# BUSINESS

## OVERVIEW

### Our principal business

We are principally engaged in the provision of deployment services of optical fibers in the PRC. Depending on contractual requirements, we use traditional deployment methods and/or micro-ducts and mini-cables system integration methods in our deployment projects of optical fibers. For projects which involve the application of traditional methods only, we will be provided with the optical fibers by clients and have them laid along the designated routes using traditional deployment methods which include direct burial, aerial access, conduit installation and pipe jacking. For projects which require our micro-ducts and mini-cables system integration methods, we will provide our deployment solutions including the design of routing of optical fibers, deployment methods to be used, materials to be used including optical fibers, the necessary engineers and manpower to lay the optical fibers, laying services, connection and testing of the optical fibers until completion. Deployment methods used for this kind of projects include 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. We maintain our own engineering team to carry out technical works such as blowing, pipe jacking, testing and connection. We will, however, recruit temporary workers or engage subcontractors to carry out non-technical works such as excavation, sewer-cleaning, underground installation and overhead installation. Optical fibers deployed by us will be used by the clients for data transmission. For the two years ended 31 December 2010 and 2011, we completed 47 and 115 deployment projects of optical fibers, respectively. We also provide maintenance services in respect of optical fiber networks, irrespective of whether or not the deployment works thereof are carried out by us. Our maintenance services mainly cover regular inspection of the deployed cables, repair and re-connection of optical fibers and testing of the signal transmission.

Traditionally, optical fibers are deployed by means of direct burial which requires excavation of roads and may cause pollution and traffic congestion thereto. By affixing the micro-ducts and mini-cables in existing sewer systems, excavation and subsequent reinstatement of roads are avoided such that the emission of pollutants as well as the construction period is shortened. Therefore, our Directors believe that such in-sewer deployment method, which minimises disturbance and incurs less costs when comparing with direct burial, is becoming more acceptable to telecommunication operators in the PRC.

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. As at the Latest Practicable Date, we have obtained the exclusive rights in using public sewer systems for the purposes of deployment of optical fibers at 11 distinct locations in ten different districts or cities in the PRC, namely, Beijing, Jinan, Baoding, Handan, Xingtai, Qinhuangdao, Chengde, Zhangjiakou, Shahe and Meishan and the non-exclusive right in Hengshui. As at the Latest Practicable Date, we have entered into deployment contracts with our major clients using in-sewer deployment methods in public sewer systems in Handan, Xingtai and Hengshui of Hebei Province.

**Our pricing policies in respect of the deployment services of optical fibers**

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.

Subject to the Price Scale set by the Ministry of Industry and Information Technology in accordance with the Budgeting Measures, further details of which are set out in the section headed "Risk factors — Risks related to the industry in which we operate" in this document, we principally prepare our quotation based on, including but not limited to, the project's geographic area and the estimated costs such as labour costs and material costs, with adjustment on a project-by-project basis. Cities located north of the Yangtze River and cities located south of the Yangtze River have different price scales.

**Our major clients**

Our clients for deployment of optical fibers are mainly telecommunication operators in the PRC which we have established eleven years with the Major Telecommunication Operator and other major telecommunication operators from three to six years of business relationships. Our Directors consider that our ability and experience to provide deployment of optical fibers services by diversified methods to meet the demands of our clients in different geographical locations would enable us to maintain the business relationship with the Major Telecommunication Operator. The Major Telecommunication Operator, our largest client, accounted for approximately 75.5% and 66.0% of our total revenue for the two years ended 31 December 2010 and 2011. During the Track Record Period, our top five largest clients in aggregate accounted for approximately 96.0% and 79.7% of our total revenue. The number of our projects which involved the application of micro-ducts and mini-cables system integration methods engaged by the Major Telecommunication Operator was 33 and 51, respectively, and the corresponding total contractual amount was approximately RMB80.1 million and RMB74.9 million, respectively, for the two years ended 31 December 2010 and 2011.

In view of the significance of the Major Telecommunication Operator to our business and in order to reduce our reliance on the same, we have been trying to explore business opportunities including but not limited to the deployment services of optical fibers with other telecommunication operators in the PRC. Although the reliance on the Major Telecommunication Operator was not significantly reduced solely by means of the business relationships with other telecommunication operators in the PRC during the Track Record Period, we intended to reduce such reliance through the acquisition of Shijiazhuang Qiushi in March 2011 which allowed us to diversify our client base by providing our low-voltage equipment integration services to clients such as financial institutions, governmental departments, road and transportation companies, state-owned and private companies and in order to broaden our revenue stream.

**Our project workflow**

We obtain our projects of deployment of optical fibers mainly by way of tender or direct negotiation. Our revenue is generated on a project basis and is recognised using the stage-of-completion method, pursuant to which revenue is recognised ratably over the life of the

contract. After we have entered into the construction contract with our client setting out the final contract price, the scope of work and the payment arrangements, we will normally commence our deployment works within the timeframe as stipulated in the construction contract and start incurring labour costs and other costs for the works. However, in practice, our major clients usually make payments to us within one to six months upon receiving invoices issued by us. Further, a portion of contract value, normally 5% to 10%, is usually withheld by our clients as retention money and will be released after the warranty period which is typically one year.

**Our suppliers**

We purchase certain materials such as polyethylene and steel wires and provide such materials to manufacturers, who are Independent Third Parties, for the manufacturing of micro-ducts for our deployment services using micro-ducts and mini-cables system integration methods and anti-corrosive steel wires for our deployment services using traditional deployment methods and/or sales to clients. We also purchase certain parts and components such as mini-cables, connectors and reserve boxes for our deployment services using micro-ducts and mini-cables system integration methods. Our purchases are mainly settled in Renminbi and normally have a credit term ranged from payment on delivery to 90 days. We do not enter into any long-term contract with any of our suppliers.

**Intellectual property rights**

We believe one of our competitive advantages is our utilisation of patented technology in relation to mini-cables and micro-ducts in our micro-ducts and mini-cables system integration methods. As at the Latest Practicable Date, we have obtained a total of 24 appearance design, utility and invention patents which our Directors consider them material to our Group covering the relevant machinery, techniques and parts in relation thereto and, among which, some were transferred from Ms. Guo previously (please see the section headed "Further information about the business of our Group — Intellectual property rights of our Group" in Appendix IV to this document). These 24 patents were applied to our provision of deployment services of optical fibers in the PRC during the Track Record Period. We have not entered into any agreement with Ms. Guo in respect of the usage of such patents prior to the transfer. Nevertheless, Ms. Guo has undertaken to us (i) to provide these patents for our use exclusively; and (ii) that our Group will not be required to make any payment for the use of these patents. Such patents have been assigned to us at nil consideration in August 2011 and the registration of the transfer was completed with the State Intellectual Property Office of the PRC prior to the Latest Practicable Date. In addition, we have been in collaboration with each of the Major Telecommunication Operator and a university in the PRC since 2007 on certain research and development projects in respect of micro-ducts, mini-cables and related techniques. Through such collaboration, we have developed and obtained eight patents, of which six patents are jointly owned by the Major Telecommunication Operator and us and two patents are jointly owned by the said university in the PRC and us. For details of the economic sharing between us and the Major Telecommunication Operator, please refer to the section headed "Business — Technical collaboration" in this document.

**Our location**

Our headquarters are situated at Shijiazhuang, Hebei Province, the PRC. However, most of the members of our project team stay in cities or districts at which the project sites are located in order to provide our clients with better, direct and faster project management, installation and maintenance services in respect of our deployment projects of optical fibers. Further, our sales and marketing team,

which is located in Hebei Province, regularly carries out marketing activities in order to explore business opportunities in the PRC. Our Directors believe that our existing network enhances our proximity to clients in the PRC and enables us to provide our clients with timely response to their enquiries and technical and maintenance services.

**Acquisition of Shijiazhuang Qiushi**

In order to broaden our revenue stream, we acquired Shijiazhuang Qiushi on 1 March 2011, as a result of which we also provide low-voltage equipment integration services to clients such as financial institutions, governmental departments, road and transportation companies, state-owned and private companies in the PRC. Low-voltage equipment generally refers to intelligence control system, low-voltage control room, video and multimedia conferencing system, telephone conferencing system and television surveillance system and we provide relevant services including equipment purchases, overall design, wiring and setting-up to our clients. For details of the major reasons for the acquisition of Shijiazhuang Qiushi, please see the section headed "History, development and reorganisation — Shijiazhuang Qiushi" in this document.

Our low-voltage equipment integration projects are mainly obtained by way of tender or direct negotiation. After signing the contract with our client, we have to purchase all required equipment, materials, parts and components. We maintain our own engineering team to carry out the technical works such as wiring and testing. However, we may either recruit temporary workers or engage subcontractors, which are Independent Third Parties and do not have any past relationships with our Group, Directors, shareholders or any of their respective associates, to carry out non-technical works such as excavating wall trough and installing in-wall wires. On average, the installation period of our low-voltage equipment integration projects was approximately one to two month(s) during the Track Record Period. The installation period is basically subject to the size and complexity of each project. We will issue our invoice for client's settlement after the project is completed.

## OUR COMPETITIVE STRENGTHS

**Our deployment projects by micro-ducts and mini-cables system integration methods enable us to provide flexible solutions to our clients**

In addition to the traditional deployment methods currently adopted by us, we also conduct 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. By affixing the micro-ducts and mini-cables in existing sewer systems, excavation and subsequent reinstatement of roads are avoided such that the emission of pollutants as well as the construction period is shortened. Therefore, our Directors believe that such in-sewer deployment method, which minimises disturbance and incurs less costs when comparing with direct burial, is becoming more acceptable to telecommunication operators in the PRC. Moreover, as at the Latest Practicable Date, we have obtained the exclusive rights in using the public sewer systems at 11 distinct locations in ten different districts or cities in the PRC and the non-exclusive right in Hengshui. As at the Latest Practicable Date, we have entered into deployment contracts with our major clients using in-sewer deployment methods in public sewer systems in Handan, Xingtai and Hengshui of the Hebei Province. Equipped

with both traditional deployment methods and micro-ducts and mini-cables system integration methods, we believe that this will facilitate the accomplishment of our business objective as we are able to provide more flexible solutions than our competitors who principally use traditional deployment methods.

**We possess a number of patents in relation to our micro-ducts and mini-cables system integration methods**

As at the Latest Practicable Date, we have obtained a total of 24 appearance design, utility and invention patents which our Directors considered them material to our Group covering the relevant machinery, techniques and parts in relation micro-ducts and mini-cables system integration methods (please see the section headed "Further information about the business of our Group — Intellectual property rights of our Group" in Appendix IV to this document).

In addition to conducting our own research and development, we have been in collaboration with the Major Telecommunication Operator for the purposes of jointly developing new techniques used in connection with deployment services of optical fibers. Through such collaboration, six patents are jointly owned by the Major Telecommunication Operator and us. Our Directors believe that our possession of such patents will enable us to differentiate with our competitors.

**We have a senior management team with sound industry knowledge, management skills and industry expertise**

Our senior management team and key technical personnel have extensive industry knowledge, project management experience and industry expertise in the industries in which we operate. 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. As at 31 December 2011, 107 members of our staff have either received tertiary education or above or professional qualifications in areas such as engineering, building, surveying and accounting. We believe our senior management team enables us to capture market opportunities, formulate and execute sound business strategies. Please refer to the section headed "Directors, senior management and staff" in this document for biographies of our management team.

We believe that the combination of our management and technical teams' collective expertise, experience and knowledge of the industry have been and will continue to be our valuable assets.

**We have established stable relationships with major telecommunication operators in the PRC**

We have established stable relationships with major telecommunication operators in the PRC as we have provided deployment services of optical fibers to the Major Telecommunication Operator for eleven years and other major telecommunication operators from three to six years. Such relationships allow us to better understand their business models and operations, including network configurations, operational procedures and business development plans, which in turn might help us to secure further construction contracts from them in the future.

**We have an established network in the PRC**

Most members of our project team stay in cities or districts at which the project sites are located in order to provide our clients with better, direct and faster project management, installation and

maintenance services in respect of our deployment projects of optical fibers. During the Track Record Period, we had been undertaking deployment projects in Shijiazhuang, Xingtai, Hengshui, Handan, Chengde, Cangzhou, Zhangjiakou and Tangshan in Hebei Province, and also in Xi'an, Changsha, Jinan, Nanchang, Shenyang, Inner Mongolia and Beijing as well. Further, our sales and marketing team, which is located in Hebei Province, carries out marketing activities in order to explore possible business opportunities in the PRC. Our Directors believe that we have an established network in the PRC which not only enhances our proximity to clients in the PRC and enables us to provide our clients with timely response to their enquiries and technical and maintenance services but also facilitates our future expansion.

