide, flow and incident detection, wired/wireless communications, digital light procession display and central network systems, and GIS-based control and dispatch platform.
Jilin Nong'an Network Alarm and Surveillance System	October 2009	January 2010	15.9	This project improves the local security and enhances the work efficiency of local governmental agencies in Nong'an, Jilin Province. As the Turnkey Solutions provider, we constructed the command center with networked alarming and monitoring systems, and connected the surveillance equipment at each checkpoint to realize automatic monitoring, alarming and positioning functions.

### Specialized Solutions

Our Specialized Solutions have been implemented in the expressway, railway, urban traffic and energy sectors. During the Track Record Period, we generated RMB1,776.7 million in revenue from more than 1,400 Specialized Solutions projects in 31 provinces in China. Since commencing operations in 2001, we have been engaged in Specialized Solutions projects in all of the provinces (including provincial-level cities) in China. The map below shows the provinces in which we have engaged in Specialized Solutions projects during the period from 2001 through December 31, 2009:



Source: CIC

A Specialized Solution within the ITS industry involves providing efficient and effective solutions to discrete problems occurring in a client's existing or planned transportation infrastructure through the design, development and implementation of hardware- and software-based systems. Unlike large equipment suppliers, we focus on developing modules that we can customize to the specific needs of an ITS project. We typically integrate hardware and software from multiple external suppliers as well as include proprietary content to achieve this goal.

We have developed highly specialized tolling, surveillance and communication systems, each as described further below, used primarily in expressway, railway and urban traffic projects in China. Clients of our Specialized Solutions include Turnkey Solutions providers, as well as local or provincial-level transportation related public institutions and state-owned enterprises. We have provided Specialized Solutions to most of the primary Turnkey Solutions contractors in the ITS industry in China.

Whereas our Turnkey Solutions involve overall integration of various specialized modules as well as project management, our Specialized Solutions address a single aspect of a project, for example, the necessity to collect tolls on an expressway that is already equipped with surveillance, communication or any other systems that the local transportation authority may utilize to operate and manage the expressway. Although our Specialized Solutions address a discrete problem, interconnectivity with the other modules already in place, or planned for, is critical to ensure overall operational efficiency. As a result, as our Specialized Solutions become more widely accepted, transportation authorities may realize cost efficiencies in utilizing similar Specialized Solutions for any extensions or upgrades of adjoining highways.

Our tolling, communication and surveillance solution modules can be found extensively in China's expressways. Our communication solutions can also be found extensively in China's railways and have growing application in the urban traffic—rapid transit sector. We have broadened the application of our specialized surveillance solutions from expressways into the urban traffic—roadway sector. Our landmark Specialized

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Solutions projects include the development of tolling solutions which have been installed in Hunan and Liaoning Provinces, the development of the specialized communication system for the Wuhan-Guangzhou high-speed railway, the longest passenger-dedicated railway in China, traveling at speeds of up to 350 kilometers per hour, and the application of our communication solutions in the first phase of the Shanghai Subway Line 10 with a length of 36 kilometers which is currently in operation for 2010 Shanghai World Expo.

### *Expressway*

During the Track Record Period, we entered into numerous Specialized Solutions projects in the expressway sector, including the development and provision of communications solutions for Jilin Jiangmifeng-Yanji Expressway, the longest expressway in Jilin Province. In the expressway sector, we typically provide tolling, surveillance or communications solutions or a combination of these specialized solutions, depending on the needs of our client.

*Tolling Solutions.* Tolling solutions are an important part of the ITS system of an expressway ITS project. Tolling solutions are developed based on the specifications of the expressway operators and the requirements of the expressway network of which the expressway pertaining to the project is a part. Tolling solutions include toll lane management systems, toll station management system, toll collection centers, regional or provincial management systems and the supporting information system. In addition to performing toll collection functions, such solutions also collect traffic flow and traffic pattern information, which, in turn, provide data for the integrated operation and management of expressways. Tolling solutions are key elements in optimizing toll collection and minimizing intentional toll leakage. While the details of tolling solutions vary heavily depending on the specific needs of clients, every solution is a tailor-made system. We have installed Integrated Circuit (“IC”) card-based electronic tolling systems that increase the efficiency of toll collection and have achieved very low toll fee leakage in the tolling business. Our tolling solutions are only used in the expressway sector of the ITS market in China, and we have established widely accepted tolling solutions in several provinces including Hunan and Liaoning.

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The table below sets forth examples of our tolling solutions projects in the expressway sector:

Contract Name	Commencement Date	Completion Date	Aggregate Contract Value (RMB in millions)	Description
Hebei Coastal Expressway	January 2007	December 2007	24.0	The Hebei Coastal Expressway, with a total length of 160 kilometers, connects Qinhuangdao, Hebei, to Tianjin. The Hebei Coastal Expressway is part of the Beijing-Shenyang toll collection network, which consists of seven expressways. We provided specialized tolling solutions for the Hebei Coastal Expressway by integrating an IC card toll collection management system into the existing framework of toll lanes, toll stations, toll subcenter/center and regional toll distribution center. Our specialized tolling solutions helped reduce the leakage of toll fees and increase the transit speed at toll stations.
Shijiazhuang-Taiyuan Expressway Hebei Segment	June 2008	September 2009	7.9	The Shijiazhuang-Taiyuan Expressway, with a total length of 68.1 kilometers, is a major thoroughfare for the transportation of Shanxi coal. We provided specialized tolling solutions for the Hebei Segment and upgraded and expanded the existing toll stations.
Liaoning Provincial Expressway Tolling System	August 2009	September 2009	18.9	The Expressway Administration Bureau of Liaoning Province has adopted automatic tolling system onto the provincial expressway network in 2003. We provided our specialized tolling solutions to upgrade the existing tolling systems. We adopted non-contact IC card to achieve one card solution, which is able to provide tolling rate information, traffic volume statistics, car plate number, real-time transmission and realize other functions.

*Surveillance Solutions.* Our surveillance solutions enable expressway operators to monitor traffic flows, respond quickly and accurately to traffic incident sites, reduce traffic incidents and congestion, and provide timely information to expressway users. Closed-circuit cameras installed along roadways or in tunnels observe and record minute-by-minute traffic flow and transmit a signal back to a central control station. The incoming signal is received on monitors at the control station where attendants can monitor the road and traffic conditions. We have developed the AID technology, which uses image tracking and pattern recognition to detect traffic incidents including slow moving traffic, pedestrians, smoke, debris, stopped vehicles and vehicles that are attempting a U-turn. When a traffic incident is detected, the computer processor sends a signal to the control station, allowing staff to respond to traffic incidents. We have also developed a proprietary ONU technology that integrates multiple functions into a single device and allows for secure and flexible real-time video streaming on the internet. In addition, the ONU device can incorporate additional functions, including our AID technology, for powerful integrated ITS functionality that may be a critical part of our future projects.



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The table below sets forth examples of our surveillance solutions projects in the expressway sector:

Contract Name	Commencement Date	Completion Date or Expected Completion Date	Aggregate Contract Value (RMB in millions)	Description
Jiangxi Wuning-Ji'an Expressway	November 2007	June 2008	3.9	The Jiangxi Wuning-Ji'an Expressway, with a total length of 285.8 kilometers, is a two-way, four-lane expressway. It was the first expressway construction project during the Eleventh Five-Year Plan period and the longest expressway in Jiangxi Province for one-time construction. We applied our proprietary AID technology and provided solutions through a tunnel surveillance system consisting of 128 sets of data and incident analysis equipment for the tracking of real-time traffic information and the transmission of the data to the surveillance center to ensure the traffic safety of the expressway.
Beijing-Fuzhou Expressway Shandong Segment	January 2008	March 2008	4.3	The Shandong Segment of Beijing-Fuzhou Expressway, with a total length of 369.3 kilometers, starts from Dezhou and ends at Zaozhuang in Shandong Province. We applied our proprietary AID technology and traffic incident management system extensively along the expressway to provide customers with monitoring solutions.
Liaoning Expressway Surveillance Network Renovation	September 2009	March 2010	7.8	The Liaoning Expressway Network designed under the Eleventh Five-Year Plan will consist of 14 expressways, with a total length of 3,853 kilometers by 2010. We renovated the surveillance systems adopted on the existing expressways by applying our ONU technology and established a provincial surveillance network. Through the use of our ONU technology, the images, sounds, traffic incidents and other information captured or detected on expressways by local surveillance subcenters in 11 cities can be transmitted to the provincial surveillance center from time to time.

*Communication Solutions.* Our communication solutions utilize high speed data networks such as optical or digital network units, standard data connection protocols and digital information exchange systems to provide voice, image and data communications. We are a major provider of communication solutions in the expressway ITS market in China. As a communication solutions provider, we design and install a coordinated set of optical or digital network units along expressways in order to ensure effective and secure communication between expressway control points. As of December 31, 2009, we have installed communication solutions for the provincial expressway networks within 24 provinces.

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The table below sets forth examples of our communication solutions in the expressway sector:

Contract Name	Commencement Date	Completion Date	Aggregate Contract Value (RMB in millions)	Description
Beijing-Tianjin Expressway Tianjin Segment	December 2007	May 2008	11.1	The Tianjin segment of Beijing-Tianjin Expressway connecting Beijing and Tianjin has a total length of 144 kilometers. The completion of this project effectively reduced the traffic pressure of the current Beijing-Tianjin-Tangshan Expressway and provided transportation facility for the 2008 Beijing Olympic Games. We provided expressway communication solutions by employing optical network transmission technologies to this project.
Jilin Jiangmifeng-Yanji Expressway	June 2008	December 2008	13.2	The Jiangmifeng-Yanji Expressway, with a total length of 284.7 kilometers, is the longest expressway in Jilin province. It has 51 bridges, 5 tunnels and 9 interjunctions. We provided communication solutions along the expressway using optical transmission equipment.
Jiangsu Provincial Backbone Information Network	December 2008	June 2009	10.9	The Jiangsu provincial backbone transportation information network serves as a reliable transmission platform for transportation information across Jiangsu Province, as well as the network linking each of the expressway communications systems within Jiangsu Province. We provide specialized communication solutions for this project utilizing an optical transmission platform.

### ***Railway***

During the Track Record Period, we entered into numerous Specialized Solutions projects in the railway sector, including the provision of wired and wireless communications solutions for Beijing-Kowloon Railway, a dual track railway with a total length of 2,397 kilometers. In the railway sector, we currently only provide communications solutions. Our specialized communications solutions include both wired and wireless solutions. We have gained significant experience in the Global System for Mobile Communication for Railways (“GSM-R system”), a wireless communication standard for railway networks, which can convey audio and digital data transmission and is specifically applied in communication systems for high-speed and heavy-haul trains to assist railway operators to achieve network interoperability, reduce operational costs and improve safety and deliver new services for the benefit of passengers and railway operators. The GSM-R systems for high-speed and heavy-haul trains provide the system platform for wireless dispatching communication, safety control communication and train location tracking. According to OC&C, in 2009, we held the largest market share in both the wired and wireless communication solutions segments of the railway sector.

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The table below sets forth examples of our communication solutions in the railway sector:

<u>Contract Name</u>	<u>Commencement Date</u>	<u>Completion Date</u>	<u>Aggregate Contract Value (RMB in millions)</u>	<u>Description</u>
Beijing-Tianjin Intercity Railway	August 2007	August 2008	10.7	The Beijing-Tianjin Intercity Railway is a 117-kilometer high-speed rail line between Beijing and Tianjin in China. It was put into service before the 2008 Beijing Olympics and designed with a maximum speed of 350 kilometers per hour, which shortened the journey between Beijing and Tianjin from the original 70 minutes to 30 minutes. We provided the wireless communications systems with handheld terminals and an SMS platform.
Hefei-Wuhan Railway	May 2008	May 2009	37.2	The Hefei-Wuhan railway connecting Hefei, Anhui Province and Wuhan, Hubei Province is a dual track railway and serves as an important component of the national express railway network in China. We supplied communications power supply system, time synchronization systems and wireless communication systems with hand held terminals.
Ningbo-Taizhou-Wenzhou Railway	August 2008	September 2009	61.5	The Ningbo-Taizhou-Wenzhou Railway has been designated a national key project by the Ministry of Railways. It starts from Ningbo in the north, and ends in Wenzhou in the south. It is 282.4 kilometers long with a designed speed of 250 kilometers per hour. The railway is linked to the Wenzhou-Fuzhou Railway, and is a main railway for both cargo and passenger transportation on the southeast coast of China. We provided transmission system, telephone system, data network system, video conference system, time synchronization systems, power supply system and GSM-R systems for this railway.

