RISK FACTORS

Potential investors of the Shares should carefully consider all of the information set out in this document and, in particular, the following risks and special considerations associated with an investment in our Company before making any investment decision in relation to our Company. If any of the possible events as described below, or any other risk factors or uncertainties that our Company is unaware of, materialises, our Group's business, financial position and prospects could be materially and adversely affected and the market price of the Shares could fall significantly.

This document contains certain forward-looking statements relating to our Group's plans, objectives, expectations and intentions which involve risks and uncertainties. Our Group's actual results may differ materially from those as discussed in this document. Factors that could contribute to such differences are set out below as well as in other part in this document.

RISKS RELATED TO OUR GROUP

Our pricing policy and business operations may be affected by Budgeting Measures

Pursuant to the Budgeting Measures, the formulation of the budgeting of a project relating to telecommunication construction is required to make reference to the Price Scale set by the Ministry of Industry and Information Technology. The Budgeting Measures is applicable to our major clients, which are the major telecommunication operators in the PRC and they are prohibited to accept any tender for deployment projects of optical fibers with a quoted price exceeding the relevant benchmark price set out in the Price Scale. In order to formulate a budget plan for deployment projects of optical fibers which is acceptable to our clients, we have to make reference to the Price Scale. Although the Budgeting Measures had no material adverse impact on our revenue and profitability during the Track Record Period and the Price Scale has not been revised since its implementation in July 2008 and up to the Latest Practicable Date, if there is any adverse change in the Price Scale (such as the reduction on the Price Scale) or the Budgeting Measures, we shall take measures on our cost control, such as sourcing subcontractors with lower subcontracting prices or when the subcontracting costs for the non-technical works are higher than the costs to be incurred if such works are otherwise conducted by our engineering team, requiring our engineering team to carry out the non-technical works, to tackle such change. If we cannot take effective measures on cost control to tackle such change, the bidding prices of our projects and hence our business and financial performance may be adversely affected.

We rely on the major telecommunication operators in the PRC

We principally derive our revenue from providing deployment services of optical fibers to a limited number of major clients. For the two years ended 31 December 2010 and 2011, revenue derived from our five largest clients in aggregate amounted to approximately RMB47.2 million and RMB129.3 million, respectively, representing approximately 96.0% and 79.7%, respectively, of our total revenue and revenue derived from the Major Telecommunication Operator, our largest client, for the two years ended 31 December 2010 and 2011 was approximately RMB38.9 million and RMB106.8 million, and accounted for approximately 75.5% and 66.0% of our total revenue respectively. We expect that we will continue to rely on the revenue derived from providing deployment services of optical fibers to such kind of clients, therefore, any decrease or delay in demand for our services from them could have an adverse effect on our operations and financial results. Our results of operations thus depend on the business development plan and performance of the Major Telecommunication Operator, which may be affected by, including but not limited to, the overall economic condition and policies implemented by the PRC Government. Any business downturn to be faced by the Major Telecommunication Operator may in turn adversely affect our business and growth prospect.

Our deployment services of optical fibers are geographically concentrated in Hebei Province

During the Track Record Period, our deployment services of optical fibers were concentrated in Hebei Province. Our revenue derived from construction contracts for deployment services in Hebei Province accounted for approximately 66.9% and 61.8% of the total revenue, respectively, for the two years ended 31 December 2010 and 2011. Any adverse change in any of the general business environment, regulatory requirements or otherwise in Hebei Province may have an impact on us, if we cannot manage the risks associated with any of such changes, our business, financial performance and growth prospect may be materially and adversely affected.

We may not be able to operate successfully in new markets

Given that we may expand our business to selected new markets such as Liaoning Province, Shaanxi Province, Beijing, Anhui Province and Jilin Province in accordance with our business strategies, we may face risks, including but not limited to general business environment, regulatory requirements and competition within the local market, arising from these new markets. There is no assurance that we are able to successfully operate and well manage all the risks in such markets. If we cannot manage the risks associated with the new markets, our business and financial performance may be materially and adversely affected.

There is no guarantee that retention money withheld by our clients will be fully released to us after the expiry of the warranty period

A portion of contract value, normally 5% to 10%, is withheld by our clients in respect of our deployment projects of optical fibers as retention money and will be released upon the expiry of the warranty period, which is normally one year. As at 31 December 2010 and 31 December 2011, retention money amounted to approximately RMB0.7 million and RMB2.3 million was retained by our clients, respectively. Although we have not encountered any difficulty in collecting retention money from our clients during the Track Record Period, there is no assurance that the retention money will be remitted by our clients to us on a timely manner and in full in the future. Any failure by our client to make remittance on time and in full may have an adverse effect on our future liquidity position.

Our major clients which are telecommunication operators in the PRC may not follow the terms as stipulated in the construction contracts or project workflow resulting in relatively long trade and bill receivable turnover days

Our major clients, being the major telecommunication operators in the PRC, in practice, do not follow strictly the definite terms such as the payment terms as stipulated in the construction contracts and the project workflow of our deployment projects of optical fibers such as signing of the formal construction contracts at a reasonable time. Our major clients usually make payments to us within one to six months upon receiving invoices issued by us. However, we do not intend to significantly change our practice nor enforce such contractual terms by taking legal action against those clients who do not strictly adhere to such terms of the relevant construction contracts or project workflow in order to maintain our business relationships.