## PRODUCTS AND SERVICES

The following table set out the breakdown of our Group's revenue during the Track Record Period:

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2010 | | 2011 | |
| | *RMB'000* | *%* | *RMB'000* | *%* |
| **Deployment services of optical fibers – Construction contract revenue** | | | | |
| - Traditional deployment methods | 16,093 | 31.2 | 55,952 | 34.6 |
| - Micro-ducts and mini-cables system integration methods *(Note 1)* | 29,659 | 57.6 | 56,686 | 35.0 |
| **Sub-total** | 45,752 | 88.8 | 112,638 | 69.6 |
| **Others** | | | | |
| - Services income *(Note 2)* | 4,568 | 8.8 | 5,918 | 3.7 |
| - Sales of goods *(Note 3)* | 971 | 1.9 | 2,599 | 1.6 |
| - Rental income *(Note 4)* | 256 | 0.5 | 65 | 0.0 |
| **Sub-total** | 5,795 | 11.2 | 8,582 | 5.3 |
| **Low-voltage equipment integration services** *(Note 5)* | — | — | 40,514 | 25.1 |
| **Total** | 51,547 | 100.0 | 161,734 | 100.0 |

*Notes:*

1. The revenue represented the revenue generated from the deployment services of optical fibers which involve the application of micro-ducts and mini-cables system integration methods.

2. Services income represented the revenue generated from our provision of maintenance services in respect of optical fiber networks.

3. Sales of goods represented the revenue generated from our sales of ancillary products, including micro-ducts and anti-corrosive steel wires.

4. Rental income represented the revenue generated from a sublease for deployment of telecommunication networks.

5. The revenue represented the revenue of Shijiazhuang Qiushi from 1 March 2011 (date of acquisition) to 31 December 2011.

## DEPLOYMENT OF OPTICAL FIBERS

### Deployment services of optical fibers

The construction contract revenue, representing the income generated from our provision of the deployment services of optical fibers, was approximately RMB45.8 million and RMB112.6 million, representing approximately 88.8% and 69.6% of the total revenue of the Group for the two years ended 31 December 2010 and 2011, respectively.

The following table set out the breakdown of our Group's revenue recognised by means of different deployment methods during the Track Record Period:

| | For the year ended 31 December | |
|---|---|---|
| | **2010** | **2011** |
| | *(RMB'000)* | *(RMB'000)* |
| Traditional deployment methods | 16,093 | 55,952 |
| Micro-ducts and mini-cables system integration methods *(Note)* | 29,659 | 56,686 |
| **Total** | **45,752** | **112,638** |

*Note:* The revenue represented the revenue generated from the deployment services of optical fibers which involve the application of micro-ducts and mini-cables system integration methods.

Depending on contractual requirements, we use traditional deployment methods and/or micro-ducts and mini-cables system integration methods in our deployment projects of optical fibers.

### Traditional deployment methods

For projects which involve the application of traditional methods only, we will be provided with the optical fibers by the clients and have them laid along the designated routes using our traditional deployment methods such as direct burial, aerial access, conduit installation and pipe jacking.

*Direct burial*

One of the traditional deployment methods is direct burial. Direct burial involves excavating a narrow trench in order to bury the cables. It requires prior site visit to avoid damaging other buried

services. Excavation techniques include mole open trenching, ploughing, slotting and directional drilling. When deploying cables in a particular area, a combination of these options can be used. However, such deployment technique would generate certain environmental pollution, such as air and noise pollution.

*Aerial access*

Aerial access is the installation of cables with the support on the poles or other tower infrastructure. The main advantage of aerial access is the utilisation of pole infrastructure to create network services within a community without the need to dig roads for burial of cables or ducts and aerial cables are relatively quick and easy to install.

*Conduit installation*

Conduit installation is the installation of cables in the existing telecommunication pipeline of the client.

*Pipe jacking*

Pipe jacking requires the drilling of an underground tunnel, through which a pipe will be jacked in the tunnel and then cables will be placed in the pipe so as to connect two telecommunication pipelines. Pipe jacking is usually used to connect telecommunication pipelines between highways where traditional deployment methods such as direct burial and aerial access are not applicable. Pipe jacking is also used in connection with micro-ducts and mini-cables system integration methods but the scale will be relatively smaller.

**Micro-ducts and mini-cables system integration methods**

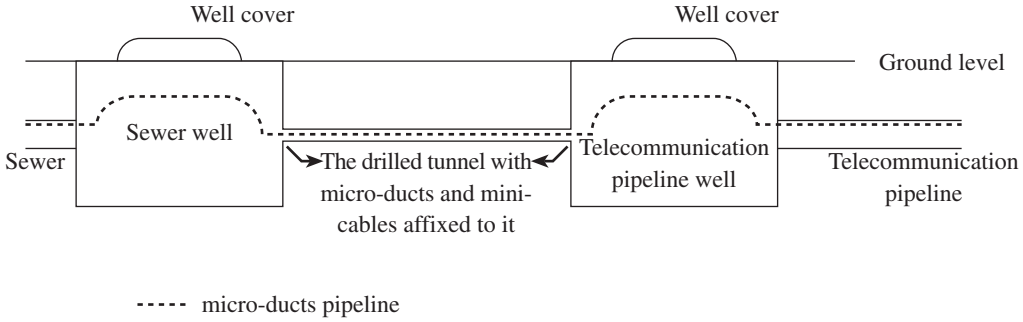
Micro-ducts and mini-cables system integration methods, unlike traditional deployment methods, require our solution including the design of routing of optical fibers, deployment methods to be used, materials to be used including optical fibers, the necessary engineers and manpower to lay the optical fibers, laying services, connection and testing of the optical fibers until completion. Deployment methods used for this kind of projects include 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.

*In-sewer deployment method*

First, a pipe with an external diameter of 32mm to 40mm is screwed to the upper inner wall of the existing sewage pipe. Afterwards, micro-ducts will be blown into the pipe and then mini-cables will be blown into the micro-ducts, both by using the blowing equipment.

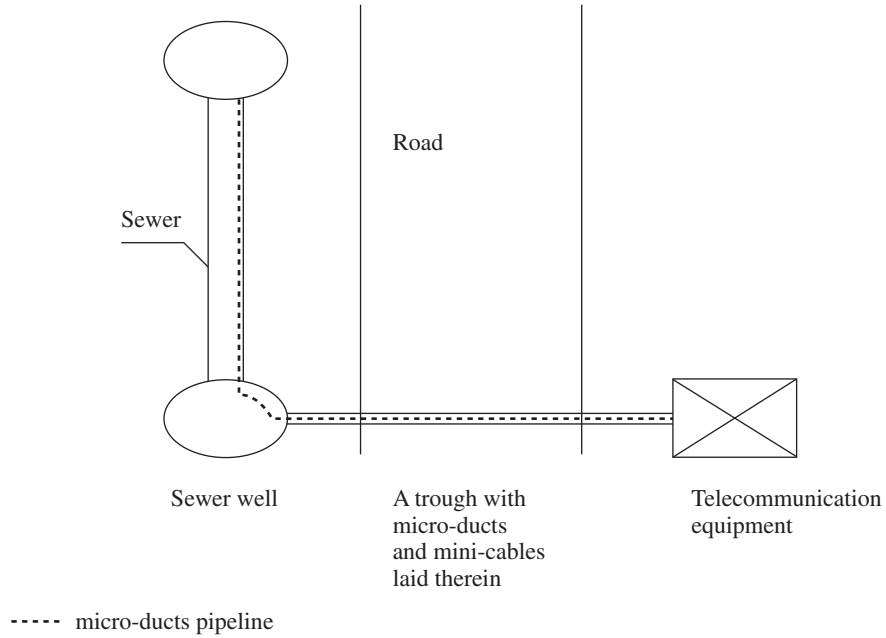
*Pipe jacking*

Pipe jacking requires the drilling of an underground tunnel with a diameter of 126mm to 800mm, through which a pipe will be jacked in the tunnel and then micro-ducts and mini-cables are affixed in the pipe so as to connect the sewer and the telecommunication pipeline. The diagram below illustrates how the optical fibers are connected between the sewer and the telecommunication pipeline.




*Cable troughing*

Cable troughing requires the cutting of a 40mm to 60mm wide and 200mm to 300mm deep trough on the road. After the trough is made, micro-ducts and mini-cables are laid therein so that an optical fiber connection is formed between the starting point and the destination sewer and reinstatement works of the trough will be made afterwards. The diagram below illustrates how the optical fibers are connected between the sewer and the destination.




Although some excavation works on the roads may also be required when using our micro-ducts and mini-cables system integration methods, such as pipe jacking and/or cable troughing, our Directors are of the view that our micro-ducts and mini-cables system integration methods can minimise disturbance caused when comparing with traditional deployment method such as direct burial, given the area of excavation is less.

**Rights to use 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, which generally set out the term of the rights, the ambits of the sewer

systems authorised to be used by us and the unit price of each of the initial payment and the maintenance charges. In doing so, we have to make an application to the relevant local PRC governmental authorities with the submission of an implementation plan beforehand. Such agreement requires us to pay to the PRC Government an initial payment at the beginning to use such sewer systems and subsequently pay maintenance charges of the sewer on a periodic basis with reference to the length of the sewer used as per agreed. As at the Latest Practicable Date, we have obtained the exclusive rights in using public sewer systems for the purposes of deployment of optical fibers at 11 distinct locations in ten different districts or cities in the PRC, namely, Beijing, Jinan, Baoding, Handan, Xingtai, Qinhuangdao, Chengde, Zhangjiakou, Shahe and Meishan and the non-exclusive right in Hengshui. The initial payment and the annual maintenance charges for such public sewer systems ranged from RMB2,500/km to RMB6,000/km and RMB600/km to RMB1,200/km, respectively. As at the Latest Practicable Date, we have entered into deployment contracts with our major clients using in-sewer deployment methods in public sewer systems in Handan, Xingtai and Hengshui of Hebei Province.

Pursuant to the agreements which we have been granted exclusive rights, the relevant local PRC governmental authorities shall not permit any other third party to provide services of the same or similar nature in the area during the contractual period, and shall not transfer its rights under the agreement to any third party. Our rights under the agreements which we have been granted exclusive rights cover both the public sewer systems in use and those to be built in the entire district or city following the expansion of such district or city, as long as the public sewer system of the respective location are under the supervision of the relevant local PRC governmental authorities. Such exclusive rights last for not more than 30 years.

For the agreement which we have been granted rights in using the public sewer systems for the purposes of deployment of optical fibers in Hengshui (the "**Non-exclusive Rights Agreement**"), it does not restrict the local PRC governmental authorities from granting rights to use the public sewer systems to be built in the future to our competitors. The Non-exclusive Rights Agreement shall expire on 30 June 2021. For both kinds of agreements, none of the parties to the agreement can terminate the agreement during the contractual term save for reasons of force majeure under the PRC laws and regulations.

The following table set out major terms and expiry dates of those public sewer systems which we have obtained exclusive rights as at the Latest Practicable Date:

| | Name of city or district | Term of the exclusive rights | Expiry date | Payment term |
|---|---|---|---|---|
| 1. | Baoding | 30 years (commencing on 1 November 2004) | 31 October 2034 | Payable quarterly |
| 2. | Changping district, Beijing | 20 years (commencing on 13 June 2011) | 12 June 2031 | Payable quarterly |
| 3. | Chengde | 30 years (commencing on 16 March 2006) | 15 March 2036 | Payable quarterly |
| 4. | Development zone, Xingtai | 30 years (commencing on 1 August 2006) | 31 July 2036 | Payable quarterly |
| 5. | Handan | 8 years (commencing on 1 June 2010) | 31 May 2018 | Payable yearly |
| 6. | Jinan | 26 years (commencing on 1 December 2010) | 19 June 2036 | Payable quarterly |
| 7. | Meishan | 30 years (commencing on 27 March 2006) | 26 March 2036 | Payable quarterly |
| 8. | Qinhuangdao | 30 years (commencing on 10 April 2007) | 9 April 2037 | Payable quarterly |
| 9. | Shahe | 30 years (commencing on 1 April 2007) | 31 March 2037 | Payable yearly |
| 10. | Xingtai | 30 years (commencing on 1 June 2006) | 31 May 2036 | Payable quarterly |
| 11. | Xuanhua district, Zhangjiakou | 29 years (commencing on 1 February 2007) | 31 January 2036 | Payable yearly |

The aggregate initial payments paid by us for the two years ended 31 December 2010 and 2011 were RMB46,289 and RMB28,100, respectively. The aggregate maintenance charges incurred by us for the two years ended 31 December 2010 and 2011 were RMB21,986 and RMB28,733, respectively and the length of the public sewer systems involved as at 31 December 2010 and 2011 were 23.0 km and 28.6 km, respectively. We settled the maintenance charges by the end of each year, notwithstanding the payment term stipulated in the relevant agreements, and we did not receive any complaints or penalty for such payment pattern from the relevant PRC governmental authorities during the Track Record Period. As at the Latest Practicable Date, we have followed the payment term as stipulated in relevant agreements. The maintenance services income generally includes the periodic maintenance charges, if any, which we have to pay to the relevant authorities in respect of our rights in using the public sewer systems and we will not separately charge our clients or ask our clients to reimburse us for the same. It is not mandatory for our clients to engage us in providing maintenance services in respect of the optical fibers deployed at the public sewer systems where our Group has the exclusive rights to use as our clients may or may not require such maintenance services. Relevant risk has been disclosed under the section headed "Risk factors — Risks related to our Group — 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" in this document.