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<u>Contract Name</u>	<u>Commencement Date</u>	<u>Completion Date</u>	<u>Aggregate Contract Value (RMB in millions)</u>	<u>Description</u>
Wenzhou-Fuzhou Railway	August 2008	September 2009	69.0	The Wenzhou-Fuzhou Railway has a total length of 298.4 kilometers. As a part of the coastal railway corridor of the national railway network, it runs across eastern Fujian Province and coastal regions in south Zhejiang Province. We provided the transmission system, telephone switching system, access system, data network system, teleconference system, communication power supply system and GSM-R system.
Wuhan-Guangzhou Passenger Dedicated Railway	November 2008	December 2009	207.7	The Wuhan-Guangzhou Passenger Dedicated Railway is the southern component of Beijing-Guangzhou Passenger Dedicated Railway and travels through Hubei, Hunan and Guangdong provinces, from Wuhan to Guangzhou. Its total length is 989 kilometers. Its designed speed is 350 kilometers per hour, with a maximum speed of 380 kilometers per hour. We provided transmission and access systems, telephone switching system, data network system, time synchronization systems and repeater systems for tunnels for this passenger dedicated line.
Fuzhou-Xiamen Railway	December 2008	December 2009	48.0	The Fuzhou-Xiamen Railway with a whole length of 276 kilometers starts from Fuzhou and ends at Xiamen in Fujian Province. The designed speed is 200 kilometers per hour. We provided transmission system, telephone exchanges, access systems, data network system, teleconference system, communication power supply and private mobile communications GSM-R systems.

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<u>Contract Name</u>	<u>Commencement Date</u>	<u>Completion Date</u>	<u>Aggregate Contract Value (RMB in millions)</u>	<u>Description</u>
Second Line, Xining-Golmud Section of Qinghai-Tibet Railway	March 2009	March 2010	19.4	The Qinghai-Tibet Railway, the only railway that links the Qinghai-Tibet Plateau to the rest of China, serves as a main artery for economic and social development of both Qinghai and Tibet. The second line of Xining-Golmud Section involves the construction of five sections between Xining, capital of Qinghai Province and Golmud also in Qinghai, with a combined length of 356 kilometers. We were engaged in the electrification project for the second line and provided transmission and access systems.
Guangzhou-Zhuhai Passenger Dedicated Intercity Railway	March 2009	March 2010	11.9	The Guangzhou-Zhuhai Passenger Dedicated Intercity Railway is a passenger dedicated railway linking New Guangzhou Station in Panyu, Guangzhou, and Zhuhai Airport in Zhuhai, Guangdong Province. It has 27 stations with a total length of 117 kilometers and will be put into service for the Guangzhou Asian Games in October 2010. We provided time synchronization systems and GSM-R communications systems for this railway.
Beijing-Kowloon Railway	June 2009	August 2010 (expected)	79.4	The Beijing-Kowloon Railway starts from Beijing, travels through 98 cities and counties in 9 provinces across China and ends in Kowloon, Hong Kong. Its total length is 2,397 kilometers. We participate in the electrification modification for this railway and provide the transmission system, access system, communication power supply system, data network system, GSM-R system and repeaters.
Taiyuan-Zhongwei-Yinchuan Railway	September 2009	September 2010 (expected)	161.9	The Taiyuan-Zhongwei-Yinchuan Railway connects Taiyuan, Shanxi, and Yinchuan, Ningxia. Its total length is 944 kilometers and includes 355 bridges and 159 tunnels. We provide the communication power supply system, transmission system, access system, GSM-R system and repeaters for this railway.

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### *Urban Traffic*

During the Track Record Period, we entered into numerous Specialized Solutions projects in the urban traffic sector, including the development and installation of the surveillance solutions for the central area of Beijing Olympic Park and the application of our communications solutions in the first phase of the Shanghai Subway Line 10. In the urban traffic sector, we typically provide surveillance or communications solutions or a combination of these specialized solutions, depending on the needs of our client. We provide our Specialized Solutions in both the roadway and rapid transit segments of the urban traffic sector.

*Surveillance Solutions.* We leverage surveillance technology similar to that used in our expressway Specialized Solutions in urban traffic projects, however, we have also developed unique solutions for the urban traffic context. In particular, we have established a joint venture with Chengdu Weilute Software Technology Limited to develop high resolution surveillance products to fulfill the need for greater security and surveillance as part of a more advanced transportation network.

The table below sets forth examples of our surveillance solutions projects in the urban traffic sector:

<u>Contract Name</u>	<u>Commencement Date</u>	<u>Completion Date or Expected Completion Date</u>	<u>Aggregate Contract Value (RMB in millions)</u>	<u>Description</u>
Beijing Olympic Park Central Area Traffic Video Detection	December 2007	March 2008	2.8	The Beijing Olympic Park was constructed for the 2008 Summer Olympics and its central area has an underground system with a circular 5.5-kilometer roadway connecting surface roads and underground parking facilities with the Beijing Olympic Park where major Olympic sporting venues are located. We applied our AID system to detect and prevent traffic incidents that may occur in the central area.
Changzhou Viaduct Surveillance	June 2008	August 2008	2.7	The Changzhou Viaduct passes through Wujin, Zhonglou and Xinbei districts of Changzhou City, Jiangsu Province. We provided a traffic information management software platform for traffic surveillance. The software platform consists of traffic information collection, traffic information processing, data storage and retrieval, and traffic information publishing systems.
Xi'an Traffic Flow Information Collection	December 2009	March 2010	2.2	We provided video detection solutions, including microwave vehicle detection and high-definition video detection systems, for the Traffic Police Department of Xi'an Public Security Bureau. Our solutions can detect traffic incidents, which helps to enhance the efficiency of government departments.

*Communications Solutions.* We leverage communications technology similar to that used in our expressway Specialized Solutions in urban traffic projects.



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The table below sets forth examples of our communication solutions in the urban traffic sector:

<u>Contract Name</u>	<u>Commencement Date</u>	<u>Completion Date</u>	<u>Aggregate Contract Value (RMB in millions)</u>	<u>Description</u>
Beijing Airport Express Line	December 2007	January 2008	4.1	The Beijing Airport Express Line, which connects Dongzhimen and Beijing Airport, was an important project for the 2008 Beijing Olympic Games and was sponsored by the Beijing government. We provided a complete set of communication solutions and accompanying equipment for the project consisting of three main communication stations and several sub-communication centers.
Phase I of Line 10, Shanghai Subway	February 2009	December 2009	20.6	Line 10, Shanghai subway (Phase I), with a total length of 36 kilometers, has 29 stations and one parking lot. It runs from Xinjiangwancheng to Hongqiao Railway Station and Hongqiao International Airport and is currently in operation for the 2010 Shanghai World Expo. We provided communication solutions, including transmission and data systems, for this line.
Line 1, Shenyang Subway	March 2009	December 2009	12.4	Line 1, Shenyang Subway has 18 underground stations. Its total length is approximately 22 kilometers. It includes one rail car dispatch center and one control center, two high voltage substations, and four turn-back lines. We provided transmission, access, switching and communication power supply systems and related services for this line.

### *Energy*

During the Track Record Period, we entered into numerous Specialized Solutions projects in the energy sector, including the Qinghai Oilfield Transmission Network Project. The energy sector makes up a limited portion of our business, and in the energy sector, we provide communications solutions exclusively. We apply the same communications technology used in our expressway and urban traffic Specialized Solutions in our energy projects.

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The table below sets forth examples of our communication solutions in the energy sector:

<u>Contract Name</u>	<u>Commencement Date</u>	<u>Completion Date</u>	<u>Aggregate Contract Value (RMB in millions)</u>	<u>Description</u>
Huabei Oilfield Transmission Project	May 2007	December 2007	4.8	Huabei Oilfield is located in Hebei and Inner Mongolia provinces and produces crude oil and natural gas. As the Specialized Solutions provider, we developed and installed transmission systems and provided other related services.
Henan Kaifeng Xinditou 330 kilovolt Transformer Station Construction Project	June 2007	August 2007	5.2	The 330 kilovolt transformer station in Kaifeng was established to meet the electricity consumption demand of the region. We were the Specialized Solutions provider for telecommunication, power supply and network systems for the transformer station, and we developed broadband data transmission channels for Kaifeng Power Supply Bureau through intelligent optical network systems to establish an information network for electricity generation and coordination.
Qinghai Oilfield Transmission Network Project	June 2008	December 2008	15.5	Qinghai Oilfield is located in Qaidam Basin and produces crude oil and natural gas. As the Specialized Solutions provider, we developed and installed transmission, access and communication power supply systems and time synchronization systems and provided other related services.

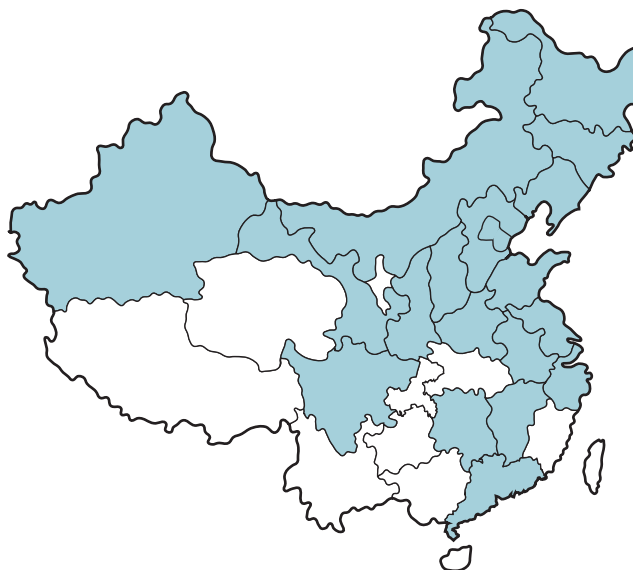
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### VA Services

We currently engage in certain VA Services, which mainly consist of providing post-construction, maintenance and follow-up services for completed Turnkey and Specialized Solutions projects. During the Track Record Period, we were involved in VA Services projects in 21 provinces (including provincial-level cities) in China, and the map below shows the provinces in which we have engaged in VA Services during such period:



Source: CIC

With respect to completed Turnkey Solutions projects in the expressway sector, we provide specialized maintenance and services to expressway operators based on their particular needs in order to ensure the continuous and effective operation of installed ITS Solutions, increase their efficiency and life span, as well as realize maintenance cost savings. In providing VA Services for completed Turnkey Solutions projects, we also offer such value-added services as system upgrades, system extensions and training programs. Under our VA Services contracts for completed Turnkey Solutions projects, we are normally responsible for system maintenance and upgrade, and are required to conduct on-site inspection on a regular basis and provide necessary testing, repair, maintenance, upgrade and training services. The term of such contracts, normally one year, are determined by both parties, and may be extended on an annual basis. The annual service fee is determined based on our negotiation with customers.

With respect to completed Specialized Solutions projects, we provide value-added services including system integration of special equipment, testing, training and post-warranty period maintenance services, which have been used extensively in ITS systems all over China. Under our VA Services contracts for completed Specialized Solutions projects, we are normally responsible for providing such services as equipment repair and maintenance, equipment installation, replacement of components, and training services. For equipment repair and maintenance contracts, the term is normally one year and the customers will make payments in several installments over the term of the contract. For equipment installation contracts or contracts involving replacement of components, the term is normally several months as the specific service requires with a one- to three-month warranty period and the customers typically making a single lump sum payment. Under certain contracts, we will be liable for our customer's losses if we fail to correct the defaults in time or have caused material delay, the maximum liability of the Company is limited to the contract value.

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The table below sets forth examples of our VA Services projects:

<u>Contract Name</u>	<u>Commencement Date</u>	<u>Completion Date or Expected Completion Date</u>	<u>Aggregate Contract Value (RMB in millions)</u>	<u>Description</u>
Maintenance of Tianjin Expressway Management Center	January 2009	January 2010	0.4	The Maintenance Project of Tianjin Expressway Management Center is intended to facilitate equipment maintenance required for the main backbone expressways within Tianjin. We have developed a set of operation- and management-friendly systems for remote alarm and maintenance of expressways. We have also sent technical staff on-site to provide long-term after-sale services according to the client's requirements.
Maintenance of Beijing-Qinhuangdao Expressway	January 2009	January 2010	0.4	We were engaged to provide Turnkey Solutions for the Beijing-Qinhuangdao Expressway in Hebei Province. In order to enhance the efficiency and increase the life span of the system we installed, we provided maintenance services based on our electromechanical facility maintenance management platform.
Maintenance of Liaoning Expressway Communications Network	October 2009	October 2010	2.9	We have applied our specialized communications solutions to a number of expressways in Liaoning Province. The maintenance project is aimed to provide long-term maintenance services for the communications equipment that we have installed, to ensure stable and efficient operation of machinery and equipment.

Our VA Services are provided by a team of engineers and technicians with substantial experience in ITS solutions development and services. We have established seven regional service centers in China and set up 24-hour technical support hotlines to provide our maintenance services.

### PROJECT OPERATION PROCESS

#### Turnkey Solutions Project Process

##### *Operation Process*

A typical Turnkey Solutions project in the ITS industry in China usually takes approximately six months to one year to complete. Prior to beginning such a project, there is often a tender or bidding process that takes approximately three to six months. In our Turnkey Solutions, we customize and integrate certain of our own Specialized Solutions into a single functioning system and implement such solutions. Our operations principally involve identifying potential projects, preparing tenders, carrying out the contract work and handing the project over to our clients on completion.

The operation process of our Turnkey Solutions in which we act as a general contractor consists of the following steps:

- *Identifying potential projects.* We identify potential projects from a variety of sources, including announcements by governmental agencies, through the efforts of our marketing personnel and through referral of our clients. On the one hand, our marketing department studies and monitors the national planning of expressway building and gathers information regarding new potential projects. On the other hand, clients to whom we have been providing services will refer new projects to us from time to time. After determining which projects are available, responsible personnel from our marketing and sales, engineering and finance departments will make a joint decision on which projects to pursue based on factors including, without limitation, project size, duration, availability of personnel, prior experience, sources of funding and geographic location. Based on our experience, we have established a marketing system through which we can obtain current market information and we make bidding decisions also based on our strategic planning.