In addition to the above, our trade and bill receivable turnover days (as defined in the section headed "Financial information — Discussion of our selected statement of financial position items — Trade receivables and amounts due from customers for contract work" in this document) was relatively long during the Track Record Period. Despite our major clients do not follow strictly the payment terms as stipulated in the construction contract, normally the collection period of the majority of our trade receivables ranged from 30 to 180 days from the invoice date during the Track Record Period.

We perform reviews of receivables on a case-by-case basis. Our allowance for doubtful debts mainly reflects provisions for receivables related to clients whose debts have been outstanding without subsequent settlement received and our management assessed that these receivables are not expected to be recovered. As at 31 December 2011, we had provided allowance for doubtful debts of approximately RMB0.2 million, of which approximately RMB16,000 was made in relation to the Major Telecommunication Operator while the remaining amount was related to four non-major clients. Provision for doubtful debts of approximately RMB16,000 made in relation to the Major Telecommunication Operator was mainly due to, to the best of Directors' knowledge, the change of the internal personnel of the Major Telecommunication Operator resulting that there was misunderstanding between the Major Telecommunication Operator and us and the outstanding amount being overdue for years. Our Directors confirm that such case was an isolated case during the Track Record Period. In view of the insignificant amount, our management considered that we will not further pursue to collect such amount. Our Directors confirm that the provision was not related to any dispute with the Major Telecommunication Operator in relation to the quality of our works.

We monitor trade receivables collection and ageing. Our sales and marketing team also helps communicating with our clients regarding settlement of trade receivables. The payment behaviour of our major clients together with the relatively long trade and bill receivable turnover days may lead to considerable pressure on our working capital management and may adversely affect the liquidity of our working capital. Our Group has been financing our working capital by way of bank borrowings. Our business will be seriously interrupted if we fail to obtain financing or if the finance cost is very high.

We may not be able to enforce our own intellectual property rights, or we may be subject to claims from third parties for the infringement of their intellectual property rights

Our patents, trademarks, trade secrets and other intellectual property rights are important to our business. We rely on a combination of brand names, trademarks, and other intellectual property rights to protect our goodwill and/or inventions. We cannot assure you that these measures will be sufficient to prevent any misappropriation of our intellectual property rights, or that our competitors will not independently develop alternative technologies that are equivalent or superior to technologies based on our intellectual property rights. The legal regime governing intellectual property in China is still evolving and the level of protection of intellectual property rights in China differs from that in other jurisdictions. In addition, we may be subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. If we are unable to adequately protect our brand names, trademarks and other intellectual property rights or defend ourselves from infringement or licensing related claims, our business, financial position and results of operations may be materially and adversely affected.

We plan to develop the brand name under " " and have applied for registration of this trademark in the PRC to protect our interests. There is no guarantee that the registration of the above trademark in the PRC will be approved. If we fail to register the PRC trademark on time, this will prejudice our ability to adequately protect our brand names and trademarks.

Our revenue is mainly derived from short-term projects and there is no guarantee that our clients will provide us with new contracts

During the Track Record Period, we have not entered into long-term contracts with our clients and our revenue was derived from short-term projects in respect of the deployment projects of optical fibers and low-voltage equipment integration services. Some projects were obtained by us through competitive tender process and the success rate of tenders submitted by our Group regarding the deployment projects of optical fibers was approximately 63.5% and 66.1% for the two years ended 31 December 2010 and 2011, respectively. For the two years ended 31 December 2010 and 2011, the success rate of tenders submitted by Shijiazhuang Qiushi was approximately 55.0% and 39.6% respectively. Certain of our deployment projects of optical fibers and low-voltage equipment integration services currently carrying out by us will, sooner or later after [●], be completed. However, there is no guarantee that we will be able to obtain new contracts from clients by way of tendering. In the event that we are unable to do so, our business and financial performance may be adversely affected and the sustainability of our business may also be adversely affected.

We record our revenues and profits on the basis of our best estimates at the relevant times, which are subject to inherent uncertainties and subsequent adjustments

In respect of our deployment projects of optical fibers, we measure and recognise our revenues and profits generated from a contract by using the stage-of-completion method, pursuant to which revenues and profits are recognised ratably over the life of a contract, based generally on the progress at the proportion of costs incurred to date to the estimated total costs expected to be incurred for the entire project. Revisions to estimated total costs are made when the relevant amounts can be reasonably estimated. Although we use our best efforts to estimate the progress towards completion of our projects under construction, the uncertainties inherent in the estimating process mean that actual costs may vary from estimates, which could result in adjustments to our revenues or profits in subsequent fiscal periods.

Our profit may be affected if there are changes in our labour costs after tendering

Our labour costs, which include direct labour costs and subcontracting costs, represent a major portion of our cost of sales/services in respect of our deployment projects of optical fibers. During the Track Record Period, our labour costs amounted to approximately RMB19.4 million and RMB48.8 million, respectively, representing approximately 68.8% and 56.2% of our cost of sales/services, respectively. We prepare our tender and quotation based on our estimated project costs (which include labour costs and material costs) plus a mark-up margin at the time when we submit our tender but the actual labour costs will not be determined until we have entered into the construction contract with our client. Any fluctuations in the labour costs during this period will affect our profitability.

Our business may be affected by changes in prices and availability of necessary materials

We purchase materials such as steel wires and polyethylene for the manufacturing of our micro-ducts and anti-corrosive steel wires. We outsource the manufacturing process of micro-ducts to manufacturers, who are Independent Third Parties, by providing them with materials of our own recipe and provide steel wires and coating materials of our own recipe to manufacturers, who are Independent Third Parties for their reprocessing of the steel wires into anti-corrosive steel wires. We also purchase certain parts and components such as mini-cables, connectors and reserve boxes for our provision of deployment services of optical fibers using micro-ducts and mini-cables system integration methods.