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. In view of the public sewer systems being public properties, we have the rights in using the public sewer systems to deploy optical fibers upon approval by and payment being made to the local PRC governmental authorities pursuant to the relevant agreements executed.

Regarding the exclusive rights secured in using the public sewer systems in 10 different districts or cities in the PRC, as advised by Commerce & Finance, there was no specific qualification or criterion imposed on our application for such rights by relevant local PRC governmental authorities. We negotiated with the relevant local PRC governmental authorities separately for each of the exclusive rights.

Our Group has obtained exclusive rights in using the public sewer systems at districts and cities where no projects have been commenced yet as our Directors believe that this will not only enhance our competitiveness in the market by possessing such exclusive rights but also help us to capture future potential business opportunities when our major clients require the deployment services in such districts and cities. Pursuant to the relevant agreements, we do not have any obligation to commence projects using the public sewer systems after such rights have been granted.

The following table set out the number of projects completed using in-sewer deployment methods in the city or district where we have obtained exclusive rights during the Track Record Period:

| | For the year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | | 2011 | | |
| **Name of city or district with exclusive rights to use the sewer systems** | **Number of projects** *(Note 1)* | **Contractual sum** *(RMB'000)* | **Revenue** *(RMB'000)* *(Note 2)* | **Number of projects** *(Note 1)* | **Contractual sum** *(RMB'000)* | **Revenue** *(RMB'000)* *(Note 2)* |
| Handan | 6 | 3,526 | 1,257 | 1 | 3,666 | 2,283 |
| Jinan | 1 | 320 | 177 | — | — | — |
| Xingtai | 2 | 2,860 | 2,215 | — | — | — |
| Total | 9 | 6,706 | 3,649 | 1 | 3,666 | 2,283 |
| Total construction contract revenue | | | 45,752 | | | 112,638 |
| % of total construction contract revenue | | | 8.0% | | | 2.0% |

*Notes:*

1. The number of projects completed as at the end of the relevant period.

2. The revenue represented the revenue recognised during the relevant period. Part of the revenue might have been recognised in the previous accounting period for completed projects if they were projects in progress as at the end of the previous accounting period.

The following table summarises the details of the deployment methods offered by the Group:

| | **Traditional deployment methods** | **Micro-ducts and mini-cables system integration methods** |
|---|---|---|
| Types of services/works | - Direct burial<br>- Aerial access<br>- Conduit installation<br>- Pipe jacking | - In-sewer deployment<br>- Pipe jacking<br>- Cable troughing |
| Materials used | - Optical fibers are provided by clients | - Micro-ducts and mini-cables are provided by us |
| Involvement of subcontractors/ temporary workers | - Conducting non-technical works | - Conducting non-technical works |
| Number of completed projects *(Note 1)* | | |
| - As at 31 December 2010 | 23 | 24 |
| - As at 31 December 2011 | 69 | 46 |
| Number of projects in progress *(Notes 1 and 2)* | | |
| - As at 31 December 2010 | 28 | 21 |
| - As at 31 December 2011 | 40 | 16 |
| Average construction period of a project (months) *(Note 1)* | 7.7 | 9.0 |

*Notes:*

1. The number of completed projects and projects in progress and the average construction period of a project in respect of the micro-ducts and mini-cables system integration methods referred to the projects involving the application of micro-ducts and mini-cables system integration methods.

2. Projects in progress referred to projects for which we have recognised part but not all of the revenue for accounting purposes as at the end of the relevant period. The portion of contract value for projects in progress which has not been realised was deemed as part of our backlog.

## OTHER REVENUE

### Maintenance services

We also provide maintenance services in respect of optical fiber networks, irrespective of whether the deployment works thereof are carried out by us or not. The term of maintenance agreement varies from projects to projects, and is usually one year. Our maintenance services mainly cover regular inspection of the deployed cables, repair and re-connection of optical fibers and testing of the signal transmission. We charge our clients monthly fees for the maintenance services at a rate per km which varies with geographic locations and types of cables deployed.

Services income, representing the income derived from our provision of the maintenance services to our clients, was approximately RMB4.6 million and RMB5.9 million, representing approximately 8.8% and 3.7% of the total revenue of the Group for the two years ended 31 December 2010 and 2011, respectively.

### Sales of ancillary products

We sell certain ancillary products including micro-ducts to overseas clients and anti-corrosive steel wires to local telecommunication operators. We outsource the manufacturing process of micro-ducts to manufacturers, who are Independent Third Parties, by providing them with raw materials of our own recipe whereas we provide steel wires and coating materials of our own recipe to manufacturers, who are Independent Third Parties, for their reprocessing of steel wires into anti-corrosive steel wires.

The income derived from the sales of ancillary products is included in the sales of goods and amounted to approximately RMB1.0 million and RMB2.6 million, representing approximately 1.9% and 1.6% of the total revenue of our Group for the two years ended 31 December 2010 and 2011, respectively.

### Rental income

We have obtained the exclusive rights from the Air Defense Office of Shijiazhuang (石家莊人民防空辦工室) to utilise and sublease certain underground area for the development of the telecommunication systems. We then have subleased the underground area to our clients for their deployment of telecommunication networks therein and charged them, among others, an annual fee at a rate per unit length which is payable semi-annually. The rental income was approximately RMB0.3 million and RMB0.07 million, respectively, representing approximately 0.5% and 0.0% of the total revenue of the Group for the two years ended 31 December 2010 and 2011, respectively.

## LOW-VOLTAGE EQUIPMENT INTEGRATION SERVICES

In order to broaden our revenue stream, we acquired Shijiazhuang Qiushi on 1 March 2011, as a result of which we also provide low-voltage equipment integration services to clients such as financial institutions, governmental departments, road and transportation companies, state-owned and private companies. Low-voltage equipment generally refers to intelligence control system, low-voltage control room, video and multimedia conferencing system, telephone conferencing system and television surveillance system and we provide relevant services including equipment purchases, overall design, wiring and setting-up to our clients.

Our low-voltage equipment integration projects are mainly obtained by way of tender or direct negotiation. After signing the contract with our client, we have to purchase all required equipment, materials, parts and components. We maintain our own engineering team to carry out the technical works such as wiring and testing. However, we may either recruit temporary workers or engage subcontractors, which are Independent Third Parties and do not have any past relationships with our Group, Directors, shareholders or any of their respective associates, to carry out non-technical works such as excavating wall trough and installing in-wall wires. On average, the installation period of our low-voltage equipment integration projects was approximately one to two month(s) during the Track Record Period. The installation period is basically subject to the size and complexity of each project. We will issue our invoice for client's settlement after the project is completed.

For the year ended 31 December 2011, the income derived from the provision of low-voltage equipment integration services after the acquisition of Shijiazhuang Qiushi amounted to approximately RMB40.5 million, representing approximately 25.1% of our total revenue for the year ended 31 December 2011.

## OUR PROJECTS AND SERVICES

We divide our projects into three types based on the status of the projects:

- completed projects — refer to projects for which 100% of the revenue has been recognised for accounting purpose as of a point in time;

- projects in progress — refer to the projects for which we have recognised part but not all of the revenue for accounting purpose as of a point in time. The portion of contract value for projects in progress which has not been realised is deemed as part of our backlog; and

- projects to be commenced — refer to projects which have been secured by us but have not commenced works and no revenue has been recognised as of a point of time. Contract value for projects to be commenced is deemed as part of our backlog.

**Deployment services of optical fibers**

In relation to the deployment of optical fibers, we completed 162 projects during the Track Record Period and we have 51 projects in progress and 12 projects to be commenced as at 18 May 2012.

The number of completed projects in relation to deployment of optical fibers increased from 57 projects as at 30 September 2011 to 115 projects as at 31 December 2011. The completion of 58 projects and revenue of RMB50.6 million was recognised in the fourth quarter of 2011 based on their percentage of completion was attributable to (i) 34 projects, which were still in progress as at 30 September 2011 but were completed in the fourth quarter of 2011 and revenue of approximately RMB41.7 million in aggregate was recognised. These projects were principally located in Tangshan, Shenyang and Shijiazhuang and were generally of larger size and thus had a higher average revenue per project; (ii) 6 projects, which were to be commenced as at 30 September 2011, were completed in the fourth quarter of 2011 and revenue of approximately RMB1.8 million in aggregate was recognised in such period. These projects were principally located in Cangzhou and Chengde and were generally of smaller size; and (iii) 18 new projects was obtained and completed in the fourth quarter of 2011 and revenue of approximately RMB7.1 million was recognised in such period. Among these 18 new projects, some were of relatively smaller size with average amount of RMB0.3 million and some were enhancement works (e.g. deployment of additional cables along the same pipeline) on existing optical fibers deployed which our Directors confirmed that (i) certain preparation procedures, such as site visits and liaising with the localities, prior to commencement of such projects could be streamlined; and (ii) the enhancement works on existing optical fibers deployed were relatively simple than those completely new deployment project, thus the construction periods were relatively shorter.

**Completed projects**

The following table set out the number of deployment projects we completed during the Track Record Period:

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | 2010 | | 2011 | |
| **Name of city or district** | **Number of projects completed** *(Note 1)* | **Recognised revenue** *(Note 2)* | **Number of projects completed** *(Note 1)* | **Recognised revenue** *(Note 2)* |
| | | *(RMB'000)* | | *(RMB'000)* |
| Shijiazhuang | 13 | 14,758 | 30 | 25,260 |
| Tangshan | — | — | 5 | 10,227 |
| Cangzhou | 4 | 980 | 25 | 8,933 |
| Shenyang | 1 | 1,964 | 2 | 5,865 |
| Hengshui | 9 | 1,285 | 13 | 5,504 |
| Zhangjiakou | 1 | 396 | 8 | 4,994 |
| Chengde | 2 | 2,923 | 7 | 4,349 |
| Handan | 8 | 1,634 | 5 | 3,376 |
| Xi'an | 4 | 3,402 | 9 | 3,334 |
| Beijing | — | — | 4 | 968 |
| Haozhou | — | — | 1 | 460 |
| Zhengzhou | — | — | 1 | 284 |
| Baoding | — | — | 1 | 248 |
| Hefei | — | — | 1 | 200 |
| Changsha | — | — | 1 | 139 |
| Zhuzhou | — | — | 1 | 120 |
| Chizhou | — | — | 1 | 117 |
| Xingtai | 2 | 2,215 | — | — |
| Nanchang | 1 | 1,496 | — | — |
| Inner Mongolia | 1 | 1,338 | — | — |
| Jinan | 1 | 178 | — | — |
| **Total** | **47** | **32,569** | **115** | **74,378** |

*Notes:*

1. Completed projects referred to projects for which 100% of their revenue has been recognised for accounting purposes as at the end of the relevant period, but not prior to the beginning of such period.