For certain of our projects in the urban traffic segment, we negotiate directly with the project owner following identification of the project. In other cases, we enter into a bidding process as described below.

- *Obtaining pre-qualification and submitting a bid.* A new project in the area of expressway ITS and sometimes urban traffic ITS will normally be awarded through a public bidding process, in which Turnkey Solutions providers with pre-qualifications will tender bids. After we decide to participate in the bidding for a project, we are generally required to complete a pre-qualification process with the project owner. In the pre-qualification process, project owners generally require us to submit information concerning our financial condition, various legal certificates, prior track records and the availability of our personnel and equipment before the submission of our bid. If we pre-qualify for a project, the next step is to tender our bid. Prior to tendering a bid, we normally carry out a detailed study of the proposed project, including the technical and commercial conditions and requirements of the tender followed by a site visit. Our tendering department also invites quotations from suppliers for various items or activities in respect of the tender.
- *Awarding a bid.* In a public bid, an expert committee consisting of independent third party experts will evaluate the competing tenders based on a variety of business and commercial factors, including the bidding price, the bidder's financial, technical and engineering qualifications and track records, technical specification and the project owner's requirements. The evaluation process is confidential based on fairness considerations. The committee will choose a winning tender based on their evaluation.
- *Signing a contract.* After we are awarded the bid, we will present the award notice together with the required performance bond (described hereinafter) to the project owner and negotiate the contract terms with the project owner. During the normal course of most projects, we may modify or adjust some of the terms in the original tender book as agreed with the owner and then sign the contract.
- *Implementing a project.* In our project implementation, we have adopted the project management standards established by the Project Management Institute ("PMI"), an international membership association of project management professionals established in 1969. The PMI standards are a system designed to control risks and costs in every stage of the project implementation process, including

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project commencement, planning, appraisal and testing and approval. Although it is neither a regulatory requirement nor an industry norm to adopt the project management standards established by PMI, we have largely adopted such standards in our project operation process and our Group president of Turnkey Solutions, Mr. Lv Xilin has been certified by PMI as a project management professional. The adoption of PMI standard has helped our working team to improve their ability to manage ITS projects more systematically and efficiently and has helped improve our overall competitive advantage in the industry. After the contract is signed, we and the project owner will jointly design the project. When the project starts, we designate internally a project manager to be responsible for all project activities. We divide work on a project into distinct components and assign each component to a responsible unit based upon the nature of such work. The implementation process includes devising detailed manufacturing or construction plan, procuring materials, delegating works to sub-contractors, coordinating with customers or their consultants, coordinating with our sub-contractors and suppliers, and taking charge in the overall management of these works. Upon initial completion of the project, there will be a trial operation period of approximately three months. Upon successful inspection and testing by the relevant authorities, a completion certificate will be issued for the project.

- *Providing maintenance.* After the completion of the project, for most projects we normally provide maintenance services for a period of 12 to 24 months from the date of issuance of the completion certificate for the project. During this maintenance period, we are liable in accordance with the terms of the contract for any defects in our work and will provide maintenance services as necessary.

Based on information provided by the Company, our PRC legal advisors have confirmed that, during the Track Record Period, we did not violate the PRC Tender Law. In addition to PRC Tender Law, we also follow certain internal procedures in the bidding process for our Turnkey Solutions projects and have recently implemented a formal written policy regarding the bidding process. Our written policy regarding the bidding process sets forth the internal procedures we follow in the bidding process, the personnel that are responsible for each step in the bidding process and the quality control procedures in the bidding process. The internal procedures we follow in our bidding process include obtaining market information and selecting projects to bid, preparing pre-qualification documents, conducting on-site survey and preparing survey report, compiling various bidding documents including project bond application, equipment selection list, and technical documents, determining the bidding price and submitting the bid. The responsible parties involved in our bidding process include our Group president of Turnkey Solutions, regional managers and bidding department managers, and relevant engineers and technical staff. Our regional managers will prepare project information registration form and our Group president of Turnkey Solutions will review and sign off. The on-site survey reports will be reviewed by our Group president of Turnkey Solutions, regional managers and bidding department manager. Among the various bidding documents, the project bond application will be reviewed and approved by our bidding department, finance department and Group president of Turnkey Solutions, the equipment selection list will be prepared by our bidding department and engineers, other technical documents for relevant systems including surveillance system, tolling system and communication system will be prepared by relevant engineers and technical staff. Our Group president of Turnkey Solutions, regional managers and bidding department managers will determine the final bidding price and our bidding strategies.

The parties involved in the Turnkey Solutions project process generally include Turnkey Solutions providers, project managers designated internally by the Turnkey Solutions providers, project owners who are customers of Turnkey Solutions providers, equipment providers or suppliers, and sub-contractors. In a typical Turnkey Solutions project, we act as the Turnkey Solutions provider who will designate a project manager internally to be responsible for project activities and will assign work to responsible units, normally covering the functions of procurement, engineering and finance. The project owner is our customer and in many cases is a provincial or local transportation related authority. The project owner will determine the scope of the work, engage the winner of the bid to be the Turnkey Solutions provider, participate in joint design with the Turnkey Solutions provider, provide specifications of the design plan and initiate modifications or changes to the specifications, manner of performance, or other requirements as necessary. The project owners have the right to set requirements for specifications or quality of the equipment that will be procured from the suppliers in the bidding invitation documents, but they normally do not designate which suppliers to procure equipment from for the project. We, as the Turnkey Solutions provider, will choose and optimize different Specialized Solutions and



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integrate them into a tailor-made system, and also procure various equipment for system integration from equipment providers or suppliers. See “—Suppliers.” In determining which suppliers to source equipment from, we normally invite quotations from different suppliers and make determination based on commercial considerations, such as prices, quality and specifications of products, as well as their prior working relationships with us. We do not have a formal tendering process for choosing suppliers. As confirmed by our PRC legal advisors, there is no requirement for choosing suppliers through a tendering process under relevant PRC laws and regulations. We engage sub-contractors to undertake certain labor-intensive work which has less technical requirements. The diagram below sets forth the workflows and the roles of different parties involved in each stage of the operation process of our Turnkey Solutions projects.

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### Project Process

### Roles of Parties

Identifying potential projects

#### Turnkey Solutions provider

- identify potential project and select projects to bid on

Obtaining pre-qualification and submitting a bid

#### Turnkey Solutions provider

- prepare pre-qualification documents
- carry out detailed survey for the project
- invite quotations from **suppliers**
- submit a bid to the **project owner**
- submit required bid bonds

#### Project owner

- set up requirements for the bidders
- organize public bidding of the project

Awarding a bid

#### Expert committee set up by project owner

- evaluate competing tenders submitted by **Turnkey Solutions providers**
- choose a winning bidder

#### Project owner

- award a bid to the winning **Turnkey Solutions provider**

Signing a contract

#### Turnkey Solutions provider

- negotiate and sign the contract with **project owner**
- submit required performance bonds

#### Project owner

- engage the **Turnkey Solutions provider**

Project implementation

#### Turnkey Solutions provider

- designate internally a **project manager** to set up a project team for the project
- jointly design the construction plan with the **project owner**
- submit required prepayment bonds to secure prepayment from the project owner
- purchase equipment from **suppliers** based on commercial considerations
- engage **sub-contractors** for labor services and monitor **sub-contractors'** work
- coordinate with relevant parties and monitor the whole process

#### Project owner

- determine the work scope of the project and set up specifications to the design plan of the project
- modify specifications, manner of performance, or other requirements as necessary

Project completion

#### Project owner

- conduct testing and inspection of the project
- issue completion certificate to the **Turnkey Solutions provider**

Project maintenance

#### Turnkey Solutions provider

- provide maintenance services for the **project owner** until the warranty period expires

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### *Sub-contractors*

Our sub-contractors are mostly labor service companies which provide construction labor services, such as laying cables, dredging, plumbing and hoisting of large equipment. During the Track Record Period, sub-contracting costs represented a small portion of our total cost of revenue. We account for sub-contracting costs when the sub-contractor completes its work under the terms of its contract with us. Our project managers normally make the decision on which sub-contractors to engage. We select our sub-contractors based on a number of factors such as prior experience and our valuation of their prior performance. We will engage high-quality labor services companies which meet our specific standards and will closely monitor the quality of work conducted by these sub-contractors.

Under our contracts with our sub-contractors, we are responsible for coordinating between the project owner and sub-contractors and monitoring the sub-contractors' work, while the sub-contractors are responsible for the quality of their work and compliance with relevant regulatory and industry requirements. Under our contracts with sub-contractors, sub-contractors will guarantee the quality of their work and there is normally a 12 to 24 month warranty period after the completion of the project. Sub-contractors are normally liable for any economic losses we will suffer as a result of any quality problems or delays in work schedule caused by the sub-contractors. Under our contracts with sub-contractors, we normally make prepayment in the amount of 10-30% of the contract price within five days of the signing of the contract. During the implementation of the project, we will make several progress payments totaling 65-85% of the contract price. At the completion of the project, we normally will have paid a total of 95% of the contract price, with remaining 5% to be paid at the end of the warranty period. Under some of our contracts with sub-contractors, if the contract is terminated by us before the completion of work, we are required to pay the sub-contractor for the work completed before termination; the contract may also be terminated if it cannot be performed because of force majeure events, default by any party, or project suspension by the project owner. As advised by our PRC legal advisors, under PRC law we may be held responsible for acts or omission of sub-contractors, and, if we have a valid claim under contracts, we may bring such claim against the sub-contractor.

During the Track Record Period, we did not experienced any material incident where the sub-contractors could not provide satisfactory services which resulted in economic loss to the Company. As our subcontracting jobs normally have very low technical requirements, we believe that those jobs can be completed by various sub-contractors. We keep a list of preferred sub-contractors from which our project managers can choose based on the track records of such sub-contractors. We have had on average a 1.5-2 year relationship with our sub-contractors. In monitoring the quality of work conducted by our sub-contractors, we inspect their work in accordance with relevant national or industry standards, as well as the specifications in design plans or drawings provided to such sub-contractors. We also request the sub-contractors to provide us with work reports in order for us to monitor their work progress in accordance with our work schedules. If we discover any problems with the sub-contractors' work in our inspection, we will ask them to rectify such problems at their own cost.

### *Project Managers*

Among the various parties involved in a project, a project manager plays an important role in the project operation process. A project manager is usually an employee of the Company designated to manage and implement a project and reports regularly to senior management. The project manager is responsible for coordination between us and project owners, sub-contractors and other relevant third parties, and coordination among different departments within our Company to ensure the implementation process of a project. A project manager's major responsibilities include:

- participating in preparation of the project;
- preparing budgets for the operation costs;
- negotiating contracts with suppliers and sub-contractors;
- organizing joint design of the project with project owners;
- selecting and appointing sub-contractors;

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- compiling construction progress schedule and construction records;
- coordinating with quality and system engineers in the testing process; and
- coordinating for project completion, inspection and settlement matters.

Most contracts provide for prepayment and monthly or periodic progress payments. Specifically, most of our contracts require prepayment by the client of 10%-15% of the contract price when the project commences. This advance payment, together with additional working capital is used by the Company to purchase required equipment or solutions from suppliers. We will typically be entitled to collect an additional 70% of the contract price in several installments during the implementation of the project. Such installments are tied to performance milestones including delivery of the equipment, installation and testing. Generally, our clients pay up to an additional 15% upon project completion. Hence, by project completion, we are entitled to receive an aggregate of up to 95% of the contract price and these progress-based billings are typically settled by our customers within a period of six months to one year after billing. Please refer to the section entitled “Financial Information—Liquidity and Capital Resources—Working Capital” for further information about the impact of our project process on our working capital. Following project completion, there is normally a 12 to 24 month warranty period after the completion of the project, and the remaining 5% of the contract price will be paid after the expiration of the warranty period. We did not have any warranty provision or warranty expense recognized during the Track Record Period for our Turnkey Solutions projects. However, under certain contracts, we provide post-construction services such as system maintenance, spare parts repair and replacement for a period between one to two years. For these contracts, we build in the estimated post-construction service costs in our budgeted costs and the defer the corresponding portion of revenue recognition until the service costs are incurred or the post-construction service period expires. Contracts normally require that we provide the project owner with various bonds throughout the term of the project. We typically provide these bonds in the form of letters of guarantee issued by commercial banks (as further described below).

### Specialized Solutions Project Process

In a Specialized Solutions project, we normally design, develop and implement the software-based system to be used in a transportation infrastructure project to solve a client’s specific need. Although the project life cycle varies for each project and different industry sectors, our Specialized Solutions projects typically take three months to one year to complete. The operation process of a Specialized Solutions project normally involves the following steps:

- *Identifying potential projects.* We identify potential projects from a variety of sources, including marketing activities, announcements by government agencies and referrals from design institutes and Turnkey Solutions providers. Our sales and marketing team gathers market information by periodically following up with government agencies, design institutes, Turnkey Solutions providers and existing clients. After we identify which projects are available, we make our decisions on which projects to pursue in accordance with our future development strategies. For example, in the expressway sector we will focus on projects for which we can apply our proprietary technologies and in the railway sector we will leverage our expertise in communication solutions for high-speed and heavy-haul trains.
- *Organizing client training and technology demonstration forums.* For our Specialized Solutions, we regularly organize nation-wide client training and technology demonstration forums. We participate in provincial plan of expressway ITS systems, provide technical advice for the design of tolling, communication and surveillance systems which adopt our Specialized Solutions, and involve in project proposal and initial design.
- *Participating in bidding.* As a Specialized Solutions provider, we cooperate with the Turnkey Solutions providers in the bidding process for ITS projects through providing initial design and technical advice of the Specialized Solutions to be provided for the ITS projects. In the railway sector, we are sometimes required to submit bid bonds to project owners in connection with the bidding. The bid bonds are normally in the form of letters of guarantee issued by banks, and will be returned to us after the announcement of bid awards.