The fluctuation in the prices of such raw materials, parts and components is subject to different factors beyond our control, such as fluctuations in the prices of commodities and changes in economic conditions and PRC governmental policies. For the two years ended 31 December 2010 and 2011, our material costs amounted to approximately RMB6.8 million and RMB32.8 million, respectively, representing approximately 24.1% and 37.9% respectively of our cost of sales/services during the same periods, respectively.

Although we did not experience any significant fluctuation in material costs during the Track Record Period, there is no assurance that there will not be any significant fluctuation in material costs in the future or that we will be able to transfer any incremental costs to our clients if such event happens. In addition, there is no assurance that our suppliers will continue to provide us with materials, parts and components at reasonable prices or at all. As a result, any increase in the prices of the materials, parts and components used by us may materially and adversely affect our profitability and results of operations.

We rely on a limited number of suppliers for certain materials and are susceptible to supply shortages

For the two years ended 31 December 2010 and 2011, our Group's five largest suppliers, in aggregate, accounted for approximately 62.2% and 27.6%, respectively, of our Group's total purchase cost of materials. For the two years ended 31 December 2010 and 2011, purchases from the largest supplier of our Group accounted for approximately 27.6% and 8.5% of our Group's total purchase cost of materials, respectively. Our Directors expect that we will continue to depend upon a relatively limited number of suppliers for certain materials. Moreover, we do not enter into any long-term contract with our suppliers but place separate purchase orders to them. If all or any of these major suppliers cease to supply major components or raw materials to our Group in the future and we are unable to find alternative suppliers in a timely manner or on commercially reasonable terms, our business and financial performance may be adversely affected.

We rely on a stable supply of labour to carry out our projects

For any project, we may require workers to carry out certain non-technical works such as excavation, sewer-cleaning, cable-laying, underground installation and overhead installation. Since the commencement of the Track Record Period, we or our subcontractors have not encountered any difficulties in recruiting labour for our projects. However, there is no guarantee that the supply of labour and the average labour costs will be stable. In the event that we or our subcontractors fail to retain our existing labour and/or recruit sufficient labour in a timely manner to cope with the demand of our existing or future projects and/or there is a significant increase in labour costs, we may not be able to complete our projects on schedule and within budget and our operations and profitability may be adversely affected.

Severe weather conditions may delay the progress of our deployment projects of optical fibers

The progress of our deployment projects of optical fibers is susceptible to severe weather conditions such as typhoons, heavy rains and snowing. Such severe weather conditions may cause delays on such projects and, if last for a long period of time, they may even cause us unable to complete such projects on time. If such situation happens, our results of operations, and financial condition and cash flows may be adversely affected.

The applicability of in-sewer deployment method is dependent on the PRC Government for the rights of using the public sewer systems

If in-sewer deployment method is used, we have to enter into an agreement with the relevant local PRC governmental authorities to secure our rights in using the relevant public sewer systems for the deployment of optical fibers.

Given that we intend to extend our business by micro-ducts and mini-cables system integration methods, to provinces or cities outside Hebei Province in the PRC, if we are not able to secure the rights for using the public sewer systems from the PRC governmental authorities in any of such provinces or cities, our expansion plan may be hindered.

As advised by Commerce & Finance, there is no common and specific laws or regulations, as well as no prohibitative policies governing the grant of rights by the PRC governmental authorities in using the public sewer systems (including the qualifications of the applicants for such rights). We negotiated with the relevant local PRC governmental authorities separately for each of the exclusive rights. There is no assurance that we can negotiate with the relevant local PRC governmental authorities successfully to secure exclusive rights in using the public sewer systems in the cities or districts where our Directors consider that there will be potential for business expansion. If we fail to negotiate for the exclusive rights of sewer systems in the future, our operations may be adversely affected.

Micro-ducts and mini-cables system integration methods have yet to be generally accepted by all major telecommunication operators in the PRC

Although we are capable of using traditional deployment methods such as direct burial and aerial access to deploy optical fibers, we usually try to distinguish ourselves from others by conducting deployment projects by micro-ducts and mini-cables system integration methods which involve the application of a combination of certain deployment methods known as in-sewer, pipe jacking and cable troughing utilising our patented technology in relation to micro-ducts and mini-cables.

According to CCID Consulting, the market for the deployment of micro-ducts and mini-cables in China is still in the development stage. The three major telecommunication operators in China are still testing the applications of micro-ducts and mini-cables and are currently carrying out pilot projects of micro-ducts and mini-cables in a number of provinces and cities such as Beijing, Anhui Province, Shaanxi Province, Liaoning Province and Jilin Province. Among the three major telecommunication operators, China Mobile Communications Corporation (中國移動通信集團) is more willing to try micro-ducts and mini-cables system integration methods.

Despite having completed a number of projects for certain branch companies of major telecommunication operators, by using micro-ducts and mini-cables system integration methods, micro-ducts and mini-cables system integration methods have yet to be generally accepted by all of them such that if we try to use micro-ducts and mini-cables system integration methods for any new project, we may still have to build beforehand an experimental section for the client's approval. Therefore, even though our Directors are confident with our micro-ducts and mini-cables system integration methods, we cannot guarantee that our micro-ducts and mini-cables system integration methods will be generally accepted by all major telecommunication operators and/or their respective branch companies in different provinces or cities in the PRC and that our expansion plan will be accomplished as expected. During the Track Record Period, revenue generated from projects which involved the application of micro-ducts and mini-cables system integration methods accounted for approximately 57.6% and 35.0% of our total revenue, respectively. If the telecommunication operators decide not to proceed with or limit the use of micro-ducts and mini-cables system integration methods in the deployment projects, the corresponding revenue will be reduced and hence our financial condition and results of operations may be adversely affected.