2. Recognised revenue referred to the revenue recognised in the relevant period.

## Projects in progress

The following table set out the number of deployment projects in progress during the Track Record Period:

| Name of city or district | Number of projects in progress as at 31 December 2010 (Note 1) | Recognised revenue for the year ended 31 December 2010 (Note 2) | Number of projects in progress as at 31 December 2011 (Note 1) | Recognised revenue for the year ended 31 December 2011 (Note 2) | Total contractual amount for the projects as at 31 December 2011 (Note 3) | Backlog amount for the projects as at 31 December 2011 (Note 4) | Contractual date of completion for the projects as at 31 December 2011 (Note 5) | Actual number of completed projects as at 18 May 2012 which were projects in progress as at 31 December 2011 | Projects in progress as at 18 May 2012 which were projects in progress as at 31 December 2011 | | | | Projects in progress as at 18 May 2012 which were obtained and/or commenced on or after 1 January 2012 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | Number of projects in progress (Notes 1, 6) | Recognised revenue for the year ended 31 December 2011 (Notes 3,6,7) | Total contractuel amount (Note 3) | Contractual date of completion (Notes 5,6,7) | Number of projects in progress (Notes 1,6) | Total contractual amount (Notes 3,6,7) | Contractual date of completion (Notes 5,6,7) |
| | | (RMB'000) | | (RMB'000) | (RMB'000) | (RMB'000) | | | | (RMB'000) | | | (RMB'000) | | |
| Shijiazhuang | 16 | 7,087 | 13 | 24,770 | 33,470 | 8,700 | June 2012 | 8 | 5 | 14,948 | 17,870 | June 2012 | 6 | 2,710 | N/A |
| Tangshan | 2 | 12 | 4 | 4,993 | 10,510 | 5,517 | May 2012 | 1 | 3 | 4,781 | 9,960 | May 2012 | 2 | 7,030 | May 2012 |
| Baoding | — | — | 8 | 1,077 | 4,099 | 3,022 | June 2012 | — | 8 | 1,077 | 4,099 | June 2012 | — | — | — |
| Zhangjiakou | 6 | 654 | 6 | 1,126 | 4,345 | 3,219 | June 2012 | 5 | 1 | 68 | 1,500 | June 2012 | 3 | 5,607 | December 2012 |
| Cangzhou | 8 | 371 | 5 | 1,302 | 3,809 | 2,507 | May 2012 | 2 | 3 | 943 | 1,987 | May 2012 | 1 | 102 | N/A |
| Chengde | 4 | 104 | 6 | 1,054 | 2,195 | 1,141 | June 2012 | 2 | 4 | 384 | 1,138 | June 2012 | 2 | 10,765 | April 2012[Note 8] |
| Handan | 2 | 1,326 | 3 | 1,687 | 2,030 | 343 | March 2012 | 3 | — | — | — | — | 3 | 5,572 | April 2012[Note 8] |
| Hengshui | 9 | 723 | 4 | 888 | 1,743 | 855 | March 2012 | 3 | 1 | 106 | 150 | N/A | 1 | 8,921 | April 2012[Note 8] |
| Qinhuangdao | — | — | 2 | 159 | 1,063 | 904 | N/A | — | 2 | 159 | 1,063 | N/A | — | — | — |
| Jinan | — | — | 1 | 460 | 460 | — | June 2012 | — | 1 | 460 | 460 | June 2012 | — | — | — |
| Nanchang | — | — | 1 | 448 | 448 | — | May 2012 | — | 1 | 448 | 448 | May 2012 | — | — | — |
| Xingtai | — | — | 2 | 77 | 77 | — | April 2012 | 1 | 1 | 63 | 63 | N/A | 1 | 417 | N/A |
| Shenyang | 1 | 2,874 | — | — | — | — | — | — | — | — | — | — | 1 | 4,201 | March 2012[Note 8] |
| Xi'an | — | — | 1 | 219 | 759 | 540 | February 2012 | 1 | — | — | — | — | — | — | — |
| Langfang | — | — | — | — | — | — | — | — | — | — | — | — | 1 | 300 | N/A |
| Beijing | 1 | 32 | — | — | — | — | — | — | — | — | — | — | — | — | — |
| **Total** | **49** | **13,183** | **56** | **38,260** | **65,008** | **26,748** | | **26** | **30** | **23,437** | **38,738** | | **21** | **45,625** | |

*Notes:*

1. Projects in progress referred to projects for which we have recognised part but not all of the revenue for accounting purposes as at the end of the relevant period. The portion of contract value for projects in progress which has not been realised is deemed as part of our backlog.
2. Recognised revenue referred to the revenue recognised in the relevant period.
3. Total contractual amount referred to the contractual amount as stipulated in the optical fibers deployment project contracts. For contracts where no contractual amount was stated, the contractual amount equals to the revenue recognised during the relevant periods.
4. Backlog amount for the projects referred to the difference between the total contractual amount of projects and their recognised revenue for the relevant periods.
5. Contractual date of completion referred to the latest date amongst the contractual dates of completion of all relevant projects as at the dates indicated. Contractual date of completion was not stipulated in some of the agreements and hence such information was not available as at 18 May 2012.
6. 18 May 2012, being the latest practicable date for the Group to ascertain the number of projects, total contractual amount and the contractual date of completion of these projects for the purpose of inclusion of such information in this document.
7. Contractual date of completion and/or contractual amount of the project was not stipulated in some of the agreements and hence such information was not available as at 18 May 2012. For this kind of agreements, we would then enter into another agreement with our client later to finalise the contractual amount.
8. This project was still in progress after the contractual date of completion was mainly due to the commencement date of such project was postponed by mutual agreements between clients and us.

## Projects to be commenced

The following table set out the number of deployment projects secured by our Group but yet to be commenced:

| | As at 31 December 2011 | | | As at 18 May 2012[Note 3] | | |
|---|---|---|---|---|---|---|
| **Name of city or district** | **Number of projects to be commenced** *(Note 1)* | **Total contractual amount for the projects** *(RMB'000)* | **Contractual date of completion for the projects** *(Notes 2, 4)* | **Number of projects to be commenced** *(Note 1)* | **Total contractual amount for the projects** *(RMB'000)* | **Contractual date of completion for the projects** *(Notes 2, 4)* |
| Tangshan | 4 | 54,900 | June 2012 | 2 | 47,320 | June 2012[Note 5] |
| Chengde | 2 | 10,648 | April 2012 | 4 | 1,394 | June 2012[Note 5] |
| Hengshui | 1 | 8,921 | April 2012 | 2 | 3,173 | May 2012[Note 5] |
| Handan | 3 | 5,572 | April 2012 | — | — | — |
| Zhangjiakou | 3 | 4,207 | April 2012 | 1 | 600 | March 2012[Note 5] |
| Shijiazhuang | 2 | 2,027 | N/A | 2 | 1,750 | September 2012 |
| Xingtai | 1 | 417 | N/A | — | — | — |
| Langfang | 1 | 300 | N/A | — | — | — |
| Baoding | 1 | 154 | N/A | 1 | 154 | N/A |
| Cangzhou | 1 | 102 | May 2012 | — | — | — |
| | 19 | 87,248 | | 12 | 54,391 | |

*Notes*

1. Projects to be commenced referred to projects for which have been secured by us but have not commenced works and no revenue has been recognised as at the end of the relevant period.

2. Contractual date of completion referred to the latest of all contractual dates of completion of relevant projects as at the dates indicated.

3. 18 May 2012, being the latest practicable date for the Group to ascertain the number of projects, total contractual amount for projects and the contractual date of completion of these projects for the purpose of inclusion of such information in this document.

4. Contractual date of completion and/or contractual amount of the project was not stipulated in these agreements and hence such information was not available as at 18 May 2012. For this kind of agreements, we would then enter into another agreement with our client later to finalise the contractual date of completion and the contractual amount.

5. These projects were still yet to be commenced as at 18 May 2012 which were mainly due to the commencement dates of such projects were postponed by mutual agreements between clients and us pending further information such as the detailed design of deployment works required and notification to commence works to be provided by our clients before we can commence the project. Pursuant to the relevant agreements, no penalty shall be imposed on our Group when any project has not yet completed upon the expiry of its contractual date of completion.

**Low-voltage equipment integration services**

In relation to low-voltage system integration, from 1 March 2011 (date of acquisition of Shijiazhuang Qiushi) to 31 December 2011, we completed 85 projects. As at 18 May 2012, we had one project in progress and two projects to be commenced.

The number of completed projects in relation to low-voltage equipment integration services increased from 42 projects as at 30 September 2011 to 85 projects as at 31 December 2011. The completion of 43 projects and revenue of approximately RMB24.4 million recognised in the fourth quarter of 2011 was principally attributable to (i) 7 projects which were still in progress and one project which was to be commenced as at 30 September 2011 were completed in the fourth quarter of 2011 and revenue of approximately RMB0.9 million and RMB5.4 million was recognised respectively based on percentage of completion; and (ii) 35 new projects were obtained and completed in the fourth quarter of 2011 and revenue of approximately RMB18.1 million was recognised in such period. These 35 new projects were principally related to the state-owned enterprises and the contracts from such clients were generally being awarded in the fourth quarter of the year during the Track Record Period.

Subsequent to 31 December 2011, most of the projects awarded in the first quarter of 2012 and the three projects which were still working in progress as at 31 December 2011 had been completed before 18 May 2012. There was one project in progress with the contractual amount of approximately RMB4,000 and two projects to be commenced with the contractual amount of approximately RMB2.0 million as at 18 May 2012.

### Projects in progress and projects to be commenced

The following table set out the number of projects in progress and the projects to be commenced regarding the low-voltage equipment integration services:

| | **Number of projects as at 31 December 2011**(*Note 1*) | **Recognised revenue for the period from 1 March 2011 (date of acquisition of Shijiazhuang Qiushi) to 31 December 2011** *(RMB'000)* | **Total contractual amount for the projects as at 31 December 2011** *(RMB'000)* | **Backlog amount for the projects as at 31 December 2011**(*Note 2*) *(RMB'000)* | **Contractual date of completion for the projects as at 31 December 2011**(*Note 3*) | **Number of projects as at 18 May 2012**(*Note 3*) | **Total contractual amount for projects as at 18 May 2012** *(RMB'000)* | **Contractual date of completion for the projects as at 18 May 2012**(*Note 3, 4*) |
|---|---|---|---|---|---|---|---|---|
| Projects in progress | 3 | 3,638 | 4,652 | 1,014 | N/A | 1 | 4 | June 2012 |
| Projects to be commenced | 2 | — | 5 | — | January 2012 | 2 | 2,034 | July 2012 |

*Notes:*

1. Project in progress referred to projects for which we have completed part of the works as stipulated in the contracts, but no revenue is recognised for accounting purposes as the revenue recognition is based on sales of goods for our low-voltage equipment integration services. Projects to be commenced refer to projects for which have been secured by us but have not commenced works and no revenue has been recognised as at the end of the relevant period.

2. Backlog amount for the projects referred to the difference between the total contractual amount of projects and their recognised revenue for the relevant periods.

3. 18 May 2012, being the latest practicable date for the Group to ascertain the number of projects and the contractual date of completion of these projects for the purpose of inclusion of such information in this document.

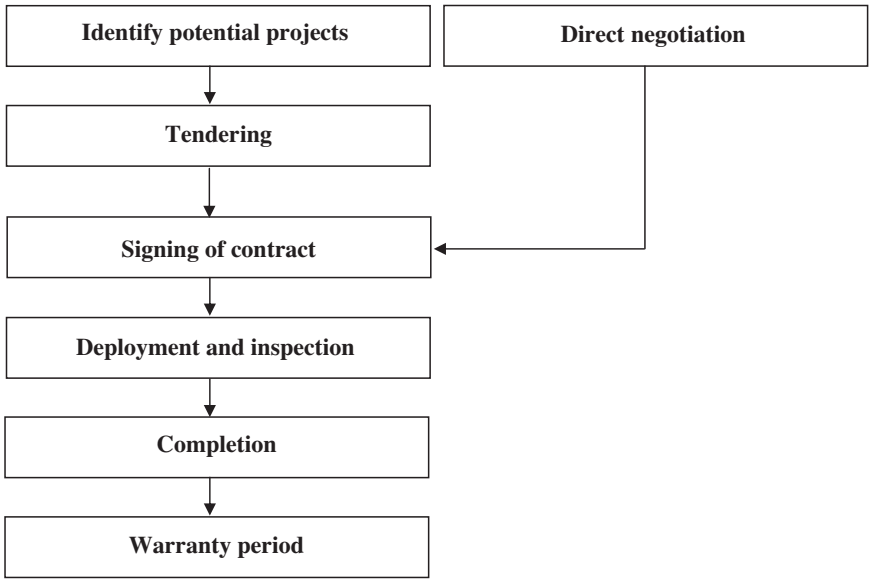
4. Contractual date of completion referred to the latest of all contractual dates of completion of relevant projects as at the dates indicated.