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- *Winning a bid and signing a contract.* If the Turnkey Solutions provider who will use our Specialized Solutions in an ITS project wins the bid, we will discuss with clients and project owners with respect to the design of our Specialized Solutions and will enter into contract with the Turnkey Solutions provider of the project. For some railway projects, we provide performance bonds to project owners or Turnkey Solutions providers, depending on the project, to ensure our performance under the contracts. Such performance bonds are normally returned to us when the projects are completed or at the end of the warranty period.
- *Implementing a project.* We will provide Specialized Solutions based on client's specifications. The project implementation process normally consists of purchasing necessary equipment from suppliers, installing and testing equipment, and modifying design plan as necessary.
- *Providing maintenance.* After completing a project, we normally provide maintenance services for a period of 12 to 24 months from the date of completion. During the maintenance period, we provide maintenance, technical support, upgrade services and any technical related advice.

Under our contract with Turnkey Solutions providers, we will provide equipment, as well as installation, technical support and training, and maintenance services for the system. We will provide warranty for a period of 12 to 24 months starting from the date of completion. We did not have any warranty provision or warranty expense recognized during the Track Record Period for our Specialized Solutions projects. However, as with our Specialized Solutions projects, where we provide post-construction services such as system maintenance, spare parts repair and replacement, we build such costs into our budgeted costs and defer the corresponding portion of revenue recognition until the service costs are incurred or the post-construction service period expires. The risk of loss and damage will transfer from us to the client once the equipment leaves our premises if the client picks up the equipment by itself, and the client will be responsible for the transportation costs and insurance for transportation if we transport equipment to such client. We have the right to outsource the installation services to qualified third parties, but will remain responsible for the quality of such services.

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

### **VA Services Project Process**

The operation process for our VA Services varies depending on the nature of services we provide. Our current VA Services mainly consist of providing post-construction, maintenance and follow-up services for completed Turnkey and Specialized Solutions projects. We generally target our existing Turnkey and Specialized Solution clients to secure potential post-construction maintenance projects. Our focused marketing efforts in the VA Services area have proved to be effective and efficient. In the project operation process of these post-construction maintenance projects, we strive to leverage on our engineering experience gained from providing Turnkey Solutions and our technical expertise gained from providing Specialized Solutions. As part of our business strategies, we intend to expand our VA Services to provide a full-service package to expressway and railway operators, as well as develop information platform services to serve end-users. As we expand our VA Services into these areas in the future, we will develop operation processes to better carry out these activities. The operation processes of our new VA Services will differ from those of our current post-construction maintenance services, depending on how we provide the new services and our clients for these services.

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During the Track Record Period, we have not experienced any delay or cost overrun with respect to our projects that has materially affected the Group. Furthermore, we have implemented comprehensive risk control policies within our Group and strictly complied with the internal control provisions established under the GB/T19001-2000 system with respect to control over suppliers, project management and sales management. Regarding control over suppliers, we have implemented procedures for supplier selection and evaluation as well as for product procurement and inspection in an attempt to reduce credit risk and ensure quality control. To enhance our project management, we apply procedures for reviewing and signing contracts, bidding and project implementation in an attempt to reduce legal risks regarding the enforceability of contracts, project delays and cost overruns. In terms of sales management, we have developed procedures for product delivery and inspection in an attempt to reduce risks regarding product returns or claims of non-conformity with specifications.

### PROJECT BONDS

For contracts in our Turnkey Solutions business and some contracts in our Specialized Solutions railway business, we are required to provide various bonds throughout the term as described below:

- *Bid bond.* When we bid for a project, a bid bond, which is in the form of cash or a letter of guarantee from a bank, is usually required to be delivered with the bid. The amount of the bid bond to be submitted is typically specified in the bidding invitation letter and is normally in the range of 0.5-3% of the estimated contract price. If we are not awarded the project, the bid bond will be returned to us within 30-90 days after the bidding decision.
- *Performance bond.* After a successful bid and upon the signing of a contract, the bid bond is returned to us, and we provide a performance bond to the project owner. The performance bond is normally in an amount equal to 10% of the contract price and can be collected by the project owner from the issuing bank or finance company if we default. The performance bond is normally returned to us after the project owner confirms completion of the contract through a completion certificate. However, in some cases the performance bond is returned to us only at the end of the warranty period. Our bank normally requires us to put down 10-100% of the bond amount, which approximates 1-10% of the contract price, for the performance bond. In setting the requirement for us to put down certain percentage of the bond amount for the performance bond, the bank normally takes into account the following factors: (i) overall credit assessment, based on our business operation environment, company's ownership and governance, economic value associated with business operation, profitability, risk management and management strategies; (ii) business transaction volume with the bank; and (iii) the company's historical track record of repayment.
- *Prepayment bond.* After the project starts, we may request a 10% prepayment from the project owner. In the case that we receive such a prepayment, we provide a prepayment bond to the project owner. The prepayment bond is normally in an amount equal to 10% of the contract price. If we default by not commencing the project upon receipt of the prepayment, the project owner can present the prepayment bond to the issuing bank or finance company for payment. Portions of this prepayment are applied as part of the installment payments we are entitled to by stages during the project process. The prepayment bond is returned to us at such time as the full amount of the prepayment has been used towards payment for the project, which normally occurs when the aggregate installment payments reach 80% of the contract price. Our bank normally requires us to put down 10-100% of the bond amount, which approximates 1-10% of the contract price, for the prepayment bond. In setting the requirement for us to put down certain percentage of the bond amount for the prepayment bond, the bank takes into account the same factors as disclosed above for the performance bond.

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The following chart sets forth a typical example of the interaction between and timing of various project processes, payment schedules and different types of project bonds that may be required in the project operation process:

<u>Project Process</u>	<u>Payment from Clients (as a Percentage of Contract Price)</u>	<u>Project Bonds (as a Percentage of Contract Price)</u>
Submission of Bid		Bid bond submitted (0.5-3%)
Bid Awarded		Bid bond returned
Contract Signed		Performance bond submitted (1-10%)
Project Commencement	10% Prepayment	Prepayment bond submitted (1-10%)
Project Implementation —Equipment Delivery —Installation —Testing	Installment Payments totaling 70%	Prepayment bond returned
Project Completion and issuance of completion certificate	Completion Payment of 15%	Performance bond returned <sup>(1)</sup>
Warranty Period (12 to 24 months)		
Warranty Period Ends	5% payment	

*Note:*

(1) In some cases, the performance bond is returned to us at the end of the warranty period.

As of December 31, 2009, our down payment in connection with the project bonds was RMB74.7 million. For project bonds that were outstanding as of December 31, 2009, the expected release dates of these bonds ranged from January 2010 to June 2012 depending on the contract progress schedules. We are only required to make provisions for guarantees in our accounting records at such time as it becomes reasonably likely that we will be obligated to pay such guarantee. Due to the nature of the project bond process, the majority of project bonds are returned to us at different stages in the project implementation process. We confirm that there are currently no guarantees outstanding that are required to be accounted for in the accounting records.

## SUPPLIERS

For our Turnkey Solutions projects, we source various equipment such as lane controllers, closed-circuit televisions, computer servers, intercom telephones, uninterruptible power supplies, display systems, optical fiber digital transmission systems and optical cables, for engineering implementation and system integration in the projects. In our Specialized Solutions, we purchase electronic equipment and devices, such as optical transmitter/switch, communication access device, computer server, video conferencing system and uninterruptible power supply systems, which form the backbone of our hardware- and software-based system. With respect to supplies purchased for both our Turnkey Solutions and Specialized Solutions projects, we usually need to make advance payment (approximately 30%) to most of our suppliers for the equipment we purchase from them. The credit terms granted by our suppliers generally range from 0 to 90 days. However, in practice, some of these suppliers have granted us longer payment terms which has enabled us to better manage our cash flow and match payments to suppliers with receipt of payment from customers. Under our agreements with Huawei, our largest supplier, if the supply amount is less than RMB500,000, we normally pay off the whole amount at the time of or within one



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week after the purchase order; if the supply amount is over RMB500,000, we normally pay not less than 30% of the total payment within one week after the purchase order and pay the remaining in accordance with the payment schedule under each individual purchase order prior to the delivery of the equipment. We normally make payments to our suppliers by telegraphic transfer or checks.

Overall, our single largest supplier is Huawei, which has a long history of cooperation with us since our commencement of business operation in 2001. Huawei is China's leading manufacturer of telecommunication equipment and also a leading player globally. We benefit from a distribution agreement with Huawei which has been in effect since 2002 under which we are authorized as a distributor of certain Huawei products in the expressway sector in all provinces of China, except for Chongqing Municipality, Guizhou, Sichuan and Yunnan Provinces, on a non-exclusive basis. Prior to the current year, such authorization was for a one-year term and renewed annually. Starting from 2010, the term of such authorization was extended to fifteen months. In 2009, we entered into another distribution agreement with Huawei, under which we are authorized as a non-exclusive distributor of certain Huawei products for passenger-dedicated lines and railway bureaus (except Xi'an and Jinan railway bureaus) in the railway sector in all provinces of China. The latter authorization was for an eight-month term, and we expect to renew it annually and extend the term to one year.

Under each of the distribution agreements, the prices of products we sell must follow the minimum and maximum sales prices set by Huawei and we must meet an annual sales commitment, which is the yearly sales volume divided into quarterly goals we commit to reach when we renew the agreement with Huawei. Our annual and quarterly sales commitments are primarily based upon published government announcements and budget plans for ITS for the next year and our historical sales. We also take other factors into consideration, including our backlog, demands of our major customers and expected expansion of our business. If we fail to achieve the annual or quarterly sales commitment, we are subject to penalty and Huawei has the right to terminate the distribution agreement depending on the magnitude of the shortfall. In particular, under the expressway distribution agreement, the penalty is 5% of the difference between our annual sales commitment and actual sales volume. Under the railway distribution agreement, the penalty is 2% of the annual sales commitment, plus an extra contingent amount of up to a maximum of RMB4.3 million if we fail to be engaged in certain specified projects or help maintain Huawei's target market share in the railway wired and wireless communication segment for the year. The distribution agreement can also be terminated by Huawei if, among other things, we sell the products outside of the authorized territory, we do not comply with Huawei's price policy, or we develop, produce and sell products that are competitive to Huawei products. Our sales volumes in 2007 and 2008, respectively, exceeded the annual sales commitment we made. In 2009, our sales volume was 98% of our commitment due to delays of certain of our projects (as discussed in greater detail in "Financial Information — Management's Discussion and Analysis of Financial Condition and Results of Operations"), and no penalty was imposed by Huawei nor was such agreement terminated by Huawei. In 2010, our annual sales commitment under the expressway distribution agreement is RMB75 million and we have achieved approximately 13% of the commitment as of March 31, 2010, which had already exceeded the quarterly sales commitment set out in the agreement. As of the Latest Practicable Date, the renewal of the railway distribution agreements is under negotiation with Huawei.

Under a separate equipment purchase agreement between the two parties for purchase covered by the distribution agreement, Huawei will provide warranty for equipment sold for a period of 12 months starting from commencement of equipment operation or 15 months starting from delivery of equipment. In addition, we also benefit from an additional service agreement with Huawei under which we are authorized to provide inspection, installation and maintenance services for certain Huawei communications equipment to be used in expressway projects in all provinces of China except for Chongqing Municipality, Guizhou, Sichuan and Yunnan Provinces. We do not charge Huawei for such services provided to third parties who use Huawei products. Instead, we charge third-party users for services provided based on (i) the type of services, such as hardware installation and software testing, and (ii) the type of Huawei equipment involved. The cooperative model with Huawei has proved mutually beneficial for both parties and supports us in realizing our growth, especially given the increasing emphasis by the Chinese government to use local suppliers for infrastructure projects.

While we enjoy our long-term and mutually beneficial relationship with Huawei, we believe we will be able to source telecommunication equipment from other domestic and foreign suppliers at comparable quality and

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prices to meet our needs if our contracts with Huawei were to be terminated for any reason. In addition, for equipment sourced other than from Huawei, we are able to source such equipment from various suppliers at comparable quality and prices which can sufficiently meet our demand.

For the year ended December 31, 2007, 2008 and 2009, our top five largest suppliers accounted for approximately 34.3%, 38.5% and 36.7%, respectively, of our total cost of revenue. Our largest supplier during the same periods accounted for approximately 23.4%, 27.1% and 25.9%, respectively, of our total cost of revenue. None of our Directors, their associates or any shareholder who, to the best knowledge of our Directors, owns more than 5% of our issued share capital, had any interest in any of our large suppliers during the Track Record Period. Our Directors further confirm that, to their best knowledge, there is no ongoing business or other relationship between our Directors and Huawei.