We may not obtain the construction contract after building the experimental section

We will build an experimental section if our in-sewer deployment method is to be used. In an experimental section, a short distance of the underground sewer systems, which generally ranges from 500 metres to 3,000 metres, constituting the project will be used and underground optical fibers will be deployed in this selected part of sewer by means of in-sewer deployment method which utilises our patented technology in relation to micro-ducts and mini-cables.

Although the client may be satisfied with the results of the experimental section, we cannot assure that our Group will eventually obtain the construction contract. If the client finally decides not to use our micro-ducts and mini-cables system integration methods or if we fail to obtain the construction contract, we may not be able to recover our costs spent on the experimental section and this will increase our marketing and distribution expenses. If such situation happens frequently, our financial results will be affected.

Expansion of our business in other provinces and cities may not be successful and may adversely affect our financial performance

We intend to extend our business in using micro-ducts and mini-cables system integration methods to other provinces and cities, such as Liaoning Province, Shaanxi Province, Beijing, Anhui Province and Jilin Province in the near future. In addition, if our major clients engage us to launch pilot projects, we might explore business opportunities in other provinces and cities in the PRC.

We compete against the competitors with local presence which might be with greater human, distribution and marketing resources therein. Such competition could cause us to experience downward pressures on prices and loss of market share. In addition, there is no guarantee that we can obtain the approval from the respective local PRC Government. Therefore, even though our Directors are confident with our expertise in project management and the patented technologies, we cannot assure you that our businesses in new provinces and cities will be successful, and our operations and profitability may be adversely affected.

The trend of our historical financial information may not necessarily reflect our financial performance in the future

For each of the two years ended 31 December 2010 and 2011, our revenue amounted to approximately RMB51.5 million and RMB161.7 million, respectively, representing a year-on-year growth rate of approximately 213.8%. In respect of low-voltage equipment integration services, revenue of approximately RMB18.1 million, representing approximately 44.7% of the revenue generated from the low-voltage equipment integration services from 1 March 2011 to 31 December 2011, was related to the new projects obtained and completed in the fourth quarter of 2011. Those new projects were principally engaged by the state-owned enterprises. The contracts from such clients were generally being awarded in the fourth quarter of the year during the Track Record Period. Hence, the fluctuation of our quarterly revenue during the year may be subject to the nature of our clients such as state-owned enterprises. However, such trend of historical financial information of our Group is an analysis of our past performance only and does not have any implication or may not necessarily reflect our financial performance in the future which will solely depend on our capability to secure new contracts, maintain our relationships with the state-owned enterprises and keep our costs at the current level. We cannot assure you that such growth rate can be sustained and if our Group experiences any stagnant or negative growth in the future, our profitability will be adversely affected.

Based on the current market situation and the business relationships with our clients, our Directors will strive to maintain the revenue of our Group for the year ending 31 December 2012 at a similar level as compared to the same period of 2011. However, certain factors including but not limited to (i) the progress of our projects which may have an impact on our revenue based on the percentage of completion; (ii) any changes in our labour costs and material costs after tendering as a result of changes in governmental policies or economic conditions may increase our costs of sales/services; (iii) our business expansion according to our implementation plan which may increase our marketing and distribution expenses; and (iv) any unfavourable change to the preferential tax treatments currently enjoyed by us which may increase our tax payable materially, all of such will have an adverse impact on the profitability and financial position of our Group in the future.

We may face challenges in integrating the business of low-voltage equipment integration services with our principal business

We have a limited operating history as a combined business. While we have been principally engaging in the provision of deployment services of optical fibers in the PRC throughout the Track Record Period, we only diversified into the business of provision of low-voltage equipment integration services through our acquisition of Shijiazhuang Qiushi in March 2011.

Although our Directors believe that the acquisition of Shijiazhuang Qiushi may create business synergy effect on our principal business, we cannot assure that the business of low-voltage equipment integration services will be developed successfully or will have positive contribution to our Group since we may not be successful to integrate the business of low-voltage equipment integration services with our principal business. Any failure on the integration or development of the business of the low-voltage equipment integration services will have a material adverse impact on our operation and financial position.

Moreover, given that our operating results during the Track Record Period are principally contributed by our business of the deployment of optical fibers in the PRC, our historical operating results may not be indicative of any trends on the performance of the business of low-voltage equipment integration services in the future.

We may be subject to potential legal liabilities regarding the workers and the work done of our subcontractors

Under all our contracts with subcontractors, an accident insurance policy is required to be taken out by us on behalf of the subcontractors for their workers and our Group shall also not be responsible for their safety, harm and breaches of law, as stipulated in the subcontracting agreements. However, as advised by Commerce & Finance, there is an employment relationship between us and the workers engaged by the subcontractors which do not possess business licences and we are liable for the personal injuries of such workers. We cannot guarantee that the workers of our subcontractors would not file any lawsuit against our Group with or without causes. Further, if the workers of our subcontractors violate any laws, rules or regulations or their actions or omissions have caused any property damage or personal injuries, we may be prosecuted and be liable for damages.