# BUSINESS

## PROJECT WORKFLOW

### Deployment of optical fibers

A significant portion of our business regarding the deployment services of optical fibers is carried out on a project basis. The key steps of our project workflow are as follows:




### Identify potential projects/Direct negotiation

We obtain projects of deployment of optical fibers mainly by way of tender or direct negotiation. During the Track Record Period, more than 64.1% of the projects, in terms of number of project, were obtained by way of tender which amounted to an aggregate contractual value of approximately RMB210.0 million. Our sales and marketing team carries out marketing activities by liaising with our existing or potential clients in order to assist them in identifying and evaluating their needs for optical fiber coverage, such that we are frequently invited to tender for new projects of major telecommunication operators. In a few cases, we may be engaged by clients, which are contractors for telecommunication operators, to carry out deployment works. In such event, competitive tendering process will be bypassed and we enter into contracts with such clients and become the subcontractor to carry out the projects.

### Tendering

*Tender review*

On receipt of an invitation to tender, we will evaluate and conduct an analysis of the documents received in order to identify the scope of work, costs, environment, quality, safety and technical requirements. In certain circumstances, we will carry out a field study on areas which the deployment works cover. We will prepare a preliminary work plan in accordance with the requirements of the tender, setting out, among other things, deployment works required, installation procedures and analysis of costs for approval by our senior management. After the work plan has been approved by our senior management, we will then prepare tender documents. The duration which the tender being

processed varies from case to case, and depends on the tender requirements of a particular project. Given that (i) apart from formal written invitation, we received oral invitation to tender as well and therefore the actual commencement time of some of the tender processes could not be objectively ascertained; and (ii) the written notices of result were not issued to us for all the tender submission, our Directors considered that the duration of a tender process cannot be accurately measured. Nevertheless, to the best of our Directors' knowledge, the average duration of the tender process was generally within one month during the Track Record Period based on their past experience. The success rate of tenders submitted by us was approximately 63.5% and 66.1% for the two years ended 31 December 2010 and 2011, respectively.

*Experimental section*

If required, we will build an experimental section for trial by our potential client. 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. Upon completion, we will carry out system testing to evaluate the transmission efficiency of the optical fibers and to ensure the installation of the optical fiber infrastructure will not interfere with the sewer systems. The relevant testing report will then be included in our tender documents for client's consideration. The average costs for an experimental section for trial in deployment services during the Track Record Period ranged from approximately RMB0.07 million to approximately RMB0.3 million and varied according to the location, lengths of optical fibers deployed and complexity of the experimental section.

*Tender submission*

To submit a tender, we need to prepare tender documents pursuant to the tender requirements which usually include the proposed contract price and our qualifications.

**Signing of contract**

After submitting the tender documents for the project and if such project is awarded to us, we will normally enter into a construction contract with the client setting out the contract price, scope of work and payment arrangements. We will then form a project team to implement the project.

**Deployment and inspection**

After we enter into the construction contract with the client, we will commence our deployment works in accordance with the detailed work plan. We maintain our own engineering team to carry out our technical works such as blowing, pipe jacking, testing and connection. However, we will either recruit temporary workers or engage subcontractors, which are Independent Third Parties and do not have any past relationships with our Group, Directors, shareholders or any of their respective associates, to carry out non-technical works such as excavation, sewer-cleaning, underground installation and overhead installation. We provide our subcontractors with principal equipment and materials necessary for the works. As a result of the legal proceedings as more particularised in the section headed "Business — Legal proceedings — Personnel injury lawsuit against our Group" in this document, we have required all of our subcontractors to possess valid business licences since 2012.

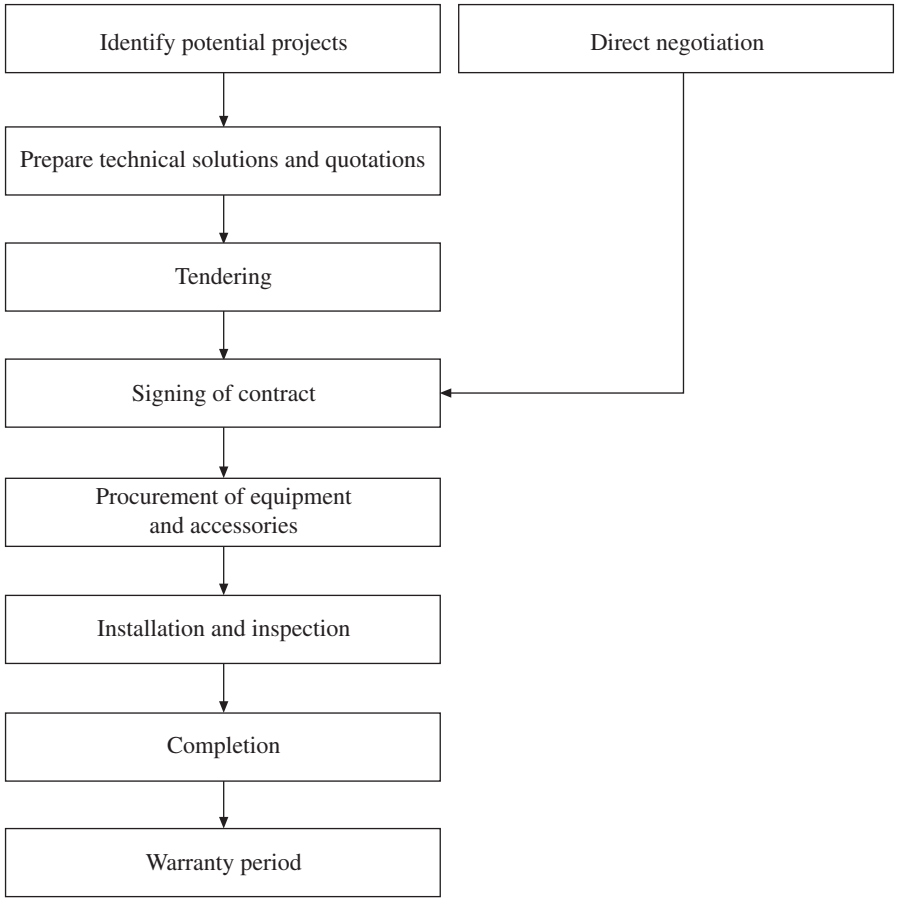
The average construction period of our deployment projects was approximately seven to nine months during the Track Record Period. The variation is mainly attributable to the fact that different projects have different complexity and the length of the optical fibers deployed varies from project to project. Upon commencement of a project, a consultancy firm, which is an Independent Third Party, will carry out on-site inspection on a regular basis and prepare progress report at certain stages of a project. The progress report contains contractual amount, costs, expected completion time and actual percentage of completion of the project. After completion of the deployment works, the optical fibers will be tested by us to evaluate their performance and adjustments will be made to optimise their functionality, if necessary. Then, a preliminary quality inspection will be carried out by the client in accordance with the national maintenance standard and has to satisfy four conditions, namely, (i) all deployment works completed must comply with the specifications; (ii) the functionality testing must be completed and the client is satisfied therewith; (iii) the deployment works must meet the relevant inspection standard; and (iv) a complete set of all deployment documents and technical files should be available. Afterwards, the trial period of one to six months begins and a final inspection is carried out during the last month of the trial. The final inspection focuses on the test run of the deployed cables and re-inspection of any problems which have occurred during the preliminary inspection. The client will complete a final quality inspection report and issue a final inspection certificate if the deployment services comply with the above conditions. After our client issues a final inspection certificate to confirm its satisfaction with our deployment works, we may issue our invoice to our client. For our major clients, we issue invoices to them after they have carried out certain internal procedures. Based on our experience, it normally takes about one to three months for us to issue invoices to our major clients upon the receipt of the final inspection certificates. During the Track Record Period, we did not encounter any instances that the client delayed to issue the final inspection certificate and we have not received any notification from our clients refusing to issue the same to us. Although our construction contract generally stipulates that our fees shall be paid by installments at different stages of the project, given the bargaining power of our major clients which are major telecommunication operators in the PRC, their actual payment practice may not strictly follow those terms as stipulated in the construction contracts but usually pay us after the project is completed.

**Warranty period**

After the issuance of completion certificate, our warranty period begins. We typically provide one-year warranty for our deployment works. During the warranty period, we provide free maintenance services to rectify any defect in our deployment works. In addition, we generally allow our clients to retain 5% to 10% of the total contract price as retention money, which will be remitted to us in full upon the expiry of the warranty period. During the Track Record Period, we did not receive any complaint from our clients and have not encountered any difficulty in collecting the retention money from our clients in respect of the deployment services of optical fibers.

**Low-voltage equipment integration services**

Our business regarding the provision of low-voltage equipment integration services is carried out on a project basis. The key steps of our project workflow are as follows:




**Identify potential projects/Direct negotiation**

We obtain projects of low-voltage equipment integration services mainly by way of tender or direct negotiation. During the period from 1 March 2011 (date of acquisition of Shijiazhuang Qiushi) to 31 December 2011, approximately 26% of the low-voltage equipment integration services projects, in terms of number of project, were obtained by way of tender which amounted to an aggregate contractual value of approximately RMB13.5 million. Our sales and marketing team carries out marketing activities by liaising with our existing or potential clients in order to assist them in identifying and evaluating their needs for low-voltage equipment and accessories. In a few cases, we may be engaged by existing clients to carry out other low-voltage equipment integration services. In such event, competitive tendering process will be bypassed and we enter into contracts with such clients directly. Once the potential projects have been identified, our engineers will then discuss the needs with our clients.

**Prepare technical solutions and quotations**

In order to provide low-voltage equipment integration services, our sales and marketing team will formulate a task list and discuss the possible technical solution with our Group's engineers to satisfy the client's needs. Once the technical solution is proposed, an equipment quotation list is prepared by both our sales and marketing team and engineers.

**Tendering**

*Tender review*

On receipt of an invitation to tender, we will evaluate and conduct an analysis of the documents received in order to identify the scope of work, costs, environment, quality, safety, statutory and technical requirements. A preliminary work plan will be prepared by our technician in accordance with the requirements of the tender, setting out, among other things, deployment works required, installation procedures and analysis of costs for approval by our senior management. After the work plan is approved by our senior management, we will then prepare tender documents. The time which the tender process takes varies from case to case, and depends on the tender requirements of a particular project. For the two years ended 31 December 2010 and 2011, Shijiazhuang Qiushi submitted 20 and 48 tenders, respectively, and the success rate of tenders submitted by Shijiazhuang Qiushi was approximately 55.0% and 39.6% respectively. The decrease in the success rate during the Track Record Period was due to the fact that Shijiazhuang Qiushi had been submitting tenders to increasing number of potential clients being financial institutions, governmental departments and those engaging in the educational field during the Track Record Period but eventually unable to secure contracts from them.

*Tender submission*

To submit a tender, we need to prepare tender documents pursuant to the tender requirements which usually include the proposed tender price and our qualifications.

**Signing of contract**

After receiving the tender documents, the client will review each of them and further negotiations may take place until a decision is reached. If the project is awarded to us, we will normally enter into an agreement with the client setting out the final contract price, scope of work and payment arrangements. We will then form a project team to implement the project.

**Procurement of equipment and accessories**

After we enter into the construction contract with the client, the project manager will prepare a construction commencement report and approve a procurement list, and our operation department will procure such items through our suppliers according to the procurement list.

**Installation and inspection**

After we have obtained the required tools, equipment or accessories for rendering our integration services, we will commence our installation works. Our own engineering team carries out the technical works such as wiring and testing in implementing the low-voltage equipment integration projects.

However, we may either recruit temporary workers or engage subcontractors, which are Independent Third Parties and do not have any past relationships with our Group, Directors, shareholders or any of their respective associates, to carry out non-technical works such as excavating trough and installing in-wall wires during the installation. We provide our subcontractors with principal equipment and raw materials necessary for the works. On average, the installation period of our low-voltage equipment integration projects was approximately one to two month(s) during the Track Record Period. The installation period is basically subject to the size and complexity of each project.

After completion of the installation works, the entire integration system will be tested by us to evaluate its performance and adjustments will be made to optimise its functionality, if necessary. A preliminary inspection will be carried out by the project team and the engineering and marketing team. After the preliminary inspection, a final inspection will be carried out by our project manager and our client. If it passes the final inspection, a final inspection certificate will be issued by our client to confirm its satisfaction with our installation works and we may then issue our invoice to the client. During the Track Record Period, we did not receive any notification from our clients refusing to issue the final inspection certificate to us.