### SALES & MARKETING

Due to the separate nature of the industry sectors that we serve, our marketing and sales personnel for each of the respective areas have operated relatively separately, although they coordinate their marketing activities. We do not advertise in traditional media, but promote our services through alternative forms of indirect marketing, including sponsoring industry forums and publications, training, seminars and other marketing activities.

Because our primary clients are local and provincial transportation related public institutions and state-owned enterprises that retain our services in connection with infrastructure projects, our marketing and engineering personnel work together on site in the relevant province. We have developed strong long-term relationships with local clients by understanding the full range of requirements and keeping abreast of the needs of the locality or province with respect to potential projects. This gives us a first mover advantage in relation to our competitors and allows us to optimize our bidding strategy.

To develop our business, we will send both technical and marketing representatives to the individual province to develop a relationship with the transportation related authorities, who are responsible for providing technical specifications of the ITS projects which Turnkey Solutions providers tend to follow. In addition, we work closely with our technical and marketing personnel to influence national design institutes, which adopt the specifications of Specialized Solutions.

### CUSTOMERS

Our primary customers are transportation related public institutions, state-owned enterprises and other turnkey services providers or general contracting companies in the PRC. Due to the project-based nature of our business, the top customers may vary from year to year depending on which regions of the PRC are commissioning ITS projects. For the year ended December 31, 2007, 2008 and 2009, our top five largest customers accounted for approximately 35.3%, 34.9% and 40.3%, respectively, of our total revenue, while our largest customer during the same periods accounted for approximately 11.0%, 11.9% and 13.4%, respectively, of our total revenue. None of our Directors, their associates or any shareholder, who, to the best knowledge of our Directors, owns more than 5% of our issued share capital, had any interest in any of our large customers during the Track Record Period.

Our largest customer in 2009 was a wholly owned subsidiary of China Railway Signal and Communication Corporation, Beijing National Railway Research & Design Institute of Signal & Communication, which is a state-owned institute specializing in scientific research, survey and design of railway communication and signaling systems. Our largest customer in 2008 was Hunan Changji Expressway Construction & Development Co., Ltd., which is a state-owned enterprise engaged in the construction and operation of Changde-Jishou Expressway. Our largest customer in 2007 was Anhui Transportation Investment Group Co., Ltd., which is a state-owned enterprise engaged in the business of expressway construction, management and operation, design of waterway and roadway, passenger transportation and logistics.

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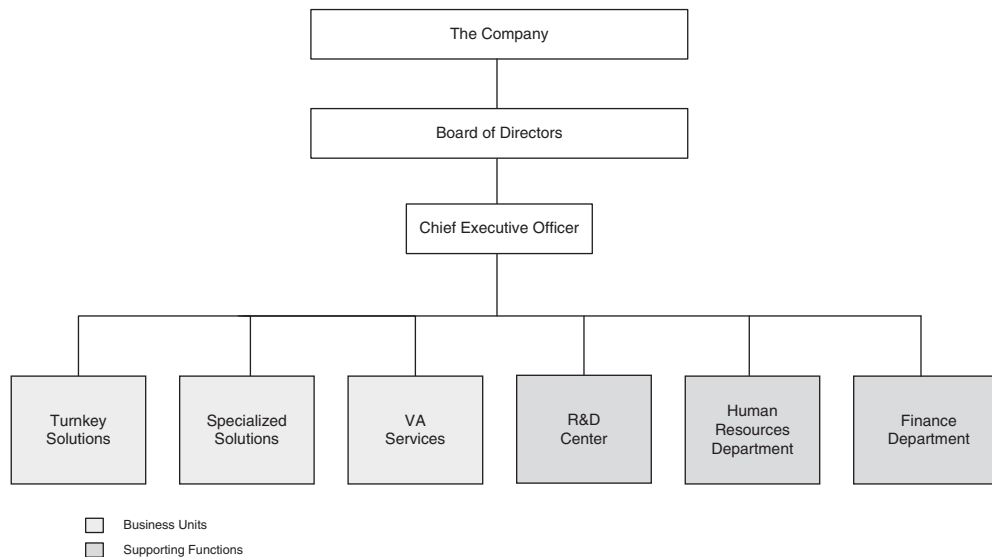
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Our major customers are PRC public institutions, which are public services institutions set up by the government or other organizations using state-owned assets, and state-owned enterprises. For the year ended December 31, 2007, 2008 and 2009, our sales to PRC public institutions and state-owned enterprises together represented over 50%, over 75% and over 75% of our total revenue for such period, respectively. During the Track Record Period, the Group did not experienced any incident where changes in government budget and policy consideration resulted in material delays, changes or cancellation of the transportation infrastructure projects. As most of our projects are commissioned after the government planning and budgets have been set and are subject to few changes, we believe the likelihood that changes in government public spending and policies will result in any delays, changes or cancellation of our projects is very low. In addition, we have also taken measures to maintain close working relationship and communication channels with our government agency clients so that in the event there is any change in government spending and policy, we will be notified promptly and can thus allocate our resources accordingly more efficiently. In addition, during the Track Record Period, we have not experienced any other delay or default in payments from customers that has materially affected the Group. We have put in place control measures, including (i) regular tracking of outstanding receivables, (ii) follow-up calls and visits to customers by on-site staff with respect to invoiced balances payable and (iii) payment reminder notices from the finance department when necessary. With respect to the public bidding process, we have adopted a written policy regarding internal procedures with respect to each stage of the bidding process and will continue to strengthen our internal control over the bidding process in order to mitigate any risks and uncertainties associated with contracting with public bodies and the related bidding process. See “Risk Factors—Risk Relating to Our Industry—We face risks associated with contracting with public bodies and the related bidding processes.”

### MANAGEMENT STRUCTURE

Our current management and operational structure is organized into three centralized business units, Turnkey Solutions, Specialized Solutions and VA Services, and three supporting functions, R&D center, Human Resources Department and Finance Department. Each business unit and supporting function is overseen by members of our senior management. The chart below sets forth our management and operational structure:



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### COMPETITION

There are currently strong domestic players in each of the expressway, railway and urban traffic ITS sectors. While some players have a significant presence in one or two ITS sectors, very few have achieved significant horizontal integration across multiple sectors. The table below shows the sector coverage for major players in each ITS sector, where according to OC&C, we are the only major ITS player to have a presence across all four ITS sectors.

#### Industry coverage of major ITS players

Companies	Expressway ITS	Railway ITS	Urban roadway ITS	Rapid transit ITS
The Company	✓	✓	✓	✓
Zhongxing Intelligent Transport System Beijing Co., Ltd.	✓	✓		✓
Guangdong Xinyue Communications Investment Co., Ltd.	✓		✓	
UNISITS Technology Co., Ltd.	✓			
China Railway Group Limited		✓		✓
China Railway Signal and Communication Corporation		✓		✓
Nokia-Siemens Networks Technology Co., Ltd.		✓		
Hollysys Automation Technologies, Ltd.		✓		✓
CASCO Signal Ltd.		✓		✓
Bombardier Inc.		✓		✓
Siemens AG		✓		✓
GE (China) Co., Ltd.		✓		✓
Alstom (China) Investment Co., Ltd.		✓		
ABB China		✓		
Schneider Electric (China) Investment Co., Ltd.		✓		
BOCOM Technology Development Co., Ltd.			✓	
Baokang Electronic Engineering Co., Ltd.			✓	

✓ Business presence

Source: OC&C

Horizontally integrated players are typically more resistant to impact within individual transport sectors. Furthermore, horizontal integration provides the capability to allocate resources between sectors as required and allows a first-mover advantage to achieve cross-application synergies, such as surveillance systems that can be applied to multiple ITS sectors. Due to the technical nature of their respective solutions, it is easier to expand operations between the expressway and urban roadway ITS sectors, and similarly for the railway and urban transit ITS sectors. According to OC&C, expanding between roads and tracks is more difficult and typically requires a few years to develop a track record and gain a significant presence, hence the advantage for horizontally integrated players is likely to continue in the short to medium term.

Given the fragmented ITS market and regionally focused players in several ITS sectors, increased focus on track record thus raising entry barriers, and the advantage of national players, there is high potential for future consolidation in the next few years within the ITS market. As the market develops, industry standards rise and the requirements for technical and financial capabilities increase, large players are expected to benefit from greater opportunities to expand market share. Smaller players, especially those whose core business is not ITS, may be forced to either exit the ITS market or be acquired by a larger competitor.

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### Expressway ITS Overall Competitive Landscape

The expressway ITS market is now dominated by local companies following the exit of many foreign competitors who had served niche segments for the following reasons:

- (i) lacking sufficient understanding of local market demand, foreign players were less flexible in tailoring their solutions to China's expressway ITS market;
- (ii) solutions provided by foreign players were much more expensive than those of domestic players; and
- (iii) domestic players have built track records and become more competitive than foreign players.

The competitors in the expressway sector can be classified into two types of companies: national and regional competitors. National competitors, such as UNISITS Technology Co., Ltd., Shanghai Communications Technology Development Co., Ltd. and our Company, maintain a business presence in many provinces across China, while regional players, such as Guangdong Xinyue Communications Investment Co., Ltd., which are usually affiliated with provincial communication departments, often have most of their business limited to a local province, due to the natural close relationship with the local government.

We distinguish ourselves from most other major players in the market, whose groups have a larger business scope and ITS solutions are not their core businesses. As shown in the following table, we are the only major expressway ITS solutions provider with a core business in Turnkey Solutions and all Specialized Solutions segments. Furthermore, most companies are state-owned and may face greater challenges compared to private companies in terms of business strategy re-alignment, organizational restructuring, management incentives, and financial flexibility to adjust to the changing market conditions.

**Segment coverage of expressway ITS players**

Companies	Turnkey solutions	Specialized communication solutions	Specialized surveillance solutions	Specialized tolling solutions
The Company	●	●	●	●
Guangdong Xinyue Communications investment Co., Ltd	●	○	○	●
UNISITS Technology Co., Ltd.	●	◐	◐	◐
Bright Oceans Inter-Telecom Corporation	●	◐	◐	◐
Beijing Yunxingyu Traffic Engineering Co., Ltd.	●	◐	◐	◐
Shanghai Electrical Apparatus Research Institute (Group) Co., Ltd.	●	◐	◐	◐
Shanghai Communications Technology Development Co., Ltd.	●	◐	●	◐
Tech Traffic Engineering Co., Ltd.	●	○	○	○
Anhui Wantong Technology Co., Ltd.	●	○	○	○
CVIC Software Engineering Co., Ltd.	●	○	◐	●
Fiberhome Telecommunication Technologies Co., Ltd.	○	◐	○	○
Zhongxing Intelligent Transport System Beijing Co., Ltd.	○	●	◐	○
Vorx Telecommunications Co., Ltd.	○	○	●	○








Core business   
 Non-core business   
 Not present

Source: OC&C

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The current expressway ITS market is fragmented, with the top five companies making up approximately 34% of the market share in terms of new contract value for 2009. We were ranked number one by total new contract value, number of provinces covered and gross margin for ITS solutions in the expressway sector of China's ITS market in 2009. The table below provides an outline of the competitive landscape within the expressway ITS sector.

**Competitive landscape of major expressway ITS players (2009)**

Item \ Players <sup>(1)</sup>	The Company	UNISITS Technology Co., Ltd.	Guangdong Xinyue Communications Investment Co., Ltd.	Beijing Yunxingyu Traffic Engineering Co., Ltd.	Shanghai Communications Technology Development Co., Ltd.	Shanghai Electrical Apparatus Research Institute (Group) Co., Ltd.	Tech Traffic Engineering Co., Ltd.
Ownership of parent company	Private	State owned listed company	State owned listed company	State-owned	State-owned	State-owned	State-owned
2008 ITS revenue as % of parent company total revenue <sup>(2)</sup>	95%	5.5%	7.4%	6.7%	36.7%	50%	52%
# of provinces with expressway ITS penetration	29	22	10	10	20	13	8
2009 new contract value for expressway ITS (mn RMB)	784	680-720	700-740	450-480	500-520	390-420	300-320
% of specialized solution in total expressway ITS solution							
2009 market share for expressway ITS <sup>(3)</sup>	8.2%	7.3%	7.5%	4.8%	5.3%	4.2%	3.2%

*Notes:*

(1) Only including players with 2009 contract value greater than RMB300 million

(2) Only data for 2008 available

(3) Market share in terms of new contract value compared to total market size

Sources: Annual reports; OC&C

The communications systems market is mainly comprised of engineering services, installation services, specialized solutions, cable lines, equipment housing and maintenance. In the specialized solutions segment, we hold approximately 70% market share which ranks ahead of Zhongxing Intelligent Transport System Beijing Co., Ltd. and Fiberhome Telecommunication Technologies Co., Ltd., who approximately hold 25% and 5%, respectively, according to OC&C. We are uniquely positioned as a provider of both Turnkey Solutions and Specialized Solutions with a long track record in this segment, and are also known for strong post-sales services capabilities.