On 1 September 2009, a worker of one of our subcontractors who had suffered personal injuries at our site, filed an application to the Shijiazhuang Labour Dispute Arbitration Committee ("**Committee**"), requesting for an adjudication of the existence of an employment relationship between himself and us. The Committee ruled in favour of the worker and such ruling was subsequently upheld by the Shijiazhuang Changan District People's Court and then the Hebei Shijiazhuang Intermediate People's Court. On 23 May 2012, the worker made an application to the Committee, requesting for an adjudication of total damages of RMB1.39 million (which had net-off the medical expenses of approximately RMB0.03 million paid by Hebei Changtong). For more details of the claim, please see the section headed "Business — Legal proceedings — Personal injury lawsuit against our Group" in this document. Although the final amount of claim will be determined by the Committee or relevant competent People's Court, pursuant to the "Compensation for Work-related Injury Opinion" ([2004] No. 95 issued by Labour Department of Hebei Province) (《關於農民工參加工傷保險有關問題的意見》(冀勞社[2004]95號)) and the "Notice on Adjustment to Long-term Treatment Regarding Compensation for Work-related Injury " ([2007] No. 59 issued by Labour Department of Hebei Province)《關於調整農民工一次性享受工傷保險長期待遇標準有關問題的通知》(冀勞社[2007]59號) (collectively referred as the "Notice"), compensation payable for incapacity results from a work injury varies with the worker's age, average monthly earnings and loss of earning capacity proportionately caused by the injury. Based on the Notice, the Directors estimate that the amount of claim is approximately RMB450,000. Accordingly, we made a provision of approximately RMB450,000 for the potential claim during the year ended 31 December 2011. Please see the section headed "Financial information — Contractual obligations and contingent and other liabilities — Contingent liabilities" in this document and Note 36 of the Accountants' Report set out in Appendix I to this document.

We are liable to our clients for the damages due to subcontractors' works and may also be subject to claims by their workers. If we are not able to recover any of such losses from our subcontractors, our business and the results of operation may be adversely affected.

Our clients may not engage us to provide maintenance services in respect of the optical fibers deployed at the public sewer systems where we have the rights to use

While we have obtained the rights to use the public sewer systems for the purpose of deployment of optical fibers in certain cities or districts, our clients may not engage us to provide maintenance services at these public sewer systems as it is not mandatory for our clients to engage us in providing maintenance services thereat. For each of the two years ended 31 December 2010 and 2011, our revenue generated from the provision of maintenance services in respect of optical fiber networks amounted to RMB4.6 million and RMB5.9 million respectively, and accounted for approximately 8.8% and 3.7% of our total revenue for the same period, respectively. Although we provided maintenance services to our clients according to relevant contracts in respect of the optical fibers deployed at the public sewer systems where we have the rights to use during the Track Record Period, we cannot guarantee that our clients will engage us to provide such maintenance services upon the expiry of the warranty period as stipulated under construction contract or the expiry of the maintenance services contracts. Any failure to secure clients to engage us for provision of maintenance services while we incur the relevant periodic maintenance charges for the rights to use the public sewer systems will have a material adverse impact on our operations and financial position.

We have not received the relevant title certificates for our leased properties and the lease agreements in respect of certain leased properties have not been registered

As at the Latest Practicable Date, our Group had entered into two lease agreements with Independent Third Parties who had not provided us with proper title certifications. Such properties, which are located in Hebei Province, are used as our Group's storage, staff dormitory and offices and have a gross floor area of approximately 1,821.91 sq.m. As advised by Commerce & Finance, if the lessor does not have the right to lease out the relevant property, the lease agreement may be subject to invalidation. Hence, we may face the risk of lease discontinuation and may need to relocate. We estimate that, in the event that we have to relocate the aforesaid leased properties, the expenses arising from relocation would be less than RMB0.2 million in total which shall comprise rental deposits, renovation and transportation fees. If we cannot find a suitable location with acceptable terms, our operations may be adversely affected.

Besides, as at the Latest Practicable Date, including the above two lease agreements, eight lease agreements entered into by our Group had not been registered with the relevant PRC governmental authorities. These properties have a gross floor area of approximately 4,061.36 sq.m. As advised by Commerce & Finance, all parties to the lease agreements must register and file the executed lease agreement with the relevant PRC governmental authorities. Although the non-registration does not affect the validity of the lease agreements, we may be liable to a fine ranging from RMB1,000 to RMB10,000 per incident.

Our business and financial performance may be adversely affected if we cannot retain members of our management team

Our success is attributed to the experience, expertise and the continuous services of our executive Directors and senior management. Mr. Jiang, who has approximately 20 years' working experience in the telecommunications industry specialising in optical fiber deployment technology, has played a key role in our Group's success. Our Group's performance is highly dependent on the management's judgment and their direction in corporate development. Although our Directors believe that offering better remuneration packages and incentive scheme would attract and retain competent employees, we cannot assure you that our Group will be able to retain any members of our management team. If any of our management members ceases to work for our Group and we are not able to recruit a replacement with equivalent or comparable credentials in a timely manner, our operations may be adversely affected.

We may not be able to enjoy preferential tax treatments after [●]

During the Track Record Period, certain of the subsidiaries of our Company enjoyed some preferential tax treatments. For example, for the two years ended 31 December 2010 and 2011, Hebei Changtong paid EIT at a rate of 8% of its total revenue multiplied by 25% instead of 25% of its taxable income as stipulated in the EIT Law, and for the year ended 31 December 2011, Shijiazhuang Qiushi paid EIT at a rate of 7% of its total revenue multiplied by 25% instead of 25% of its taxable income as stipulated in the EIT Law. The entitlements of such preferential tax treatments are subject to the approvals of the relevant PRC local tax authorities on a year-by-year basis. Although our Directors were not aware of any change on such preferential tax treatments as at the Latest Practicable Date, there can be no assurance as to when, if ever, such preferential tax treatments would be changed or become less favourable to us. If there is any revocation of or unfavourable change to the above preferential tax treatments currently enjoyed by us as a result of any change in the governmental policy or law in the PRC or otherwise, the tax payable by our Group may be materially increased which will have an adverse impact on the profitability and financial position of our Group.