**Warranty period**

After the issuance of completion certificate, our warranty period begins. The duration of the warranty period is stipulated in the construction contract and is usually one year. During the warranty period, we will provide free maintenance services to rectify any defect in our installation works. We may allow our clients to retain 5% to 10% of the total contract price as retention money. Upon the expiration of the warranty period, the client has to remit the retention money, if any, to us. As at 31 December 2011, a total sum of approximately RMB0.7 million was past due, of which RMB0.6 million was past due for less than one month and RMB0.1 million was past due for one to three months and the occurrence of such was mainly due to, to the best of our Directors' knowledge, our clients required certain time to make settlement rather than the quality of our works. We did not make any provision for such past due amount as our Directors consider that such amount can be collected. During the Track Record Period, we did not encounter any difficulty in collecting the retention money from our clients. In addition, we did not receive any complaint from our clients during the Track Record Period.

## TECHNICAL COLLABORATION

Our Directors believe that, in order to maintain the competitiveness in the industry, our Group must keep abreast of the development of technique and technology and adopt an innovative approach in the research and development of deployment services of optical fibers. We have been in collaboration with the Major Telecommunication Operator and a university in the PRC since 2007 to jointly developing new techniques used in connection with deployment services of optical fibers. The patents developed under the collaborations between us and the said university in the PRC have not been applied to projects conducted during the Track Record Period and the patents developed under the collaborations between us and the Major Telecommunication Operator were applied to projects using micro-ducts and mini-cables system integration methods. However, given that each project involved a combination of deployment methods which may utilise certain patents developed solely or jointly by us, the revenue generated by a particular patent cannot be quantified objectively and accurately.

Our Group entered into a collaboration agreement with the Major Telecommunication Operator on 10 May 2007 in respect of the invention of the seven-hole plum blossom pipe which is used in

connection with micro-ducts and mini-cables. There are, however, no specific terms in the agreement stipulating the right of use of such patents and entitlement of our Group and the Major Telecommunication Operator as to the economic sharing derived from the use of the relevant patents. By several confirmation letters executed by Beijing U-ton in February 2012, we confirmed that (1) we shall not charge any fee for the transfer or licensing of such patents to any third parties; (2) we shall not be entitled to any revenue generated from the use, or transfer or licensing of such patents by the Major Telecommunication Operator; and (3) we have no intention to transfer or licensing in any nature to any third parties as at the date of the confirmation letters. Nevertheless, as advised by Commerce & Finance, the patents jointly owned by us and the Major Telecommunication Operator can be used in any deployment projects and there is no restriction on the use of such patents.

As advised by Commerce & Finance, 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. 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, please refer to the section headed "Risk factors — The intellectual property rights in respect of the projects jointly researched and developed by us and other third parties are jointly-owned" in this document.

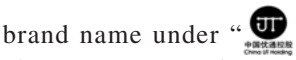
Given the collaboration between us and the said university in the PRC and in consideration of costs efficiency, save for Mr. Jiang, Ms. Guo and our engineering and technical team comprising 120 staff as at 31 December 2011 who may have contribution to our technological development from time to time, we do not maintain an in-house research and development team. We communicate with the said university in the PRC to keep abreast of the technological development of the industry and consult the said university in the PRC if necessary. During the Track Record Period, we incurred research expenses in an aggregate amount of approximately RMB1.1 million.

## MATERIAL INTELLECTUAL PROPERTY RIGHTS

We regard patents, trademarks, trade secrets and other intellectual property rights as our important assets. We believe having those intellectual property rights is very important to our success. We rely on a combination of brand names, trademarks and other intellectual property rights to protect our goodwill and/or inventions. We generally apply for registration of patents in respect of any important inventions, product improvements or technologies.

As at the Latest Practicable Date, we have registered one trademark and obtained a total of 24 appearance design, utility and invention patents which our Directors consider them material to the Group covering the relevant machinery, techniques and parts in relation thereto and, among which, some were transferred from Ms. Guo previously. Among these 24 appearance design and patents, six are jointly owned by the Major Telecommunication Operator and us (please see the section headed "Further information about the business of our Group — Intellectual property rights of our Group" in Appendix IV to this document). Please refer to the section headed "Business — Technical collaboration" above regarding the economic sharing between our Group and the Major Telecommunication Operator of jointly-owned patents. These 24 patents were applied to our provision of deployment services of optical fibers in the PRC during the Track Record Period.

As advised by Commerce & Finance, pursuant to the relevant laws and regulations of the PRC, an invention patent refers to any new technical solution relating to a product, a process or improvement thereof, while an utility patent refers to any new technical solution relating to the shape, the structure, or their combination, of a product, which is fit for practical use. From the inventiveness perspective, when compared with the prior technical solution, an invention patent must possess prominent substantive features and remarkable progress, while an utility patent must possess substantive features and progress. In the assessment process, substantive examination shall be conducted for an invention patent application while preliminary examination would be conducted for an utility patent application. In respect of the term of protection, the length of term of protection for an invention patent and an utility patent is 20 years and 10 years, respectively.

We plan to develop the brand name under "  " and hence have applied for and obtained the registration of such trademark in Hong Kong. Since we are principally engaged in the business in the PRC, we have applied for registration of the above trademark in the PRC as well to protect our interest.

## MARKETING AND PROMOTION

In order to promote our corporate image and our micro-ducts and mini-cables system integration methods, our Group has adopted a series of marketing strategies, which include holding technical discussions with clients, giving presentations, providing free trials of in-sewer deployment method to clients, and conducting surveys with our clients. Our Group also participates in relevant technology or industry seminars in relation to the deployment of optical fibers and the low-voltage equipment integration in order to receive the most updated information and look for any potential business opportunities through the aforesaid events.

### Pricing policies

#### *Deployment services of optical fibers*

Subject to the Price Scale set by the Ministry of Industry and Information Technology in accordance with the Budgeting Measures, further details of which are set out in the section headed "Risk factors — Risks related to the industry in which we operate" in this document, we principally prepare our quotation based on, including but not limited to, the project's geographic area and the estimated costs such as labour costs and material costs, with adjustment on a project-by-project basis. Cities located north of the Yangtze River and cities located south of the Yangtze River have different price scales.

#### *Low-voltage equipment integration services*

Our Group has full discretion in setting the prices of its low-voltage equipment integration services in accordance with market conditions and is not subject to any legal or regulatory control on pricing or sales. Our Group principally set the price based on the equipments required to meet the client's purpose, our Group's labour costs for the installation services.

## CLIENTS

Our major clients for the deployment of optical fibers are telecommunication operators in the PRC while our major clients for the low-voltage equipment integration are financial institutions, governmental departments, road and transportation companies, state-owned and private companies in the PRC.

The Major Telecommunication Operator, our largest client, accounted for approximately 75.5% and 66.0% of our total revenue for the two years ended 31 December 2010 and 2011. During the Track Record Period, our top five largest clients in aggregate accounted for approximately 96.0% and 79.7% of our total revenue for the two years ended 31 December 2010 and 2011 respectively.

Based on our Directors' knowledge and past experience, the Major Telecommunication Operator will not frequently change the appointment of service providers in relation to the deployment of optical fibers if such service providers are able to deliver the standard of work and technology and not many service providers in the industry can provide the services comparable to us in terms of the geographical coverage and technology. Although we have not entered into long-term agreement with the Major Telecommunication Operator as our agreements are on project basis, by leveraging on our ability to provide flexible solutions in relation to the deployment services of optical fibers in various geographical locations in the PRC and our past experience of working with the Major Telecommunication Operator and given that we did not receive any complaint in respect of our services from the Major Telecommunication Operator during the Track Record Period, our Directors consider that we are able to maintain the business relationship with and secure contracts from the Major Telecommunication Operator in the foreseeable future.

In view of the significance of the Major Telecommunication Operator to us and in order to reduce our reliance on the same, we have been trying to explore business opportunities including but not limited to the deployment services of optical fibers with other telecommunication operators in the PRC. Although the reliance on the Major Telecommunication Operator was not significantly reduced solely by means of developing business relationships with other telecommunication operators in the PRC during the Track Record Period, we also intended to reduce such reliance through the acquisition of Shijiazhuang Qiushi in March 2011 which allowed us to diversify our client base by providing our low-voltage equipment integration services to clients such as financial institutions, governmental departments, road and transportation companies, state-owned and private companies and with a view to broadening our revenue stream. The revenue generated by the low-voltage equipment integration services was approximately RMB40.5 million from 1 March 2011 (the date of acquisition of Shijiazhuang Qiushi) to 31 December 2011, representing approximately 25.1% of our total revenue for the year ended 31 December 2011. Based on the industry review report prepared by CCID Consulting, we expect the market of low-voltage equipment integration in China will continue to grow in 2012.

We also provide traditional deployment services of optical fibers to Shaanxi Wanghe, a former subsidiary which is currently held by an Independent Third Party. Shaanxi Wanghe is principally engaged in provision of integration and deployment services of mini-cables, and the development and technical conaultancy services of network system. We acquired 80% equity interests in Shaanxi Wanghe in April 2006 and, owing to the fact that Shaanxi Wanghe had been recording losses in previous years, we disposed of such equity interests in Shaanxi Wanghe in November 2009, for details, please see the section headed "History, development and reorganisation — Corporate development — Hebei Deer" in this document. Our Directors consider that Shaanxi Wanghe is one of the competitors of the Group since it may also compete with us for deployment projects of optical fibers from telecommunication operators in the PRC. However, when Shaanxi Wanghe obtains deployment projects of optical fibers from its clients, which are generally telecommunication operators in the PRC, they may subcontract part of the deployment works to other third parties including us. Instead of entering into any long term or master agreement, we generally enter into a separate agreement with Shaanxi Wanghe on a project-by-project basis. For the two years ended December 2010 and 2011, revenue derived from Shaanxi Wanghe was approximately RMB3.4 million and RMB3.6 million, and accounted for approximately 6.6% and 2.2% of our total revenue, respectively.

Based on, among others, the contracts entered into between Shaanxi Wanghe and us and the corresponding contracts entered into between Shaanxi Wanghe and its clients provided by us, the [●] concurred with our Directors' view that the contracts entered into between Shaanxi Wanghe and us were based on normal commercial terms.

Apart from Shaanxi Wanghe, we were also engaged by an independent contractor which is a governmental department (together with Shaanxi Wanghe, the "**Main Contractors**") to carry out the deployment of optical fibers works in their projects as subcontractor. The following table set forth the breakdown of the revenue, cost of service, gross profit and gross profit margin of our subcontracted projects and non-subcontracted projects from construction contracts during the Track Record Period:

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2010 | | 2011 | |
| | *(RMB'000)* | *%* | *(RMB'000)* | *%* |
| **Construction contract revenue** | | | | |
| Subcontracted projects | | | | |
| - Shaanxi Wanghe | 3,402 | 7.4 | 3,553 | 3.2 |
| - A governmental department | 2,753 | 6.0 | — | — |
| | 6,155 | 13.4 | 3,553 | 3.2 |
| Non-subcontracted projects | 39,597 | 86.6 | 109,085 | 96.8 |
| Total | 45,752 | 100.0 | 112,638 | 100.0 |
| **Cost of services of construction contract revenue** | | | | |
| Subcontracted projects | | | | |
| - Shaanxi Wanghe | 1,949 | 7.7 | 1,749 | 3.1 |
| - A governmental department | 1,140 | 4.5 | — | — |
| | 3,089 | 12.2 | 1,749 | 3.1 |
| Non-subcontracted projects | 22,320 | 87.8 | 54,166 | 96.9 |
| Total | 25,409 | 100.0 | 55,915 | 100.0 |
| **Gross profit of construction contract revenue** | | | | |
| Subcontracted projects | | | | |
| - Shaanxi Wanghe | 1,453 | 7.1 | 1,804 | 3.2 |
| - A governmental department | 1,613 | 7.9 | — | — |
| | 3,066 | 15.0 | 1,804 | 3.2 |
| Non-subcontracted projects | 17,277 | 85.0 | 54,919 | 96.8 |
| Total | 20,343 | 100.0 | 56,723 | 100.0 |

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2010 | | 2011 | |
| | *(RMB'000)* | *%* | *(RMB'000)* | *%* |
| **Gross profit margin of construction contract revenue** | | | | |
| Subcontracted projects | | | | |
| - Shaanxi Wanghe | 42.7% | | 50.8% | |
| - A governmental department | 58.6% | | N/A | |
| - Overall | 49.8% | | 50.8% | |
| Non-subcontracted projects | 43.6% | | 50.4% | |

The average gross profit margin of the Main Contractors increased from approximately 49.8% for the year ended 31 December 2010 to approximately 50.8% for the year ended 31 December 2011 was mainly attributable to the fact that more raw materials were used for the projects in Xi'an resulting higher raw material costs incurred in 2010.