The surveillance systems market is mainly comprised of engineering services, installation services, video cameras, specialized solutions (which refers to video detection technology) and maintenance. In the surveillance specialized solutions segment, we hold a dominant market position, capturing 70%-80% of market share in 2009 according to OC&C with our core technology in AID and ONU. AID is a video-surveillance system that uses image tracking and pattern recognition to detect traffic incidents, including slow moving traffic, pedestrians, smoke, debris, stopped vehicles and vehicles that are attempting a u-turn. ONU is a technology that integrates multiple functions, such as transmission, access, coding and decoding of audio signals, video signals, and data into a single device and allows for secure and flexible real-time video streaming on the internet. The other major players in this segment are Vorx Telecommunications Co., Ltd. and Shanghai Communication Technology Development Co., Ltd.

In the tolling segment, there are a number of players that have a significant presence in this market. As tolling is the major income source for expressway operators, there is a sustainable market for tolling solutions, although solution providers offer different approaches for their tolling solutions. According to OC&C, we are market leaders along with Guangdong Xinyue Communications Investment Co., Ltd. We are slightly ahead of Guangdong Xinyue Communications Investment Co., Ltd. in market share, capturing approximately 10% of the market each, while other companies such as UNISITS Technology Co., Ltd., Beijing Yunxingyu Traffic



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Engineering Co., Ltd., Shanghai Communication Technology Development Co., Ltd. and Shanghai Electrical Apparatus Research Institute (Group) Co., Ltd. are also major players in this market.

In terms of geographic trends, expressway infrastructure construction in China will see a shift from the east region to the central-western region under the 7918 Plan. Nationally competitive companies like Shanghai Communication Technology Development Co., Ltd. and us which have already completed projects in western regions, are expected to be able to penetrate the western ITS markets more easily as a result of their existing relationships with local governments, comprehensive capabilities and proven track record in these regions. Regional companies in the eastern and southern regions, such as Guangdong Xinyue Communications Investment Co., Ltd., in order to gain sustainable growth, will either stay in their regional market relying more on the upgrade market in the future or venture into western regions at the risk of lower margins resulting from intense competition. The central-western regions of China are typically more mountainous. Hence, the regional shift of investment is expected to lead to an increasing prevalence of tunnel projects. Tunnel projects generally require much higher technical capability compared to standard expressway projects. In the future, players such as Shanghai Communication Technology Development Co., Ltd. and us, who also have built tunnel project expertise may benefit from faster growth due to their proven track records and technical and engineering capabilities. According to OC&C, we have completed 61% of all major expressway tunnel projects until 2007, including many landmark tunnel ITS projects.

The figure below highlights the tunnel experience of the major expressway ITS players.

### Accumulated ITS projects in expressway tunnels<sup>(1)</sup>

	Accumulated length until 2007 <sup>(2)</sup>	
	km	%
The Company	383	61%
Shanghai Communications Technology Development Co., Ltd.	53	8%
Beijing Yunxingyu Traffic Engineering Co., Ltd.	24	4%
Others <sup>(3)</sup>	170	27%
Total	630	100%

Notes:

- (1) Expressway tunnels include only tunnels longer than 3 kilometers
- (2) Data for 2008 and 2009 not yet available according to China Tunnel Association
- (3) Others include many small players with each market share less than 4%

Source: OC&C

As most of the expressway ITS systems in the eastern region have reached the six-year life cycle, significant demand is expected to emerge for ITS maintenance and upgrades, and the market potential for value-added services is significant. Companies that previously constructed a significant amount of expressway ITS systems in the eastern region, may have the opportunity to leverage their construction experience, industry know-how, and existing client relationships to expand into the upgrade, maintenance, and value-added services arenas. In the maintenance and upgrade market, specialized solutions usually play a more important role than turnkey solutions. Thus it is expected that companies that have relatively strong specialized solutions, may have better opportunities to expand the maintenance and upgrade market in eastern region.

Furthermore, as expressway operators and end-users are becoming more sophisticated and demand better access to more accurate data and information, it is expected that companies with advanced data management systems such as integrated information platforms for operators and traffic broadcasting solutions for end-users will take the lead in this area.



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On average, the gross margin of Turnkey Solutions providers was approximately 12% in 2008, lower than the average 15% gross margin of system integration business in other industries. The industry gross margin has decreased in the past few years. It is expected that the margin will stabilize in the next few years as track record, financial capacity and technical capability has become more important. Some small regional players are likely to find it increasingly difficult to compete. As specialized solutions have a higher gross margin than turnkey solutions, players like us, who have achieved significant business in specialized solutions, can enjoy these higher margins. According to OC&C, we are the gross margin leader in the expressway ITS market.

### Railway ITS Overall Competitive Landscape

The China railway ITS market comprises both domestic and foreign players. Domestic players control most of the low-end solutions and foreign companies control the majority of high-end segments. However, as domestic companies become more experienced, with better self-owned IP solutions, they are expected to gain more market share.

Industry players tend to be more specialized in the railway ITS sector, focusing on a few selected sub-systems. Within this sector, competition breaks down into three primary segments: communication solutions, signaling solutions and power supply solutions. Only three parties are permitted to complete railway ITS Turnkey Solutions, namely the China CREC Railway Electrification Bureau Group and China Railway Signal and Communication Corporation alliance, China Railway Construction Corporation and China Railway Group Limited. The table below highlights the sectors covered by major players.

Segment coverage of railway ITS players

Companies	Turnkey solutions	Wired communication solutions	Wireless communication solutions	Signalling solutions	Power supply solutions	Traction solutions
China Railway Construction Corporation	●	○	○	○	○	○
China CREC Railway Electrification Bureau Group and China Railway Signal and Communication Corporation	●	○	○	○	○	○
China Railway Group Limited	●	○	○	○	○	○
The Company	○	●	●	○	○	○
Zhongxing Intelligent Transport System Beijing Co., Ltd.	○	●	○	○	○	○
Nokia-Siemens Networks Technology Co., Ltd.	○	○	●	○	○	○
Nortel Networks Ltd.	○	○	●	○	○	○
China Railway Signal and Communication Corporation	○	○	○	●	○	○
China Automation Group Ltd.	○	○	○	●	○	○
CASCO Signal Ltd.	○	○	○	●	○	○
Hollysys Automation Technologies, Ltd.	○	○	○	●	○	○
Siemens AG	○	○	○	●	●	●
Alstom (China) Investment Co., Ltd.	○	○	○	●	○	●
ABB China	○	○	○	○	●	●
Chengdu Jiaoda Xuji Electric Co., Ltd.	○	○	○	○	●	○
GE (China) Co., Ltd.	○	○	○	●	○	○
Bombardier Inc.	○	○	○	●	○	●
Schneider Electric (China) Investment Co., Ltd.	○	○	○	○	●	○
NARI Technology Development Co., Ltd.	○	○	○	○	●	○
Areva T&D Technology Center (China) Co., Ltd.	○	○	○	○	●	○

● Core business

○ Not present

Source: OC&C

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## BUSINESS

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The communication ITS market is generally segregated to wireless and wired communications, mainly comprising specialized solutions, engineering services, installation services, towers and cable lines, equipment housing and maintenance. In the communication specialized solutions business, which has been our area of focus to date, the market is highly concentrated, with few major players controlling the majority of market share.

For wired communication specialized solutions, based on our expertise in providing specialized communication solutions in the expressway sector, we entered the railway ITS communication specialised solutions market in 2007 and have developed a leading market position, primarily competing against Zhongxing Intelligent Transport System Beijing Co., Ltd. and capturing around 70% of market share in 2009. We expect to gain further market share due to our strong market penetration, proven track record in expressway ITS, technical capability and financial strength, and ability to leverage our existing service network to respond to customer requirements quickly.

In wireless communication specialized solutions, the market is currently dominated by two providers, Nokia-Siemens Networks Technology Co., Ltd. and us. We accounted for approximately 60% of the market in 2009, with the rest accounted for by Nokia-Siemens Networks Technology Co., Ltd. We are currently the market leader in high speed railways, where train speeds are between 200 km/hour to 300 km/hour, and we have been steadily gaining market share from foreign players, mainly due to better pricing and the government's support for increased localization rates. Nortel Networks Ltd. was formerly a major player in this segment, but has not been active due to recent financial difficulties. The core competence of Nokia-Siemens Networks Technology Co., Ltd. is in the very high-speed railways, where train speeds are greater than 300 km/hour, although domestic players, such as us, have also developed the necessary technology to service this segment. As our products are more flexible and better customized to Chinese railways using leading technologies, have price and service advantages over foreign products and benefit from required localization rates, we expect to have higher growth rates and acquire more market share in the following years.

In the signaling solutions business, the market can be separated into normal speed, high-speed and very high-speed. The normal speed and high-speed market is highly concentrated by domestic players, with China Railway Signal and Communication Corporation holding a dominant market share. Signaling systems are the most heavily invested segment in railway ITS, and is driven by investments in the constructing or upgrading of railway lines, as well as IT enhancements in the railway industry. We have devoted substantial effort in developing our signaling technology and systems, and are likely to win contracts in the next few years.

In the power supply business, the market is mainly driven by the plans of the Ministry of Railways. Compared to other railway ITS segment, it has gradually opened to non-railway companies. Companies with both railway and electrical power backgrounds are able to compete in this segment. In the mid-high voltage segment, foreign players including ABB China, Siemens AG and Areva T&D Technology Center (China) Co., Ltd. lead the market, collectively owning more than 80% of market share. In the low voltage segment, domestic players such as NARI Technology Development Co., Ltd. and Chengdu Jiaoda Xuji Electric Co., Ltd. dominate the market. The devices for traction power systems are all high-voltage grade, where there are currently very few suppliers in China, being ABB China, Alstom (China) Investment Co., Ltd., Bombardier Inc. and Siemens AG. As the Ministry of Railways has required a localization rate of 70%, business is expected to increase for domestic players in order to meet this requirement.

Gross margins for railway ITS are typically higher in signaling and power supply systems, with margins generally ranging between 30-40% for major domestic and international players. For communications systems, margins typically range between 20-25%, and we believe we are a margin leader in this segment with realized margins above this level in 2009.

## BUSINESS

### Urban Traffic Overall Competitive Landscape

#### *Urban roadway ITS*

The urban roadway ITS market did not fully develop until after 2005, and it is still at infancy. Hence the overall market is still highly fragmented, although major players from the expressway ITS sector have made an entry to the market based on the attractive market potential of roadway ITS.

In the Turnkey Solutions business, the market is typically driven by the “Safe City” concept. Turnkey Solutions form a small part of overall urban roadway ITS, with the majority of the market value coming from Specialized Solutions, and has only been implemented on a small scale in tier one cities. Currently, Siemens AG, Telvent Control System Co., Ltd. and Shanghai Electrical Apparatus Research Institute (Group) Co., Ltd. are pioneers in this field, implementing city-wide ITS turnkey solutions in Beijing, Wuhan and Shanghai respectively. We have been awarded some contracts in this segment, such as the recent “Safe City” solution in Jilin province.

In the surveillance solutions business, no player holds a market share greater than 7%, and the top three players, namely Baokang Electronic Engineering Co., Ltd., China Transinfo Technology Group Co., Ltd. and Bocom Technology Development Co., Ltd. captured 15% of the market in 2008. The ultimate clients in this sector are city-level public traffic management bureaus with whom government relationships cannot be leveraged from region to region. Furthermore, roadway ITS has a short history, while project sizes have historically been small. These factors have deterred major players from the market, resulting in the high level of fragmentation.

It is expected that market share concentration will increase as the bidding processes become more regulated, the Government approval and review process becomes more stringent, city planning policies evolve, and the advent of special events (such as the 2008 Beijing Olympic Games and the 2010 Shanghai World Expo) raise the standards of projects, leading to more disqualification of smaller players with lower technical and financial capabilities.

The table below provides a summary of the major players in the urban roadway ITS market:

**Segment coverage of urban roadway ITS players**

Companies	Turnkey solutions	Surveillance solutions	Traffic control solutions
Siemens AG	●	○	●
Telvent Control System Co., Ltd.	●	○	●
Shanghai Electrical Apparatus Research Institute (Group) Co., Ltd	●	○	○
Baokang Electronic Engineering Co., Ltd.	◐	●	○
The Company	◐	●	○
Guangdong Xinyue Communications Investment Co., Ltd.	○	●	○
Bocom Technology Development Co., Ltd.	○	●	○
China Transinfo Technology Group Co., Ltd.	○	●	◐
Beijing Stone Intelligent Transportation System Integration Co., Ltd.	○	●	◐
Qingdao Hisense Network Technology Co., Ltd.	○	○	●
Nanjing Les Information Technology Co., Ltd.	○	○	●

Core business  
 Non-core business  
 Not present

Source: OC&C

On gross margins, due to the highly fragmented market and uncentralized control, typical gross margins for urban roadway ITS ranged from 20% to over 55% in 2008. Our margins were at the higher end of this range in 2008.