Our implementation plans may not be executed within the estimated timeframe and budget

We have set out our implementation plans in the section headed "Business objective and future plans" in this document. Given that the execution of such implementation plans depends on various factors which are beyond our control, including the market conditions and the governmental policies in the PRC, there is no guarantee that our implementation plans will be executed within the estimated timeframe and budget. If there is any delay or additional cost incurred during the execution, our financial performance and prospects may be adversely affected.

Our insurance policies may not be able to cover all business risks

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products and do not, to our Directors' knowledge, offer business liability insurance. While business disruption insurance is available to a limited extent in China, we believe taking out such insurance is impractical after taking into account the risks of disruption, cost of such insurance and the difficulties associated with taking out such insurance on commercially reasonable terms. As a result, except for the property insurance for our properties, equipment and vehicles and accident insurance taken out by us on behalf of our subcontractors for their workers, we do not have any business liability, disruption or litigation insurance coverage for our operations in China. The occurrence of accidents and natural disasters including severe weather, earthquake, fire, war, power outages, flooding and the resulting consequences may not be covered by our insurance policies adequately, or at all. Further, we have not maintained any product liability insurance coverage for our services. As at the Latest Practicable Date, we have not received any material claims in relation to our services from our clients. If we were subject to substantial liabilities that were not covered by our insurance, we could incur costs and losses that would adversely affect our results of operations.

Our past financing activities with other parties in the PRC may be subject to penalties

During the Track Record Period, our subsidiaries in the PRC made advances to and received advances from third party companies which were interest free in the PRC. Our Group has fully received and settled such advances prior to the [●]. As advised by Commence & Finance, legal advisers to our Company as to PRC law, such lending activities contravened certain provisions of the Lending General Provisions (貸款通則) promulgated by the PBOC in 1996. According to the Lending General Provisions (貸款通則), the PBOC shall suppress such activities and may impose a fine equivalent to one to five times of the income (i.e. interests) generated from such advances and borrowings on the lenders. As advised by Commerce & Finance, the advances made to third party companies were interest free and no interest income were generated, we, as the lenders, and the borrowers would not be consequently fined or penalised under the Lending General Provisions (貸款通則). Moreover, our Directors consider that, at the time of obtaining such loans, our Group comprised of private companies, and our Group had obtained such loans to finance our working capital. Although the current provisions under the Lending General Provisions (貸款通則) do not provide any penalty for the borrowers and our Group is not aware of any plans of the PBOC to levy such a fine or other penalties on us as borrowers, there is no assurance that the PBOC will not take such action in the future and in such event, our results of operations and financial conditions may be adversely affected.

The intellectual property rights in respect of the projects jointly researched and developed by us and other third parties are jointly-owned

Our Group cooperated with each of the Major Telecommunication Operator and a university in the PRC to jointly conduct various research projects on developing new techniques used in connection with deployment services of optical fibers and inventing new products used in connection with micro-ducts and mini-cables, respectively. All patents in respect of these jointly developed projects were applied in joint names of our Group and the said university in the PRC or our Group and the Major Telecommunication Operator. Since our cooperation in 2007 and up to the Latest Practicable Date, the said university in the PRC and us, and the Major Telecommunication Operator and us had obtained two and six patents on a joint basis, respectively. Under the Patent Law of the PRC (中華人民共和國專利法), unless there is an agreement stipulating the right of use of the patent or the entitlement of economic sharing derived from the use of the patent, either owner of the jointly-owned patent shall have rights over the patent and either of them is entitled to use the patent as the registered and beneficial owner on its own. In case any of the joint owners allows other third party to use the relevant patent, the other joint owner shall be entitled to a portion the licensing fee or incidental income therefrom.

The patents jointly developed by the Major Telecommunication Operator and us were applied to projects using micro-ducts and mini-cables system integration methods. If the Major Telecommunication Operator transfers or licenses the right of use of these patents to a third party, whom may use the patent in a way detrimental to our Group, our results of operations and financial conditions may be adversely affected. For details of the relevant collaboration agreements, please refer to the section headed "Business — Technical collaboration" in this document.

We may be unable to renew the requisite qualifications and certifications

Commerce & Finance confirmed that each of the PRC subsidiaries of our Company has obtained all the necessary governmental authorisations, approvals and certificates under PRC laws and regulations to conduct its business. The majority of such qualifications and certifications, including the Enterprise Qualification Certificate in Communication Information Network System Integration (通信信息網絡系統集成企業資質證書) and Computer Information System Integration Service Enterprise Qualification Certificate (通信信息網絡系統集成企業資質證書), shall be subject to renewal. Such qualifications and certifications would only be renewed if our Group has passed the requisite examination and we cannot assure you that we could meet the relevant requirements for the examination. If we are unable to renew the requisite qualifications and certifications upon their expiry, our operations will be adversely affected.