None of our Directors, their respective associates, or to the knowledge of our Directors, Shareholders who will own more than 5% of the issued share capital of our Company immediately following the [●], had any interests in any of our Group's five largest clients during the Track Record Period.

## SUPPLIERS, PARTS AND COMPONENTS

***Deployment services of optical fibers***

We purchase our raw materials, parts and components from Independent Third Parties that have stable business relationships with us. We have a minimum of one year and maximum of three years of relationship with each of our top five suppliers.

We purchase certain materials such as polyethylene and steel wires 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 raw materials of our own recipe whereas we provide steel wires and coating materials of our own recipe to manufacturers, who are Independent Third Parties, for their reprocessing of steel wires into anti-corrosive steel wires. Given that the raw materials of our own recipe are mixed by us instead of third party manufacturers and we provide manufacturers with such raw materials after mixing for further processing, we would not disclose our technical know-how to third party manufacturers.

Our purchases of raw materials, parts and components are all settled in Renminbi. Generally, our suppliers offer us a credit period ranged from payment on delivery to 90 days. We have maintained good working relationships with our major suppliers in the PRC. We do not enter into any long-term contract with our suppliers but place separate purchase orders to them. There are many options in the market and we do not rely on a single source of supply of such raw materials, parts and components.

Our Directors believe that our Group's major raw materials, parts or components can be purchased from a number of different suppliers at prices comparable to those offered by our Group's current suppliers and our Group has never experienced any material fluctuation in raw material cost during the Track Record Period.

***Low-voltage equipment integration services***

We purchase all of the low-voltage equipment within the PRC from Independent Third Parties. We purchase ready-to-use equipment necessary for our low-voltage equipment integration services, which includes intelligence control system, low-voltage control room, signal communication server, video and multimedia conferencing system, multi-line telephone system and television surveillance system.

Our equipment purchases are settled in Renminbi. Generally, our suppliers do not offer us any credit term and we have to make payment on delivery. We enter into separate purchase agreements with these suppliers for each project. Since we only purchase ready-to-use equipment, there are many options in the market and we do not rely on a single source of supply of such equipment. Our Directors believe that our Group's major equipment can be purchased from a number of suppliers at prices comparable to those offered by our Group's existing suppliers.

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.

None of our Directors, their respective associates, or to the knowledge of our Directors, Shareholders who will own more than 5% of the issued share capital of our Company immediately following the [●], had any interests in any of our Group's five largest suppliers during the Track Record Period.

## QUALITY CONTROL

In respect of deployment projects of optical fibers, our Group has a quality control team of three members overseeing and an internal quality control policy regulating the quality of raw materials, parts and components being purchased. Parts and components purchased by us are subject to sample testing and quality inspection by our quality control team before being used to ensure that they comply with our quality standards. In the event that our quality control team is of the view that the parts and components do not meet our quality standard, the quality control team will report the assessment results to our purchasing department, which will then return the sub-standard parts and components to the suppliers.

## SUBCONTRACTING

We maintain our own engineering team to carry out technical works in order to protect our technical know-how and in view of cost effectiveness and better allocation of resources, we appoint subcontractors (including individuals and corporate entities), which are Independent Third Parties and do not have any past relationships with our Group, Directors, shareholders or any of their respective associates, to carry out certain non-technical works. To ensure the overall quality of our works, we

have maintained a list of subcontractors, the selection of which are based on their previous job references, reputation in the industry, the management control of the subcontractors and price competitiveness of their quotations. In prior years, we engaged subcontractors who were individuals as we did not realise the importance of requiring our subcontractors to possess business licences such that we might have to assume the responsiblities as employer for the staff of such subcontractors and the potential liabilities thereof. All of our corporate subcontractors possessed business licence during the Track Record Period. However, our subcontractors who were individuals did not possess business licences during the Track Record Period. We have adopted the policy that we would only engage corporate subcontractors who possess valid business licences in 2012 and all of our subcontractors possess business licences as at the Latest Practicable Date. Given that the difference between the fees of corporate subcontractors with or without business licences was immaterial during the Track Record Period, our Directors expect that there will not be any material increase in our operating costs attributable to our engagement of licensed subcontractors. In addition to business licence, our current subcontractors for provision of low-voltage equipment integration services should also possess qualification certificates for safety protection construction enterprises (安防工程企業資質證書). As at the Latest Practicable Date, all of our subcontractors for provision of low-voltage equipment integration services obtained such qualification certificates.

As advised by Commerce & Finance, for our subcontractors engaged as at the Latest Practicable Date, (1) in respect of the deployment of optical fibers, as the labour services provided by our subcontractors are rather simple with nearly no special technique required at all, (i) it is sufficient for our 8 corporate subcontractors to have business licences only in order to carry out the works subcontracted by us and all such subcontractors had obtained the business licences to carry their subcontracted works; and (ii) no relevant qualification under the current PRC laws and regulations is applicable for our other 8 subcontractors who were individuals to carry out the works subcontracted by us; and (2) in respect of the low-voltage equipment integration services, it is sufficient for our subcontractors to have business licences, qualification certificates for safety protection construction enterprises (安防工程企業資質證書) and/or qualification certificates for construction enterprises (建築業企業資質證書) in order to carry out the works subcontracted by us and all such subcontractors had obtained such qualifications to carry out their subcontracted works.

In order to monitor the progress of our projects and maintain an effective cost control, our engineering team would communicate with our subcontractors on-site to obtain updated information on their costs incurred and progress of the projects from time to time. Our engineering team also carries out inspection at site and communicate with our subcontractors to ensure their works are up to standard and comply with the specifications as described in the tender from time to time.

We are liable to our clients for the damages due to subcontractors' works and may be subject to claims with respect to recovering the costs incurred to rectify the damages, though we may claim against our subcontractors to recover the same. As advised by Commerce & Finance, (i) there is no employment relationship between us and the workers engaged by the subcontractors which possess business licences and the subcontractors are liable for the responsibility of such workers; and (ii) 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. In order to minimise this risk and to allow time for our currently engaged subcontractors which have not obtained business licences to apply for business licences, we have adopted a policy that we will not engage the subcontractors without business licences for our coming projects in the future.

## AWARDS AND CERTIFICATES

The following table set out our major qualifications and certifications:

| Year of grant | Nature | Recipient | Qualification/ certifications | Granting organisation or authority | Validity period |
|---|---|---|---|---|---|
| 2002 | Qualification | Hebei Changtong | Grade III in Telecommunications Engineering Project and Construction Intelligent Engineering Project (電信工程專業承包三級及建築智能化工程專業承包三級) with the capacity to undertake projects with contract sum of no more than RMB6 million | Department of Housing and Urban-Rural Development of Hebei Province (河北省住房和城鄉建設廳) | Renewed on 20 July 2011 and valid until further examination, presumably in 2013 to 2014 |
| 2007 | Qualification | Hebei Changtong | Grade II in 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乙級資質) with the capacity to undertake projects with contract sum of no more than RMB10 million | Ministry of Industry and Information Technology | 9 September 2007 to 8 September 2012 |
| 2008 | Qualification | Shijiazhuang Qiushi | Grade III in Construction Intelligent Engineering Project (建築智能化工程專業承包三級) with the capacity to undertake projects with contract sum of no more than RMB6 million | Bureau of Housing and Urban-Rural Development of Shijiazhuang (石家莊市建設局) | Renewed on 7 June 2011 and valid until further examination, presumably in 2013 to 2014 |

| Year of grant | Nature | Recipient | Qualification/ certifications | Granting organisation or authority | Validity period |
|---|---|---|---|---|---|
| 2009 | Safety Production Certification | Hebei Changtong | Safety Production Licence (安全生產許可證) | Department of Housing and Urban-Rural Development of Hebei Province (河北省住房和城鄉建設廳) | 3 September 2009 to 3 September 2012 |
| 2009 | Safety Production Certification | Shijiazhuang Qiushi | Safety Production Licence (安全生產許可證) | Department of Housing and Urban-Rural Development of Hebei Province (河北省住房和城鄉建設廳) | 13 October 2011 to 13 October 2014 |
| 2010 | Safety Production Certification | Shijiazhuang Qiushi | First Degree Protection Technology Protection Licence (安全技術防範一級) | Hebei Security Technology and Protection Association (河北省安全技術防範學會) | 1 March 2012 to 1 March 2013 |
| 2010 | Qualification | Beijing U-Ton | Grade III in Communication and Network System Integration Enterprise Qualification Certificate (通信信息網絡系統集成企業資質證書丙級資質) with the capacity to undertake projects with contract sum of no more than RMB10 million (for communication and network system integration) and no more than RMB5 million (for telecommunication infrastructure network system integration) | Ministry of Industry and Information Technology | 25 November 2010 to 25 November 2012 |

| Year of grant | Nature | Recipient | Qualification/ certifications | Granting organisation or authority | Validity period |
|---|---|---|---|---|---|
| 2010 | Qualification | Shijiazhuang Qiushi | Grade III in Computer Information System Integration Service Enterprise Qualification Certificate (計算機信息系統集成企業資質證書三級) | Ministry of Industry and Information Technology | 6 February 2010 to 5 February 2013 |
| 2010 | Quality Management System Standard Certification | Beijing U-Ton | GB/T 19001-2008 idt ISO 9001:2008 Quality Management System Standard | TL Certification Center (泰爾認證中心) | 10 March 2010 to 9 March 2013 |
| 2010 | Quality Management System Standard Certification | Hebei Changtong | GB/T 19001-2008 ISO9001: 2008 Quality Management System Standard | China Quality Certification Centre (中國質量認證中心) | 12 January 2010 to 11 January 2013 |
| 2011 | Quality Management System Standard Certification | Shijiazhuang Qiushi | GB/T 19001-2008 idt ISO 9001:2008 Quality Management System Standard | Beijing East Allreach Certification Center (北京東方縱橫認證中心) | 16 July 2011 to 15 July 2014 |

The following table set out our major award:

| Year of grant | Nature | Recipient | Award | Awarding organisation or authority | Validity period |
|---|---|---|---|---|---|
| 2008 | Achievement | Beijing U-Ton | Advanced Technology Enterprise Certificate (高新技術企業證書) | Beijing Municipal Science and Technology Commission (北京市科學技術委員會), Beijing Finance Bureau (北京市財政局), Beijing State Tax Bureau (北京市國家税務局) and Beijing Local Tax Bureau (北京市地方税務局) | 14 September 2011 to 13 September 2014 |

## COMPETITION

***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.

As at the Latest Practicable Date, there is no significant entrance barrier for new comers to enter the optical fiber deployment industry. However, our Directors believe that new comers who provide deployment services of optical fibers by traditional deployment methods have to tackle certain difficulties including but not limited to (i) the qualifications required under relevant PRC laws and regulations to conduct the business; (ii) the operational and management experience in the industry; (iii) the standard of technology; (iv) the ability to maintain sufficient working capital; and (v) the ability to manage the construction works, while new comers who provide deployment services of optical fibers by micro-ducts and mini-cables system integration methods have to tackle further difficulties such as (i) obtaining rights to use public sewer systems; (ii) infringement of intellectual properties rights of others; and (iii) technology and technique required.

With nearly no significant entrance barrier, we may be in competition with new comers, which may include manufacturers which manufacture micro-ducts and/or products similar to micro-ducts or otherwise.

***Low-voltage equipment integration services***

We basically compete with numerous local enterprises in the low-voltage equipment integration industry. As at the Latest Practicable Date, there is no significant entry barrier for new comers to enter the low-voltage equipment integration industry. However, our Directors believe that new comers have to tackle certain difficulties including but not limited to (i) the qualifications required under relevant PRC laws and regulations to conduct the business; (ii) the operational and management experience in the industry; (iii) the standard of technology; and (iv) ability to maintain sufficient working capital.

Our Directors intend to maintain our Group's competitive edge through adopting the business strategies set out in the section headed "Business objective and future plans" in this document.

## INVENTORY PROCUREMENT AND CONTROL

We select our suppliers based on their product quality, after-sales services and payment terms. We conduct assessments on their creditability and capabilities prior to engaging them. Nevertheless, we test on raw materials and components supplied as well as equipment supplied and evaluate their performances from time to time.

We endeavour to ensure that inventories procured are cost effective by seeking price quotations from at least three of our selected suppliers. To avoid insufficient supplies, we maintain at least two suppliers for each type of raw materials and components.