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### *Rapid transit ITS*

Unlike other ITS sectors, rapid transit ITS projects do not use Turnkey Solutions providers. Specialized Solution providers for communications and signaling solutions will approach and work with the rapid transit operators directly. The rapid transit ITS market is relatively concentrated, with four to five players holding over 50% of total market share. Historically, foreign players have dominated this market, but domestic players have gradually gained market share as their knowledge and capabilities in communications, signaling and surveillance solutions have developed. With less reliance on foreign technology and practices, Chinese players are likely to further dominate this growing market. The table below provides a summary of the major players in the rapid transit ITS market:

**Segment coverage of rapid transit ITS players**

Companies	Communication solutions	Signaling solutions	Total surveillance solutions
China Railway Signal and Communication Corporation	●	●	◐
Urban Rail Transit Co., Ltd. of China CREC Railway Electrification Bureau Group	●	●	◐
China Electronics Technology Group Corporation 54th Institution	●	○	○
Zhongxing Intelligent Transport System Beijing Co., Ltd.	●	◐	◐
Alcatel Shanghai Bell Co., Ltd.	●	●	○
Siemens AG	●	◐	○
Neusoft Group Co., Ltd.	●	●	○
Fiberhome Telecommunication Technologies Co., Ltd.	●	○	○
Insigma Group Co., Ltd.	○	●	○
Alstom-CASCO <sup>(1)</sup>	○	●	◐
Nanjing Institute of Electronic Technology	○	●	○
Hollysys Automation Technologies, Ltd. and China CREC Railway Electrification Bureau Group	○	●	●
NARI Technology Development Co., Ltd.	○	○	●
GE (China) Co., Ltd.	○	○	●

Core business     
 Non-core business     
 Not present

Note:

(1) Alstom-CASCO here refers to two companies that usually partner together in the China rapid transit signaling solutions market: CASCO Signal Ltd., a Chinese joint venture of Alstom (China) Investment Co., Ltd., usually plays the role of solution provider, and Alstom (China) Investment Co., Ltd. usually plays the role of equipment provider.

Source: OC&C

In the communications solutions segment, five players control over 55% of market share. Urban Rapid Transit Co., Ltd., an affiliate of China CREC Railway Electrification Bureau Group, accounts for around one-third of market share, while the remaining major players compete on a much smaller scale with less than 10% market share each. We operate in this segment as a sub-system solution provider, mainly competing against regional distributors of Zhongxing Intelligent Transport System Beijing Co., Ltd.

In the signaling solutions market, market share is more evenly distributed amongst the major players. The three top players comprise China Railway Signal and Communication Corporation, Alstom-Casco and an alliance between Hollysys Automation Technologies, Ltd. and China CREC Railway Electrification Bureau Group, who hold approximately one-third of market share each, and other players holding relatively small share in this segment.

Typical gross margins can vary greatly in rapid transit ITS. Margins ranged from 15% to over 34% in 2008 and our margins were in the top half of this range.

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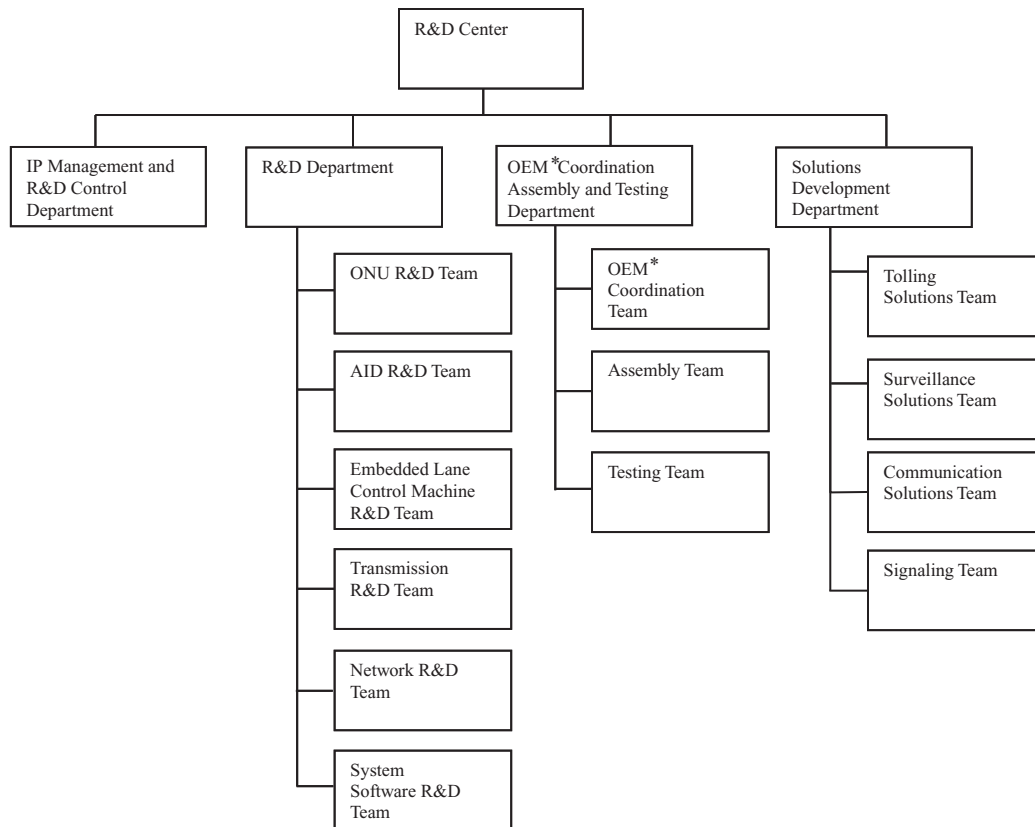
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## RESEARCH & DEVELOPMENT

We focus primarily on the application of currently existing technology rather than the development of new technology. Generally speaking, the three business units initiate the R&D process by feeding market information and client requirements to the R&D teams. Our R&D efforts are managed along the following principles:

- *Market orientation.* Our sales force and technical teams are in regular dialogue with the end-users in order to determine client needs and requirements at an early stage, which guide our R&D direction.
- *Practicality and scalability.* When developing solutions, we apply existing technology and emphasize the ability to incorporate future expansion and upgrades.
- *Reliability.* To ensure the reliability of our solutions, we apply existing technology and test solutions extensively prior to implementation.
- *Accountability.* Each business unit bears the expenses and enjoys the gains for its R&D activities, which fosters accountability for our R&D spending within our organization.

Based on these principles, we have built a strong technical and R&D team, which currently consists of 44 engineers. Our R&D activities are led by our R&D center, which supervises different R&D function departments and R&D teams focusing on different R&D projects. The chart below sets forth our R&D structure:



\*Original equipment manufacturer

Our R&D process includes the following steps: once a business unit identifies a need for research and development of certain product, our Solutions Development department will conduct feasibility study and report to our R&D center. Our R&D center will make decisions on each R&D project after discussion with the business unit based on consideration of market conditions, technology requirements and our business development strategies. If the R&D project is approved, a R&D project team will be set up by our R&D center and the R&D team will be responsible for the R&D, manufacturing and marketing of new products. Following R&D of new

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products, the Assembly and OEM Coordination Department will coordinate manufacturing and testing of the new products and the business unit will market such products. Our IP Management and R&D Control Department is in charge of all intellectual property related issues in connection with R&D of new products.

The proprietary technologies developed by us include the ONU technology, the AID technology, the safety distance and information exchange technology, and the network toll fare calculation technology, for all of which we have obtained software copyrights. In addition, we also developed proprietary embedded lane control machine technology and tunnel surveillance technology. Our current R&D activities are focused on the application of our proprietary ONU and AID technologies. Products developed from applying our ONU technology have been used in major expressways in China since 2007 and we currently focus on the upgrades of such technology. We have also been focused on the development of products applying our AID technology and other relevant surveillance technologies, such as mobile electronic police, video speed monitoring and red lights automatic recording. In addition, we are planning to develop high-resolution digital video detection technology for surveillance products to fulfill the need for greater security and surveillance as part of a more advanced transportation network. We are also in the process of developing ETC technology, which is applied in toll collections through performing an electronic monetary transaction between a vehicle passing through toll stations and the toll agency, normally a bank entrusted by the expressway operator.

Our R&D expenses for the year ended December 31, 2007, 2008 and 2009 were RMB7.0 million, RMB11.0 million and RMB7.4 million, respectively. We have adopted a budget system to monitor and control our R&D expenses in accordance with our procedures regarding management of R&D expenses. Each business unit will prepare its own R&D budget, based on market study and our own needs in developing new technology for our Turnkey and Specialized solutions, and send it to the R&D center for approval. Once our R&D center determines which R&D projects we will pursue, budgets will be allocated to such projects. Each R&D team responsible for the project will report to the R&D center on a regular basis regarding progress of the R&D activity including the expenses for the project, and adjustment may be made by the R&D center. In this process, the Finance Department also closely monitors the R&D expenses based on the progress of each R&D project.

### INFORMATION SYSTEM

During the Track Record Period, we did not experienced any malfunction of our information systems that led to material disruption to our operations. We intend to upgrade and improve our information system in the next three years in the following areas: (i) upgrading the financial management system to improve management of various financial modules with regard to purchase orders, sales orders and inventories; (ii) expanding the application of the project management system, which monitors each stage of the project operation process; (iii) improving our human resources management system to better monitor employee training and administrative tasks; and (iv) broadening the use of our office automation system. In the next one to two years, we intend to invest approximately RMB300,000 on upgrading the financial management system and approximately RMB300,000 on improving the human resources management system. We expect to upgrade the current integrated financial management system for the Group by 2011. Our project management system is expected to be applied to all Group members by 2012 and we intend to expend approximately RMB200,000 on the upgrade and maintenance of the project management system. By the end of 2011, we expect to adopt an upgraded information management system, which promotes synergies between human resources, knowledge management and our business processes, on top of our current office automation platform. In adopting and updating our information system, we have sourced technology from reputable information technology software providers, such as Beijing Tongyou Shidai Technology Co, Ltd., which distributes UFIDA software, Exact Software (Shanghai) Co., Ltd., and Beijing Goodview International Technology Co., Ltd. We purchase software from these software providers in accordance with our needs and system requirements and we have also entered into annual service contracts with some of these software providers for the upgrade and maintenance of the software we use. The expected expenditures in connection with upgrading our information system will come from our operating working capital.



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### INTELLECTUAL PROPERTY RIGHTS

Our success depends in part on our proprietary intellectual property, including trademark and copyrighted software for certain of our proprietary technologies. We currently rely on a combination of trademark, copyrights and contractual rights to protect our intellectual property rights. For example, under the intellectual property rights provision of the contracts we entered into with our customers, the Company owns the intellectual property rights of certain system software developed by the Company and the customer only has the non-exclusive right to use it. It also provides that neither party will infringe the intellectual property rights of the other party and each party is responsible for keeping confidential the other party's know-how and trade secret. In addition, each of our employees has signed a confidentiality agreement with us which provides that we are the owner of any intellectual property rights developed by the employee during the course of employment and the employee shall keep confidential our technology know-how and trade secret at any time. As of the Latest Practicable Date, we were the registered owner of 63 software copyrights in connection with our tolling solutions, communication solutions, surveillance solutions and traffic information system, as well as four registered trademark and one pending trademark applications. For our communication solutions, we were the registered owner of 10 software copyrights in connection with our network security system and integrated communications management system. For our surveillance solutions, we were the registered owner of 34 software copyrights in connection with our ONU system, AID system, urban intelligent. For our tolling solutions, we were the registered owner of three software copyrights which have been used in our expressway tolling system. In addition, we were the registered owner of 16 software copyrights which has been used in our integrated transportation information systems. Under PRC Software Protection Regulations, the protection period of software copyright is 50 years. We have also taken measures to detect infringement of our intellectual property rights and counterfeiting of our products. Our marketing and sales personnel and legal department are responsible for following up with project owners, sub-contractors and equipment suppliers with whom we work with to ensure that our intellectual property rights are protected. Specifically, led by our vice president in charge of business operation, we normally hold a monthly internal meeting with our sales and marketing, operation and engineering staff in which we discuss market conditions and any detected or potential risk of infringement of our intellectual property rights. In addition, led by our vice president in charge of business operation, each quarter we organize an inspection team which conducts on-site inspections for each of our projects to ensure that our customers have obtained our products through formal and lawful means. We also work closely with project owners, sub-contractors and suppliers to monitor the market in an effort to detect any counterfeiting of our products and protect our intellectual property rights. During the Track Record Period, we did not experienced any counterfeiting of our products or violated any intellectual property rights or faced any intellectual property claims by third parties.

Details of our intellectual property portfolio are provided in “Statutory and General Information—Intellectual property rights of the Group” in Appendix VI to this prospectus.

### INTERNAL CONTROL

In order to establish an effective internal controls system that can facilitate the smooth business operations and minimize the risks that we are exposing to, we have adopted the “Internal Control-Integrated Framework” of the Committee of Sponsoring Organizations of the Treadway Commission, which is a recommended framework under HKICPA Corporate Governance guidelines. The internal control framework also covers the setting of business objectives, budgets and targets together with the establishment of regular reporting of financial information, in particular, the tracking of deviations between actual performances and budgets/targets. Quarterly financial information is provided to our Board for discussion of resolutions or strategies refinement during Board meetings.

Operationally, we have implemented various internal control procedures to facilitate the effective operations of the business, which includes but not limited to a system of delegation of authority with a defined authorization hierarchy by nature of matters and quantum; segregation of duties for major operations; financial reporting policies and guidelines which cover such areas as accounts payable, accounts receivable, taxation, advances, expenses, accruals and non-monetary transactions.



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Going forward, we will regularly and continuously monitor and improve those internal control procedures either through in-house resources or third party professional advisors so as to ensure the effective operations of those internal controls that are in line with the business growth.