RISKS RELATED TO THE INDUSTRY IN WHICH WE OPERATE

We are dependent on the telecommunication industry

Our deployment services of optical fibers are principally provided to major telecommunication operators in the PRC. For the two years ended 31 December 2010 and 2011, revenue derived from the construction contracts, representing the income generated from our provision of deployment services of optical fibers, amounted to approximately RMB45.8 million and RMB112.6 million, respectively, representing approximately 88.8% and 69.6%, respectively, of our total revenue. We expect that we will continue to rely on the revenue derived from our provision of deployment services of optical fibers. Therefore, if there is any uncontrollable factor such as adverse change in the governmental policy or economic condition in the PRC which causes the telecommunication industry in the PRC not to expand as well as expected in the future, our business operations, financial results and hence our financial position will be adversely affected.

We operate in a competitive industry and face intense competition from our competitors, which may materially affect our profitability

In respect of deployment of optical fibers, we primarily compete with all companies which are engaged in the provision of the deployment services, either by using traditional deployment methods or micro-ducts and mini-cables system integration methods. With nearly no significant entry barrier, we may be in competition with new comers, which may include those manufacturers of micro-ducts and/or products similar to micro-ducts or otherwise. Further, in respect of the low-voltage equipment integration services, we primarily compete with a few international and numerous local enterprises. Although our Directors believe that we have certain competitive strengths, we cannot assure you that we are able to uphold our market position. If the competition intensifies and we are not able to compete successfully with existing and potential competitors, our business, market share and financial performance may be adversely affected.

Our business operations may be affected by future governmental regulations of the telecommunication industry in the PRC

The PRC has continued adopting reforms and open policy in the past few decades. We are not a telecommunication operator in the PRC, which are subject to extensive regulations and supervisions by the Ministry of Industry and Information Technology. Therefore, we, currently, are not subject to any restrictions or licensing requirements specifically relating to the telecommunication industry. However, there is no assurance that such regulations will not be extended to entities associated with telecommunication and be applicable to us in the future. If this occurs, we may need to incur additional cost to comply with such regulations. In addition, in the event that we fail to conform to any new regulations, we may not be able to continue all or part of our business operations.

RISKS RELATED TO THE PRC

Changes in the PRC governmental regulations and policies may have an adverse impact on the demand for our services

Our operations are subject to the changes of governmental policies and regulations at any time. Substantially all of our business assets and operations are located in the PRC. As a result, our business, results of operations and financial condition are subject to the political, economic, legal and social conditions in the PRC. The economy of the PRC differs from the economies of most developed and developing countries in aspects such as structure, level of governmental involvement, level of development, growth rate, level and control of capital reinvestment, allocation of resources, rate of inflation and control of foreign exchange. We cannot assure you that there will not be any unfavourable changes in the governmental policy in the PRC that could impact the industries in which we or our clients operate, which could in turn diminish the demand for our services.

Uncertainties with respect to the PRC legal system may have a material impact on our operations

The PRC legal system is a civil law system based on written statutes and their interpretations by the Standing Committee of the National People's Congress. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC Government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations governing economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, these laws and regulations are relatively new and are subject to change, making the interpretation and enforcement of such laws uncertain. These uncertainties limit the reliability of legal protections available to us, and may negatively affect our business and results of operations.

As an investor holding our Shares, you hold an indirect interest in our operations in China, which are subject to PRC regulations governing PRC companies. These regulations contain provisions that are required to be included in the articles of association of PRC companies and are intended to regulate the internal affairs of these companies. The Company Law of the PRC (中華人民共和國公司法), the provisions for the protection of Shareholders' rights and access to information are in particular less developed than those applicable to companies incorporated in Hong Kong, the United States and other developed countries or regions. Therefore, our PRC subsidiaries do not enjoy all the shareholder protections available in the more developed jurisdictions.

PRC governmental control of currency conversion and changes in foreign exchange rates may adversely affect our ability to distribute dividends

The Renminbi is currently not a freely convertible currency. Presently, our operations are wholly in China and we basically receive our revenues in Renminbi. Therefore, any fluctuations in the Renminbi exchange rate against other currencies currently does not have a material impact on the results of our operations. However, our foreign-currency denominated obligations will be increased by the fact that our Company will be required to pay dividends in currencies other than Renminbi to our Shareholders, thus exposing us to greater foreign exchange risk.

The value of the Renminbi may fluctuate due to a number of factors. Since 1994, the conversion rate of Renminbi into foreign currencies, including the HK dollar and the U.S. dollar, has been set by the PBOC and the official exchange rate for the conversion of Renminbi to U.S. dollars has generally been stable. On 21 July 2005, the revaluation of the Renminbi resulted in an appreciation of the Renminbi against the U.S. dollar and the HK dollar by approximately 2%. As of 21 July 2005, the Renminbi was no longer pegged to the U.S. dollar but to a basket of currencies.

Any future exchange rate volatility relating to Renminbi may give rise to uncertainties in the value of our net assets, earnings and dividends. An appreciation of Renminbi may result in the decrease in the year end conversion of sums denominated in foreign currencies; a devaluation of Renminbi may adversely affect the value of our net assets, earnings and dividends denominated in foreign currency.