***Deployment of optical fibers***

We adopt stringent inventory control and monitor the stock level regularly in order to satisfy various projects' needs. Our inventory includes micro-ducts, mini-cables, anti-corrosive steel wires, mini-cable connectors and other parts and components. We adopt a centralised procurement policy which all inventories are procured by our procurement department. Typically, our procurement department communicates with our sales department and engineering team before making procurement to ensure sufficient supplies are being kept to meet general demand. We also perform regular review and discuss with our management in relation to the inventory status, estimation of expected future utilisation of inventories and expected raw material prices.

***Low-voltage equipment integration services***

Our Group will only purchase ready-to-use equipment from suppliers in accordance with clients' requirements. Therefore, we generally do not maintain any inventory of the equipment for the low-voltage equipment integration services save for such equipment pending installation.

As at 31 December 2010 and 2011, our Group's inventories amounted to approximately RMB7.2 million and RMB2.8 million, respectively. The inventory turnover days (as defined in the section headed "Financial information" in this document) of our Group for the two years ended 31 December 2010 and 2011 was about 94 days and 12 days, respectively.

## PROPERTY INTERESTS

According to our Group's consolidated statements of financial position set out in Appendix I to this document, the carrying amount of total assets as at 31 December 2011 was approximately RMB218.4 million and the carrying amount of the leasehold land and building as at 31 December 2011 was approximately RMB0.5 million. As such and pursuant to [●], our Directors confirm that:

- our Group does not have any property interest that forms part of property activities as at 31 December 2011, so the aggregate carrying amount of the property interest that forms part of our Group's property activities does not exceed 10% of the its total assets as at 31 December 2011; and

- the total and single property interest that forms part of non-property activities do not respectively have a carrying amount of 15% or more of our Group's total assets as at 31 December 2011.

Hence, no valuation report is included in this document and according to the due diligence report issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("**Jones Lang LaSalle**"), an independent property valuer and consultant, our Group owned a property in Hebei Province and leased eight properties in Beijing and Hebei Province in the PRC, an overview of which is set out as below:

### Owned property

As at the Latest Practicable Date, we owned a property in Hengshui City, Hebei Province, the PRC, which comprises the whole Level 1 of a 5-storey composite building completed in 2002. The property has a gross floor area of approximately 605.04 sq.m. and is currently occupied by our Group for office purpose. We have obtained the land use rights certificate and building ownership certificate in respect of such property.

## Leased properties

As at the Latest Practicable Date, we leased eight properties in Beijing and Hebei Province with an aggregate gross floor area of approximately 4,061.36 sq.m. for office, staff dormitory and storage purposes, the details of which are set out as below:

| No. | Description/Location | Gross Floor Area *(sq.m.)* | Occupied by | Nature of Building | Existing Usage | Lease Term *(year)* | Annual Rent *(RMB)* |
|---|---|---|---|---|---|---|---|
| 1. | A unit on Level 5 of Shennong Plaza No. 45, Tangu South Street Yuhua District Shijiazhuang City Hebei Province The PRC | 212 | Hebei Changtong | Office | Office | 3 | 40,000 |
| 2. | Unit 302 to Unit 312 on Level 3 of an office building No. 465, Huaibei Road Shijiazhuang City Hebei Province The PRC | 869 | Hebei Changtong | Office | Office | 2 | 317,000 |
| 3. | A parcel of land and 4 buildings located at Yangling Village Eastern Songying Town Hight-tech and Economy Development Zone Shijiazhuang City Hebei Province The PRC | 1,455.15 | Hebei Changtong | Production | Storage and staff dormitory | 4 | 65,000 |
| 4. | Unit 1401 on Level 14 of Block A of China International Science and Technology Exhibition Center No. 12, Yumin Road Chaoyang District Beijing The PRC | 583.64 | Beijing U-Ton | Commercial | Office | 2 | 781,815 |
| 5. | Unit 419 on Level 4 of Yansha Shengshi Plaza No. 23, North 3rd Ring Middle Road Xicheng District Beijing The PRC | 448.81 | Beijing U-Ton | Office | Office | 3 | 769,933.56 |
| 6. | Unit A129 on Level 6 of Golden Resources Mall No. 1, Yuanda Road Haidian District Beijing The PRC | 46 | Beijing U-Ton | Commercial | Office | 1 | 10,000 |

| No. | Description/Location | Gross Floor Area *(sq.m.)* | Occupied by | Nature of Building | Existing Usage | Lease Term *(year)* | Annual Rent *(RMB)* |
|---|---|---|---|---|---|---|---|
| 7. | Unit A-601 on Level 6, Block A of Dashimen Business Centre No. 108, Donggang Road Shijiazhuang City Hebei Province The PRC | 366.76 | Shijiazhuang Qiushi | Commercial | Office | 6 | 73,500 |
| 8. | Unit 103 on Level 1 of an office building No. 465, Huaibei Road Shijiazhuang City Hebei Province The PRC | 80 | Hebei Deer | Office | Office | 1.61 | 29,200 |
| | Total: | 4,061.36 | | | | | 2,086,448.56 |

*Note: all of above rents are exclusive of management fees, water and electricity charges.*

Out of these eight leased properties, two properties with an aggregate gross floor area of approximately 1,821.91 sq.m. are subject to certain risks as the relevant landlords had not provided us with the relevant title certifications. 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. If we cannot find a suitable location with acceptable terms, our operations may be adversely affected. Our Directors are of the view that the aforesaid leased properties are not crucial to our business, and we can easily find alternative premises. 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.

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. As advised by Commerce & Finance, a lessor and a lessee must register and file the executed lease agreement with the competent PRC governmental authorities. The non-registration does not affect the validity of the lease agreements. Nevertheless, we may be liable to a fine ranging from RMB1,000 to RMB10,000 per incident. We have proactively requested lessors of such properties to complete the filing and registration procedures in a timely manner, but are unable to control whether and when would they do so.

According to the investigation of Jones Lang LaSalle, the proportion of carry amount of the property held by our Group is very small comparing to the total assets of our Group. Moreover, none of each property, neither owned property nor leased properties, contributes a significant portion of revenue to our Group. Jones Lang LaSalle also has not found any encumbrances, liens, pledges, mortgages against the property or use of the property that may impact the operations of our Group. Jones Lang LaSalle is of the view that no material property is held by our Group.

## LEGAL PROCEEDINGS

During the Track Record Period, we were involved in two legal proceedings, which we were the plaintiff in a monetary claim and the respondent of a personal injury claim, respectively.

### Monetary claim against third party

On 3 November 2010, Hebei Changtong initiated legal proceedings against Fu Binglei for an indemnification of RMB207,126.16 paid on behalf of Fu Binglei by Hebei Changtong to a third party. The defendant, Fu Binglei, was an employee of the plaintiff, Hebei Changtong. On 28 January 2007, Fu Binglei was involved in a drunk-driving accident, causing the injuries of two persons. At the time of accident, the defendant was driving Hebei Changtong's car without permission. The defendant was ruled to be liable for the accident and thus the corresponding compensation and litigation fees. With the defendant missing, Hebei Changtong had taken up the liability and paid the damages on behalf of the defendant. As the defendant's negligence had caused a loss to Hebei Changtong, Hebei Changtong has sought an indemnification of the sum paid in regard of the accident against the defendant. On 30 June 2011, Hebei Province Hengshui Taocheng District People's Court ruled that the defendant shall indemnify Hebei Changtong the sum paid in regard of the accident of approximately RMB0.2 million and the court fee of RMB0.01 million within ten days since the judgement effective date. The judgment was final with the appealing time lapsed. The judgment is under enforcement.

### Personal injury lawsuit against our Group

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 our subsidiary, Hebei Changtong. The applicant, Wang Gengshen, was hired by our subcontractor, Hengshui Yijiacaihui Limited to work for a project of Hebei Changtong. The only labour agreement was executed between the applicant and the subcontractor. On 8 November 2008, the applicant fell off a ladder during construction. The medical expenses amounting to approximately RMB0.03 million were paid by Hebei Changtong. The applicant sought to establish an employment relationship between Hebei Changtong and himself, so that Hebei Changtong would be responsible for his injuries. The Committee ruled that given the subcontractor, Hengshui Yijiacaihui Limited, did not have a valid business licence at the time when it signed the labour agreement with the applicant, the labour agreement between the two parties was invalid. Since the applicant was working for the project of Hebei Changtong and the accident occurred at the site of Hebei Changtong, Hebei Changtong should accordingly assume the responsibilities as an employer. The Committee's ruling was upheld by the Shijiazhuang Changan District People's Court and the Hebei Shijiazhuang Intermediate People's Court. On 19 August 2011, Shijiazhuang City Bureau of Human Resources and Social Security issued a "Work-related Injuries Decision" ([2011] No. 703 issued by Human Resources and Social Security of Shijiazhuang), and such decision identified the injuries that Mr. Wang Gengshen suffered when he was rendering deployment services at China Mobile Communications Corporation Jinzhou Branch on 8 November 2008 as work-related injuries. On 10 October 2011, Hebei Changtong filed an administrative proceedings to Shijiazhuang Changan People's Court in which Shijiazhuang City Bureau of Human Resources and Social Security as the defendant and Mr. Wang Gengshen as the third party, in which Hebei Changtong seek to invalidate the aforementioned "Work-related Injuries Decision" ([2011] No. 703 issued by Human Resources and Social Security of Shijiazhuang) and order

the defendant to re-issue a decision that the third party's injuries are not work-related injuries. The Shijiazhuang Changan District People's Court accepted the case on 20 October 2011 and made an "Administrative Judgment" ([2011] Changxingchuzi No. 94) on 21 December 2011 to sustain the "Work-related Injuries Decision" issued on 19 August 2011. On 9 January 2012, Hebei Changtong filed an appeal with the Hebei Shijiazhuang Intermediate People's Court and sought to rescind and amend the Administrative Judgment and Hebei Shijiazhuang Intermediate People's Court dismissed the appeal and upheld the "Administrative Judgment" on 20 April 2012, which is final and binding upon Hebei Changtong. On 23 May 2012, Mr. Wang Gengshen 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). As at the Latest Practicable Date, the Committee had yet to make any ruling on the amount of the claim.

As advised by Commerce & Finance, the final amount of claim against us shall be determined by the Committee. In the event that Hebei Changtong and Mr. Wang Gengshen do not agree with such amount determined by the Committee, both parties can file appeal to the Shijiazhuang Changan District People's Court, having jurisdiction over the dispute, which will then determine the final amount of claim against us. 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. The Directors confirm that, save as the above, there was no significant accident happened during the provision of deployment services since the beginning of the Group's operation.

## LABOUR, HEALTH AND SAFETY MATTERS

We are subject to laws and regulations relating to labour, health and safety in the PRC, a summary of which is set out in the section headed "PRC regulatory framework — PRC laws on corporate business regulation — Production safety" in this document. As advised by Commerce & Finance, our Group has complied with the relevant PRC labour laws.

## SOCIAL SECURITY CONTRIBUTION

Our Group also maintains mandatory social security insurance policies for its employees in China pursuant to the PRC laws and regulations by making contributions to mandatory social security funds to our employees to provide for retirement, medical, work-related injury, maternity and unemployment benefits. As advised by Commerce & Finance, our Group has fully complied with all applicable PRC laws.

For the two years ended 31 December 2010 and 2011, the total amount of our contributions to mandatory social security funds were approximately RMB0.4 million and RMB0.5 million, respectively.

## ENVIRONMENTAL PROTECTION

Although certain waste materials and disturbance may be generated when traditional deployment methods are used during the delivery of the deployment services of optical fibers to our clients, our Directors, after taking into consideration of the advices from Commerce & Finance, and based on the confirmation letters from Shijiazhuang Environmental Protection Bureau in December 2011 and the confirmation letter from Beijing Environmental Protection Bureau in December 2011, are of the view that we did not breach any relevant environmental laws and regulations during the Track Record Period.

## INSURANCE

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. To ensure that appropriate insurance policy has been taken out for the workers of our subcontractors so as to minimise our legal risk, we have taken out accident insurance policy for the workers on behalf of the subcontractors. The insurance premium paid by us shall be borne by the subcontractors which would be deducted directly from the fees payable by us to our subcontractors. Further, we have not maintained any product liability insurance coverage for our services. Our Directors consider that it is not necessary for us to purchase such insurance and that our insurance coverage is adequate for our operations. Commerce & Finance, after having made reasonable enquires, advised us that there is no mandatory industry standard in respect of insurance for our operations in the PRC. As at the Latest Practicable Date, we have not received any material claims in relation to our services from our clients.

## LEGAL COMPLIANCE

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. As at the Latest Practicable Date, such authorisations, approvals and certificates have not been revoked.