### QUALITY, SAFETY AND ENVIRONMENTAL PROTECTION CONTROL

We have established and implemented a unified quality, safety and environmental protection control management system pursuant to the requirements of ISO9001:2000, ISO14001:2004 and GB/T2800-2001. RHY Technology has obtained the certificates of ISO9001:2000, ISO14001:2004 and GB/T2800-2001 and Aproud Technology has obtained the certificate of ISO9001:2000. Zhixun Tiancheng has obtained the certificate of ISO9001:2000. The unified management system specified the standards to be met in terms of quality, safety and environmental protection control, clarifies the responsibility of various departments and personnel, and provides for procedures and measures to be undertaken to ensure that various standards are met.

The table below sets forth a list of quality, safety and environmental control certificates of the Group:

<u>Certificate</u>	<u>Certification Standard</u>	<u>Entity</u>	<u>Issuing Date</u>	<u>Expiration Date</u>
Quality Management System Certificate	GB/T19001-2000 identical to ISO9001:2000 <sup>(1)</sup>	RHY Technology	September 9, 2009	September 8, 2012
Environmental Management System Certificate	GB/T24001-2004 identical to ISO14001:2004 Standard <sup>(2)</sup>	RHY Technology	February 1, 2008	January 31, 2011
Occupational Health and Safety Management System Certificate	GB/T28001-2001 Standard <sup>(3)</sup>	RHY Technology	February 1, 2008	December 14, 2010
Quality Management System Certificate	GB/T19001-2000 identical to ISO9001:2000	Aproud Technology	December 18, 2007	December 17, 2010
Quality Management System Certificate	GB/T19001-2000 identical to ISO9001:2000	Zhixun Tiancheng	October 31, 2008	October 30, 2011

*Notes:*

- (1) GB/T19001-2000: the national standards of quality management system of the PRC, and identical to ISO9001:2000 standard established by the International Organization for Standardization
- (2) GB/T24001-2004: the national standards of environmental management systems of the PRC, and identical to ISO14001:2004 standard established by the International Organization for Standardization
- (3) GB/T28001-2001: the national standards of occupational health and safety management system of the PRC

Under these certificates, we are subject to examination by the certification agency no less than three times during the validity period of such certificates, which is normally three years. During the Track Record Period, none of the above certificates has been suspended or terminated.

Our quality control management system specifies the standards to be met in terms of quality control for each stage of our operation process in accordance with the requirements of ISO9001:2000. We have established procedures which clarify the responsibility of various departments and personnel, allocate resources including human resources, technology resources and financial resources, and provide measures to be undertaken in connection with client communications, product design and development, procurement, production and provision of services. We have also taken measures to detect potential quality problems and taken necessary precaution and correction measures through conducting surveys regarding customer satisfaction, inspection of products and analysis based on such inspection. For example, we have implemented “System Integration Control Procedures,”

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which set forth requirements for entering into contracts with customers, on-site survey, joint design with project owner, procurement of equipment, and installation and testing of equipment. Similarly, our implemented “Services Control Procedures” set forth requirements for providing post-construction maintenance and follow-up services. Under these quality control management procedures, all reports and documents regarding each stage of the project operation process will be kept to ensure that all records are retrospectively traceable. Some of the projects we participated in have won national awards for construction and engineering quality. For example, the Qixian-Linfen Expressway project for which RHY Technology provided tolling, surveillance and communication related engineering work, received a Luban Award, an award for outstanding quality in engineering work in the construction industry in the PRC, in 2007, and the Qinling Zhongnanshan Tunnel project for which RHY Technology provided integrated tunnel ITS system, received the Top Grade Award of Science and Technology Innovation in 2009, which is to reward the major contributors for scientific and technological innovation in the expressway industry in the PRC.

As our main business operation is conducted in office buildings and our work at the construction site only involves installation of the electromechanical equipment, we believe the effect of our business operation on the environment is minimal. Nevertheless, we have implemented an environmental control management system pursuant to the requirements of ISO14001:2004. Under the environmental control management system, we have specified the standards in identifying factors that affect the environment and the procedures in assessing their effects on the environment with a view to keep the impact of these factors to the environment to the minimal. We have also adopted procedures regarding control of hazardous materials, management of emergencies and prevention of fire. In addition, in conducting our research and development activities, and in the design, repair and maintenance of our existing facilities, we strive to comply with relevant environmental protection regulations and requirements, including choosing materials and equipment that comply with environmental protection requirements. As we do not conduct business in an industry subject to heavy environmental regulation and our business operation has minimal impact on the environment, we do not allocate costs directly related to compliance of environmental laws. Our ongoing costs of environmental compliance are embedded in the general costs in connection with our ordinary course of business and the expected cost of compliance going forward should remain constant.

We regard occupational health and safety as one of our important social responsibilities and focus on compliance with relevant occupational health and safety, accidents, and insurance regulations and requirements. We have established the occupational health safety control standards in accordance with GB/T2800-2001 requirements. In connection with risks identified to be associated with our business operation, we have established risk control procedures to reduce any such health safety risks. We have provided medical, personal accident injury and other insurance for our employees as required by relevant laws and regulations. We also carry construction all-risk and third party liability insurance for most of the projects we undertake. See “—Insurance.”

We have a quality, environmental protection and safety control handbook which sets forth the standards in terms of quality, environmental protection and safety control that all employees shall comply with and we regularly conduct employee training regarding such compliance. We have set up a compliance department responsible for complying with quality, environmental protection and safety control which consists of 22 personnel, including 13 internal compliance officers certified in accordance with standards established by the International Organization for Standardization and four management personnel. All of the 22 personnel have bachelor or higher degrees and many of them have related industry experience. Our Directors confirmed that during the Track Record Period, the Group has not experienced any material quality, environmental protection or safety problems. Based on the confirmation of the Company, our PRC legal advisors, Commerce & Finance, confirmed that we have complied with relevant PRC laws and regulations regarding environmental protection and safety during the Track Record Period.

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### EMPLOYEES

As of December 31, 2009, we had 562 full-time employees in the PRC, of which approximately 73.0% had completed bachelor's degree or other forms of higher education. The following table shows the breakdown of our employees by business segment and education as of December 31, 2009:

<u>Position/Department</u>	<u>Number of Employees</u>	<u>Percentage of total</u>
Management .....	21	3.7%
Administrative and support .....	76	13.5%
Turnkey Solutions .....	153	27.2%
Specialized Solutions .....	221	39.4%
R&D .....	44	7.8%
VA Services .....	47	8.4%
<b>Total</b> .....	<u>562</u>	<u>100.0%</u>

We maintain a young working team, which is an important resource for our development and innovation.

As of December 31, 2009, none of our full-time work force is unionized and we currently have no disputes or bargaining circumstances that could cause significant disruption to our business.

We believe we have good working relations with our full-time employees. We equip our employees with the skills and knowledge relevant to their work by providing internal training programs. We have also implemented programs to recognize employees' efforts to achieve customer satisfaction and our quality goals. We believe that our management policies, working environment and the employee development opportunities and benefits extended to full-time employees have contributed to building good employee relations and employee retention as evidenced in a very low turn-over rate (approximately 2% of the total full-time employees) during the period from January 1, 2007 to December 31, 2009.

We provide compensation to our employees at or above the average market rate in the industry in the PRC, including, in some cases, performance-based year-end bonuses. As required by PRC regulations, we participate in the social insurance schemes operated by the relevant local government authorities. We also maintain the mandatory pension contribution plan, medical and work-related insurance schemes for our workers in China. Our Directors confirm that we have complied with applicable labor and social welfare laws and regulations in China in all material respects, were not in breach of such laws and regulations, and have made relevant contributions in accordance with such laws and regulations during the Track Record Period. In addition to statutory contributions, we also provide voluntary benefits to our employees, such as allowances for lunch, local transportation, communication, festivals, birthday and physical examination. Furthermore, we purchase personal accident injury insurance for each employee.

### PROPERTY

As of the Latest Practicable Date, we owned three properties in the PRC with a total gross floor area of approximately 4,768.82 square meters, which were occupied by us as staff quarters or leased to various tenants. In addition, as of the Latest Practicable Date, we leased 16 properties in the PRC with a total gross floor area of approximately 9,230.83 square meters for office purposes. We have obtained the relevant land use certificates and ownership certificates for all the properties that we own. Details of our property interests are set out in the valuation report contained in Appendix IV to this prospectus.

Of the properties that we own, office units with a total gross floor area of approximately 3,113.43 square meters and two car parking spaces are leased to various tenants for commercial use, which conforms with the prescribed use of such office units. The remaining approximately 1,298.82 square meters of office and dormitory and six car parking spaces that we own has not yet been leased to tenants.

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In respect of the 16 properties in the PRC leased by us for office purposes, our PRC legal advisers have advised that the lease agreements are legal, valid and binding and enforceable, and primarily, it is the responsibility of the landlords to attend to registration of these lease agreements with the relevant authority, but the fact that these lease agreements have not been so registered shall not affect their validity. In the event that non-registration of these lease agreements renders us not being able to occupy the said properties, we do not expect that we will encounter any difficulty in relocating to alternative offices in the same vicinity within one month after we are required to vacate the properties and we expect that the costs of relocation would be minimal.

Our property valuer, Savills Valuation and Professional Services Limited, has confirmed that the rental payments to which we have agreed for our leased properties in the PRC were in line with prevailing market rates at the time of the lease agreements. We further confirm that there is no dispute which may have a material adverse impact over our rights, either as owner or as tenant, in respect of the properties which we currently occupy and use. We are also not subject to any legal proceedings against us in connection with alleged illegal use of property by the Company without proper title certificates.

### INSURANCE

We purchase construction all-risk and third party liability insurance for most of the projects we undertake, unless it is otherwise provided in the business contracts between our Company and our customers. Such policies generally extend for the entire contract period, including the maintenance period following completion of the project.

With regard to properties and assets, we purchase property insurance for the properties and motor vehicle insurance for automobiles that we own.

We purchase pension insurance, unemployment insurance, medical insurance, workers' compensation insurance and maternity insurance for our employees according to the relevant PRC laws and regulations. We also carry on personal accident injury insurance for most employees for supplementary assurance. Our Directors believe that we maintain adequate insurance coverage that are consistent with our risk of loss and industry practice.

Consistent with what we believe to be customary practice in the PRC, we do not maintain and do not expect to carry any product liability insurance. As advised by our PRC legal advisors, such insurance is not required under PRC law. In addition, we believe that carrying such insurance may impose additional costs on our operations, which would undermine our competitiveness in the PRC. To control our product liability risk, we place significant emphasis on quality assurance. During the Track Record Period, we did not experienced any material product liability claims from our customers arising from or relating to the use of our products.

### LEGAL PROCEEDINGS AND COMPLIANCE

The Group has not been involved on any legal proceedings relating to employment, intellectual property or other matters in the ordinary course of business during the Track Record Period. As is common with many companies, we may be involved from time to time in legal proceedings relating to employment, intellectual property or other matters in the ordinary course of business. There are no legal or arbitration proceedings, pending or threatened, against us or any of our Directors that could have a material adverse effect on our financial condition or results of operations. See "Statutory and General Information—Other Information—Litigation" in Appendix VI to this prospectus.

Our Directors confirm that we have complied with the applicable laws and regulations in all material aspects in jurisdictions where we operate since the commencement of the Track Record Period. Our PRC legal advisors confirm that we have obtained all necessary licenses, certificates and permits from appropriate regulatory authorities for our business operations in the PRC.

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## BUSINESS

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To engage in the business of providing Turnkey Solutions and other related businesses, as required under applicable PRC laws and regulations, RHY Technology has obtained the following licenses, certificates or permits: Business License (expiring on February 15, 2051), Certificate of Approval for Enterprises with Foreign Trade Rights (with no expiration date), Grade I Qualification Certificate of Computer Information System Integration (expiring on November 17, 2011), Grade I Qualification Certificate for Security Protection Engineering Enterprises (subject to annual review) and License for Work Safety (expiring on March 19, 2011). RHY Technology, as a construction company, obtained its Construction Enterprise Qualification Certificate in 2002 in accordance with applicable PRC laws. As RHY Technology changed its status from a PRC domestic company to a sino-foreign joint venture in 2006, it is required under relevant PRC laws and regulations to reapply for its qualification to engage in the businesses as previously specified in the business scope of its Construction Enterprise Qualification Certificate. RHY Technology applied to the relevant regulatory authorities for the reassessment of its qualification for the Construction Enterprise Qualification Certificate and received the renewed certificate, which granted us grade II qualification of general contractor for electromechanical installation and implementation and qualification of general contractor for integrated communication, surveillance and tolling systems for expressway engineering, on May 8, 2008.

To engage in the business of providing Specialized Solutions and other related business, as required under applicable PRC laws and regulations, Aproud Technology has obtained the License for Work Safety (which expired on January 9, 2010, and an application for which has been submitted) and the Qualification Certificate of Subcontracting for Electrical Engineering business (no expiration date specified).

In addition, each of Bailian Zhida, Beijing Aproud Software and Hexin Risheng has been recognized as a software enterprise under the PRC laws, and each of RHY Technology, Wuhan Chenguang, Bailian Zhida, Aproud Technology, Beijing Aproud Information, Beijing Aproud Software, Zhixun Tiancheng and Hexin Risheng has been awarded the High-tech Enterprise Certificate.