Regulations relating to offshore investment activities by PRC residents may limit our ability to contribute capital into or provide loans to our PRC subsidiaries, limit our subsidiaries' ability to pay dividends or distribute profits to us, or otherwise adversely affect us

Pursuant to Circular 75, (i) a PRC resident, including a PRC resident natural person or a PRC company, must register with the local branch of SAFE before he establishes or controls a SPV for the purpose of overseas equity financing (including convertible debt financing); (ii) when a PRC resident contributes his assets of or equity interests in a domestic enterprise into a SPV, or engages in overseas financing after contributing such assets or equity interests into a SPV, such PRC resident must register his interest in the SPV and the change thereof with the local branch of SAFE; and (iii) when the SPV undergoes a material event outside of China, such as a change in share capital or merger and acquisition, the PRC resident must, within 30 days from the occurrence of such event, register such change with the local branch of SAFE. SAFE subsequently provided further guidance to its local branches with respect to the operational process for SAFE registration under Circular 75, which standardised more specific and stringent supervision on the registration relating to Circular 75. If the PRC resident fails to make the required initial SAFE registration or update the previously filed registration, the PRC subsidiaries of the SPV established or controlled by the PRC resident may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the SPV and the SPV may also be prohibited from injecting additional capital into its PRC subsidiaries. Our current Shareholders have already completed the relevant foreign exchange registrations required under Circular 75. However, we cannot assure you that all of our Shareholders who are PRC residents will remain in compliance with the relevant SAFE regulations to make or update any applicable registrations or comply with other requirements required by these rules or other related rules in the future. The failure or inability of our PRC control persons to make any required registrations or comply with other requirements may limit our ability to contribute additional capital into or provide loans to our PRC subsidiaries (including using the proceeds from the [●]), limit our PRC subsidiaries' ability to pay dividends or otherwise distribute profits to us, or otherwise adversely affect us.

Any changes in the PRC governmental policies regarding foreign investments in China may adversely affect our business, financial condition and results of operations

Under the Catalogue for the Guidance of Foreign Investment (外商投資產業指導目錄) that came into effect on 30 January 2012, we do not fall under the prohibited or the restricted categories of business. There is no assurance that we will not fall under such categories subsequent to any change in the foreign investment policies and laws or that we will not be subject to more stringent restrictions on our operation and business, which may adversely affect our operational business, financial condition and results of operations.

Epidemics, acts of war and other disasters may adversely affect our operations

Our business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of God which are beyond human control may adversely affect the economy, infrastructure and livelihood of the people of the PRC. Many major cities in the PRC are under threat of flood, earthquake, typhoon, sandstorm or drought. Our business, operation results and financial condition may be adversely affected if such natural disasters occur. In particular, any future outbreaks of Severe Acute Respiratory Synodrome, Avian Flu or any other epidemic could have an adverse effect on our results of operation. Further, an outbreak of influenza A (H1N1) may, directly or indirectly, adversely affect our operating results. The virus is transmitted sufficiently easily from person-to-person to sustain institutional and community outbreaks and to spread regionally. If any of our employees or labours are identified as a possible source of spreading the new influenza A (H1N1) virus or other similar epidemic, we may be required to quarantine the employees that have been suspected of becoming infected, as well as others that have come into contact with those employees.

We may also be required to disinfect our affected operational premises, which could adversely affect our operations. Even if we are not directly affected by the epidemic, an outbreak of influenza A (H1N1) or other similar epidemic in the PRC, could slow down or disrupt the level of economic activity generally, which could in turn adversely affect our operating results.

In addition, acts of war and terrorist attacks may cause damage or disruption to our operation, employees, markets or clients, any of which could adversely impact our revenue, cost of sales/services, overall results and financial condition or the price per Share. Potential war or terrorist attacks may also cause uncertainty and cause the business to suffer in ways that we cannot currently predict.

Dividends payable by us to our foreign investors, gains on sale of the Shares and our transfer of equity interests in the PRC subsidiaries of our Company may become subject to withholding tax under PRC tax laws

Under the EIT Law, a PRC withholding tax at the rate of 10% is applicable to dividends payable to investors that are "non-resident enterprises", which do not have an establishment or institutions in the PRC, or with such establishment or institutions but the relevant dividend is not effectively connected with such establishment or institution, to the extent such dividends have their source within the PRC, unless there is an applicable tax treaty between the PRC and the jurisdiction in which the investor resides which reduces or exempts the relevant tax.

Furthermore, the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprise (關於加強非居民企業股權轉讓所得企業所得税管理的通知) (Circular Guoshuihan [2009] No. 698) (the "**Notice**") issued by the SAT on 10 December 2009 and have a retrospective effect as from 1 January 2008, provides that where a foreign investor indirectly transfers the equity of a PRC resident enterprise by disposing the equity of an overseas holding company (the "**Indirect Transfer**") located in a tax jurisdiction that: (i) has an effective tax rate of less than 12.5%; or (ii) does not tax its residents on their foreign incomes, the foreign investor shall report the Indirect Transfer to the competent PRC tax authority within 30 days upon the conclusion of the equity transfer agreement. The PRC tax authority will examine the true nature of the Indirect Transfer. Should it deem the foreign investor to have made the transfer in order to avoid the PRC tax, the PRC tax authority may disregard the existence of the overseas holding company and re-characterise the Indirect Transfer. As a result, gains derived from such Indirect Transfer may be subject to the PRC withholding tax at the rate of 10%. The Notice also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties and where the consideration is not based on arm's length principle, thus resulting in lower taxable income, the competent tax authority has the authority to adjust the amount of taxable income pertaining to the transaction.

If we are required to withhold PRC tax on dividends payable to our foreign Shareholders under the EIT Law, or if you are required to pay PRC tax on the transfer of your Shares, the value of your investment in our Shares may be materially and adversely affected. Further, there is no assurance that any direct or indirect transfer of equity interests in the PRC subsidiaries of our Company through our overseas holding companies in the future will not be subject to examinations by such PRC subsidiaries' tax authorities and a withholding tax of 10% will not be imposed as a result thereof, even if we or our overseas subsidiaries are considered as non-PRC resident enterprises.